Third World ECONOMICS
Trends and Analysis

No. 749 16-30 June 2022 e-ISSN : 2716-5388

Tackling cryptocurrency hazards

The growing use of cryptocurrencies poses risks to financial stability and national monetary sovereignty, especially in developing countries. Calling for comprehensive financial regulation of the cryptocurrency ecosystem, a UN development body has cautioned that "[d]oing too little or taking action too late will lead to higher costs in the future".

.... ALSO IN THIS ISSUE ....

THIRD WORLD
ECONOMICS
Trends & Analysis

Published by Third World Network Bhd (198701004592 (163262-P))
131 Jalan Macalister
10400 Penang, Malaysia
Tel: (60-4) 2266728/2266159
Email: twn@twnetwork.org
Website: https://twn.my

CONTENTS

THIRD WORLD ECONOMICS
is published fortnightly by the Third World Network (TWN), an independent non-profit international research and advocacy organization involved in bringing about a greater articulation of the needs, aspirations and rights of the peoples in the South and in promoting just, equitable and ecological development.

Founding Editors: Chakravarthi Raghavan (1925-2021); Martin Khor (1951-2020)

Editor: Lean Ka-Min
Editorial Advisor: T. Rajamoorthy

The high cost of leaving cryptocurrencies unregulated

A UN development agency has warned that the use of cryptocurrencies could undermine financial stability and monetary sovereignty, urging strengthened regulation of the cryptocurrency ecosystem.

by Kanaga Raja

GENEVA: The global use of cryptocurrencies increased exponentially during the COVID-19 pandemic, and such private digital currencies have become particularly prevalent in developing countries, entailing considerable risks and costs regarding national monetary sovereignty, policy space and macroeconomic stability, the UN Conference on Trade and Development (UNCTAD) has said.

In a policy brief published in June, UNCTAD said the benefits that cryptocurrencies may bring to some individuals and financial institutions are overshadowed by the risks and costs they entail, particularly in developing countries.

In this regard, UNCTAD suggested three policy recommendations that developing countries may consider: ensuring financial regulation; restricting advertisements related to cryptocurrencies; and providing a safe, reliable and affordable public payment system adapted to the digital era, such as a central bank digital currency or fast retail payment system.

According to the policy brief, cryptocurrencies can serve as financial assets. Advocates state that cryptocurrencies, or private digital currencies, have the potential to emancipate citizens from bank conglomerates and state control, while promoting financial inclusion. This potential is mainly based on the use of the underlying technology, namely, distributed ledger technology, of which blockchain is a subset.

Such technology provides the means to use networks of connected computers to verify peer-to-peer private transactions. To ensure the integrity of the ledger in the absence of a central authority, the nodes on the network, or digital miners, confirm the records and are rewarded through remuneration in cryptocurrencies.

According to UNCTAD, since 2009, when the first decentralized cryptocurrency was created, a complex and rapidly evolving cryptocurrency ecosystem has emerged, and at present, there are over 19,000 cryptocurrencies, compared with 1,500 in 2018. Countless service providers help keep this system operational, of which the most important are decentralized finance platforms, crypto-exchanges and digital wallet applications.

The former, which is based on distributed ledger technology, provides cryptocurrency lending, trading and investment without reliance on traditional financial intermediaries. Crypto-exchanges enable the conversion of cryptocurrencies to sovereign currencies, and digital wallets store private digital currencies on behalf of users.

Another important component of the cryptocurrency ecosystem is stablecoins, said the policy brief. This new class of cryptocurrency aims to maintain a stable price relative to a sovereign currency, or a basket of currencies, by holding financial assets as collateral.

However, increasing profitability might be an incentive for stablecoin issuers to hold risky assets, UNCTAD said. A decrease in the value of such assets, or an under-collateralization of stablecoins, would result in issuers lacking the means to pay holders. "Yet, compared with a decrease in the value of cryptocurrencies, resulting in financial losses to holders, a more serious matter would be a drop in the price of stablecoin collaterals, which could require a public bailout, with taxpayers ultimately paying the costs."

As of May 2022, several stablecoins are no longer pegged to the United States dollar. This has provoked anxiety among holders of cryptocurrencies and resulted in market turmoil associated with a significant sell-off, the policy brief said, pointing out that a systemic crisis was not triggered this time around.

UNCTAD noted that the cryptocurrency ecosystem expanded by 2,300% between September 2019 and June 2021, particularly in developing countries. According to some estimates of digital currency ownership, in 2021, 15 of the top 20 economies in this field were emerging market and developing economies.

The policy brief said that the top 20 economies in terms of digital currency ownership as a share of the population in 2021 were Ukraine, the Russian Federation, Venezuela, Singapore, Kenya, the United States, India, South Africa, Nigeria, Colombia, Vietnam, Thailand, the United Kingdom, Brazil, Pakistan, the Philippines, Republic of Korea, Peru, Belarus and Australia.

It cited two main reasons for the increased use of cryptocurrencies in developing countries during the COVID-19 pandemic.

"First, the use of cryptocurrencies was an attractive channel, in terms of price and speed, through which to send remittances." During the pandemic, the already high costs of traditional remittance services rose even higher during lockdown periods due to related disruptions.

Second, cryptocurrencies, as part of financial investments and speculation, are mainly held by middle-income individuals in developing countries and, particularly in countries facing currency depreciation and rising inflation (triggered or accentuated by the COVID-19 crisis), have been perceived as a way to protect household savings.

Regardless of the reason for the use of cryptocurrencies, said UNCTAD, crypto-exchanges play a crucial role in enabling their broader deployment. Such exchanges function as clearinghouses, intermediating conversions between cryptocurrencies and sovereign currencies.

Currently, there are over 450 crypto-exchanges that, in May 2021, reached a combined peak of $500 billion in daily trades, equivalent to the maximum daily trading achieved on Nasdaq, the second-largest stock exchange worldwide, in January 2022, said the policy brief. The largest crypto-exchange, which has 28 million users, reached a record level of daily trading in November 2021, at $76 billion.

Who bears the costs?

The policy brief said that the returns from cryptocurrency trading and holding are, as with other speculative trades, highly individual. "On balance, they are overshadowed by the risks and costs they pose in developing countries. There are several reasons to be cautious."

First, the use of cryptocurrencies may lead to financial instability risks. If prices plunge, monetary authorities may need to step in to restore financial stability.

Importantly, in developing countries, the use of cryptocurrencies provides a new channel for illicit financial flows, said UNCTAD.

Second, it said the use of cryptocurrencies undermines the effectiveness of capital controls, an essential instrument in developing countries with which to curb the buildup of macroeconomic and financial vulnerabilities, as well as to increase policy space.

Finally, if left unchecked, cryptocurrencies may become a widespread means of payment and even replace domestic currencies unofficially (a process called cryptoization), which could jeopardize the monetary sovereignty of countries.

The use of stablecoins poses the greatest risks in developing countries with unmet demand for reserve currencies, said UNCTAD. For example, the turmoil in May 2022 prompted a flight to higher-quality stablecoins that publish audited holdings of their backings.

The International Monetary Fund has expressed concerns with regard to the risks of using cryptocurrencies as legal tender, UNCTAD noted.

The Central African Republic and El Salvador have officially adopted the cryptocurrency bitcoin as legal tender, in April 2022 and September 2021, respectively.

According to the policy brief, policymakers worldwide have begun to regulate cryptocurrencies.

In 2019, the announcement by a major social media platform regarding the planned launch of a supranational stablecoin led to responses from regulators in developed countries. "The scale of the platform, with over 2.5 billion active users, combined with its aim to become a global payment provider, raised concerns about the need for a potential public bailout in case of failure. In addition, the entry of a large technology company into the payment services sector was perceived as posing a risk to data privacy and consumer protection."

The regulatory response led to a downgrading in the plans of the social media platform, from a global stablecoin to a more modest application, namely, provision of a digital wallet with a limited geographical availability.

UNCTAD said that the announcement also served as a wake-up call among central banks, several of which began to discuss the provision of public alternatives to private digital currencies.

Central bank digital currencies are high on the agendas of most monetary authorities. Such currencies have already been introduced in a few developing countries, such as Bahamas, and many others are advancing on pilot projects, such as China, or are researching the design of such currencies, said the policy brief.

It said developing countries have also launched regulatory responses to cryptocurrencies. As at November 2021, 41 countries, compared with 15 in 2018, had prohibited banks and other financial institutions from dealing in cryptocurrencies or banned crypto-exchanges from offering services to individuals and enterprises. Nine developing countries, namely, Algeria, Bangladesh, China, Egypt, Iraq, Morocco, Nepal, Qatar and Tunisia, have banned cryptocurrencies outright, while several others have imposed income taxes on capital gains arising from cryptocurrency trading.

Finally, crypto-exchanges are becoming subject to national anti-money laundering and anti-terrorist financing laws in jurisdictions such as Australia, Bahamas, Greece, Romania, the Philippines and Uzbekistan.

Policy recommendations

The policy brief said that despite recent regulatory responses, cryptocurrencies remain in a legal grey area in most developing countries. "The cryptocurrency ecosystem is global by nature and many of its components (decentralized finance platforms, crypto-exchanges, digital wallet providers and stablecoin issuers) are outside the jurisdictions of States, making cryptocurrency regulation a challenge."

Accordingly, key regulatory responses to mitigate the global risks posed by cryptocurrencies need to come from developed countries, in which most of these providers have their headquarters, said UNCTAD. Developing countries may have less room to manoeuvre, yet the regulation of cryptocurrencies is possible, it added.

The policy brief said the following policies, among others, have the potential to curb the further spread of the risks of cryptocurrencies and stablecoins:

(a) Ensuring comprehensive financial regulation, through the following actions:

- Require the mandatory registration of crypto-exchanges and digital wallets and make the use of cryptocurrencies less attractive, for example, by charging entry fees for crypto-exchanges and digital wallets and/or imposing financial transaction taxes on cryptocurrency trading;
- Ban regulated financial institutions from holding stablecoins and cryptocurrencies or offering related products to clients;
- Regulate decentralized finance (such finance may, in fact, not be fully decentralized, given its central management and ownership, which form an entry point for regulation);

(b) Restricting or prohibiting the advertisement of crypto-exchanges and digital wallets in public spaces and on social media. This new type of virtual, and often disguised, advertisement requires policymakers to expand the scope of regulation beyond traditional media. This is an urgent need in terms of consumer protection in countries with low levels of financial literacy, as even limited exposure to cryptocurrencies may lead to significant losses;

(c) Creating a public payment system to serve as a public good, such as a central bank digital currency. In the light of the regulatory and technological complexity of central bank digital currencies and the urgent need to provide safe, reliable and affordable payment systems, authorities could also examine other possibilities, including fast retail payment systems.

The policy brief said that there is no one-size-fits-all policy response to the increase in the use of cryptocurrencies among developing countries. "Countries need to tailor recommended policies, considering the particular features of national financial systems, regulatory infrastructures and enforcement capacity."

Moreover, with regard to financial regulation, policymakers should bear in mind that the cryptocurrency ecosystem is constantly evolving, it added.

According to UNCTAD, public authorities therefore need to adopt a forward-looking, holistic and innovative approach, taking advantage of traditional financial regulatory authorities but also adding new collaborators, such as telecommunications, advertising, cybersecurity, competition and data protection authorities.

"Doing too little or taking action too late will lead to higher costs in the future," it cautioned. *(SUNS9607)*

Agriculture talks could become proverbial "Wild West" after MC12

How the WTO talks on reforming farm trade will play out is mired in uncertainty after no decision was reached at the trade body's recent ministerial conference – the latest barren outcome in an area which has yielded scant progress over the years.

by D. Ravi Kanth

GENEVA: The failure to arrive at any decision on agriculture at the World Trade Organization's 12th Ministerial Conference (MC12) that concluded on 17 June is an "eyesore", several former and current trade envoys have said.

"It is sad that there is no decision/declaration on how to continue work on agriculture and even on the mandated issue of the permanent solution for public stockholding (PSH) programmes for food security," said one former trade envoy.

At the 11th WTO Ministerial Conference (MC11) in 2017, the agriculture agenda was seemingly stymied by the United States, which blocked the entire text issued by the facilitator Amina Mohamed, the then Cabinet Secretary for Foreign Affairs of Kenya.

Interestingly, at MC12, the facilitator on agriculture, Betty Maina, the Kenyan Cabinet Secretary for Industrialization, Trade and Enterprise Development, played what some saw as a "partisan" role by adopting "rigged" methods and in some cases allegedly openly siding with WTO members opposed to the permanent solution for PSH programmes.

At a 17 June press conference following the conclusion of MC12, WTO Director-General (DG) Ngozi Okonjo-Iweala suggested that she will explore how work on agriculture could be restarted under Article 20 of the WTO's Agreement on Agriculture (AoA).

However, the moot issue is whether the DG can pursue work under Article 20. This is because, as the ex officio chair of the Trade Negotiations Committee (TNC) established under the mandate of the 2001 Doha Ministerial Declaration, the DG is required to pursue negotiations based specifically on the mandate agreed in the Doha work programme – which, in the case of agriculture, is outlined in paragraph 13 of the Doha Ministerial Declaration.

Paragraph 13 states: "We recognize the work already undertaken in the negotiations initiated in early 2000 under Article 20 of the Agreement on Agriculture, including the large number of negotiating proposals submitted on behalf of a total 121 members … Building on the work carried out to date and without prejudging the outcome of the negotiations, we commit ourselves to comprehensive negotiations aimed at: substantial improvements in market access; reductions of, with a view to phasing out, all forms of export subsidies; and substantial reductions in trade-distorting domestic support."

The paragraph 13 mandate also states that "special and differential treatment for developing countries shall be an integral part of all elements of the negotiations and shall be embodied in the schedules of concessions and commitments and as appropriate in the rules and disciplines to be negotiated, so as to be operationally effective and to enable developing countries to effectively take account of their development needs, including food security and rural development."

It then takes note of "the non-trade concerns reflected in the negotiating proposals submitted by Members and confirm[s] that non-trade concerns will be taken into account in the negotiations as provided for in the Agreement on Agriculture."

Agriculture negotiations post-Doha

Although the modalities on further commitments in agriculture ought to have been agreed to by the WTO's 5th Ministerial Conference in Cancun in 2003, the EU blocked any decision at the meeting after failing to secure an outcome on the so-called "Singapore issues" (investment, competition policy, transparency in government procurement, and trade facilitation), while the US opposed any substantial decisions, including on cotton.

Nevertheless, the Doha negotiations subsequently got a major boost when the "July Package" was adopted at a WTO General Council meeting on 1 August 2004. It included a comprehensive framework on agriculture which covered all the issues in detail in an attached annex.

In a way, the July Package resurrected the Doha negotiations. The US and the EU had endorsed the package as a trade-off for including the Singapore issue of trade facilitation in the package.

The 6th WTO Ministerial Conference, held in Hong Kong in 2005, furthered the mandate on agriculture based on the Doha Ministerial Declaration and the July Package. On cotton, the Hong Kong Ministerial Declaration said: "We recall the mandate given by the Members in the decision adopted by the General Council on 1 August 2004 to address cotton ambitiously, expeditiously and specifically within the agriculture negotiations in all trade distorting policies affecting the sector in all three pillars of market access, domestic support, and export competition."

It set three markers on cotton: (1) "all forms of export subsidies for cotton will be eliminated by developed countries in 2006"; (2) "on market access, developed countries will give duty- and quota-free access for cotton exports from least-developed countries (LDCs) from the commencement of the implementation period"; and (3) "members agree that the objective is that, as an outcome for the negotiations, trade-distorting domestic subsidies for cotton production be reduced more ambitiously than under whatever general formula is agreed and that it should be implemented over a shorter period of time than generally applicable. We commit ourselves to give priority in the negotiations to reach such an outcome."

However, the agriculture negotiations were then suspended in mid-2006 on grounds that the US needed time on account of its upcoming Congressional elections towards the end of the year. That was what the then WTO DG Pascal Lamy had decided on, knowing full well that negotiations are never suspended abruptly to suit the political developments in one country.

Despite the suspension, following a "fireside" chat and behind-the-scenes developments, the then chair of the agriculture negotiations, Ambassador Crawford Falconer of New Zealand, issued a draft agriculture text in early 2008. Subsequently, that text was modified for a meeting of seven trade ministers in mid-2008. However, the US blocked the text on several grounds, and India also blocked it due to the high benchmarks for availing of the proposed special safeguard mechanism.

At the 8th WTO Ministerial Conference in Geneva in 2011, the conference chair, Olusegun Olutoyin Aganga from Nigeria, issued a concluding statement in which he emphasized the need for different negotiating approaches. The crucial line in the statement stated that "Ministers commit to advance negotiations, where progress can be achieved, including focusing on the elements of the Doha Declaration that allow Members to reach provisional or definitive agreements based on consensus earlier than full conclusion of the single undertaking."

As expected, the US, the EU and other developed countries then accelerated discussions on a Trade Facilitation Agreement while allegedly giving short shrift to agriculture and other issues.

As Brazil's ambassador to the WTO, Roberto Azevedo had described trade facilitation as "not a self-balancing issue". However, after becoming WTO DG in 2013, Azevedo changed course by focusing largely on trade facilitation.

India raised the issue of PSH to balance out the Trade Facilitation Agreement. Thus, at the 9th Ministerial Conference in Bali in 2013, India and several other countries secured an interim agreement (a "peace clause") on PSH. The PSH mandate was further reinforced by the General Council in November 2014 and has come to be treated as a "perpetual" peace clause.

Since then, a permanent solution on PSH has proved elusive at both MC10 and MC11.

At MC12, Australia, on behalf of the Cairns Group of farm-exporting countries, the US and the EU among others continued their strong opposition to the permanent solution.

Although the PSH issue is dealt with as a separate issue, the Cairns Group, the US and the EU have sought linkages with other issues in the agriculture negotiations.

Following MC12, where there was no mandate on how to proceed on agriculture, attempts could be made to block the PSH issue when it comes up for discussion in the coming months, said several trade envoys.

As mentioned above, the DG has now suggested that the negotiations on agriculture be pursued in accordance with Article 20 of the AoA. However, under the present Doha mandate, the DG may not be entitled to pursue negotiations on a new mandate unless there is prior ministerial approval, said several former and current trade envoys who asked not to be quoted. But other members have maintained that there is no need for any fresh mandate to be approved, as the negotiations can be conducted under Article 20.

Ironically, it appears that the huge volume of work done on agriculture so far is being sought to be buried, with the "credit" going to the US and the EU for "decimating" the Doha mandate and subsequent work on agriculture.

Meanwhile, several US senators, immediately after MC12, pressed the administration of US President Joe Biden to initiate a trade dispute against India for allegedly subsidizing its rice and wheat farmers.

"American commodity producers are operating at a clear disadvantage to their competitors, primarily from India, where the government is subsidizing more than half of the value of production for rice and wheat, instead of the 10% allowable under [the *de minimis* provisions of] World Trade Organization rules," they said.

The US senators appear to have failed to acknowledge that WTO members had agreed to a "perpetual" peace clause in 2014 for subsidies to rice and wheat, which are thereby excluded from any legal complaint.

After MC12, the WTO seems to have become the proverbial "Wild West" in relation to agriculture. *(SUNS9609)*

WTO fisheries subsidies agreement may take time for ratification

The new WTO accord on curbing fisheries subsidies is not only of limited scope but could also require time before it enters into force.

by D. Ravi Kanth

GENEVA: The new Fisheries Subsidies Agreement (FSA) that was concluded at the World Trade Organization's 12th Ministerial Conference (MC12) in June will remain only on paper and "static" for all purposes without an immediate value until an accompanying protocol is ratified by two-thirds of WTO members, which may take several years.

The ratification process is a time-consuming one, as was the experience with the Doha Declaration on the TRIPS Agreement and Public Health (almost six years for implementation) and the Trade Facilitation Agreement (more than three years).

According to the protocol attached to the FSA, "the protocol shall enter into force in accordance with the provisions of paragraph 3 of Article X of the WTO Agreement."

That paragraph states: "Amendments to provisions of this Agreement, or of the Multilateral Trade Agreements in Annexes 1A and 1C, other than those listed in paragraphs 2 and 6, of a nature that would alter the rights and obligations of the Members, shall take effect for the Members that have accepted them upon acceptance by two thirds of the Members and thereafter for each other Member upon acceptance by it."

It also states that "the Ministerial Conference may decide by a three-fourths majority of the Members that any amendment made effective under this paragraph is of such a nature that any Member which has not accepted it within a period specified by the Ministerial Conference in each case shall be free to withdraw from the WTO or to remain a Member with the consent of the Ministerial Conference."

In short, until two-thirds of the WTO members ratify the new agreement, it cannot be implemented.

The FSA has been described by a negotiator who asked not to be identified as "a temporary slimmed down multilateral agreement to discipline fisheries subsidies".

The negotiator said that "no text was agreed [in the FSA] on subsidies contributing to overcapacity and overfishing" (OC&OF), which is a key pillar of the UN Sustainable Development Goal (SDG) 14.6.

SDG 14.6, which was adopted in 2015, calls for the following: "By 2020, prohibit certain forms of fisheries subsidies which contribute to overcapacity and overfishing, eliminate subsidies that contribute to illegal, unreported and unregulated fishing and refrain from introducing new such subsidies, recognizing that appropriate and effective special and differential treatment for developing and least developed countries should be an integral part of the World Trade Organization fisheries subsidies negotiation".

The FSA states, in Article 12: "If comprehensive disciplines are not adopted within four years of the entry into force of this Agreement [i.e., the FSA], and unless otherwise decided by the [WTO] General Council, this Agreement shall stand immediately terminated."

WTO members would thus need to complete negotiations on the OC&OF pillar in four years. Though these negotiations are supposed to begin soon, they may take at least two years, running into the WTO's 13th Ministerial Conference, which is scheduled for 2024, said people who asked not to be quoted.

Further, with the current chair of the fisheries subsidies negotiations, Colombian Ambassador to the WTO Santiago Wills, reportedly likely to join the WTO secretariat as a director, there will be much discussion on choosing a new chair, said a person who asked not to be quoted.

However, when asked whether he would be joining the WTO secretariat, Wills told the *South-North Development Monitor* (*SUNS*) at MC12 that it was untrue and that he was not aware of it.

Wills was appointed by the outgoing right-wing government in Colombia in August 2019 under seemingly controversial circumstances, according to a Colombian analyst, and was subsequently appointed in November 2019 by the then WTO Director-General Roberto Azevedo as the chair of the Doha rules negotiations, whose ambit includes fisheries subsidies.

Against the above backdrop, there is considerable uncertainty as to when the FSA will come into force, and to expect any immediate gains from the agreement seems unlikely, said people who asked not to be quoted.

Benefits hailed

Meanwhile, the "incomplete" FSA covering subsidies for illegal, unreported and unregulated (IUU) fishing and overfished stocks is being hailed for its environmental benefits and protection of those who rely on fishing for their livelihoods.

In her speech at the closing session of MC12 on 17 June, WTO Director-General Ngozi Okonjo-Iweala said that "WTO members have for the first time concluded an agreement with environmental sustainability at its heart". She added that the agreement is also "about the livelihoods of the 260 million people who depend directly or indirectly on maritime fisheries."

Okonjo-Iweala said: "The agreement prohibits support for Illegal, Unreported and Unregulated (IUU) fishing. It bans support for fishing in overfished stocks. And it takes a first but significant step forward to curb subsidies for overcapacity and overfishing by ending subsidies for fishing on the unregulated high seas.

"As important as the prohibitions is the transparency that will finally shed light on the actual level of subsidies going to fishing. And you have committed to further negotiations to build on these disciplines."

The FSA appears to be a boon for the United States and other big subsidizers, said people who asked not to be quoted.

It has been well established by various studies and reports that it is the big subsidizers such as the European Union, the US, Canada, Norway, Japan and Korea which have mainly contributed to the global depletion of fish stocks through their subsidies.

Yet, the burden of commitments appears to be gradually shifting to the developing countries, which have made little or no contribution to the stock depletion, said several MC12 participants who asked not to be identified.

Substantive elements of FSA

The FSA includes a prohibition on subsidies to a vessel or operator found to have engaged in IUU fishing, if "heavy" transparency provisions by the coastal member are complied with, with a right to the subsidizing member to limit the duration of such limited prohibition.

Secondly, it includes an absolute prohibition of subsidies for fishing in high seas not under the competence of regional fisheries management organizations or arrangements (RFMO/As).

However, in practice, every area is under the competence of RFMO/As. This is also a landmark provision in that it assumes that competence of RFMO/As over areas of the high seas equates to sustainability.

Thirdly, the provision on overfished stocks will allow the continuation of subsidies regarding most vulnerable stocks in the first phase of the agreement.

Paragraph 3.8 of the FSA on IUU fishing states: "For a period of 2 years from the date of entry into force of this Agreement, subsidies granted or maintained by developing country members, including least-developed country (LDC) Members, up to and within the exclusive economic zone (EEZ) shall be exempt from actions based on Articles 3.1 and 10 of this Agreement."

The developing countries are also subjected to a rather intrusive notification process on their IUU fishing subsidies.

In a similar vein, paragraph 4.4 on "subsidies regarding overfished stocks" states: "For a period of 2 years from the date of entry into force of this Agreement, subsidies granted or maintained by developing country Members, including LDC Members, up to and within the EEZ shall be exempt from actions based on Articles 4.1 and 10 of this Agreement."

Significantly, on subsidies regarding overfished stocks, the big subsidizers are allowed to grant subsidies "if such subsidies or other measures are implemented to rebuild the stock to a biologically sustainable level."

The European Union managed to get a big carve-out for its "government-to-government payments under fisheries access agreements" as they "shall not be deemed to be subsidies within the meaning of this agreement", according to footnote 2 of the agreement. *(SUNS9603)*

EU, US carbon-pricing methods could undermine MC12 outcome

Proposals in the EU and the US to impose carbon tariffs on imports may be detrimental to developing-country interests and create new faultlines in the WTO.

by D. Ravi Kanth

GENEVA: The European Union and the United States have apparently embarked on unilateral trade-related environment initiatives which could strike at the heart of the language agreed on environment in the final outcome document of the World Trade Organization's 12th Ministerial Conference (MC12).

MC12, which took place on 12-17 June, witnessed some difficult battles on the proposed language on environment in the outcome document. India and several other developing countries seem to have opposed any mention of the trade and environmental sustainability structured discussions (TESSD) and other ongoing plurilateral initiatives on several issues, said people familiar with the negotiations.

The eventual text on environment in the MC12 outcome document appears somewhat diluted and does not include any mention of TESSD or other plurilateral initiatives as demanded by the EU and other developed countries.

Paragraph 14 of the outcome document states: "We recognize global environmental challenges including climate change and related natural disasters, loss of biodiversity and pollution. We note the importance of the contribution of the multilateral trading system to promote the UN 2030 Agenda and its Sustainable Development Goals in its economic, social, and environmental dimensions, in so far as they relate to WTO mandates and in a manner consistent with the respective needs and concerns of Members at different levels of economic development. In this regard, we reaffirm the importance of providing relevant support to developing country Members, especially LDCs, to achieve sustainable development, including through technological innovations. We note the role of the Committee on Trade and Environment as a standing forum dedicated to dialogue among Members on the relationship between trade measures and environmental measures."

However, going by past experience in the WTO, it would not be wide of the mark to suggest that the developed countries, particularly the EU and the US, would find a way to bring in and legitimize controversial issues, as they did with the 1998 moratorium on customs duties on electronic transmissions.

In what may be a contravention of the WTO rules governing the conduct of staff of the WTO secretariat, WTO Deputy Director-General Anabel Gonzalez has already gone public with her ideas following MC12.

In a blog post dated 29 June on the WTO's official website, Gonzalez noted that negotiating binding trade rules and disciplines among 164 WTO members is very challenging due to their varying sizes and different priorities, interests and needs. "This is even more so in a context where decision-making requires consensus, which is why governments have long been searching for ways to bring greater flexibility to negotiations in the WTO," she said, citing the examples of the Trade Facilitation Agreement and plurilateral negotiations among a subset of interested members.

She went on to suggest that "in finding alternative ways to make progress, the MC12 opt-out technique provides a pragmatic way of facilitating adoption by emerging markets of increased responsibilities in the system while allowing the WTO membership to make progress in rule-making, secure mutual trade liberalization or simply start a conversation in areas where not all members are ready to make progress."

If that is one of the main conclusions drawn from MC12 by Gonzalez, then members need to take note of the dangerous implications of her blog post, said several people who asked not to be identified.

Unilateral climate change initiatives

On 22 June, five days after the conclusion of MC12, the European Parliament concluded its "first reading" on a regulation establishing a "Carbon Border Adjustment Mechanism (CBAM)."

Bixuan Wu, a trade lawyer with an American legal firm, cited the EU rapporteur Mohammed Chahim as saying that "the CBAM would incentivize the EU's trading partners to decarbonize their industries, as no matter where you pollute, you will now have to pay for it, if you want to export to the European market."

Writing in the International Economic Law and Policy (IELP) blog on 2 July, Wu said that the implication of the rapporteur's statement is that polluters have to pay according to the EU's price.

Wu said there is a logical flaw in the EU's CBAM, arguing that "it leaps from requiring other countries to charge polluters to requiring them to charge polluters the EU's carbon price."

Effectively, it would imply that polluters in China, India, and other developing and least-developed countries would pay charges according to the EU's carbon price.

"The EU's CBAM aims to prevent

carbon leakage, a situation [where] EU businesses, to avoid high emission costs within the EU, transfer production to other countries with laxer emission constraints," said Wu. "The EU's solution to this is to put a charge on each ton of carbon embedded in imports."

Further, if there is any cost differential between the charges levied between the carbon price of the EU's emission trading system and that of the exporting country, then that country must pay the extra amount in Brussels, Wu pointed out.

In short, according to Wu, the EU's CBAM is "primarily about pressuring other countries into raising domestic carbon prices" and it "simply equates a country's carbon price with the strictness of its emission constraints."

Meanwhile, in the US, Senator Sheldon Whitehouse has introduced a bill that proposes the establishment of a US carbon border levy on imports.

In a press release issued on 8 June, Whitehouse said that the bill is "aimed at making American companies more competitive in the global marketplace and tackling major sources of planet-warming gas emissions by creating a carbon border adjustment mechanism."

The senator said: "American manufacturers doing the right things on climate are often at a disadvantage compared to pollution-friendly foreign competitors. Our [proposed] Clean Competition Act will give American companies a step up in the global marketplace while lowering carbon emissions at home and abroad and steering the planet toward climate safety."

Significantly, the two separate initiatives appear blissfully ignorant of the huge contributions made by the EU and the US to climate change in the immediate past. Both proposals seek to shift the blame to countries which were never part of the climate change problem.

Further, the two proposals seem to turn a blind eye to the principle of "common but differentiated responsibilities" enshrined in the Paris Agreement on addressing climate change.

These initiatives by the EU and the US, as and when they become part of their respective legal rulebooks, could be brought into the negotiations on environment at the WTO at some point.

Writing in the *Financial Times* on 14 October 2021, WTO Director-General Ngozi Okonjo-Iweala had said that "a common approach to the cost of polluting is a fair and straightforward approach."

She noted that "developing countries, in particular, fear that border carbon adjustment could become a pretext for protectionism aimed at their exports, when they are not the core problem." She provided the example of Africa, which she said contributes "roughly 3 per cent of greenhouse gas emissions," adding that "from that perspective, poor regions of the world see this measure as unfair."

However, Okonjo-Iweala claimed that "this is no argument against carbon pricing." The challenge, she said, comes from the "inconsistency" of carbon pricing systems, with prices often being too low, in light of "the estimate by the Stern-Stiglitz Commission on Carbon Pricing that somewhere between $50 and $100 per tonne of CO2 is required to meet Paris Agreement temperature targets."

Given the different ways to price carbon, Okonjo-Iweala said that "fragmentation risks generating trade frictions and unpredictability for businesses seeking to decarbonize. Worse, it could weaken the effectiveness of global efforts to mitigate climate change."

However, she did not raise the issue of historical reparations for the damage caused by the developed countries in their decades of carbonization. Neither did she mention the principle of common but differentiated responsibilities.

Development-oriented approach

The United Nations Conference on Trade and Development (UNCTAD), in its *Trade and Development Report 2021*, has said that "incentive-based approaches, such as optional preference schemes that provide ringfenced climate financing additional to ODA [official development assistance] or preferential market access in exchange for progress towards nationally determined contributions (NDCs), could accelerate climate action without recurring to punitive measures with anti-developmental effects."

UNCTAD also said that "a development-oriented approach to trade and the environment which calls for a limited climate waiver of WTO trade and environment rules combined with a 'peace clause' for disputes on trade-related environmental measures of developing countries could be one route forward."

"A narrowly defined waiver and peace clause would give countries the assurance that they will not face disputes for climate and development-friendly initiatives such as prioritizing a transition to renewable energy, green procurement, and green jobs programmes – all initiatives that advanced economies are also prioritizing but that could be challenged under the WTO dispute mechanism," it said.

Further, according to UNCTAD, the trade-and-environment agenda focusing on existing proposals like CBAMs and tariff elimination on environmental goods and services is likely to disproportionately impact resource mobilization in developing countries, for which tariffs make up a greater proportion of government revenue.

New financing support needs to be provided through a Trade and Environment Fund as proposed by some WTO members, said UNCTAD. It argued that "such a Fund could finance the incremental costs of sourcing critical technologies, provide grants for specific green technologies, finance joint research, development and demonstrations, as well as the establishment of technology transfer centres, exchanges and mechanisms."

UNCTAD warned that "should negotiations on carbon tariffs proceed at the WTO, it will be important to ensure that this issue remains in the multilateral rules-based system."

Foreseeing the "opt-out" threat as suggested by the WTO's Gonzalez, UNCTAD warned that "no decision should be taken between smaller groups of developed economies, as this would risk further undermining the trust of other WTO members, particularly those impacted most, in the ability of the multilateral trading system and global climate initiatives to support the achievement of developmental objectives."

It said that "most importantly, any requirement for governments in the Global South should be contingent on the more effective policies regarding expanded policy space, enhanced intellectual property rights flexibilities and new sources of climate finance to avoid a catastrophic impact on development initiatives."

Despite such cautions, the apparently emboldened EU and US, which navigated outcomes at MC12 that apparently "kicked the can down the road", could pose a threat on the environment front between now and MC13, likely to be held sometime in 2024. *(SUNS9610)*

Ukraine war stifling trade, raising global shipping costs, says UNCTAD

A new report documents how the conflict in Ukraine has greatly disrupted international trade and shipping.

by Kanaga Raja

GENEVA: The war in Ukraine is stifling trade and logistics of the country and the Black Sea region, raising global shipping costs and disrupting global value chains, according to the UN Conference on Trade and Development (UNCTAD).

In a new report released on 28 June, UNCTAD said the search for alternate trade routes for Ukrainian goods has rapidly increased the demands on land and maritime transport infrastructure and services.

For Ukraine's trading partners, many commodities now have to be sourced from further away. This has increased global vessel demand and the cost of shipping around the world, it added.

According to the report, the destruction of important infrastructure, trade restrictions, increased insurance costs and higher fuel prices have all contributed to the logistical hurdles arising in the Black Sea region. They have also contributed to a more costly and unpredictable global trading and shipping environment.

Many countries have had to look further afield for suppliers of oil, gas and grain. Consequently, shipping distances increased, along with transit times and costs, the report said. "Higher energy prices exacerbate the challenges faced by shippers. The Russian Federation is a leading oil and gas exporter."

However, trade restrictions and the shifts in trading patterns resulting from the war have led to a surge in ton-mile demand. The report said daily rates for smaller-size tankers, which are key for regional oil trading in the Black Sea, Baltic Sea and Mediterranean Sea regions, have dramatically increased.

It said the higher energy costs have also led to higher marine bunker prices, raising shipping costs for all maritime transport sectors.

The report said by the end of May 2022, the global average price for very low sulphur fuel oil (VLSFO) reached over $1,000 per ton, a 64% increase with respect to the start of the year – and the average fuel surcharges charged by container shipping lines have risen close to 50% since the beginning of the war.

The Russian Federation and Ukraine are prominent players in agrifood markets, including animal feed. Together, they account for 53% of global trade in sunflower oil and seeds, and 27% of wheat, said the report. A total of 36 countries import more than 50% of their wheat from the Russian Federation and Ukraine alone.

UNCTAD said that Ukraine exported around 50 million tons of grain in 2021. Before the war, estimates projected a growth of 3% in global sea exports of grain. "Now, however, they are projected to shrink by 3.8% in 2022. Global shipments of fertilizer and its inputs such as potash are projected to drop by 7% in 2022."

The report said reduced grain exports from Ukraine are partly offset by increased shipments from other suppliers. For example, Brazil is expected to increase its wheat and coarse grain exports by an impressive 37% in 2022. Together, the United Kingdom and the European Union are set to expand their exports by 8% during the same year.

Soybean exports are expected to increase from Argentina, Brazil and the United States. In the medium term, Australia, Brazil and the United States can be expected to compensate for reduced grain exports to North Africa and the Middle East.

According to the report, despite the overall reduction of volumes for shipping, the demand for transport work – i.e., ton-miles – for the food-importing countries is likely to increase, as the alternative cargos are sourced from further away.

The shift in grain trading patterns is reflected in port calls by dry bulk vessels in the Black Sea. Black Sea ports normally served more than 90% of Ukrainian overseas grain shipments. With port operations suspended, overseas grain dispatches have been limited to deliveries via western borders, by rail, as well as through the small ports of Reni and Izmail on the Danube River. These alternatives are not sufficient to compensate for the lost capacity normally provided by Ukrainian Black Sea ports, said the report.

Since the start of the war, weekly port calls have gone from 60 to almost zero in Ukraine, and declined somewhat in the Russian Federation and Turkey, the report noted.

Some of the Ukrainian grains are transported by rail and trans-shipped at ports in Bulgaria and Romania. However, existing grain storage capacity is already committed to last year's harvest, leading to concerns that the new harvest cannot be stored and, therefore, will be damaged, the report added.

Between February and May 2022, the Baltic Dry Index – a global benchmark for dry bulk freight rates – increased by 59%. UNCTAD said this could lead to an additional increase of 3.7% in consumer food prices globally. Almost half of this increase is due to higher transport costs, resulting from higher freight rates and longer distances.

Middle-income economies are expected to experience slightly higher food price increases as their food imports depend on dry bulk shipping more than the global average, said the report. The impact of the dry bulk freight rate surge on low-income economies is expected to be smaller. Their food imports are concentrated on processed rather than primary food products, partly due to their low capacity to process food.

Global value chains disrupted

Although the Russian Federation and Ukraine are not deeply integrated into global container shipping and value chain networks, the conflict and trade restrictions have also affected this shipping segment, said the report.

"Container carriers cut ship carrying capacity assigned to the Russian Federation, and suspended operations at Ukrainian seaports. Several neighbouring countries saw ship capacity deployed in their ports increase slightly."

As ports closed and carriers discontinued shipping services to the Russian Federation and Ukraine, ships and containers had to re-route. Cargo destined for the Russian Federation and Ukraine is now piling up at ports, including Hamburg, Germany; Rotterdam, Netherlands; Constanta, Romania; and Istanbul, Turkey. Shippers are facing delays and can be expected to see an increase in detention and demurrage charges at ports.

The report said Russian Federation cargo is also being stranded at ports, e.g., in Europe. This adds pressure on warehousing and storage capacity and drives costs upward.

Freight rates had surged since the pandemic and the need to re-position ships and containers during the war adds to upward pressures on rates, said the report.

According to an UNCTAD simulation, the high container freight costs observed in 2021-22 will be passed on and lead to an additional increase in consumer prices by 1.6% globally. "It also suggests that global import price levels will increase on average by 11.9% as a result of sustained freight rate increases."

Small island developing states (SIDS) will be hardest hit, with an increase of 8.1%. SIDS import prices can face a cumulative increase of 26.7%, said the report.

It said SIDS generate small trade volumes, face stark trade imbalances (i.e., ships tend to be empty on their return voyages), are served by only a few shipping companies, and are highly dependent on energy and consumer goods imports. "Their transport expenditure for imports is two to three times higher than the world average. Not only do SIDS already pay higher transport costs but they also see a higher impact on their economies when transport costs increase."

Need for policy action

The report said that if global trade is to flow more smoothly in the future, and ports and maritime transport are to thrive and navigate through the historic disruption caused by the pandemic, this will require policy action.

In this context, UNCTAD made the following key recommendations as regards maritime transport challenges:

1. There will be no effective solution to the food crisis without reintegrating Ukraine's food production, as well as the food and fertilizer produced by the Russian Federation, into world markets despite the war.
2. Ensure that Ukrainian ports are open to international shipping to allow Ukrainian grain to reach overseas markets, at lower shipping costs.
3. Lower transaction cost for the food and fertilizer exports of the Russian Federation.
4. Ensure that collaboration among vessel flag states, port states and industry continues to provide all necessary services, including bunkering supplies, health services for sailors, and certification of regulatory compliance. This will help to keep the negative impacts on costs, insurance premiums and operations to a minimum.
5. Ease the transit and movement of transport workers, albeit temporarily, to lessen the pressure on cross-border trade and transit.
6. Invest in transport services as well as trade and transit facilitation even more than in pre-war times. Trading partners and transit countries should focus on key determinants of international transport costs such as trade facilitation and digitalization, infrastructure, economies of scale, imbalances and ensuring competition.
7. Support developing countries, especially the most vulnerable economies such as the SIDS, least-developed countries (LDCs) and net food importers. The war in Ukraine adds to the challenges posed by the COVID-19 pandemic and the climate crisis. The international community's support is needed to provide financial and technical assistance related to transport and trade facilitation. *(SUNS9606)*

 Third World ECONOMICS No. 749, 16-30 June 2022

Public services should not be the victims of inflation

After decades of budget cuts and privatization, public services and their workers are now suffering the ravages of inflation. But the resources to support these vital services do already exist.

by Irene Ovonji-Odida

The phrase "the summer of discontent" has begun to appear in the British press, a direct reference to the "winter of discontent" and the social movements which shook the country in 1978 and 1979. More than 40,000 rail and London Underground workers have gone on a series of 24-hour strikes, to denounce the deterioration of their purchasing power in the face of 9% inflation and demand wage increases.

In the wake of this movement, nurses as well as telecommunications, postal and airport workers have announced their intention to do the same. The education sector is expected to follow suit as schools, libraries and municipal swimming pools face budget cuts.

Britain is no exception. In France, healthcare workers are angry, with dozens of emergency services filing strike notices. In Tunisia, the main public-service union is calling for a walkout in pursuit of higher salaries. Zimbabwean healthcare workers have just gone on strike to compel the government to pay salaries in United States dollars, as spiralling inflation has eroded their purchasing power.

In Latin America, Peruvians have been first to express an outcry against inflation, but the sharp increase in food and energy prices suggests renewed social unrest throughout the region. In Puerto Rico and Minnesota, teachers have taken to the streets. In Sri Lanka, the government has just adopted a four-day working week for civil servants, so they have time to grow food at home to support themselves.

Everywhere, runaway inflation is yet another hard blow after more than two years of a pandemic which has tested those selfsame workers on the frontlines.

On their knees

After decades of austerity, precarious contracts and privatization, healthcare workers are on their knees, in poor countries as well as richer ones. Many have paid with their lives in the struggle against the virus. Others have worked endless days without a pay increase or social recognition.

It is women who are bearing the brunt, representing 70% of health workers worldwide. This is made even more unbearable by being the ones who, at home, take care of most of the unpaid domestic work – a burden increasing as public services on the verge of collapse prove incapable of carrying out their missions.

Inflation is back, worldwide, triggered by the pandemic, exacerbated by the war in Ukraine and proving to be more persistent than the major central banks envisaged. But we are not all equal when it comes to inflation. In the poorest countries, it is already causing increased hunger and food insecurity. In wealthy countries, low-income households are the first to suffer, with higher food prices weighing more heavily on their food baskets than on those of the better-off.

As the world marked United Nations Public Service Day on 23 June, images of myriad civil servants protesting against the ravages of inflation were a reminder that there are more and more poor and precarious workers in their ranks, even in the world's most powerful countries. It is not surprising that it is becoming so difficult to find candidates in such positions as nurses or teachers.

Resources exist

Precarious working conditions, budget cuts, transfer of control to the private sector – none of these is inevitable. The resources to raise salaries and hire more people exist. They must be drawn from where they are – in the accounts of the multinational corporations and of the richest people discreetly lodged in tax havens.

Since the beginning of the pandemic, the fortunes of the 10 most affluent individuals in the world have doubled, while the income of 99% of the world's population has decreased. The health crisis has only deepened an underlying trend: since 1995, the wealthiest 1% have captured nearly 20 times as much wealth as the poorest half of humanity.

As for the multinationals, most of them have benefited from the pandemic, but they continue to take advantage of the system to pay almost no taxes. Amazon, for example, avoided about $5.2 billion in US federal taxation in 2021. The company reported record profits of more than $35 billion – 75% higher than its 2020 haul, itself a record – but it only paid corporate income tax on them at an effective rate of 6% (the official rate is 21%).

It is urgent to rethink international taxation to make multinationals finally pay their fair share. Even the G20, which brings together the 20 richest countries in the world, last year defended a deal to implement a global minimum tax of 15% on multinationals' profits.

It is a step in the right direction but the agreement is not ambitious enough: it will generate only $150 billion in additional tax revenue, which, according to the distribution criteria adopted, will go primarily to rich countries. This would however reach $500 billion with a rate of 25%, as recommended by the Independent Commission for the Reform of International Corporate Taxation (of which I am a member).

Governments also have the option of making the super-rich contribute more. A handful of them, the "patriotic millionaires", are aware of the urgency to do so. "Tax us, the rich, and tax us now," they said recently in an open letter, calling for the introduction of "a permanent wealth tax on the wealthiest to help reduce extreme inequality and raise revenue for long-term, sustainable increases in public services such as health care".

When the political will exists, it is quite easy to identify where the wealth is hidden, as the Russian invasion of Ukraine has shown. It took little time for the world to learn all about the yachts and luxury apartments of those Russian oligarchs close to Vladimir Putin. A similar effort must be made to uncover the hidden wealth owned by multi-billionaires of all kinds.

With the inflation crisis, it is

impossible to keep avoiding the challenge: will states continue to finance themselves through austerity programmes, cuts in public services, raising the retirement age and increasing the contribution of the poorest through inflation-enhanced consumption taxes? This is a recipe for chaos.

The only way to escape it is to restore citizens' confidence, rebuilding more resilient, inclusive and egalitarian societies, capable of facing the existential threat of climate change. For that, we must radically change course and make all those who have the means to do so – yet today manage to escape their obligations – contribute more.

Otherwise, the discontent will last much longer than a summer – and on a global scale.

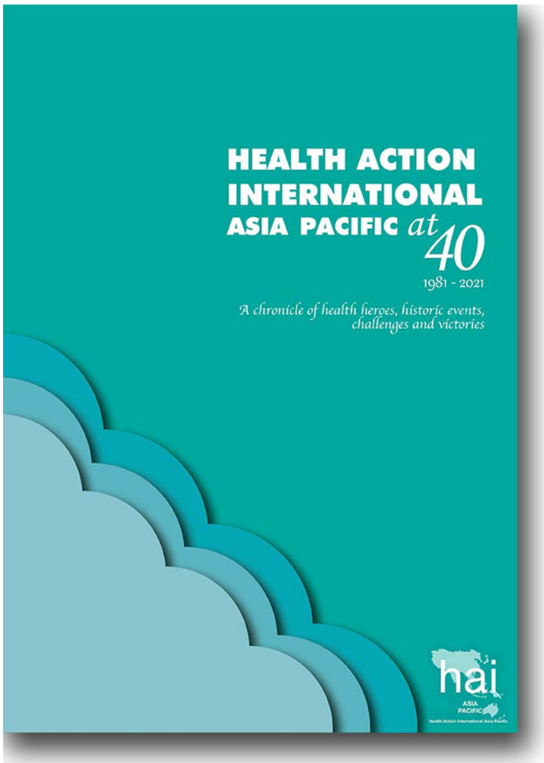
__Irene Ovonji-Odida__ is a lawyer and a member of the Independent Commission for the Reform of International Corporate Taxation. She was also a member of the United Nations High-Level Panel on International Financial Accountability, Transparency, and Integrity for Achieving the 2030 Agenda (FACTI). This article is reproduced from Social Europe.

Health Action International Asia Pacific at 40 (1981-2021)

A Chronicle of Health Heroes, Historic Events, Challenges and Victories

Prepared and edited by Beverley Snell

Published by Third World Network, Health Action International Asia Pacific, International Islamic University Malaysia, Gonoshasthaya Kendra, and Drug System Monitoring and Development Centre



This book commemorates the 40th anniversary of Health Action International Asia Pacific (HAIAP), an informal network of non-governmental organisations and individuals in the Asia-Pacific region committed to resistance and persistence in the struggle for Health for All Now.

HAIAP is the regional arm of Health Action International – upholding health as a fundamental human right and aspiring for a just and equitable society in which there is regular access to essential medicines for all who need them. HAIAP works with governments, academic institutions and NGOs at community, national and regional levels on issues such as promoting the essential medicines concept, equitable and affordable access to essential medicines, rational use of medicines, ethical promotion and fair prices. While promoting awareness of the impact of multilateral agreements, particularly TRIPS and GATT, on access to affordable healthcare and essential medicines, HAIAP advocates for poverty eradication and action on other priority themes relevant to countries in the Asia-Pacific region.

Available at https://twn.my/title2/books/HAIAP%20at%2040.htm