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Trade and Sustainable Development News and Analysis on Africa

VOLUME 5, ISSUE 6 – JULY 2016

Trade facilitation: A priority for the continent?

TRADE FACILITATION

How the TFA could help reduce trade costs for LDCs

AFRICA

Looking at trade facilitation from a public service delivery perspective

GLOBAL VALUE CHAINS

How to promote the effective integration and upgrading of countries in GVCs?

International Centre for Trade
and Sustainable Development

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BRIDGES AFRICA
Trade and Sustainable Development News and Analysis on Africa

PUBLISHED BY
ICTSD
International Centre for Trade and Sustainable Development
Geneva, Switzerland
www.ictsd.org

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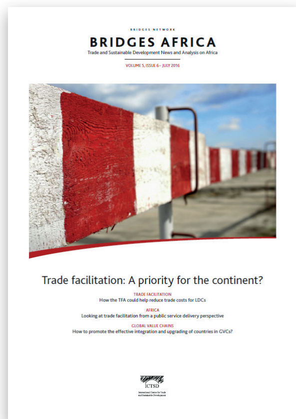
Trade facilitation: a priority for the continent?



The 2030 Sustainable Development Agenda recognises the important role that trade can play as a driver of sustainable and inclusive development. For this potential to materialise in Africa, however, the continent will have to tackle a pervasive challenge: steep trade costs. In a globalised and networked economy, where new modes of production such as global value chains have become prevalent, addressing this issue is all the more essential for developing countries.

While the thickness of borders does not constitute the only reason why trade costs are so high in Africa, they certainly are an important part of the equation. The "Trading Across Borders" indicators of the World Bank's Doing Business database clearly indicate that sub-Saharan Africa is the region where the time and cost of both import and export processes are the highest. Trade facilitation has thus gradually emerged as a priority for African countries, but on a continent totalling 54 countries and more than 100 bilateral national borders, the scale of the work that needs to be completed is enormous.

In this context, various African governments are putting in place trade facilitation initiatives, some with striking success. The WTO's Trade Facilitation Agreement (TFA), whose implementation is expected to start in the near future, could also prove instrumental in helping reduce trade costs on the continent, in particular thanks to its innovative approach to special and differential treatment. So what are the expected impacts of the TFA for African countries, especially least developed countries (LDCs)? And how could African governments enhance the effectiveness of their trade facilitation efforts? This issue seeks to bring forward elements of a response to these questions.

In the first article, Jaime de Melo and Laurent Wagner look specifically at LDCs and examine how the TFA could help those countries reduce trade costs. They highlight that although not a panacea, the TFA could produce significant benefits for LDCs if fully implemented.

This article is complemented by another contribution, in which Ilmari Soininen looks at trade facilitation through the lens of public service delivery. Through this analysis, the author offers recommendations aimed at strengthening African governments' ability to reduce trade costs through trade facilitation.

This issue also contains a piece drawn from the work of the E15 Initiative's Expert Group on Global Value Chains (GVCs). In this article, Sherry Stephenson presents a number of options on how the global trade system can promote the effective integration and upgrading of countries in GVCs.

As usual, we welcome your substantive feedback and contributions. Write to us at bridgesafrica@ictsd.ch.

TRADE FACILITATION

How the Trade Facilitation Agreement can help reduce trade costs for LDCs

Jaime de Melo et Laurent Wagner

Great hope has been placed on the Trade Facilitation Agreement. How could it support the objective of doubling LDCs' share of world trade by 2020?

The Aid for Trade (AfT) initiative launched at the WTO's 2005 Hong-Kong ministerial meeting has been successful at raising funds. But after five biennial reviews, showing that AfT flows have helped countries build their supply-side capacities has proved elusive. Great hope has been placed on the Trade Facilitation Agreement (TFA) protocol signed in November 2014. The TFA should result in a move towards results-based AfT and is expected to generate gains from reduced trade costs which should benefit mostly low-income countries (LICs), particularly least developed countries (LDCs) and landlocked LDCs. As such, it could prove instrumental in progressing towards the Istanbul Program of Action's (IPoA) target that calls for a doubling of LDCs' share in global exports by 2020, which has been reaffirmed in the Sustainable Development Goals (Goal 17, target 11). As 34 of the 48 LDCs are African countries, the effective application of the TFA's disciplines could thus have an extremely positive impact for the continent.

At around US$40 billion disbursed a year, AfT represents approximatively 30 percent of global official development assistance (ODA) flows to developing countries, but trade facilitation only accounts for about one percent of AfT disbursements according to the OECD's Credit Reporting System (CRS). In a recent paper,[1] we also find a lack of correlation between disbursements and the World Bank's Doing Business data or with the OECD Trade Facilitation Indicators, which cover all aspects of the functioning of customs. In addition, it appears that trade facilitation disbursements have been directed, more often than not, towards countries that are the closest to the TFA targets, whereas one would expect that disbursements would be directed towards countries which are less advanced in that regard. Successful implementation of the TFA would improve this situation, reducing uncertainty related to trade, streamlining market access procedures, and providing greater transparency at customs, thus leading to lower transaction costs. Higher trade volumes would then be an engine of growth and poverty reduction.

Is the TFA likely to be a major accomplishment for the world trading system? While the TFA is narrow in scope, as it focuses on customs management, in some ways it is the broadest WTO agreement besides the GATT, with every internationally traded good subject to trade facilitation measures. For some, the TFA has all the ingredients to be successful and represents new hope for the relevance of the WTO. For others, the TFA is "form without substance". While recognising the existence of an "implementation problem", this article focuses on the rationale of the TFA and on its potential benefits for LICs and landlocked LDCs.

Reducing trade costs should be the key objective for AfT

Summary indicators of trade-related performance during the early AfT period across country groupings are presented in Table 1. The group averages reveal large differences between landlocked LDCs and non-landlocked LDCs, as well as with the other two groups (landlocked non-LDCs and other developing countries). Over the period, the average per capita income of landlocked LDCs was half that of non-landlocked LDCs, itself half that of landlocked non-LDCs, itself half that of other developing countries. Landlocked LDCs and non-landlocked LDCs had respectable growth rates, the highest poverty rates, and, on average, they received high AfT disbursements. Governance indicators were lowest for both LDC groups. Finally, average trade costs were highest in absolute terms for landlocked

countries in their respective groups, and the decline in average trade costs appears to be less pronounced for landlocked countries – costs even increased for landlocked non-LDCs. A rough extrapolation suggests, however, that achieving the IPoA and SDG target, which calls for a doubling of the share of LDC exports in global trade by 2020, would require trade costs to fall approximately twice as fast for LDCs as for competitors of LDCs in world markets.

Table 1: AfT and outcomes in developing countries (averages per country group over 2005-2011)

Country categories (number of countries in parenthesis)	GDP_{pc}	GDP_{pc} growth	Head count ratio (poverty gap ratio)	AfT_{pc}	AfT / GDP	Worldwide Governance Indicators	Average Trade Cost[a]	Trade Cost 2010[b]
Landlocked LDCs (16)	507	3,9%	72,3 (35.3)	21,5	3,7%	-0,72	319.1	95.4
Non-landlocked LDCs (33)	1192	2,3%	66,5 (31.9)	34,2	3,4%	-0,78	273.9	93.2
Landlocked non-LDCs (14)	2067	4,5%	20,7 (7.7)	19,7	1,2%	-0,65	289.7	109.1
Other developing countries (87)	4833	2,6%	21,4 (8.2)	29,2	0,8%	-0,17	198.9	95.9

Source: Melo and Wagner (2016), table 1.

[a] Authors' construction based Arvis et al. (2016). Trade costs relative to the trade costs of the 10 countries with the lowest trade costs (normalised to 100).

[b] Trade costs normalised to 100 on 1995-1996 average.

Three components of trade costs have been scrutinised in models estimating the volume of trade: (i) geography (i.e. size, terrain natural infrastructure like water ways, country size, landlocked, etc.); (ii) "hard" infrastructure (roads, rail, ports, airports); and (iii) "soft" infrastructure (border-related costs like customs administration and document preparation, border-related policies like tariffs and non-tariff measures in both domestic and destination markets, and behind-the-border policies like communications and regulatory policies). Of these, the two latter ones are up for improvement by directed AfT. While proxies for both the "hard" and "soft" components of trade costs are found to have an impact on the volume of trade, there is controversy on their relative importance and on the desirable distribution of AfT between "hard" and "soft" infrastructure (about 10 percent of AfT disbursements goes to soft infrastructure). In any case, improving the soft institutional and regulatory infrastructure, including the functioning of customs administrations as targeted under the TFA, will require less funding but is an integral part of trade costs.

Objectives and rationale for the Trade Facilitation Agreement

Fortuitously, the TFA suggests a rather clear road map for where AfT should be focused: on the measures that will contribute most to reducing red tape and increase predictability in customs clearance (fees, formalities, transit). Requiring publication of procedures to clear goods will strengthen General Agreement on Tariff and Trade (GATT) Article V on freedom of transit. The obligation to issue advance rulings in a reasonable time-bound manner will strengthen GATT article X on transparency. Pre-shipment inspections to determine tariff classification and customs valuation will be forbidden, as will be the introduction of measures making the use of customs brokers mandatory. Other measures should also improve transparency. For example, requests for revised charges will not be acceptable prior to publication of the new charges. Agencies and authorities in charge of border control will also be obliged to cooperate and coordinate activities as has already started with the establishment of "one-stop border posts."

By focusing resources on LDCs, and especially landlocked LDCs, AfT should contribute to the realisation of the 2030 Agenda for Sustainable Development in several ways.

Technical assistance
The TFA explicitly recognises that technical assistance will be required for some LDCs, which will then link their commitments to the receipt of technical assistance and support for capacity building. To this effect, the TFA has designed three categories of commitments: Category A for immediate implementation; Category B for a date after a transitional period; and Category C after a transitional period during which implementation capacity will have been acquired through technical assistance. At the WTO, a permanent Committee on Trade Facilitation is to be established when the agreement enters into force, and a TFA Facility has already been set up in 2015.

The TFA is rules-based
LDCs should be the greatest winners of a rules-based world trading system. Signed by all WTO members, the TFA is rules-based rather than discretionary, with specified appeal and review procedures. This gives the TFA a sense of country ownership, which was identified as one of the key Paris principles on aid effectiveness. It is also in the spirit of the outcome of the Busan Partnership for Effective Development Cooperation.

The TFA objectives can be monitored relatively easily
Progress on many TFA objectives can be monitored by indicators lending themselves to targets (e.g. whether borders are open at the same times would be one among measures of border agency coordination, acceptance of electronic payments would be a measure of efforts to speed release and clearance of goods, etc.). In turn, evidence is accumulating that these targets are leading to desired results for the AfT initiative.

Delays reduce trade volumes
Growing evidence from different approaches documents that delays as goods travel from factories to consumers reduce trade volumes. One day less in transit is equivalent to a 0.6 to 2.1 percentage point tariff reduction in the destination country, which constitutes a significant reduction in trade costs.

The implementation problem
Some authors have questioned whether the TFA will solve the implementation problem by giving operational content within the GATT/WTO legal system to the provision of assistance to developing countries. Regarding what developing countries must accept (section II of the agreement), they are to submit substantive schedules indicating which provisions fall in the three categories mentioned above, Category C corresponding to the provisions for which they would have a phase-in period and financial assistance. But the TFA does not contain any obligation for donor members to provide that financial assistance, which leads some to conclude that the TFA may be a case of transparency and moral suasion with no legal substance. Hopefully, the relative transparency of the TFA customs-related measures included in section I of the agreement and the ease to evaluate the resulting reduction in trade costs will help mobilise the financial assistance needed for LDCs, and in particular landlocked LDCs.

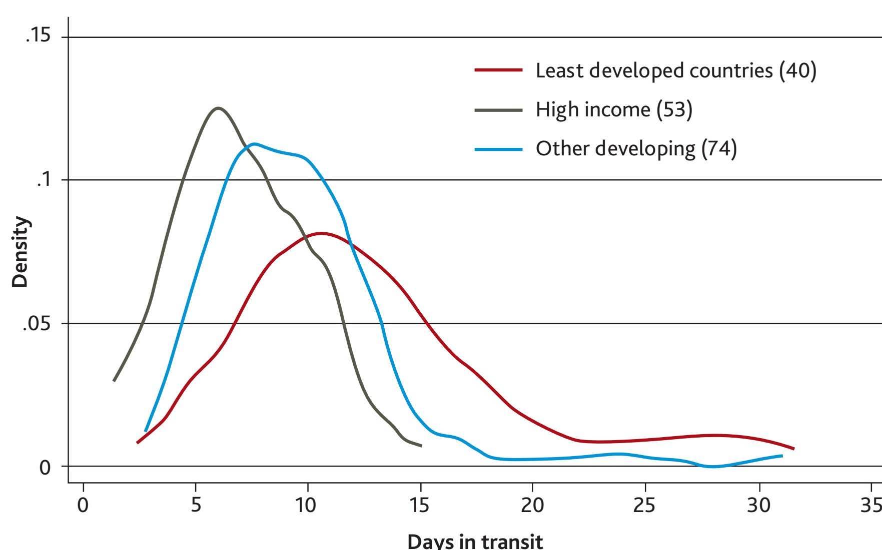
Potential benefits from implementing the Trade Facilitation Agreement
The principal focus of the TFA is to reduce the time it takes to cross borders, that is time spent in customs. According to the World Bank's Doing Business data, the average number of days spent by goods in import customs is 5.5 for landlocked developing countries, and 3.6 for non-landlocked developing countries. The data also indicates that for over 50 percent of non-landlocked developing countries, goods spend on average 2 days or less in customs. In landlocked developing countries, the corresponding figure is less than 5 percent, and for almost 10 percent of them, goods spend on average 10 days or more in customs. This pattern also holds when the comparison is between landlocked and non-landlocked LDCs.

For exports, the comparisons again reveal that the average number of days spent by goods in import customs is higher for LDCs (4.8) than for non-LDCs (3.7). Using an estimate of 1.3 percent additional costs per extra day in transit suggests that exporting firms relying

on imported inputs in landlocked LDCs face, on average, an additional trade cost of 3.9 percent.

Because Doing Business data is collected every two years from only a handful of freight forwarders in each country, who are asked to report the time and cost for a 20-foot full container weighing 10 tons to cross the border, they may be representative of neither travel time nor travel cost. Estimates covering all parcel shipments from the Universal Postal Union (UPU) reported in figure 1 provide an additional source of comparison. The figure shows the distribution of the time in transit (defined as time between sorting facilities in origin and destination countries) for packages up to 30 kilograms from a large sample of shipment covering many countries.[3] Average days spent by parcels in transit are 7.0 for high income countries, 13.0 for LDCs and 9.7 for other developing countries. Using the same estimate of 1.3 percent additional costs per extra day in transit would imply that LDCs face, on average, an extra 4.2 percent trade cost for parcel shipments compared to other developing countries.

Figure 1: Distribution of time in transit for International parcels



Source: Authors' calculations from Boffa (2015).[4]

Since the signing of the TFA in December 2013, the OECD has produced and released a series of 11 Trade Facilitation Indicators (TFI) for 187 countries, following closely the targets highlighted by the TFA. Currently, this constitutes the most detailed catalogue of the policies and procedures used in border management agencies around the world, and arguably the best we have to assess more closely the trade cost handicaps faced across different group of countries. Comparing LDCs with non-LDCs and landlocked with non-landlocked countries reveals that the values for the LDC group are again systematically lower for each indicator than for the non-LDC group, though not always significantly so.[5] For some important categories like advance rulings, the differences between the groups is large, a pattern that is also apparent when comparing landlocked with non-landlocked countries.

We have estimated, in another article, the reduction in trade costs from improvements in values of the TFI that might result from implementing the TFA – on the basis of the time spent in customs for a 20' foot container from the Doing Business data. Our results suggest that a successful implementation of the TFA could lead to a percentage reduction in trade costs of 2.4 percent for LDCs, and 4.5 percent for landlocked LDCs. These are not insignificant estimates, and although they only relate to time in customs for imports, several of the gains would also apply for time in customs for exports.

Conclusions and next steps

On average, time in customs for imports and exports are significantly higher for LDCs, and especially landlocked LDCs, making it difficult for them to meet the IPoA and SDG target

of doubling the share of LDCs' exports in world trade by 2020. New estimates suggest that a successful implementation of the TFA could reduce trade costs for imports by 2.4 percent for LDCs and 4.5 percent for landlocked LDCs. While these estimates are only rough orders of magnitude, in the fierce competition characterising our globalised world, these potential differences in trade costs are not insignificant. Since time in customs can be measured relatively accurately, reducing time in customs for imports and exports by a specified amount in a certain timeframe would be a verifiable target for the TFA. And even if reductions in time in customs are greater for imports than for exports, this should still enhance significantly the prospects for exports, as imports are increasingly important for exporting activities.

Such a target would contribute towards two objectives. First, it would be a step towards meeting the goal of doubling LDCs' share of global trade by 2020. Second, by answering the call for results-based management systems for the delivery of AfT, which has been repeatedly mentioned in the biennial OECD-WTO AfT reviews, this objective would help mobilise support in donor countries which cuts across the pillars of the Paris Declaration on aid effectiveness. Even though there is more to trade costs than customs management, monitoring implementation of the TFA would be a stepping stone towards the concrete trade performance targets that have been lacking in AfT activities so far.

Moving ahead, implementing the TFA faces three challenges. First, the TFA is a best-shot endeavour based on promises rather than legal content. On the one hand, developing countries do not have to engage in bargaining, as they only have to submit schedules of the substantive provisions of section I dealing with limits and procedures for customs administration that they would accept. On the other hand, there is no operational content for donor assistance, which thus remains beyond the purview of the WTO legal system.

Second, the distribution of AfT funds between "hard" and "soft" infrastructure (about 10 percent of AfT disbursements go to soft infrastructure) will continue to be context-specific. Nonetheless, wherever possible, it should be informed by impact evaluation appraisals. Currently, disbursements for trade facilitation activities (as measured under OECD's CRS) represent only one percent of AfT flows. While the evidence clearly speaks in favour of an increase of this share, it cannot inform on how much.

Finally, the SDGs call for taking urgent action on preserving the environment (goal 15). If cooperation measures at customs expedite transit at the cost of verification of trade in the illegal species identified in the 1973 Convention on International Trade in Endangered Species of wildlife Fauna and Flora (CITES), implementation of the TFA might accelerate environmental degradation. Taking this goal on board is essential in implementing the TFA.

This article is an adaptation of a longer paper entitled "How the Trade Facilitation Agreement Can Help Reduce Trade Costs for LDCs" published by ICTSD and the WEF under the E15 Initiative. An expanded version that details data and estimation methods has also been published by the FERDI.

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1. Melo, J. de and L. Wagner. "Aid for Trade and the Trade Facilitation Agreement: What they can do for LDCS." *Journal of World Trade*, forthcoming. Also Ferdi Working Paper P153, May 2016.
2. The full details of the table are available in: Melo, J. de and L. Wagner. *How the Trade Facilitation Agreement Can Help Reduce Trade Costs for LDCs.* E15Initiative. Geneva: International Centre for Trade and Sustainable Development (ICTSD) and World Economic Forum, 2016. www.e15initiative.org/
3. The figures are drawn from an estimation of approximately 30 million bilateral parcel shipments averaged over a sample of 167 countries for 2013-14. Except for some European flows, shipments are by air.
4. Boffa, M. "E-commerce and the Cost of Waiting." GSEM WP series. University of Geneva.
5. Melo and Wagner, Ferdi, 2016, figure 2, shows the distribution of each one of these measures averaged over country groupings.

AFRICA

Making trade facilitation work in Africa: Lessons from the service delivery agenda

Ilmari Soininen

At a time when countries across the African continent are deploying important efforts to facilitate trade, what can we learn from public service delivery in other areas for strengthening trade facilitation reform?

Thursday, June 23, marked the UN Public Service Day, the official international day of recognition for the value and virtue of public service to the community and its role in the development process. From Lagos to Lusaka, leaders across the African continent marked the 22nd annual Africa Public Service Day in tandem. Saara Kuugongelwa-Amadhila, Prime Minister of Namibia, called for her government to "do all we can to support our country in building up and revitalising public service capacities. [...] Policy making for inclusive growth must align voice, design, delivery and accountability for joint outcomes."

In many respects there is much to celebrate. Public service delivery has improved markedly across the continent over the last several decades. In Southern Africa, governments, once slow to recognise the severity of the HIV/AIDS epidemic, have mobilised to distribute antiretroviral drugs to those who need them most, helping to significantly reduce the rate of new infections. Similarly, in Eastern Africa, the rate of primary and secondary school enrolment has increased markedly, with innovative information campaigns to ensure money reaches the schools. Indeed, in a 2013 Afrobarometer survey across 34 countries, these two areas – healthcare and education – had the most positive reviews, with infrastructure and sanitation garnering much less positive perceptions.

At a time when countries across the African continent are deploying important efforts to facilitate trade, what can we learn from these services for strengthening trade facilitation reform and ensuring impact?

Trade facilitation as a service

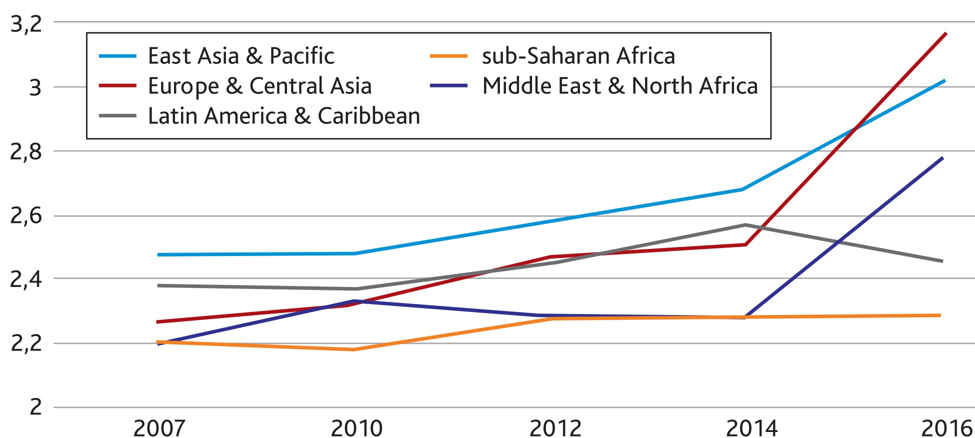
Governments also provide critical services related to international trade, which are starting to receive more attention thanks in part to the WTO Trade Facilitation Agreement. The World Bank's Logistics Performance Index (LPI) surveys a large sample of global logistics operators for their views of the logistics environment, including their assessment of customs clearance services by the government. Here, sub-Saharan Africa risks falling significantly behind the rest of the developing world (see graph). The recently released 2016 LPI report highlights that the bottom quintile of countries (the majority of which are African) remain far from implementing key trade facilitation measures, such as online processing and reduction of physical inspections, while the other four quintiles continue to converge towards the top performers.[1]

If African economies are to better integrate into the global economy, especially global supply chains, then improving border clearance services is critical.

Lessons from the service delivery reforms for successful TFA implementation?

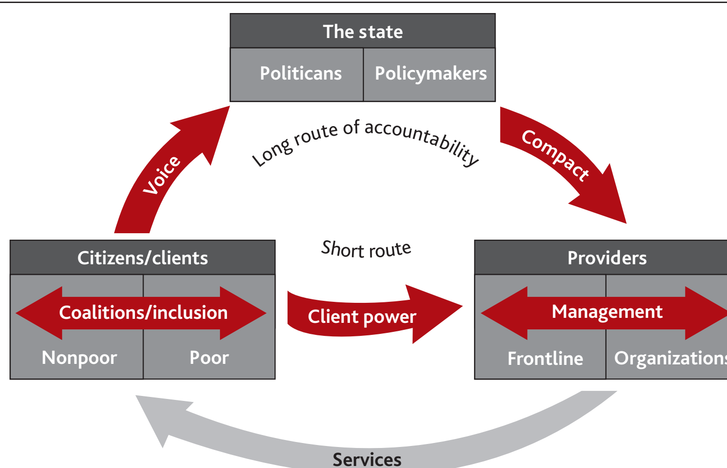
The workhorse for much of the analytical work on public service provision over the last decade has been the "service delivery triangle" developed in the 2004 World Development Report.[2] The framework lays out the three key accountability relationships in public service delivery: between users and providers, between citizens and policymakers, and between policymakers and providers (see Figure 2).

Figure 1: LPI - Efficiency of customs clearance subindex (by region, 1 to 5 scale)



Source: World Bank Logistics Performance Index database

Figure 2: The service delivery triangle



Source: World Bank (2004).

Looking first at the "short route", the monitoring function of clients is a critical starting point. Importers and exporters – whether the firms themselves or designated clearing agents – interact daily with the various border agencies and are often in a much better position to understand what happens at the border than officials in the capital. Education reforms provide useful examples. Increasing the client power of parents, for example, through school management committees and public information campaigns has helped improve schooling. Parents are in a much better position to monitor what is happening in their local schools than officials in the capital.

In Kenya, the establishment of Joint Border Committees (JBCs) at the level of individual border crossings provides an interesting application of this insight. Set up with the support of the East Africa Trade Hub in 2009 and now overseen by the Kenyan Revenue Authority, the JBCs brought together the various border agencies with private sector groups to address operational challenges at specific border posts. The dialogue supported by the monthly meetings helped to shift the mindset from enforcement and control to trade facilitation and service delivery. The JBC is credited by both government and the private sector in helping significantly speed up the border crossing times from days to hours at the Malaba border post, the main artery for goods entering Uganda.[3]

The long route of accountability: Strengthening citizen and client voice

Turning to the first leg of the "long route" of service delivery, voice – the relationship between citizens (or firms) and politicians – is typically the most complex accountability link in the service delivery chain. How can citizens influence politicians and policymakers to improve service delivery? Here, it is useful to note the contextual differences between

the provision of services for customs clearance compared to health or education. Most obviously, a much smaller subset of the population interacts with customs and border agencies compared to the millions of citizens who deal with the public health or education systems each day. This concentration of interests among traders can help reduce collective action problems faced by the general public. Moreover, multinationals or large companies can have an important voice in influencing government decision-making as these firms are often major investors, employers, and tax payers and, perhaps more importantly, ever more mobile. But conversely, smaller domestic firms may not have the needed bargaining power with respect to politicians and lack the capacity to effectively organise and lobby for improved outcomes. However, from the analysis of firm-level data across developing countries, it is clear that firms both large and small stand to benefit from trade facilitation reform, especially as opportunities open up for smaller firms to supply lead firms.[4]

Strengthening the voice of domestic consumers is another tool for strengthening this accountability link. Trade costs are ultimately passed onto consumers in the form of higher prices, but consumers are often not well organised and face the collective action issues highlighted previously. In a 2012 analysis, the World Bank found that the annual welfare losses (primarily to consumers) from inefficiencies at the Port of Dar es Salaam – due to a mix of inefficient border clearance and poor infrastructure – totalled US$1.8 billion for Tanzania and over US$800 million for neighbouring land-locked countries dependent on the Port.[5]

From voice to compact

The second leg of the "long route", the compact, sets out the relationship of accountability between politicians and service providers. The 2004 World Development Report points out that "all public services providers face multiple principals, undertake multiple tasks, and produce outcomes that are hard to observe and hard to attribute to their actions." Here, one lesson from other sectors is that better data and transparency can help create incentives for higher performance. In many parts of Africa, education reforms have included systematic tracking of learning outcomes to create school scorecards and measuring teacher absence rates. In some cases, mobile phone technology has been tried to reduce absenteeism.

For trade facilitation, measuring performance and results can be achieved through increased automation and adoption of information and communications technology, as well as measures to instil transparency. Technologies such as modern electronic single windows allow for an evolution from one-off or ad-hoc time release studies to real-time monitoring of clearance times, providing senior government officials with better tools to establish effective incentives for better performance both at the individual border officer and overall agency levels. Similarly, governments could explore the idea of publicising clearance times by border post and creating scorecards which could help to create friendly competition and further strengthen the "client power" dynamic, especially when combined with effective JBCs. The Rwanda Revenue Authority's "Service Charter" provides an excellent example of a public service compact outlining measurable commitments to delivering transparent, predictable, and professional trade facilitation services.

Another interesting finding from the 2016 LPI Report is that customs is not necessarily the main bottleneck, but the combination of other border agencies – health, agriculture, quarantine, police, immigration, and standards – that have the worst service delivery ratings (see figure 3).[6] In healthcare and education, this type of coordination problem among numerous providers is much less of an issue, so there are fewer lessons there. Whereas reform efforts (and development partner programming) have often focused on customs reform, the other critical agencies have largely not been on the radar of the reform agenda. Many of the key tools for customs reform – risk-based management and automation – would be relevant for these agencies, too. Moreover, including them in the national-level trade facilitation committees and streamlining trade facilitation into the agencies' mandates is equally important.

Figure 3: Respondents rating agency quality competence as "high" or "very high" (by LPI quintile)

LPI quintile	Customs agencies	Quality/standards inspection agencies	Health/sanitary and phytosanitary agencies
Bottom quintile	26	8	17
Third quintile	38	27	19
Top quintile	78	59	53

Source: Arvis et al. (2016)

Making the service delivery framework work for trade facilitation

The service delivery framework can provide useful insights into why public service delivery can fail, and how it can work when the relationships of accountability are strong. When looking at trade facilitation service delivery, we cannot, however, forget that border agencies play a critical role in securing national borders from a variety of potential threats, as well as collecting customs duties which are often the most important domestic source of revenue for governments. Yet, it is a false paradigm to think that the ability to deliver on this mandate must be compromised by improved service delivery.

In fact, the two go hand in hand. Automation, transparency and meaningful public-private dialogue can help to deliver better outcomes on both mandates. Much as increasing the client power of parents can affect the outcomes at the school level, strengthening the influence of the private sector, both at the border and national level, can help to deliver reform. Similarly, looking at innovative ways to bring the voice of consumers into the policy debate can also help to yield positive results.

Policy-makers and politicians can take inspiration from the broader reform efforts across the continent. The Mandela government first introduced the *Batho Pele* ("People First") principles for public service delivery nearly two decades ago to radically transform the public service delivery culture in South Africa, although this has been a slow and uneven process. These core principles – from consultation and transparency, to service standards and meaningful redress – offer a "made in Africa" framework for driving the service delivery revolution needed to meet the challenges of the 21st century global economy.

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3. East Africa Trade Hub. "Joint Border Committees: A Look at Malaba Border." 2013.

4. Hoekman, Bernard, and Ben Shepherd. "Who Profits From Trade Facilitation Initiatives? Implications For African Countries." *Journal Of African Trade* 2 (2015): 51-70. doi:10.1016/j.joat.2015.08.001.

5. Morisset, Jacques. *Tanzania economic update : opening the gates: how the port of Dar es Salaam can transform Tanzania*. Washington DC: World Bank, 2013.

6. Jean-Francois Arvis et al. *Connecting to Compete: Trade Logistics in the Global Economy*. Washington DC: World Bank, 2016.

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E15 EXPERT GROUP ON GLOBAL VALUE CHAINS

Trade governance frameworks in a world of global value chains

Sherry Stephenson

In today's globalised economy, understanding global value chains (GVCs) is essential for the development of trade and investment. This article presents a number of options on how the global trade system can promote the effective integration and upgrading of countries in these GVCs.

Today, we live in a globalised and networked economy led by investment flows. Global value chains (GVCs) involve a wide range of actors and institutions and span a broad number of trade and investment disciplines. This complexity has made GVCs a challenge for policy-makers. Promoting a better understanding of GVC implications from a sustainable development and international governance perspective is thus a critical task. As a contribution to this process, the E15 Expert Group on Global Value Chains, convened by ICTSD and the World Economic Forum in partnership with the Inter-American Development Bank, has examined the challenges and opportunities that the expansion and consolidation of GVCs has created for global trade governance and economic development. The outcome of this expert dialogue process is a set of forward-looking policy options presented herein.

New challenges

Global value chains are a product of trade policy reforms combined with the lowering of transport costs and the information technology revolution, whose advances have given firms the ability to coordinate their production needs internationally. GVCs, often driven by the investment decisions of multinational corporations, typically involve a collection of firms located in different countries jointly forming a production line of upstream and downstream linkages. While GVCs allow firms to concentrate on specific tasks, they also increase interdependence. GVCs, moreover, are not uniform in terms of governance or incentives. The implications of participating (or not) in a value chain depend on their type and structure.

The international fragmentation of production is creating new opportunities for developing countries by eliminating the need to gain competency in all aspects of a particular good. Integration in GVCs is also frequently associated with enhanced foreign direct investment (FDI) and knowledge spillovers to the local economy. But these opportunities come with new challenges.

First, existing evidence tends to show that most production networks are regionally oriented and concentrated around three hubs: North America, Europe, and East Asia. This poses a challenge for developing countries located far away from industrial clusters. Second, trade policy, particularly preferential trade agreements (PTAs), plays an important role in shaping GVCs. Third, for developing country governments seeking to maximise benefits from GVC participation, a major concern has been to capture domestically a higher share of value-added by moving up the chain. This has led to calls for a blend of horizontal and targeted industrial policies to address market failures and secure more sustainable development outcomes from FDI and GVC participation.

Two policy implications can be drawn from the above considerations and recent experience in developing and emerging economies. First, integration and upgrading in GVCs depends largely on domestic policy reform, and these policies go beyond narrowly defined trade policy instruments. The quality of institutions and general infrastructure, human capital formation, and the incentives in place for investors and firms operating in the local economy are all facilitators. For countries willing to use the "GVC technology" as an engine for development, an open import regime is important, minimising trade frictions

and improving connectivity are critical, and boosting absorptive capacities to generate dynamic benefits from FDI attraction is key. Second, in a globalised economy, there will be international spillovers brought about by domestic policies or by the operation of value chains themselves. Such spillovers may include lead firms abusing dominant positions or they can result from competition between national incentive schemes designed to attract FDI.

Analysts generally concur that the current normative structure of many trade agreements may be insufficiently equipped to optimally respond to the reality of fragmented production networks. WTO rules still operate in vertical silos. A more integrated approach that considers the horizontal application of disciplines in various areas such as transparency, standards, competition, procurement, and investment in both goods and services may offer an alternative approach to trade governance more in line with the world of networked production and trade.

In addition, the absence of a coherent set of multilateral disciplines on investment represents an increasingly glaring weakness in the international system. Other horizontal disciplines are also lacking, in particular relating to the movement of natural persons as well as competition policy. Meanwhile, major initiatives of a plurilateral nature, with potentially significant impacts on the development of GVCs, have been initiated. These include negotiations on the plurilateral Trade in Services Agreement and ambitious mega-regional schemes such as the Trans-Pacific Partnership and the Transatlantic Trade and Investment Partnership.

Policy options

In view of these developments, some policy options for enhanced trade governance relevant to global value chains are presented below. The first set of recommendations centres on options to inform the design of domestic policies for GVC integration and upgrading. They aim to contribute to a better understanding of the operation of GVCs, promote dialogue, and strengthen government capacities. The second set of policy options envisages possible steps towards a supply chain informed agenda for future trade negotiations.

Informing the design of domestic policies for GVC integration and upgrading

Knowledge tools should be further developed and refined in order to promote a more empirical and sophisticated understanding of GVC operations in international trade. Trade in Value Added (TiVA) indicators should be expanded and could form the basis for closer collaboration between OECD-WTO, international organisations, and development banks in analysing the impact of GVCs on trade and investment patterns.

An independent and neutral "Global Value Chain Development Platform" could be established and designed as a clearinghouse mechanism on the trade and development dimensions of GVCs and as a forum for policy dialogue. The platform could serve four functions: operate as a portal for research on the developmental impacts of GVCs; provide information to policy-makers on the operation of GVCs; identify barriers faced by firms in developing countries; and establish a worldwide network of developmental GVC experts.

Specific "supply chain councils" could be established to analyse supply chains in particular sectors. The councils, composed of private firms, trade officials, and regulators, would be tasked with two main areas of work: carrying out mapping studies in specific production networks; and identifying its governance structure and the regulatory constraints.

Building on the above proposals, an option would be to convene a regular "Supply Chain Summit" bringing together governments and private sector actors to share experiences and analysis generated by the GVC Development Platform and the supply chain councils.

Towards a supply chain informed agenda for future trade negotiations

A horizontal work programme on GVCs could be established in the WTO to explore areas where trade disciplines might be adjusted or further developed. This would help to focus

discussions in the WTO on the system wide set of issues surrounding the operation of supply chains from a trade policy governance perspective.

Another recommendation would be to explore the need for new international cooperative arrangements to address possible negative externalities or spillovers resulting from unilateral action and domestic policies that seek to foster GVC integration.

Finally, future trade negotiations should adopt a supply chain informed approach that integrates goods, services, and investment under specific clusters of productive activities associated with a particular sector or value chain. The paradigm changes in world trade and investment brought about by supply chains and globally networked economies will need to be reflected in the adoption of a holistic approach to future rule-making.

Priorities and next steps

The first set of policy options do not require any institutional changes in the WTO or other trade agreements but would contribute to the exchange of ideas around a structured agenda. The second set on a supply chain informed agenda imply changes in the way existing international negotiating fora work or undertake negotiations. These options of a more systemic nature could be aimed at over a longer time horizon.

Short-term options

Developing and refining knowledge tools would require a commitment by organisations such as the WTO, OECD, UNCTAD, ITC, World Bank, and regional development banks to expand the TiVA dataset, work with national authorities to develop input-output data, and develop regular reports on the functioning of GVCs. Many of these organisations have already included the GVC issue as a major focus area of their research. In January 2016, the WTO released new statistical profiles on GVCs for 61 economies, bringing together a set of indicators on trade taking place within GVCs.

The creation of a "GVC Development Platform" is more ambitious and would need to be driven by a consortium of policy research institutions or intergovernmental organisations (or a combination of both). This recommendation is currently being carried to fruition in the form of the new Research Centre on Global Value Chains that the Chinese Government has established in Beijing and which began official operating in early 2016. Many international organisations and universities have signed up as partners in this initiative, which will surely advance understanding of the implications of GVCs for development.

Medium-term options

The "supply chain councils" could be led by trade analysts but should be primarily comprised of private firms whose input and business insights would be essential in mapping how the networking process operates in a particular sector. A consortium of intergovernmental organisations could establish and convene the "Supply Chain Summit." The summit should obtain the buy-in and support from the private sector.

Regarding the second set of options, the first step to set in motion a supply chain informed agenda for future trade negotiations would consist in systematic and system-wide discussion in the WTO on the implications of GVCs for international trade governance through the creation of a work programme on value chains and development. The process would have to be initiated from inside and led by a group of interested WTO members.

Long-term options

The options on new international cooperative arrangements and the adoption of a supply chain approach in negotiations are more ambitious and would require broad consensus among WTO members. Given the diversity of views, moving forward on a plurilateral basis may be a viable route. Alternatively, some countries may choose to use preferential agreements as a testing ground for new disciplines. The current mega-regional trade agreements that are being negotiated or have been completed (the TPP, TTIP and RCEP) all have the functioning of GVCs as one of their objectives when designing relevant trade disciplines.

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AGRICULTURE

How can trade policy promote sustainable agricultural development in Nigeria?

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How could Nigeria adopt a strategy that takes advantage of its enormous agricultural resources by developing and implementing efficient trade policy instruments?

Nigeria's abundant agricultural resources remain grossly under-utilised. Over the years, various policies including trade policy have been deployed to promote full employment of these resources without much success. This article examines the role and place of Nigeria's trade relations and trade policy in the sustainable development of the sector. It also looks at the evolution of agricultural trade policy over the years and the effectiveness of different policy instruments. Lastly, it suggests strategies that the government could adopt in order to make agricultural trade policy more efficient and effective.

Nigeria's agricultural resources and policy

Nigeria's agricultural resources – estimated to include 98 million hectares of land among which 84 million hectares are cultivable – are not only sufficient to feed the teeming population of the country and provide necessary support to agro-allied industries, but also to significantly increase exports of raw and processed agricultural products. The realisation of this huge potential, however, is constrained by several factors, including inefficient production technologies, significant post-harvest losses mainly attributable to poor rural infrastructure, limited investment, and policy inconsistencies, to mention a few. The resulting downside effects include the under-utilisation of abundant resources – only 34 million hectares, or 40 percent of the cultivable area, are cultivated – and significant dependence on international markets for basic food supplies.

The main challenge facing policy-makers consists therefore in promoting sustainable agricultural development. To this end, both agricultural (sector-specific) and macroeconomic (price, foreign exchange, monetary, fiscal, trade) policies have been implemented to address these constraints.

A simple observation reveals that the objectives of Nigeria's agricultural policy have remained virtually unchanged since the introduction of national development plans in the 1960s. These policy goals straddle social (food security, employment, rural development) and economic (rural income, forward and backward linkages with other sectors) concerns.

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Strategies have changed over time, however, occasioned by changes in internal and external environments. Internal factors include vagaries in oil revenue and the related effects on the performance of the economy as well as changes in priorities according to the objectives of different government regimes. Externally-induced factors comprise commitments at the regional and continental levels, such as the adoption of the ECOWAS

Common Agricultural Policy and Common External Tariff (CET), the Comprehensive Africa Agriculture Development Programme (CAADP), and the on-going negotiation of the Continental Free Trade Area (CFTA), as well as WTO commitments at the multilateral level, including the Agreement on Agriculture (AoA) and the "Nairobi Package" of December 2015.

Policy-wise, the lack of coherence among various policies, poor implementation strategies, inadequate choice of policy instruments and the lack of capacity to institute and implement efficient policy tools are possible explanations for the weak performance of the sector.

Nigeria's agricultural trade policy

The evolution of Nigeria's agricultural policy can be characterised by twists and turns as it attempts to strike an appropriate balance between social and economic objectives related to the sector. This is exemplified by agricultural trade policy, which has oscillated between liberalisation and restriction of trade in agricultural products over time.

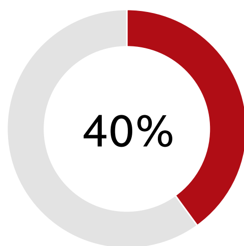
The restriction of imports of agricultural products that Nigeria can conveniently produce was the trend between the 1960s and early 1980s. High import duties, import licenses and export bans were the main instruments used. State trading enterprises (STEs) were established for the country's major agricultural commodities. They implemented pricing policy and administered regulatory functions including quality control. STEs were abolished in the late 1980s, when a structural adjustment programme was introduced, along with liberalisation of the economy and the agricultural sector. This also involved tariff reductions, a cut in the number of agricultural products on the import prohibition list, and the abolition of import and export licensing schemes.

While Nigeria has a 150 percent ceiling rate binding on all agricultural products at the WTO, the country has recorded a gradual decline in the average applied tariff, from 37 percent in 1988 to 33 percent in 2000 and 15.6 percent in 2013. The maximum applied rate is now bound at 35 percent, in accordance with the country's commitment under the ECOWAS CET adopted in 2015. Even though incorporated in the ECOWAS CET, Nigeria is yet to institute mechanisms to implement agricultural tariff quotas and agricultural safeguard mechanisms to deal with problems associated with trade liberalisation.

Trade and trade policy measures were assigned a significant role in the Agricultural Transformation Agenda (ATA) – the current policy framework for the development of the sector. The modest improvement recorded in the performance of the sector since 2000 up to 2014 can be attributed to various domestic and external factors. A major external factor is the increase in global prices of agricultural products, which has boosted the performance of the sector, although this impact has remained limited because of poor supply response. For example, post-harvest loss is estimated at around 45 percent of the total production, especially because of poor infrastructure. The performance of the sector in 2015 has been constrained by many factors, including a decline in the share of agriculture in commercial banks' credit.

The main policy instruments used are tariffs, import bans and domestic support (mainly fertiliser subsidies). These instruments, however, have not have not really proven effective in the promotion of sustainable agricultural development in the country. While different policy instruments face different challenges, the lack of effective administration remains the greatest constraint.

The management of the fertilisers subsidy programme is a case in point. Harmful activities in the distribution of subsidised fertilisers – including inflated official prices, kickbacks, and delays in getting the fertilisers to the end users – were initially difficult to address simply because of vested political interest. However, the government was able to minimise leakages (diversion of subsidised fertilisers away from official channels) in the programme. As a result, since 2012, farmers have direct access to this important input through



Only 40 percent - approximately 34 million hectares - of Nigeria's 84 million hectares of arable land is cultivated.

an electronic voucher and the "e-wallet". The coverage of the intervention increased significantly, from about 1.2 million farmers in 2012 to about 5.2 million in 2013.

The country's domestic support to the sector is not currently constrained in practice by its commitments at the WTO. Indeed, Article 6.2 and Annex 2 of the AoA list areas and forms of supports that are allowable, and Nigeria has not fully exploited them. Thus, the main issues regarding domestic support to Nigerian farmers lie in financial constraints and inefficient management of available funds.

Import prohibition has also been widely used in Nigeria, notwithstanding objections by the country's trade partners. However, it has been ineffective, as products on the prohibition list are freely available in the Nigerian market, mainly because of smuggling – which also implies a a substantial loss of revenue for the national government. The administration of import prohibition also came with waivers and concessions that further compounded its ineffectiveness.

If the government aims at promoting import-substitution, in order to restrict the importation of agricultural products that can be produced locally, import quotas might be a better option. A quota system ensures that farmers and agro-processors are efficient, and that consumers are not bearing the full brunt of import bans, thereby allowing for adjustment at a pace dictated by firms. Similarly, an effective safeguard mechanism is more efficient than the ceiling-binding rate of 150 percent.

Nigeria's agricultural sector and WTO negotiations

The challenges confronting the realisation of Nigeria's agriculture potential require actions at the national and international levels. The WTO negotiations provide a platform for the country to present and defend its offensive and defensive interests. On the offensive side, Nigeria supports significant reform in developed countries' agricultural sector. On the defensive side, the country seeks for generous flexibilities in order to develop a sustainable agricultural sector.

Some important decisions made at the WTO's 10th Ministerial conference (MC10), which took place last December in Nairobi, led to progress on elements of the Doha Development Agenda (DDA). The decision on export competition stands out clearly among these decisions, as it concerns one of the three pillars of the AoA – along with market access and domestic support, which received limited attention at MC10. It constitutes an important step forward in the process of removing distortions and promoting a level playing ground on agricultural markets.

Nigeria's agricultural policy has undergone a paradigm shift, from treating the sector as a social service to one that considers it a business venture, with appropriate support to address market failures and social concerns.

The decision on export competition is comprehensive, as most elements of the pillar were covered, and it incorporates elements of special and differential treatment. Export subsidies are to be eliminated, while export finance (export credits, export credit guarantees on insurance programme), agricultural exporting state trading enterprises, and international food aid are to be disciplined.

While Nigeria strongly supports the decision to put an end to all developed countries' export subsidies, the government also has some reservations about the implementation of this decision. This scepticism derives from the experience with the implementation of the Uruguay Round (UR) AoA, which was tainted with shifting of measures around boxes rather than reduction of the overall support to the sector. As some WTO members delayed

decision on the other two pillars (especially the domestic support pillar) and refused to address the overall cap on the support to the sector, it is doubtful they will implement this decision according to its spirit rather than its letter.

For a developing country like Nigeria, the 2018 deadline for the end of export subsidies may not be realised. Nigeria barely supports the export of agricultural products, simply because of a lack of financial muscle to do so. The little reprieve offered to the sector, which as noted above consists of input support (fertilisers and seedlings), is meant to mitigate the impact of infrastructural decay. Thus, in the absence of sufficient funds for developing a strong, effective and efficient infrastructure system, the country would be worse off without the ability to provide financial support to address these constraints related to logistics and transport infrastructure. There is no doubt that the high costs of logistics and transport infrastructure are an important element in the high cost of doing business in Nigeria.

A thorough analysis of the impact of the removal of export subsidies on net-food importing countries (NFICs) like Nigeria would be expected to take into account the short- and long-run impacts. The international prices of affected agricultural products are expected to increase in the short run. The most important issue, however, is the reaction of stakeholders to the shock. While NFICs' food import bills would increase in the initial stage, incentives would also be created for local production of these commodities. The extent to which the increase in prices translates into an increase in local production critically depends on an effective supply response. The priority for Nigeria should thus be to address effectively the various challenges inhibiting full response of the sector to these new market incentives.

Conclusion

Nigeria's agricultural policy has undergone a paradigm shift, from treating the sector as a social service to one that considers it a business venture, with appropriate support to address market failures and social concerns. This shift is commendable and should be sustained.

However, Nigeria needs to develop capacity to institutionalise and administer effective trade policy instruments, including efficient management of the support provided to the sector, effective special safeguard measures and a tariff quota regime. Apart from being WTO-compliant, such a policy direction would create a transparent and predictable business environment, which is a precondition to attracting the much-needed investment required to promote sustainable agricultural development.

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ENERGY

Trade in a 2030 Agenda-era: Fossil fuel subsidies and the WTO

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The elimination of fossil fuel subsidies presents a challenge but also a substantial opportunity to enhance climate action and move to a low carbon economy.

Although the international trade and climate agendas are perceived by some to be in conflict, there is in fact a symbiosis between the two, for both trade and climate are closely intertwined with sustainable development. This is particularly clear in the context of fossil-fuel subsidies, which run contrary to both economic and environmental objectives. Fossil-fuel subsidies are a challenge for climate change mitigation, as they operate to incentivise the use of greenhouse-gas drivers such as coal, oil and gas, and can be a drag on government budgets. Conversely, abolition of such support represents an opportunity to bolster competitiveness by removing market-distortions, and render public spending supportive of the shift towards a low carbon economy.

The need to eliminate fossil fuel subsidies has been recognised by the G-20 as well as former Director General of the WTO Pascal Lamy, who in 2013 referred to the institution's failure to address fossil fuel subsidies as a "missed opportunity." In addition, former Deputy Director-General Harsha Vardhana in 2010 said, "[r]eflections on the link between trade and climate change, and on the eventual role of the WTO rulebook on an issue such as fossil-fuel subsidies, must take place."

Much academic literature has been devoted to exploring ways in which the international trade system can support the scale up of renewable energy including, for instance, discussions on the scope of the general exception clause in Article XX of the General Agreement on Tariffs and Trade (GATT).[1] However, the issue of fossil fuel subsidies is perhaps both more urgent and more easily solvable, as their abolition is less controversial in theory than the promulgation of renewable energy subsidies.

Although the world arrived at a new post-2020 climate change agreement (the Paris Agreement) at the Twenty-first Conference of the Parties to the UN Framework Convention on Climate Change last December (UNFCCC COP 21), the negotiations did not focus on fossil fuel subsidies to any significant extent. It is thus clear that in a world signed up to a set of integrated Sustainable Development Goals (SDGs), which balance environmental, economic, and social aims, the time is right for trade to rise to the occasion.

Fossil fuel subsidies: A challenge and an opportunity

The International Energy Agency (IEA) estimated in late 2014 that fossil fuel subsidies amounted to US$548 billion per year. The IEA also found that in the Middle East alone, two million barrels per day of oil are used to generate electricity, "when, in the absence of subsidies, the main renewable energy technologies would be competitive with oil-fired power plants." The International Monetary Fund (IMF) reports that pre-tax subsidies to fossil fuels account for 0.7 percent of global GDP, or 2 percent of total government revenues.

From a climate change perspective, there is a pressing need to remove fossil fuel subsidies, as estimates suggest that up to 80 percent of all fossil fuel reserves must be kept underground to avoid the most catastrophic effects of climate change. Research indicates that removing fossil fuel subsidies in 20 countries between now and the end of the decade would reduce their national emissions by an average of 11 percent.

In terms of trade there are various reasons why fossil-fuel subsidies should be abolished, which may overlap.[2] First, they impair the relative cost competitiveness of renewable energy by reducing the cost of fossil fuel-based alternatives, thereby creating an artificial cost advantage. The IEA has shown that where resources are good, hydro, geothermal, on-shore wind and solar photovoltaic technologies are cost competitive with new fossil plants, even without generation-based subsidies. Some fossil-fuel subsidies go as far as to support the use of coal reserves that would otherwise not have been economically profitable. Secondly, since many electricity systems are based on fossil-fuel generation, fossil-fuel subsidies often act to lock in and reinforce incumbent generation technologies, thereby imposing barriers for new entrants attempting to develop renewable technologies. They reduce the fiscal space available for investment in other, more productive energy sub-sectors, crowding out investment and distorting investment decisions. This is especially concerning because new electricity generating plants resulting from fossil-fuel subsidy incentives will exist for decades, locking in the problem. Furthermore, fossil-fuel subsidies serve to contribute to an under-pricing of environmental and social externalities, meaning that energy prices do not reflect its true cost.

One example of a fossil-fuel subsidy is a dual pricing scheme, where governments set a lower price for domestic consumption of fossil fuels, compared with the price charged for exported fuel. This is problematic from both an environmental and trade perspective, as it encourages overconsumption of fossil fuels, and provides domestic industries with cheaper energy inputs relative to the prices paid by competitors.[3]

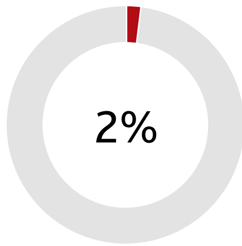
However, things do not have to be this way. Right now, governments across the world have the opportunity to abolish fossil fuel subsidies. The conclusion of the Paris Agreement gives governments a clear mandate to do so, and low oil prices provide an additional economic incentive. This reform would likely reduce fiscal burden, improve macroeconomic stability, encourage energy conservation and efficiency, reduce depletion of resources, and reduce pollution and GHG emissions.[4]

From a climate change perspective, there is a pressing need to remove fossil fuel subsidies.

Subsidies and the WTO framework

The multilateral trading system has not yet stepped up to the challenge of fossil fuel subsidy reform. This framework could nevertheless be a powerful mechanism to reduce fossil fuel subsidies. The main instrument governing subsidies in the WTO is the Agreement on Subsidies and Countervailing Measures (SCM). It defines a subsidy, broadly speaking, as a financial contribution by a government or public body which confers a benefit. The concept of "financial contribution" includes direct transfers of funds, such as grants, loans, and equity infusions; potential direct transfers of funds or liabilities, such as loan guarantees; relief from tax or other government revenue; the provision by a government of goods or services other than general infrastructure; the purchase by a government of goods; and government payments to a funding mechanism or through a private body.

However, while the SCM Agreement is the most obvious candidate for a multilateral tool to help support the reduction of fossil-fuel subsidies, existing rules have so far not been used in this manner. The agreement restricts subsidies that are either considered to be inherently trade distorting, or that are shown to have "adverse effects" on other WTO members. Subsidies are prohibited if they are contingent upon either export performance or the use of domestic over imported goods. These subsidies are prohibited because they have a direct impact on trade. Even if they are not prohibited, subsidies can still be "actionable" if they are "specific" to an enterprise, industry, or region and cause adverse effects on the interests of other members of the organisation. However, while either of these classes might apply to fossil-fuel subsidies depending on their formulation, proving adverse effects or specificity in the broader sense of a given nation's economic production and consumption patterns appears difficult. In addition, governments have periodically



According to the International Monetary Fund (IMF), pre-tax subsidies to fossil fuels account for 0.7 percent of global GDP, or 2 percent of total government revenues.

argued that the residual case of "non-actionable" subsidies applies to dual pricing schemes, but these arguments have not gained significant traction.

Under the SCM Agreement, WTO members must disclose their subsidies in detail, but rates of reporting have been low as the mechanism lacks effective implementation or sanctions. Political dynamics are a key driving factor, especially as producer states oppose new WTO disciplines on energy subsidies, and are reluctant to disclose existing subsidies.

The WTO would be an appropriate negotiating forum in which to address the issue of fossil-fuel subsidies because it has a broad membership; can cater to the needs of developing countries through differential provisions; already contains reporting mechanisms; and has an effective enforcement mechanism in the Dispute Settlement Body. The SCM Agreement could provide a legal framework to address fossil-fuel subsidies without significant structural changes, which is important due to the political factors previously mentioned.

Solutions, actors, and incentives

This section presents options for reform to trade rules. The clear objective here is the removal of subsidies on fossil fuels, because it is the "first best" solution to correcting the market distortion that they cause, "so that the cost of power is fully reflective of the costs associated with each generation type."[5]

There are several challenges which would need to be overcome, however, in order to bring fossil fuel subsidies into the SCM Agreement. It must be shown that fossil fuel subsidies are specific and that they cause one of the three types of adverse trade effects listed in Article 5. Ultimately, the category of prohibited subsidies may have to be extended, a proposal that has been suggested by players such as the EU and the US.

At present the disclosure and transparency framework under the SCM Agreement is fundamentally limited due to its lack of effective enforcement. Many writers attribute this to the lack of sanctions for non-compliance or inaccurate or incomplete reporting, encouraging convergence toward the lowest minimum standard.[6] An obvious solution would be to implement a sanction mechanism in cases where disclosure obligations are not adequately fulfilled; however, such an option does not appear to be politically feasible.

As Lang et al. note, there is a precedent for a sectoral approach when it comes to subsidies, in respect to both the agriculture and fisheries negotiations.[7] The fisheries negotiating mandate, in particular, could provide a good basis for taking a holistic approach to the harmful effects of subsidies. Fossil fuel subsidy regulation would, however, likely involve more complex challenges than fisheries subsidies.

Furthermore, in addition to the WTO and the UNFCCC, many other international organisations are connected to the area of energy subsidies. The IEA and the OECD both have "strong research capacities to identify, measure and analyse the impacts of fossil-fuel subsidies." The World Bank and the IMF have experience providing support to developing countries to help them reform subsidies and introduce more effective poverty alleviation measures. The UN Environment Programme (UNEP) also has completed substantial policy research on the key issues, benefits, and challenges of fossil-fuel subsidy reform.

The overall attitudes of WTO members are a key determinant of whether, and when, fossil-fuel subsidy reform will occur. Although admittedly it is not presently at the top of the now rather unidentifiable multilateral trade agenda, the incentives for addressing fossil-fuel subsidies may increase as energy security and climate change become higher national priorities, although conversely it is also arguable that energy security concerns have a role in the continuation of fossil-fuel subsidies. That the G-20, as noted in the introduction, have repeatedly spoken out on fossil-fuel subsidies is a promising sign as to the political mood. Further promising signs are the conclusion of the Paris Agreement, and statements made by ministers at COP21 regarding the need to phase out fossil fuels.

Lang et al. argue that "the efforts of a range of diverse institutions will be required in the short and medium term" to form international cooperation on reducing fossil-fuel subsidies, because there must be a strategic vision, careful planning, and deployment of scarce research and political resources, as well as a long-term commitment and political will.

The time is now

There are pressing reasons to abolish fossil-fuel subsidies, from both a trade perspective, and from that of climate change. At present the WTO system, and in particular the SCM Agreement, presents the most promising theoretical option for a multilateral platform to help countries undertake the necessary reforms. Options include bringing fossil-fuel subsidies expressly within the ambit of the SCM Agreement, or alternatively, forming a new sectoral agreement on energy subsidies. Tightening the reporting and disclosure requirements to include effective implementation and enforcement procedures would also assist by increasing transparency around fossil fuel subsidies.

The realistic prospects of the success of any reform depend ultimately on political will among WTO members. This political incentive may well increase over time as climate change and energy security become ever more important concerns to states. Governments should make fossil-fuel subsidy reform a priority for strong trade and environmental reasons. This would be a particularly helpful contribution from the trade community to fulfilling the world's new 2030 Agenda and its SDGs.

This article was selected as part of the TDS Bridges Writing Competition. For more information please see the following link: http://tds.ictsd.org/tds-bridges-writing-competition.

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The newsroom

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South Africa launches initiative to promote trade with African partners

Rob Davies, South Africa's Minister of Trade and Industry, recently announced the upcoming launch of Trade Africa, which will replace what was previously known as the Africa Export Council. The initiative consists of a governmental unit, whose goal will be to promote and facilitate trade relations between South Africa and the rest of the continent.

The decision to switch from the Africa Export Council to Trade Africa was motivated by the "importance of facilitating the increase of intra-Africa trade more broadly," said Bongani Lukhele, spokesperson for the DTI.

The initiative will be launched along with the Guidelines for Good Business Practice by South African Companies. The guidelines emphasise good corporate governance by South African companies in the rest of the continent as an important means to promote responsible business practice.

LDC group outlines "collective view" on post-Nairobi WTO works

The WTO's Least Developed Country (LDC) Group has put forward a joint document reflecting their agreed views on how the global trade body should take its work forward in the wake of last December's Tenth Ministerial Conference (MC10) in Nairobi, Kenya. The communication was circulated late last month by Benin, on the group's behalf, and builds on discussions held at a retreat in Montreux, Switzerland, earlier this year.

The communication calls for the implementation of all WTO ministerial decisions related to LDCs in the area of agriculture, particularly cotton; duty free, quota-free market access; preferential rules of origin; and the services waiver. It also calls for action on remaining areas of the Doha Round negotiating agenda.

"The next steps will consist in organising ourselves within the group and discuss desirable outcomes on each issues with delegations," said a LDC trade delegate.

Ivory trade in focus ahead of CITES conference

Preparations are well underway for the upcoming Conference of the Parties (COP) to the Convention on International Trade in Endangered Species of Wildlife Fauna and Flora (CITES), scheduled for late September in Johannesburg, South Africa.

In the run-up to the 24 September – 5 October meet, one of the hot items on the agenda is again expected to be ivory trade. A series of proposals and position papers have been tabled relating to this subject.

Among the positions confirmed to date is a push by the so-called African Elephant Coalition (AEC) for an Appendix I listing of all African elephants, which would outlaw all international trade for commercial purposes, in order to prevent extinction.

UNCTAD: Global FDI rises in 2015, slows in Africa

The UN Conference on Trade and Development (UNCTAD) recently released the 2016 edition of its World Investment Report, entitled "Investor Nationality: Policy Challenges".

The document shows global flows of foreign direct investment (FDI) rose by 38 percent in 2015, reaching US$1.76 trillion, its highest level since the 2008 financial crisis. This rise in FDI can mainly be attributed to a surge in cross border mergers and acquisitions, which increased from US$400 billion to US$700 billion in 2015.

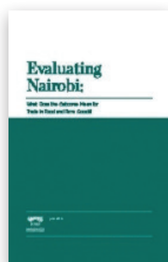
Developing economies saw an increase in FDI, which reached US$765 billion, nine percent higher than in 2014. While the majority of this FDI was concentrated in Asia, the report notes that FDI flows to Africa, the Caribbean, and Latin America faltered.

Publications and resources

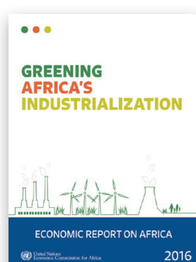
World Investment Report 2016 – UNCTAD – June 2016
The 2016 World Investment Report shows global flows of foreign direct investment rose by about 40 percent in 2015. However, this growth did not translate into an equivalent expansion in productive capacity in all countries. Regarding Africa in particular, FDI flows to Africa decreased by 7 percent in 2015. This latest World Investment Report also presents an Investment Facilitation Action Package to enhance the environment for investment in sustainable development. http://bit.ly/28VPZPO

One Year after its Launch: Has the Tripartite Free Trade Area Been Overtaken by Events? – TRALAC – June 2016
The Tripartite FTA (TFTA) is often referred to in publications and in statements as if already a reality, or at least imminent. The reality is that this agreement is not in force; and not even concluded in terms of all critical elements to be agreed upon. This report aims to shed light on the current status of the TFTA and where the parties to the agreement are being bogged down. The report also presents the various lessons to be learned from the TFTA experience, including that the agreement may turn out to be a stumbling block, rather than a building block for the CFTA. http://bit.ly/29JMvRg

Trade in Transforming Our World: Options for Follow-up and Review of the Trade-related Elements of the 2030 Agenda for Sustainable Development – ICTSD – June 2016
Trade and trade policy are central to transforming our world, the objective of the 2030 Agenda for Sustainable Development. This paper details how progress towards the trade-related commitments in the 2030 Agenda could be reviewed over the next 15 years. It identifies six clusters of trade-related elements in the agenda and, for each cluster, it identifies options for indicators. http://bit.ly/1Yp4EpZ



Evaluating Nairobi: What Does the Outcome Mean for Trade in Food and Farm Goods? – ICTSD – June 2016
This compilation of short pieces intends to provide policy-makers, negotiators, and other stakeholders with an impartial, evidence-based analysis of the potential trade, food security, and rural development implications of the agriculture outcomes of the WTO's Nairobi ministerial conference and to help them situate these in the longer-term systemic context. http://bit.ly/1On20Py



Economic Report on Africa 2016: Greening Africa's Industrialization – UNECA – April 2016
Structural transformation in Africa's economies remains the highest priority, and industrialization is the top strategy for achieving it in practice. This report underlines that as a latecomer, Africa must seize the opportunity to adopt alternative economic pathways to industrialization. It also notes that dispelling the myths currently surrounding green growth will promote the re-shaping of Africa's economic growth in favour of sustainable development. http://bit.ly/1smAqHG

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BRIDGES AFRICA is made possible through generous contributions of donors and partners including

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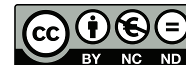

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Price: €10.00
ISSN 1996-919