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Still no consensus on WTO Ministerial outcome

As this December's WTO Ministerial Conference in Buenos Aires draws nearer, member states are intensifying their push for the meeting to deliver decisions aligned with their respective – and sometimes conflicting – interests. Recent weeks have seen new proposals on cotton subsidies and electronic commerce, for example, put forward and promptly opposed – an uncertain state of affairs mirrored in the lack of consensus over the Buenos Aires outcome among a select group of trade ministers who met on 9-10 October in Marrakesh.

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South countries shoot down proposals for e-commerce negotiations

A large number of developing countries have opposed moves at the WTO to launch negotiations aimed at drawing up new rules on electronic commerce.

by D. Ravi Kanth

GENEVA: A large majority of developing and least-developed countries shot down on 16 October proposals from major industrialized and some developing countries for establishing a "working party" or "working group" on electronic commerce at the World Trade Organization's eleventh Ministerial Conference (MC11) in Buenos Aires this December, several trade envoys told the *South-North Development Monitor (SUNS)*.

The proposals for a working party or working group are disguised efforts at starting negotiations for WTO e-commerce rules.

India, the African Group, Uganda on behalf of the least-developed countries (LDCs) and several other members severely questioned the underlying motives of the proponents seeking negotiations to craft rules in e-commerce without concluding the Doha Development Agenda (DDA) trade negotiations.

They said that the proposals are aimed at undermining the WTO's existing e-commerce work programme so as to deny the "developmental space" for industrialization.

Presenting the strongest statement issued by the African Group yet, Rwanda described the attempts by the proponents to confuse members through a slew of proposals as grotesque and diabolical, according to trade envoys who asked not to be identified.

Rwanda accused the e-commerce proponents of undermining the DDA negotiations so that they can start negotiations on e-commerce at Buenos Aires.

South Africa's Trade Minister Rob Davies, during a dinner held on 9 October on the occasion of a mini-ministerial meeting in Marrakesh, had told his counterparts that his country will fight tooth and nail against the proposals for launching e-commerce negotiations, according to a trade minister who asked not to be quoted. At the meeting itself, WTO Director-General Roberto Azevedo said there are too many wide gaps over e-commerce which are difficult to bridge at this juncture. (See the article "Consensus eludes trade ministers at Marrakesh" in this issue.)

E-commerce proposals

The 16 October meeting at the WTO was convened by the chair of the WTO General Council, Ambassador Xavier Carim of South Africa, to prepare the mandate on e-commerce, particularly for exploring the level of acceptability of proposals to launch negotiations as well as the extension of the current moratorium on the imposition of customs duties on e-commerce transmissions.

Several proponents – the European Union, Canada, Australia, Chile, Korea, Norway and Paraguay – put forward a proposal calling for the establishment of "a Working Party" at the Buenos Aires Ministerial Conference that "shall conduct preparations for and carry out negotiations on trade-related aspects of electronic commerce on the basis of proposal by Members."

The proponents maintained that "the Working Party shall establish its own procedures and shall report periodically to the General Council."

They demanded continuance of the current practice of not imposing customs duties on electronic transmissions until the next Ministerial Conference in 2019, according to the draft proposal obtained by *SUNS*.

Prior to this proposal, two other demandeurs of e-commerce negotiations – Japan and Russia – had circulated their own respective proposals that called for establishing a "Working Group."

Japan suggested that "existing WTO Agreements apply to electronic commerce." Japan indicated that issues such as the free flow of data without data localization requirements, permanent moratorium on customs duties, non-disclosure of source code, and prohibition of forced technology transfer will also come under the purview of future negotiations as and when they are launched.

Russia, in its proposal, suggested the possibility of developing rules in the Working Group, indicating that it could act as a negotiating group.

In addition, Costa Rica circulated a proposal on "e-commerce for development agenda" even though the issues it raised as part of e-commerce and development are currently examined in the WTO's Committee on Trade and Development.

"A top-down approach"

At the 16 October meeting, India said it "wants continuation of the existing [1998 e-commerce] work programme" that provides an exploratory and non-negotiating mandate.

Proposals to establish a new Working Group at Buenos Aires are clearly aimed at imposing "a top-down approach" as opposed to the "bottom-up approach" in the 1998 work programme, India said.

India's trade envoy, Ambassador J.S. Deepak, argued that "gains from e-commerce should not be confused with the likely benefits of rulemaking in e-commerce," according to a source familiar with the meeting.

Deepak said "negotiations on rules and disciplines in e-commerce would be highly premature at this stage," according to the source who spoke to *SUNS*.

India also linked the extension of the two-year moratorium for not imposing customs duties on e-commerce transmissions with the moratorium on TRIPS non-violation and situation complaints.

Rwanda, on behalf of the African Group, severely demolished the proposals circulated by the e-commerce proponents.

The African Group said it "can agree to continue the exploration of issues under the 1998 work programme." "However, we will not agree to change the current structure or institutional arrangement of the work programme."

Referring to the argument by Japan and other members that existing WTO agreements apply to electronic commerce, the African Group asked whether the proponents are saying that "our Schedules of Commitments negotiated in the Uruguay Round automatically apply to new technologies such as 3D printing, robotics, drone delivery and Artificial Intelligence, to name a few".

The African Group said it "objects to this erroneous assumption by Japan et al, because it has no legal basis in the WTO's framework."

Further, such an approach "goes against the basic principle of progressive liberalization", the African Group said, arguing that "new business models, new services and new technologies that did not exist at the time Members' Schedules were negotiated do not apply post-hoc."

Rwanda reminded members at the meeting that "there still remains a long paper trail in the WTO of 19 years of unresolved issues pertaining to e-commerce."

The African Group said the e-commerce issue had thrown up divergent views on "the technological neutrality of the GATS [the WTO's General Agreement on Trade in Services], the distinction between, and application of GATS Modes 1 and 2 in e-commerce, whether products delivered electronically are services or goods or both, and the classification of 'new services'."

Without resolving these issues which were swept under the carpet, the proponents are now "advocating for new multilateral rules on new issues such as e-commerce", the African Group pointed out.

Rwanda warned that "a Working Group will not replace these systemic divergences", and said that "these discussions, as per the Work Programme, are required to take place in the bodies responsible for administering the relevant Agreement."

By suggesting a "false narrative", the proponents for e-commerce are primarily aiming at "kicking away the development ladder" as set out in the Doha Development Agenda, said the African Group. "In our view, the Work Programme has not been tested to warrant a change in its structure."

The African Group said Costa Rica had tabled a proposal on "e-commerce for development agenda" when the 1998 work programme clearly mandates members "to examine all trade-related issues relating to global electronic commerce, taking into account the economic, financial, and development needs of developing countries." The Costa Rican proposal, it maintained, is saying erroneously that the Committee on Trade and Development does not have a mandate to deal with these development aspects.

The African Group urged the chair to "ensure that the draft MC11 text on e-commerce is agreed in Geneva." It asked the chair to place all its concerns in his report.

Nigeria supported the proposals from the proponents, breaking ranks with the African Group, according to participants present at the 16 October meeting.

The chair Carim urged the proponents to not only consult among themselves for harmonizing their proposals but also discuss with their critics so as to bridge the wide gaps between the two sides.

In short, the developing and least-developed countries have exposed graphically the continued attempts by major industrialized countries and their allies in the developing world to bury the DDA work programme through "new issues" such as e-commerce, investment facilitation, and disciplines for small and medium enterprises.

The moot issue, however, is whether the large majority of developing and poorest countries will stand united at Buenos Aires, or yield meekly as they did at the last Ministerial Conference in Nairobi. *(SUNS8555)* ❐

US "no" to Cotton-Four, but China-India welcome proposal

A proposal by four cotton-producing West African countries for major cuts in cotton subsidies that are harming their domestic growers has been rebuffed by the US, which undermines prospects of an outcome at the Buenos Aires WTO meet.

by D. Ravi Kanth

GENEVA: The United States on 13 October struck a body blow to the Cotton-Four (C-4) grouping of West African cotton producers – Benin, Burkina Faso, Chad and Mali – rejecting their demand for a decision on substantial cuts in cotton subsidies at the upcoming WTO ministerial meeting in Buenos Aires, trade envoys told the *South-North Development Monitor (SUNS)*.

China and India, however, welcomed the C-4 proposal for a comprehensive reform of cotton subsidies. The two largest developing countries signalled their intention to arrive at a decision based on the C-4 proposal.

The aggressive stance adopted by the US on cotton at the small group meeting of select trade envoys on 13 October has put paid to any decision on cotton at Buenos Aires, said a trade envoy who asked not to be quoted.

The small group of trade envoys also discussed the permanent solution for public stockholding programmes for food security. Australia and other members of the Cairns Group agricultural exporters demanded enhanced safeguards in such programmes without offering any concrete proposal. India and China maintained that those calling for safeguards must suggest in writing what they are seeking so that they could discuss this issue, according to the trade envoy.

On cotton, the four West African countries, which remain frustrated with the lack of progress on the cotton issue since the WTO's fifth Ministerial Conference in Cancun (2003), will need to decide what they will do at Buenos Aires, now that the US has said categorically that it will not accept any outcome on cotton based on the C-4 proposal, the source said.

Comprehensive decision

In their proposal circulated on 11 October, the C-4 countries pressed for a comprehensive decision at Buenos Aires that includes all aspects in domestic support, market access and export competition in cotton.

They expressed sharp concern over "the lack of progress in the negotiations due to the absence of political will and genuine commitment on the part of certain players."

Without naming the US, the world's largest cotton exporter as well as the largest subsidizer of cotton programmes, the C-4 said: "Since 2003, when the Sectoral Initiative in Favour of Cotton was submitted to the World Trade Organization, there has been no progress."

The C-4 noted that the July 2004 framework agreement was aimed at addressing "cotton ambitiously, expeditiously, and specifically." That decision was later endorsed at the WTO's sixth Ministerial Conference in Hong Kong in 2005. During the WTO's tenth Ministerial Conference in Nairobi in 2015, ministers agreed that all efforts will be made by members in order to achieve the objectives of eventual total elimination of all forms of support for cotton with market-distorting effects.

Therefore, the C-4 countries maintained, the time has come for "reducing support and protecting cotton producers" so that they can obtain credible, concrete, substantial and measurable results in respect of domestic support.

The C-4 countries demanded that trade-distorting domestic support for cotton – which includes the Aggregate Measurement of Support (AMS), the Blue Box and *de minimis* – for developed countries must be reduced substantially depending on their current levels.

They proposed the following cuts:

(i) Where the final bound total AMS is greater than $40 billion, or the equivalent in the monetary terms in which the binding is expressed, the reduction shall be 90%.

(ii) Where the final bound total AMS is greater than $15 billion and less than or equal to $40 billion, or the equivalent in the monetary terms in which the binding is expressed, the reduction shall be 80%.

(iii) Where the final bound total AMS is less than or equal to $15 billion, or the equivalent in the monetary terms in which the binding is expressed, the rate of reduction shall be 70%.

As regards the developing countries, the C-4 countries said the reduction in "AMS support for cotton applicable to developing country Members with final bound total AMS commitments shall be two thirds (2/3) of the reduction applicable for developed country Members."

The four West African countries maintained that the reduction percentages must be applied to the base value of support calculated as the arithmetic average of the amounts notified by members for cotton from 2009 to 2013.

Further, the C-4 countries maintained that "developed country Members and developing country Members shall refrain from granting cotton producers a cumulative amount of AMS support and support falling within the scope of Article 6.5 of the Agreement on Agriculture that exceeds the monetary limit that would result from the application of the *de minimis* entitlements under Article 6.4 of the Agreement on Agriculture."

The C-4 countries also proposed that "any direct payment made, where appropriate, under production-limiting programmes in favour of cotton producers, shall be included in the limit for cotton."

Another important element of the C-4 proposal is on the need for enhanced transparency criteria for the Green Box direct payments.

It suggested that "the AMS and *de minimis* commitments and those relating to Blue Box and Green Box support for cotton referred to in the preceding paragraphs form an integral part of the GATT 1994."

Concerning the implementation period, the C-4 countries said "commitments undertaken with regard to AMS, *de minimis* and Blue Box support for cotton shall apply at the date of adoption of this Decision for developed country Members and within five (5) years from the date of adoption of this Decision for developing country Members."

For commitments undertaken with regard to Green Box support, the C-4 countries provided a flexibility "for two years from the date of adoption of this Decision for developed country Members and within a period of five (5) years from the date of adoption of this Decision for developing country Members."

On market access, the C-4 countries urged the US, the EU and developing countries to adopt a decision in conformity with the Hong Kong Ministerial Declaration and the Nairobi Ministerial Decision.

Commenting on export competition, the C-4 countries said the Hong Kong Ministerial Declaration remains as the basis.

The four West African countries also suggested a development component, which they did not elaborate.

Public food stocks

During the discussion on the permanent solution for public stockholding programmes for food security, India and China told their counterparts that they are ready to discuss safeguards provided the latter tabled proposals. Those who are insisting on safeguards must come out in writing about their proposals, the two Asian countries stressed.

At the informal ministerial meeting in Marrakesh on 10 October, Indonesia, on behalf of the G-33 group, had said it "could not over-emphasize the hundreds of millions of farmers, most of whom are poor and small-scale, in the 47 developing country members across continents that the G-33 represents, seeking for concrete and operational outcomes on Public Stockholding for Food Security Purposes (PSH) and Special Safeguard Mechanism (SSM) in MC11."

"As the Nairobi priorities, establishment of a permanent solution on PSH for all developing Members and accessible, simple and effective SSM, both price and volume based, ought to be part of any Buenos Aires outcomes," Indonesia had said.

The G-33 urged members "to engage constructively and in good faith to deliver these priorities." It also rejected any attempts to link the permanent solution for PSH with cuts in domestic support.

In conclusion, it appears that major industrialized countries have not changed their stonewalling tactics either on the permanent solution for public stockholding programmes for food security, or on cotton. If anything, the industrialized countries, particularly the US, are in no mood to offer any outcome on these two issues, trade envoys said. *(SUNS8554)* ❒

New "vertical" text on fisheries subsidies issued

A 12-13 October meeting of the WTO body negotiating disciplines governing fisheries subsidies was presented with an "integrated" compilation of the proposals tabled thus far, and also considered an evaluation by the chair of the state of play in the talks.

by Kanaga Raja

GENEVA: The proponents of the seven textual proposals put forward in the ongoing WTO negotiations on fisheries subsidies have submitted a new "non-paper" compiling these proposals.

The non-paper was provided at an informal meeting of the WTO Negotiating Group on Rules on 12-13 October.

According to trade officials, the chair of the Negotiating Group on Rules, Ambassador Wayne McCook of Jamaica, told the meeting that this text reflects the proponents' collective efforts to compile their proposals into an "integrated, vertical document."

Employing the analogy of a handoff of the baton in a relay race, the chair remarked: "This leg requires careful attention and technique. If you run the curve well, you will win the race."

According to the chair, high-level officials attending an informal ministerial meeting in Marrakesh earlier in the week had given an impression of having strong expectations of a fisheries subsidies outcome at the upcoming WTO Ministerial Conference in Buenos Aires. Therefore, said the chair, there was much pressure to see how the remaining time could be used effectively to provide ministers with an outcome document that they can decide upon.

The proponents behind the seven textual proposals on fisheries subsidies tabled so far are New Zealand, Iceland and Pakistan; the European Union; Indonesia; the African, Caribbean and Pacific (ACP) Group of countries; Argentina, Colombia, Costa Rica, Panama, Peru and Uruguay; the least-developed countries (LDCs); and Norway. They said the non-paper was introduced as "a tool to facilitate negotiations" in the Negotiating Group on Rules.

The rather heavily square-bracketed (indicating areas where there is a lack of consensus) 13-page document contains a preamble and eight Articles as well as an annex. The eight Articles pertain to definitions, scope, prohibited subsidies (illegal, unreported and unregulated fishing, overfishing / overfished / unassessed stocks, overcapacity / capacity enhancing), standstill, special and differential treatment, transparency / notification, transitional provisions, and institutional arrangements.

According to trade officials, at the meeting on 12 October, the proponents said they had worked hard, sometimes overnight, on the document.

South Africa, on behalf of the ACP Group, said members are invited to introduce textual suggestions using the document as basis.

South Africa and Indonesia further said that the new document is not meant to replace proponents' individual proposals, which remain relevant and on the table.

The EU and Argentina (on behalf of the six Latin American proponents) said that the document is intended as a tool to facilitate negotiations.

New Zealand said that the document is an outcome but not a final negotiated outcome. The talks need to be intensified, it added.

According to trade officials, Senegal, on behalf of the LDCs, said that while they supported intensification of negotiations, they also called on members to give the 30 countries that make up the LDC group more time to consult among themselves.

Assessment by the chair

At the 12-13 October meeting, the chair also provided a summary assessment of the fisheries subsidies negotiations. He shared with the members some thoughts about where "we are in our collective work on the negotiations, and what I see as critical issues that are emerging."

"I know that different delegations have different levels of ambition in these negotiations, and this is something that of course we will have to deal with further down the road," said the chair. "That said, I see maintaining the current atmosphere and way of working that we have achieved in this Group as a critical enabling condition that will remain instrumental in determining whether there will be a fisheries subsidies outcome at MC11."

"Indeed if we lose this, I cannot see a way that we could generate a draft for Ministers in Buenos Aires that will provide them with a clear basis for making those final decisive calls," McCook underlined.

Turning to the issues, the chair pointed out that there are three tracks on which possible disciplines would be pursued: illegal, unreported and unregulated fishing (IUU), overfishing or overfished stocks, and overcapacity.

"We have seen a number of promising ideas which could contribute to building some convergence with respect to prohibitions relating to subsidies contributing to IUU fishing and subsidies in respect of overfished stocks," he said.

"There is a general acceptance of the situation of global overcapacity but we are yet to see how best to address this in the light of widely varying national approaches and assessments in this regard. That said, while there is a lot of convergence around the general proposition that these sorts of subsidies are harmful, as we have deepened our discussions of the respective proposals, we have discovered considerable complexity in these areas."

McCook pointed to what he saw as clear convergence on some of the key, cross-cutting foundational elements.

"First, there seems to be a general agreement that we are talking about subsidies disciplines in the realm of marine wild capture fishing and related activities only – to the explicit or implicit exclusion of inland fishing and aquaculture.

"Second, we also seem to have general agreement that the measures that would be disciplined are certain specific subsidies as defined in Articles 1 and 2 of the SCM Agreement [WTO Agreement on Subsidies and Countervailing Measures].

"Third, I have noted from our discussions that in terms of chapeau language to the specific proposed disciplines there also is a lot of convergence regarding not 'granting or maintaining' whichever particular instances of subsidization would be prohibited.

"Fourth, there is convergence that subsidies would be attributable in all cases to the subsidizing Member."

According to the chair, in all of these areas the precise drafting that would garner consensus has not yet emerged but conceptually there is a degree of convergence. This is important as it provides a solid foundation for the further elaboration of the disciplines themselves.

Regarding whether disciplines would cover subsidies for any land-based activities in addition to those on-board, discussions are continuing.

And on another important cross-cutting issue, territoriality, the chair said, "We have had good and constructive engagement on proposed language aimed at ensuring that anything we do here does not prejudice these broader issues that are outside the WTO's remit. While still works in progress, we are moving in a positive direction on all of these points."

Proposals on IUU fishing

On the proposals related to IUU fishing, the chair pointed out that a number of issues would need to be resolved.

An initial issue is how IUU fishing would be defined in the WTO rules. Here, virtually all members refer to Article 3 of the International Plan of Action on IUU. Some cross-reference this definition in a dynamic way while others consider that the existing definition should be statically reflected, via fixed cross-reference or by incorporation of the text into the WTO rules.

Another issue here is whether this definition would have direct legal effect in WTO rules or instead would serve as a source to be wholly or partially reflected in national legal definitions.

Another issue is how the prohibition would be formulated: in respect of subsidies "related to" IUU fishing, a relatively broad formulation; or instead in respect of subsidies "provided to or benefiting" "vessels" or "owners" or "operators" or all three. In this connection, some delegations consider that the latter types of formulation would be clearer and thus more implementable. There also are differences of view as to whether any such reference should be only to vessels, or also to owners and / or operators, and in the latter two cases whether it should be those "involved in" or instead those "controlling" the operations of the vessels in question.

McCook highlighted that another main issue related to IUU is what the basis or bases would be for an IUU determination that would trigger the subsidy prohibition.

Here, the proposals generally refer to IUU vessel lists of regional fisheries management organizations (RFMOs), as well as to lists of or determinations by a flag state or a subsidizing member. Some proposals also refer to lists of or determinations by coastal states. "The degree of deference that would be accorded to each of these potential bases remains under discussion," he noted.

For some members, all RFMO lists would be accepted at face value. For others, these lists would be accepted so long as they were established with recognized due process and transparency. For still others, they would be accepted where the subsidizing member was party to the listing RFMO, with acceptance of other RFMOs' lists subject to national law. Some members also identify non-discrimination and openness for any WTO member to join as additional criteria for acceptance of RFMO IUU vessel lists.

"Determinations by a flag state or subsidizing Member seem less inherently problematic, based on our discussions, as these situations would essentially be internal, domestic determinations in respect of one's own vessels or owners or operators. There has not been a lot of discussion on these situations."

Determinations by a coastal state, that a foreign vessel or entity has engaged in IUU activities in the waters of the coastal state, are more difficult for some members, the chair noted.

Here again, the central question is the degree of deference to such determinations that might be incorporated in a WTO rule. Issues include whether such determinations are made with due process and transparency, how subsidizing members would become aware of such determinations, and whether they would be required to accept them at face value and, if so, subject to what if any conditions or criteria.

Another key issue for potential subsidies disciplines relating to IUU is the nature and extent of any exceptions, exemptions or scope limitations.

Here, the proposals all would prohibit such subsidies by all members in all waters, although some proposals distinguish unreported and unregulated fishing from illegal fishing and would create transition periods for developing members to implement the prohibitions in respect of the "U" and the "U", on the basis that they would need time to develop reporting and regulatory measures before being subject to the related subsidy prohibition. For others, no such distinction is justified, as the rules would be about subsidies, not about IUU fishing as such.

Finally, on transparency in the area of IUU, said the chair, "we have a proposal that RFMOs should inform the WTO of their respective IUU lists, and that coastal states should inform the WTO of their IUU determinations involving foreign vessels in their waters."

Some members have questioned the necessity or appropriateness of the WTO receiving such information, while others consider that it would provide necessary transparency regarding the reliability of the IUU determinations that would trigger the subsidy prohibitions.

Proposals to prohibit subsidies vis-a-vis overfished stocks

On the proposals to prohibit subsidies in respect of overfished stocks, the chair pointed out that a number of important scoping issues have emerged in respect of the formulation of the prohibition itself.

One is whether we are talking about subsidies "in connection with" or "for" or "to", "fishing" only or also "fishing-related activities" or "fishing vessels". And further, whether a prohibition would apply to subsidies "involving" or instead "negatively affecting" the stocks in question.

As to which stocks, a further question is whether this would be all overfished stocks or "targeted" overfished stocks. Those favouring the reference to "targeted" stocks are concerned that unintended by-catch could trigger the prohibition, while others consider that such a qualifier would overly narrow the discipline.

As for the condition of the stocks, would these be stocks that are "in" such a condition or stocks that have been "assessed" to be in that condition?

"In respect of these different facets of formulating this prohibition, various Members have raised issues of clarity and implementability on the one hand versus breadth of coverage and effectiveness of the discipline on the other," said McCook.

The next set of issues relates to the basis for determining that a stock is overfished, which again would trigger the subsidy prohibition. One question in this regard is whether the rules should contain a substantive definition of what is meant by "overfished", or whether instead this should be left to national authorities and RFMOs to define and implement in accordance with their own standards and procedures.

Should these be taken at face value regardless of source, or should the rules somehow define a substantive standard? In this regard, there has been considerable debate about "science-based" stock assessment, and which science that would be – science available to the particular member or science in a more general sense?

Would different degrees of deference be accorded to determinations by RFMOs versus national authorities? Related to this is whether having a quota from an RFMO is sufficient to indicate that the stock in question is not overfished, a presumption that figures in some proposals pertaining to subsidies contributing to overfishing. Some members point to a disconnect in some RFMOs between the stock assessments and the quotas that are set.

The chair pointed out that another facet of this debate is whether, and if so how, a subsidy prohibition in respect of particular fish stocks also would extend, as a precautionary measure, to unassessed stocks. In this respect, resource constraints related to assessing stocks have frequently been pointed to, as have complexities relating to multi-species fisheries - in terms of both targeting catch and assessing particular stocks in such fisheries. For these reasons, some members call for flexible standards for stock assessments, including references to the science available to the subsidizing member, reflecting members' different abilities to assess stocks.

Whether the prohibition would extend to all subsidies in respect of overfished stocks, or instead to those "negatively affecting" such stocks, is a further question under debate. If the latter, the question then becomes what kinds of effects these would be and how they would be identified and when. Would there be a presumption that certain kinds of subsidies did or did not cause such effects, or would effects have to be demonstrated case by case after the fact?

Would it be permissible to provide subsidies for fishing on overfished stocks if there were fisheries management in place and, if so, would such management have to meet a particular standard?

According to the chair, some members also have suggested geographic limitations to such a prohibition. These include in particular members' territorial seas – out to 12 nautical miles – from such a prohibition, in recognition of the considerable amount of small-scale and artisanal fishing, and the attendant difficulties of assessing stocks, in those areas and fisheries.

Subsidy prohibitions for overcapacity, overfishing

McCook also drew attention to the proposed prohibitions of subsidies contributing to overcapacity and overfishing.

In relation to overcapacity, he noted, the proposals mainly focus on capital cost subsidies for vessel construction, renovation, modernization, vessel transfer, vessel acquisition and similar elements, and for various kinds of on-board equipment.

Some members consider that constraining subsidies to some such capital costs not only would address the current situation of overcapacity but also would address, by proxy, subsidies contributing to overfishing.

In the view of some members, it is easier and more implementable to discipline subsidies for certain specified capital costs than to craft a discipline on subsidies contributing to overfishing, as in their view any kind of subsidy could have this effect, and defining "overfishing" as opposed to "overfished stocks" would be very difficult.

Some proposals, however, take the same approach as for overcapacity, listing certain forms of subsidies – mainly to operating costs – that they consider most directly to contribute to overfishing and that therefore should be prohibited.

"Here, the questions of fuel de-taxation and fuel subsidies continue to divide opinions, with some considering finding a consensus too difficult and sensitive, and others considering these measures among the most direct contributors to overfishing."

Both of these sets of proposed prohibitions – of certain such capacity- and effort-related subsidies – are accompanied in a number of proposals by proposed SDT (special and differential treatment) exceptions and other flexibilities, including transition periods.

In general, said the chair, developing and some other members point to a need for room to grow their domestic fisheries sectors, citing among other things the uneven distribution around the world of fishing capacity and excess capacity.

In this connection, some proposals would subject SDT flexibilities for these types of subsidies to management conditionalities, aimed at ensuring that any subsidies to capacity and effort should not overshoot the ability of the fisheries in question to withstand the increased fishing activity that would result.

Another need identified is to be able to support subsistence and/or small-scale and/or artisanal fishing, whether or not formal or informal management measures are in place. There has been some discussion in this regard of whether flexibilities for subsidizing these types of fisheries should be available to all members or only to developing members.

Some of the proposals in respect of subsidies identified as contributing to overcapacity and overfishing also have a significant geographic component, applying differently to fishing activities within the subsidizing member's own waters and those in areas beyond national jurisdiction. For example, in some proposals, stronger disciplines would apply in respect of large-scale fishing outside a member's own jurisdiction than in respect of fishing activities in domestic waters.

A number of proposals would allow subsidies for fishing in areas beyond national jurisdiction to fulfil quotas assigned by an RFMO, on the presumption that having such a quota is a reliable indicator that the fishery in question is well managed or not overfished. The chair noted that this presumption is questioned by some delegations. Some of these proposals are in the context of SDT and others would apply generally to all members.

Proposals on technical assistance, capacity building

The chair further pointed out that accompanying the proposals for SDT are proposals for technical assistance and capacity building.

"Some seek assistance to implement new subsidy disciplines, while others go beyond this to assistance in establishing and implementing fisheries management, including measures to combat IUU fishing."

Some delegations have responded that the nature and scope of both the final SDT provisions and provisions on technical assistance and capacity building will need to be calibrated on and proportionate to the disciplines that are agreed.

The chair said that similar points have been made in respect of proposed transparency provisions. "While various proposals suggest that a range of information related to the fisheries in question be reported to the WTO, some delegations question the need for such information as well as the WTO's ability to use it."

Here too there are calls by some to await further clarity on the disciplines before deciding on what information beyond that already required by Article 25 of the SCM Agreement should be reported in connection with new fisheries subsidies disciplines.

"So it should be clear to all of us that we will need to work very hard, and with a great deal of pragmatism and flexibility, to achieve an outcome in December, even in areas of most convergence," the chair concluded. *(SUNS8553)* ❒

Consensus eludes trade ministers at Marrakesh

Amid persistent divisions on key issues, trade ministers from a select group of countries meeting at Marrakesh in October had failed to reach agreement on what the upcoming WTO Ministerial Conference in Buenos Aires is to deliver.

by D. Ravi Kanth

GENEVA: The informal trade ministerial meeting in Marrakesh on 9-10 October brought into sharp focus the linkages between fisheries subsidies and improvements in the Doha trade remedy rules, and between the permanent solution for public stockholding programmes and domestic support.

These issues are being targeted for outcomes at the WTO's eleventh Ministerial Conference in Buenos Aires in December.

China and Russia conveyed that they would need an outcome on improvements such as transparency and due process in anti-dumping and countervailing measures, along with a possible outcome on fisheries subsidies, especially on illegal, unreported and unregulated (IUU) fishing.

The European Union insisted on a linkage between the permanent solution for public stockholding (PSH) programmes for food security and an outcome on domestic support in agriculture.

However, India, China, South Africa and Indonesia (on behalf of the G-33 group of countries) flatly rejected any such linkage, several participants at the Marrakesh meeting told the *South-North Development Monitor (SUNS).*

The two-day meeting, attended by more than 35 countries, failed to bring any consensus due to continued entrenched positions on agriculture, fisheries subsidies, rules, electronic commerce, domestic services regulation and investment facilitation, among others.

The United States ploughed its own unilateral course by asking the participants at Marrakesh to settle for a programme of action for "reinvigorating" the WTO by addressing five issues:

(i) Members must address issues concerning improvements in notifications and transparency provisions in various agreements at the WTO.

(ii) Members must commence work on the interaction between trade and development.

(iii) Members must begin work to improve the structure of WTO bodies for addressing issues such as overcapacity and market access in various sectors.

(iv) The US called for reforming the functioning of the WTO's Dispute Settlement Body, particularly on issues concerning what it called the overreach of the Appellate Body.

(v) Members must address issues concerning state trading enterprises, including medium enterprises.

The US also insisted that the Doha negotiations had ended at the tenth Ministerial Conference in Nairobi in 2015. It urged the participants to come to terms with the fracture of the Doha negotiations once and for all.

The US also remained opposed to finalizing a ministerial declaration at Buenos Aires.

But trade ministers from India, China, South Africa and the coordinators of the African Group, the ACP Group and the Cotton-Four countries, among others, said the Doha Work Programme will continue until all outstanding issues are resolved.

As regards tweaking the mandate for electronic commerce at Buenos Aires, the trade ministers from South Africa, India and several other developing countries stood their ground, insisting that they will not accept any departure from the existing e-commerce work programme of 1998.

At a ministers-only dinner on 9 October, South Africa's Trade Minister Rob Davies issued a hard-hitting statement against e-commerce, according to a minister who asked not to be quoted.

South Africa and the coordinator of the African Group as well as India called for credible results for improving special and differential flexibilities for developing countries.

For its part, the US suggested that members must grapple with the interaction between trade and development.

The US statement was clearly aimed at introducing "differentiation"/"graduation" among developing countries in availing of the special and differential flexibilities.

Director-General's summary

At the end of the meeting, WTO Director-General Roberto Azevedo issued a summary based on the deliberations, making the following points:

(i) The permanent solution for public stockholding programmes for food security remains the top priority. But there are still issues concerning transparency, safeguards and legal permanency to be addressed.

(ii) An outcome on fisheries subsidies, especially on prohibiting IUU fishing. Azevedo said there are still some issues like transparency that have to be addressed.

(iii) He ruled out any outcome at Buenos Aires on the improvements relating to transparency and due process in anti-dumping and subsidy investigations sought by China and Russia.

(iv) On domestic support in agriculture, he said there are many proposals on the table but an outcome is difficult. He said an incremental outcome is possible at Buenos Aires.

(v) Azevedo said the Cotton-Four countries – Benin, Burkina Faso, Chad and Mali – will issue a proposal setting out the reduction commitments in domestic support. But he did not say whether the issue will be clinched at Buenos Aires.

(vi) As regards the special safeguard mechanism for developing countries, Azevedo said there is no chance of any outcome because it needs more engagement and long hours of work which ambassadors and negotiators cannot undertake.

(vii) He said no outcomes are possible on market access and other outstanding issues in the export competition pillar of agriculture.

(viii) On electronic commerce, Azevedo said there are too many wide gaps which are difficult to bridge at this juncture.

(ix) Commenting on investment facilitation, which is an extremely divisive issue, the Director-General said the level of engagement is picking up, but the subject is very far from any outcome at Buenos Aires.

(continued on page 15)

Diversifying exports, upgrading quality key to less volatility

A UN development agency has underlined the need for structural transformation in commodity-dependent developing countries in order to reduce the adverse effects of commodity market volatility.

by Kanaga Raja

GENEVA: The volatility of international commodity markets in the past decade highlights the importance of structural transformation for commodity-dependent developing countries, the UN Conference on Trade and Development (UNCTAD) has said.

This was highlighted in a note by the UNCTAD secretariat prepared for the ninth session of UNCTAD's multi-year expert meeting on commodities and development, which took place here on 12-13 October. The note was entitled "Recent developments and new challenges in commodity markets and policy options for commodity-based inclusive growth and sustainable development."

"Diversification and quality upgrading are crucial to reduce the risk of negative impacts of external variability induced by the high export concentration in commodity-dependent developing countries. A more diversified export structure means more stability in public revenue and generally less macroeconomic volatility," it said.

Policies to support export diversification and quality upgrading need to address country-specific challenges and bottlenecks in order to successfully contribute to structural transformation.

In this regard, said UNCTAD, commodity-dependent developing countries may consider measures that stimulate private sector initiative and investment, which are key drivers for the emergence of new products and industries. Such measures include stabilization of the macroeconomic environment; improvement of the business environment, including access to finance; and investment in human capital and infrastructure.

Furthermore, policies that support the creation of linkages between commodity and non-commodity sectors can also contribute to diversification.

Finally, strategies for industrial diversification should focus on the inclusion of women, who face gender-specific challenges, including in access to land and credit, and social norms that constrain their effective participation.

In opening remarks at the expert meeting on 12 October, Isabelle Durant, the Deputy Secretary-General of UNCTAD, noted that most developing countries depend vitally on commodity exports, with 91 out of 135 developing countries being in this group, i.e., two out of three developing countries (see below on main findings of a separate UNCTAD report on commodity dependence). This figure continues to be on the rise rather than dropping, she said.

Since the end of the last commodity price boom in 2011, the drop in prices has significantly jeopardized these countries that are dependent on export of commodities. The volatility of the international commodity markets over the past decade highlights the importance of diversifying economies and having industrial development, which are essential to reduce this vulnerability to the uncertain changes in commodity prices as well as to have more harmonious development, said Durant.

She said green energy sources could play an extremely important role. "Renewable energies offer us significant potential and they should account for 60% of the growth of the global energy matrix by 2021." It becomes an essential ingredient of a country's energy security, mainly countries that don't have fossil fuels, which could turn out to be an advantage rather than a disadvantage, she added.

Recent trends in commodity markets

According to the UNCTAD secretariat note, after reaching the bottom of a five-year slump at the beginning of 2016, commodity prices trended upward until early 2017.

The UNCTAD non-oil nominal commodity price index reached 218.8 points in February 2017, constituting an increase of 20.4% from its value in January 2016 of 181.8 points. However, the latest data available show that commodity prices are again receding, and the index stood at 205.2 points in April 2017.

"Overall, commodity prices remain significantly lower than at the peak of the last commodity boom."

The recovery of commodity prices in 2016 was mainly driven by supply constraints and output uncertainties, which particularly affected metals and agricultural commodity prices. El Nino-related adverse weather conditions caused output shortfalls for agricultural commodities such as palm oil, rice and coffee. The supply of minerals, ores and metals was limited by the constriction of nickel, copper and zinc mine production. After supply conditions for several agricultural commodities and metals eased, the upward trend in commodity prices appeared to have come to a halt in early 2017.

In January 2016, the UNCTAD food price index reached its lowest value in seven years, at 191.1 points. In the following six months, the index trended upward, mainly due to El Nino-related adverse weather conditions that caused output shortfalls and uncertainties. Since mid-2016, food prices have been declining, with brief upward swings in January and February 2017. All sub-indices saw marked losses in January-April 2017, with vegetable oilseeds and oils experiencing the sharpest drop, at -13.6%.

According to UNCTAD, grain prices have been generally trending downward since 2012, mainly due to strong production and increasing stocks. The 2016/2017 season marked a record production of wheat and maize, leading to the largest-ever recorded global supply of grains. As a consequence, the wheat price (hard red winter No. 2), at $191 per ton in April 2017, was down 4.5% year-on-year, and down 21.7% in relation to its level in April 2015. The price of maize (yellow No. 3) reached its lowest level in more than seven years, at $158 per ton in April 2017.

In the near future, grain markets are expected to remain fairly stable, subject to favourable weather conditions.

The International Grains Council projects that wheat and maize production in the 2017/2018 season will be 736 and 1,026 million tons, respectively; slightly below the levels in the 2016/2017 season. Strong demand forecast is projected to lead to a moderate reduction of stocks, which could generate a mild increase in grain prices.

The price of cotton (cotton outlook index A) declined by 70.7%, from 230 cents per pound in March 2011 to 67 cents per pound in January 2015. Thereafter, prices remained essentially flat through March 2016, when an upward trend set in. In April 2017, the index was at 87 cents per pound, constituting a 25.6% increase on a year-on-year basis.

The market outlook for cotton tentatively predicts an increase in production as well as a continuation of auctions of stockpiles by the Government of China, which will likely moderate the upward price trend in 2017.

Mineral, ore and metal prices trended downward for almost five years following their peak in early 2011. In February 2011-January 2016, the UNCTAD minerals, ores and metals price index fell from 418 points to 178 points, corresponding to a loss of 57.3%.

The downward trend was reversed in 2016, with the price index reaching 239 points in December 2016. This price rally was mainly driven by supply cuts and uncertainties, in particular in the markets for nickel, copper and zinc.

On a year-on-year basis, the index rose by 37.8% in January 2017. This upward trend ended at the end of the first quarter of 2017 and the index fell by 5.5%, from 254 points in February 2017 to 240 points in April 2017.

The main driver of this downward movement was a sharp decline in iron ore prices due to expectations of lower iron ore demand from China. The price of iron ore is strongly driven by consumption in China, as the country imports more than two-thirds of total seaborne iron ore. In particular, steel production in China is an important indicator of the demand for iron ore. As growth in steel production in China slowed in 2014 and turned negative in 2015, the price of imported iron ore at the port of Tianjin lost 70.3% of its value, from $136 per dry ton in December 2013 to $40 per dry ton in December 2015.

Thereafter, prices for iron ore picked up and almost doubled in January-December 2016, based on recuperating demand from China and a reduction of output in high-cost mines. In April 2017, weakening demand for steel in China and oversupply concerns caused a drop in iron ore prices, to $71 per dry ton. Favourable supply conditions make substantial price increases unlikely in the near future.

Precious metal prices increased significantly in the first half of 2016. In January-July 2016, gold prices increased by 21.9%, from $1,097 per troy ounce to $1,337 per troy ounce. In the same period, the price of silver increased by 41.7%, from 1,411 cents per troy ounce to 1,999 cents per troy ounce. “Geopolitical and macroeconomic uncertainty due to several factors, including the vote on the withdrawal of the United Kingdom of Great Britain and Northern Ireland from the European Union, and low interest rates in major economies, seem to have stimulated investments in gold and silver, thereby strengthening the price of precious metals in this period,” said UNCTAD.

Gold and silver prices decreased in the last quarter of 2016 amid the raising of the policy rate by the Board of Governors of the Federal Reserve System of the United States and a strengthening of the US dollar. In April 2017, the prices of gold and silver averaged $1,266 per troy ounce and 1,803 cents per troy ounce, respectively.

“In the near future, further increases in United States policy rates remain a key downside risk to precious metal prices, while upside risks include geopolitical conditions and a potentially weaker United States dollar.”

Crude oil prices have been characterized by a high degree of variability in the past decade. In January 2007-May 2017, the average spot price of Brent crude oil (hereafter referred to as the oil price) fluctuated between $133.9 per barrel and $30.8 per barrel.

The lowest price during this period, $30.8 per barrel, was recorded in January 2016 and constituted the lowest value since December 2003. In June 2014-January 2015, the price dropped by 56.7%, from $107.0 per barrel to $48.4 per barrel. The price of oil has, overall, remained at depressed levels since then.

UNCTAD said that the main driver of the price collapse in late 2014 was an oversupply in the market that had its roots in the massive increase of shale oil production in North America, increasing production in other producers not members of the Organization of the Petroleum Exporting Countries (OPEC) and a slowdown in crude oil demand growth. The build-up of large crude oil inventories compounded the supply-demand imbalance.

According to data from the United States Energy Information Administration, global oil production increased from 93.7 million barrels per day in July 2014 to 97.5 million barrels per day in July 2015, with production by non-OPEC members accounting for 46% of the 3.8-million-barrel-per-day increase in global production. Global consumption only increased by 2.6 million barrels per day in the same period, leading to a substantial increase in inventories.

In response to falling prices, OPEC decided at its ministerial conference on 30 November 2016 to cut production by 1.2 million barrels per day starting in January 2017, with Saudi Arabia implementing the largest production cut, at 486,000 barrels per day. On 25 May 2017, both the OPEC and non-member producers decided to extend the production cuts, which had been limited to June 2017 in the original agreement, through March 2018.

“The impact of this decision will depend both on the degree of compliance with the agreed production cuts and the extent to which oil producers that are not party to the agreement will step up output,” said UNCTAD.

For instance, the United States increased production by 4.7% from 14.71 million barrels per day in January 2017 to 15.4 million barrels per day in May 2017, which offset almost 40% of the production cuts.

While there might be technical and other limitations to further short-term production increases in the United States, the production cut agreed in May 2017 seems unlikely to be substantial enough to drive the oil price up to the levels of early 2014 on its own.

“In addition, inventories remain at high levels, which makes sharp increases in oil prices seem unlikely. In terms of upside risks, expectations of stronger demand growth could support a stronger oil price in the near future.”

Coal continues to be the primary fuel for electricity generation at the global level. In addition, coal is a key source of thermal energy for the steel and cement industries. As coal is also responsible for 45% of energy-related carbon emissions, reducing its share in the global energy mix remains a key challenge in the context of climate change mitigation.

According to forecasts by the International Energy Agency, the share of coal in power generation is on a downward trajectory, and is expected to drop from 41% in 2014 to 36% in 2021.

Coal prices fluctuated around a downward trend in early 2014-mid-2016, mainly driven by persistent oversupply and sluggish import demand from China. The reference price, Australian thermal coal, decreased by 36.1%, from $88 per metric ton in January 2014 to $56 per metric ton in June 2016. The price then experienced a sharp increase, up to $111 per metric ton in November 2016, based on tightened supply from Australia and increased import demand from China, where domestic production was cut to reduce oversupply and increase profitability in the coal sector.

After supply conditions improved, mainly due to a partial rollback of production restrictions in China, the price of coal receded to $80 per metric ton in May 2017. In the near future, in the light of ample supply capacity, a further downward movement in the coal price seems likely.

According to UNCTAD, renewable energy sources are now the largest source of global electricity capacity and are expected to account for 60% of global power capacity growth through 2021. Substantial capacity growth in onshore wind and solar photovoltaics contributed to a record growth in renewable electricity capacity in 2015, to 153 gigawatts.

China continues to account for the largest share of global expansion in renewable energy sources, with large additions in both onshore wind and photovoltaic capacity. The capacity for renewables is growing in many countries and regions, including India, the United States and the European Union.

The growing deployment of renewable energy technologies has led to significant reductions in costs, which has enhanced the competitiveness of renewable energy sources in comparison with fossil fuels. For instance, onshore wind has become one of the cheapest sources of electricity, with a levelized cost of electricity in the range of $0.06 to $0.09 per kilowatt hour in 2014, lower than that from coal-fired power plants in member states of the Organization for Economic Cooperation and Development.

"Further potential cost reductions in renewables in the medium term are substantial, with the levelized cost of electricity of solar photovoltaics, concentrated solar power and offshore wind potentially dropping by 59%, 43% and 35%, respectively, by 2025."

Policy implications

According to the UNCTAD secretariat note, commodity price fluctuations lead to fluctuations in capital flows to commodity-dependent developing countries and are therefore linked to the balance of payments. In addition, public revenues in commodity-dependent developing countries are typically closely associated with commodity prices.

In this regard, commodity-dependent developing countries face the constant challenge of managing externally induced stress and volatility through fiscal and monetary policy.

"Countercyclical fiscal policy and precautionary savings can be tools to shield public budgets from the impacts of commodity price volatility and thereby strengthen the continuity of social programmes, infrastructure development and other components of social and economic development plans."

In this context, revenue stabilization funds can help to smooth government expenditures. In addition, stabilization funds can serve as a means to transfer current revenue to future generations and thereby contribute to inter-generational fairness, in particular if commodity revenues are based on exhaustible resources. However, stabilization funds are only effective if they are well managed and if spending and saving rules are well designed and adhered to.

Commodity dependence is also associated with monetary policy challenges. Exchange rate volatility, inflation and the Dutch disease are phenomena that can threaten broad-based growth and development in commodity-dependent developing countries. "Maintaining a sound monetary policy framework is crucial to managing these types of macroeconomic risks. This includes an independent central bank with a clear mandate and a focus on stability, to ensure an attractive business and investment climate."

Low fossil fuel prices are not only a source of economic stress for oil- and gas-exporting countries, but also an obstacle to the expansion of renewable energy sources. In this context, it is important to ensure a supportive policy environment for renewables, in order that momentum for a transition towards a sustainable global energy architecture can be maintained.

This includes scaling back harmful and costly subsidies for fossil fuels, estimated at $5.3 trillion in 2015. In addition, policies supporting the deployment of renewables, such as by setting targets for the share of renewables in the national energy mix and ensuring access to finance for investment in renewables, remain important, said the secretariat note.

Commodity dependence worsens

Meanwhile, in a separate report titled "State of Commodity Dependence 2016", UNCTAD said that the value of commodity exports from developing countries rose from $2.04 trillion in 2009-10 to $2.55 trillion in 2014-15 – an increase of 25% in nominal terms.

In the report, launched at the expert meeting on 13 October, UNCTAD said that in 2014-15, 91 developing countries were considered to be commodity-dependent, increasing from 82 in 2009-10.

UNCTAD has defined commodity dependence as the ratio (in percentage) of the value of commodity exports to the value of total merchandise exports. A country is said to belong to the group of commodity-dependent developing countries (CDDCs) when this percentage exceeds 60%. When this percentage exceeds the threshold of 80%, developing countries are defined as strongly commodity export-dependent.

UNCTAD said that as a percentage of total developing countries under review in the report, almost 68% of them were considered to be CDDCs in 2014-15, compared with 61% in 2009-10.

In terms of the number of CDDCs by region, Africa was ranked first in 2014-15, with more than half of the world's CDDCs and 46 countries located in the region, followed by Asia and Oceania (28 countries) and Latin America and the Caribbean (17 countries).

UNCTAD said the increase in the number of CDDCs between 2009-10 and 2014-15 has been particularly significant in Africa, with seven new countries entering the category in 2014-15, bringing the total to 46. Over the same period, two countries entered the category in Asia and Oceania while the number of CDDCs remained stable in Latin America and the Caribbean.

According to the report, the newcomers in the CDDC category in 2014-15 (compared with 2009-10) were: Afghanistan, Cabo Verde, Comoros, Democratic People's Republic of Korea, Eritrea, Liberia, Madagascar, Sao Tome and

Principe, Sudan, Suriname and Tuvalu.

As to the distribution of CDDCs by type of commodity exports, UNCTAD said that evidence shows that most CDDCs were mainly exporters of agricultural products in 2014-15, with 41% of total CDDCs. This was followed by the group of exporters of fuels (30%), and exporters of minerals, ores and metals, at 23% of total CDDCs. Only a small share of CDDCs (6%) showed diversified commodity exports in 2014-15.

Africa appeared to account for most of the countries dependent on agricultural commodity exports (51% of total CDDCs) as well as exporters of minerals, ores and metals (two-thirds), said UNCTAD. The fuel-exporting countries were mainly located in Asia and Oceania (48% of total CDDCs), and more specifically in Western Asia.

UNCTAD further pointed out that the situation regarding commodity dependence in the context of the least-developed countries (LDCs) worsened between 2009-10 and 2014-15, with seven additional countries falling into the CDDC category in 2014-15 (an increase of 20%). This move led to a total of 40 LDCs being part of the CDDC category in 2014-15. The growth of commodity dependence for LDCs was particularly significant in Africa, with six new countries in 2014-15 out of the seven newcomers.

In respect of strong commodity dependence, the situation also deteriorated, with 61 CDDCs being part of this category in 2014-15, from 56 in 2009-10. The situation mainly deteriorated in Africa and Latin America and the Caribbean, while remaining relatively stable in Asia and Oceania.

The report also found that in 2014-15, 73 out of the 91 CDDCs relied on a maximum of three commodity exports for more than 60% of their total commodity export value.

Results also showed that in 2014-15, two main destination markets, the European Union and China, accounted for about 25% of total commodity exports from CDDCs in Asia and Oceania, and about a third of CDDC commodity exports from Africa.

The report also noted that CDDCs are predominantly net food-importing countries. About two-thirds of CDDCs have been net food importers in both the periods 2009-10 and 2014-15.

According to UNCTAD, newcomers in the category of net food-importing developing countries in 2014-15 (compared with 2009-10) were Burundi, Cameroon, Colombia and Vanuatu.

The value of net food imports in CDDCs increased from $67.8 billion in 2009-10 to $95.2 billion in 2014-15, an increase of more than 40%. While the net food import bill followed an upward trend in all developing regions, it has been particularly significant in Africa, with an 80% increase between the two periods, said UNCTAD. *(SUNS8555)* ❐

How to eradicate rural poverty, end urban malnutrition

A report by the UN Food and Agriculture Organization (FAO) outlines a strategy to leverage the "enormous untapped potential of food systems" to drive sustainable and inclusive rural development.

by Baher Kamal

ROME: Population growth, increasing urbanization, modern technologies and climate change are transforming the world at a fast pace.

But what direction are these transformations headed in? Are they benefiting the poor and the food-insecure? And will the food systems of the future be able to feed and employ the millions of young people poised to enter labour markets in the decades to come?

These are some of the main questions posed by the *State of Food and Agriculture 2017* report, which argues that a key part of the response to these challenges must be transforming and revitalizing rural economies, particularly in developing countries where industrialization and the service sector are not likely to be able to meet all future job demand.

Published by the UN Food and Agriculture Organization (FAO) and issued on 9 October, the report lays out a vision for a strategic, "territorial approach" that knits together rural areas and urban centres, harnessing surging demand for food in small towns and mega-cities alike to reboot subsistence agriculture and promote sustainable and equitable economic growth.

One of the greatest challenges today is to end hunger and poverty while making agriculture and food systems sustainable, it says. This challenge is "daunting" because of continued population growth, profound changes in food demand, and the threat of mass migration of rural youth in search of a better life.

The report analyzes the structural and rural transformations under way in low-income countries and shows how an "agro-territorial" planning approach can leverage food systems to drive sustainable and inclusive rural development.

Otherwise, the consequences would be dire. In fact, the world's 500 million smallholder farmers risk being left behind in structural and rural transformations, the report says, while noting that small-scale and family farmers produce 80% of the food supply in sub-Saharan Africa and Asia, and investments to improve their productivity are urgently needed.

"Urbanization, population increases and income growth are driving strong demand for food at a time when agriculture faces unprecedented natural-resource constraints and climate change," notes the report. Moreover, urbanization and rising affluence are driving a "nutrition transition" in developing countries towards higher consumption of animal protein. "Agriculture and food systems need to become more productive and diversified."

According to the report, small cities and towns can play a catalytic role in rural transformation – rural and urban areas form a "rural-urban spectrum" ranging from mega-cities to large regional centres, market towns and the rural hinterland.

In developing countries, smaller urban areas will play a role at least as important as that of larger cities in rural transformation. "Agro-territorial development that links smaller cities and towns with their rural 'catchment areas' can greatly improve urban access to food and opportunities for the rural poor."

This approach seeks to reconcile the sectoral economic aspects of the food sector with its spatial, social and cultural dimensions.

On this, the report explains that the key to the success of an agro-territorial approach is a balanced mix of infrastructure development and policy interventions across the rural-urban spectrum.

"The five most commonly used agro-territorial development tools – agro-corridors, agro-clusters, agro-industrial parks, agro-based special economic zones and agri-business incubators – provide a platform for growth of agro-industry and the rural non-farm economy."

A clear wake-up call

Announcing the report, FAO Director-General Jose Graziano da Silva said that in adopting the 2030 Agenda for Sustainable Development two years ago, the international community committed itself to eradicating hunger and poverty and to achieving other important goals, including making agriculture sustainable, securing healthy lives and decent work for all, reducing inequality, and making economic growth inclusive.

With just 13 years remaining before the 2030 deadline, concerted action is needed now if the Sustainable Development Goals are to be reached, he added.

"There could be no clearer wake-up call than FAO's new estimate that the number of chronically undernourished people in the world stands at 815 million. Most of the hungry live in low-income and lower-middle-income countries, many of which have yet to make the necessary headway towards the structural transformation of their economies."

Graziano da Silva said that successful transformations in other developing countries were driven by agricultural productivity growth, leading to a shift of people and resources from agriculture towards manufacturing, industry and services, massive increases in per capita income, and steep reductions in poverty and hunger.

Countries lagging behind in this transformation process are mainly concentrated in sub-Saharan Africa and South Asia. Most have in common economies with large shares of employment in agriculture, widespread hunger and malnutrition, and high levels of poverty, he explained.

According to the latest FAO estimates, some 1.75 billion people in low-income and lower-middle-income countries survive on less than $3.10 a day, and more than 580 million are chronically undernourished.

The prospects for eradicating hunger and poverty in these countries are overshadowed by the low productivity of subsistence agriculture, limited scope for industrialization and – above all – by rapid rates of population growth and explosive urbanization, said Graziano da Silva.

In fact, between 2015 and 2030, their total population is expected to grow by 25%, from 3.5 billion to almost 4.5 billion. Their urban populations will grow at double that pace, from 1.3 billion to 2 billion.

In sub-Saharan Africa, the number of people aged 15-24 years is expected to increase by more than 90 million by 2030, and most will be in rural areas.

"Young rural people faced with the prospect of a life of grinding poverty may see few other alternatives than to migrate, at the risk of becoming only marginally better off as they may outnumber available jobs in urban settings."

Inclusive rural transformation

The overarching conclusion of the report is that fulfilling the 2030 Agenda depends crucially on progress in rural areas, which is where most of the poor and hungry live, said the FAO Director-General.

"It presents evidence to show that, since the 1990s, rural transformations in many countries have led to an increase of more than 750 million in the number of rural people living above the poverty line."

To achieve the same results in the countries that have been left behind, the report outlines a strategy that would leverage the "enormous untapped potential of food systems" to drive agro-industrial development, boost small-scale farmers' productivity and incomes, and create off-farm employment in expanding segments of food supply and value chains.

"This inclusive rural transformation would contribute to the eradication of rural poverty, while at the same time helping end poverty and malnutrition in urban areas."

A major force behind inclusive rural transformation will be the growing demand coming from urban food markets, which consume up to 70% of the food supply even in countries with large rural populations, he added.

The FAO chief explained that thanks to higher incomes, urban consumers are making significant changes in their diets, away from staples and towards higher-value fish, meat, eggs, dairy products, fruit and vegetables, and more processed foods in general. The value of urban food markets in sub-Saharan Africa is projected to grow from $150 billion to $500 billion between 2010 and 2030, said Graziano da Silva.

Urbanization thus provides a "golden opportunity for agriculture", he added. However, it also presents challenges for millions of small-scale family farmers. "More profitable markets can lead to the concentration of food production in large commercial farms, to value chains dominated by large processors and retailers, and to the exclusion of smallholders."

According to the FAO head, to ensure that small-scale producers participate fully in meeting urban food demand, policy measures are needed that: reduce the barriers limiting their access to inputs; foster the adoption of environmentally sustainable approaches and technologies; increase access to credit and markets; facilitate farm mechanization; revitalize agricultural extension systems; strengthen land tenure rights; ensure equity in supply contracts; and strengthen small-scale producer organizations.

"No amount of urban demand alone will improve production and market conditions for small-scale farming," he said. "Supportive public policies and investment are a key pillar of inclusive rural transformation."

The second pillar is the development of agro-industry and the infrastructure needed to connect rural areas and urban markets, said Graziano da Silva, adding that in the coming years, many small-scale farmers are likely to leave agriculture, and most will be unable to find decent employment in largely low-productivity rural economies.

In sub-Saharan Africa, food and beverage processing represents between 30-50% of total manufacturing value added in most countries, and in some more than 80%, he said.

"However, the growth of agro-industry is often held back by the lack of essential infrastructure – from rural roads and electrical power grids to storage and refrigerated transportation."

In many low-income countries, such constraints are exacerbated by lack of public and private sector investment, the FAO chief explained.

The third pillar of inclusive rural transformation is a territorial focus on rural development planning, designed to strengthen the physical, economic, social and political connections between small urban centres and their surrounding rural areas.

In the developing world, about half of the total urban population, or almost 1.5 billion people, live in cities and towns of 500,000 inhabitants or fewer, according to the report.

"Too often ignored by policy-makers and planners, territorial networks of small cities and towns are important reference points for rural people – the places where they buy their seed, send their children to school and access medical care and other services."

Recent research has shown how the development of rural economies is often more rapid, and usually more inclusive, when integrated with that of these smaller urban areas.

"In the agro-territorial development approach described in this report, links between small cities and towns and their rural 'catchment areas' are strengthened through infrastructure works and policies that connect producers, agro-industrial processors and ancillary services, and other downstream segments of food value chains, including local circuits of food production and consumption."

"Unless economic growth is made more inclusive, the global goals of ending poverty and achieving zero hunger by 2030 will not be reached," warned Graziano da Silva. *(IPS)* ❒

(continued from page 9)

(x) On the improvements in domestic regulation of trade in services as demanded by the European Union, Australia and other members, he said while there are sharp differences, there is considerable engagement and a lot of support.

(xi) On the improvements sought by the African Group of countries in special and differential flexibilities, Azevedo ruled out any outcomes at Buenos Aires because many of the issues would require political engagement.

(xii) He remained "deafeningly" silent on the paralysis created by the US in the Dispute Settlement Body even though many trade ministers highlighted the issue in their statements.

In short, the Director-General issued an ambiguous report that did not either adequately or fairly reflect the level of opposition against disciplines on domestic services regulation, investment facilitation and other issues. *(SUNS8553)* ❒

Hunger in Africa, land of plenty

***Anis Chowdhury* and *Jomo Kwame Sundaram* examine how food security in Africa has been compromised by decades of wrong-headed economic policy.**

Globally, 108 million people faced food crises in 2016, compared with about 80 million in 2015 – an increase of 35%, according to the 2017 Global Report on Food Crises. Another 123 million people were "stressed", contributing to around 230 million food-insecure people in 2016, of whom 72% were in Africa.

The highest hunger levels are in sub-Saharan Africa (SSA), according to the Global Hunger Index 2016. The number of "undernourished" or hungry people in Africa increased from about 182 million in the early 1990s to around 233 million in 2016, according to the UN Food and Agriculture Organization (FAO), while the global number declined from about a billion to approximately 795 million.

This is a cruel irony as many countries in Africa have the highest proportion of potential arable land. According to a 2012 FAO report, for African subregions except North Africa, between 21% and 37% of their land area face few climate, soil or terrain constraints to rainfed crop production.

Observers typically blame higher population growth, natural calamities and conflicts for hunger on the continent. And since Africa was transformed from a net food exporter into a net food importer in the 1980s despite its vast agricultural potential, international food price hikes have also contributed to African hunger.

The international sovereign debt crises of the 1980s forced many African countries to adopt the stabilization and structural adjustment programmes (SAPs) of the Bretton Woods institutions. Between 1980 and 2007, Africa's total net food imports grew at an average of 3.4% per year in real terms. Imports of basic foodstuffs, especially cereals, have risen sharply.

One casualty of SAPs was public investment. African countries were told that they need not invest in agriculture as imports would be cheaper. Tragically, while Africa deindustrialized thanks to the SAPs, food security also suffered.

In 1980, Africa's agricultural investments were comparable to those in Latin America and the Caribbean (LAC). But while LAC agricultural investment increased 2.6-fold between 1980 and 2007, it increased by much less in Africa. Meanwhile, agricultural investments in Asia went from three to eight times more than in Africa as African government investments in agricultural research remained paltry.

Thus, not only African agricultural productivity has suffered, but African agriculture remains less resilient to climate change and extreme weather conditions. Africa is now comparable to Haiti, where food agriculture was destroyed by subsidized food imports from the US and Europe, as admitted by former US President Bill Clinton after Haiti's devastating 2010 earthquake.

SAP advocates promised that private investment and exports would soon follow cuts in public investment, thus paying for imports. But the ostensibly short-term pain of adjustment did not bring the anticipated long-term gains of growth and prosperity. Now, it is admitted that neoliberalism was oversold, causing the 1980s and 1990s to become "lost decades" for Africa.

Thanks to such programmes, even in different guises such as the Poverty Reduction Strategy Papers (PRSPs), Africa became the only continent to see a massive increase in poverty by the end of the 20th century. And despite the minerals-led growth boom for a dozen years (2002-14) during the 15 years of the Millennium Development Goals, nearly half the continent's population now live in poverty.

The World Bank's *Poverty in a Rising Africa* report shows that the number of Africans in extreme poverty increased by more than 100 million between 1990 and 2012 to about 330 million. It projects that "the world's extreme poor will be increasingly concentrated in Africa".

Land grabs

Despite its potential, vast tracts of arable land remain idle, due to decades of official neglect of agriculture. More recently, international financial institutions and many donors have been advocating large-scale foreign investment. A World Bank report notes the growing demand for farmland, especially following the 2007-08 food price hikes. Approximately 56 million hectares' worth of large-scale farmland deals were announced in 2009, compared with less than four million hectares yearly before 2008. More than 70% of these deals involved Africa.

In most such deals, local community concerns are often ignored to benefit big investors and their allies in government. For example, Feronia Inc – a company based in Canada and owned by the development finance institutions of various European governments – controls 120,000 hectares of oil palm plantations in the Democratic Republic of Congo.

Advocates of large-scale land acquisitions claim that such deals have positive impacts, e.g., generating jobs locally and improving access to infrastructure. However, loss of community access to land and other natural resources, increased conflicts over livelihoods and greater inequality are among some common adverse consequences.

Most such deals involve land already cleared, with varied but nonetheless considerable socioeconomic and environmental implications. Local agrarian populations have often been dispossessed with little consultation or adequate compensation, as in Tanzania, when Swedish-based Agro EcoEnergy acquired 20,000 hectares for a sugarcane plantation and ethanol production.

Land grabbing by foreign companies for commercial farming in Africa is threatening smallholder agricultural productivity, vital for reducing poverty and hunger on the continent. In the process, they have been marginalizing local communities, particularly indigenous populations, and compromising food security. *(IPS)* ❐

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