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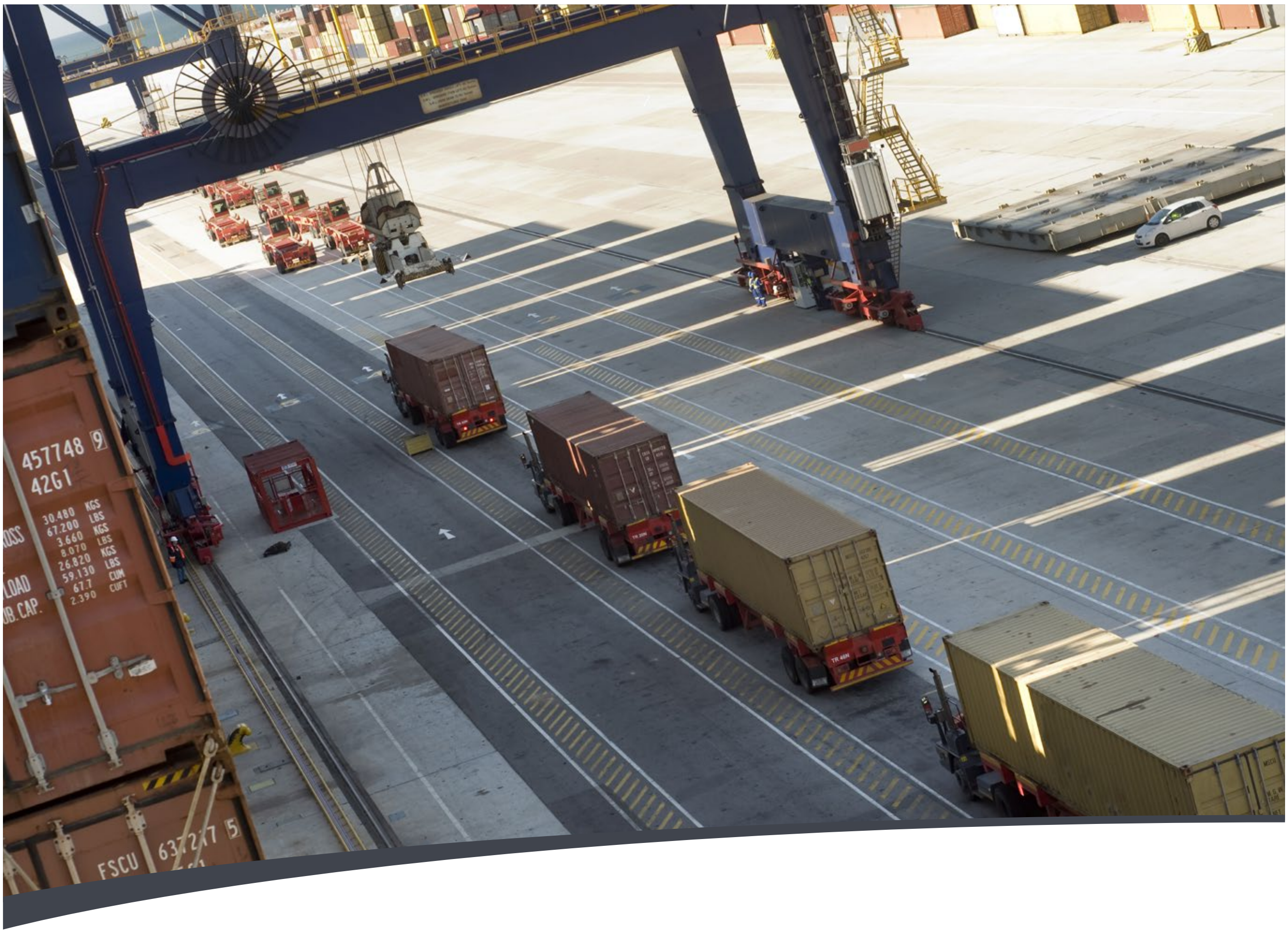

Going continental: Opportunities and challenges for free trade across Africa

TRIPARTITE FREE TRADE AREA
Towards free trade across the African continent

FOOD SECURITY
How do export restrictions impact food security in Africa?

CLIMATE CHANGE
Can Africa expand its trade in the face of climate change?

ICTSD
International Centre for Trade and Sustainable Development

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Going continental: Opportunities and challenges for free trade across Africa

"The Heads of State and Government (…) launched negotiations for the establishment of an integrated market of 26 countries with a combined population of nearly 600 million people and a total Gross Domestic Product (GDP) [of] approximately US$ 1 trillion".

With these words, the political representatives of the Common Market for Eastern and Southern Africa (COMESA), the East African Community (EAC) and the Southern African Development Community (SADC) sketched out the project of a Tripartite Free Trade Area (TFTA) encompassing their three regional economic communities at the Johannesburg summit in June 2011. Once operational, this tripartite FTA will become a new benchmark for deeper regional and continental integration in Africa.

Since 2011, negotiations for the TFTA have gravitated around the topics of tariff liberalisation, rules of origin (RoO), trade remedies as well as customs and transit procedures, among others. The delegations need to agree on these agenda items before they can enter the final negotiating phase on trade in services and trade-related issues.

Beyond its direct relevance for the negotiating parties, the fate of the TFTA project has a bearing on larger scale integration efforts at the level of the African continent. The African Union envisages the TFTA to become operational by 2016, serving subsequently as a building block for a more comprehensive Continental Free Trade Area (CFTA) projected for 2017. After a ministerial meeting held in Burundi from 24-25 October, representatives from COMESA, the EAC and SADC announced that the TFTA building block will be launched in mid-December during the Tripartite Summit of Heads of State and Government.

Against the background of this ambitious integration agenda, concerns have been raised over the arduous nature of current TFTA negotiations: Specifically, the COMESA-EAC-SADC troika faces notable challenges in harmonising differential RoO which have so far impeded inter-regional trade and the creation of regional value chains.

In light of these challenges and opportunities, the Bridges Africa team has chosen to feature various analyses about dynamic regional integration in Africa, guided by the following questions: How can the TFTA help African countries position themselves with respect to global value chains? Do the current negotiations on RoO need to be re-framed in order to maintain the liberalisation momentum? Finally, which lessons can be learnt from the TFTA negotiations for the planned CFTA?

Also, this edition sheds light on the topic of export restrictions on food commodities: How do these policy measures affect food insecure African countries and which options exist for their regulation?

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

REGIONAL INTEGRATION

The Continental Free Trade Area: What's going on?

Ilmari Soininen

African Union trade ministers will meet in early December to discuss the critical next steps in opening the negotiations around the Continental Free Trade Area (CFTA). What is the CFTA and what are its prospects?

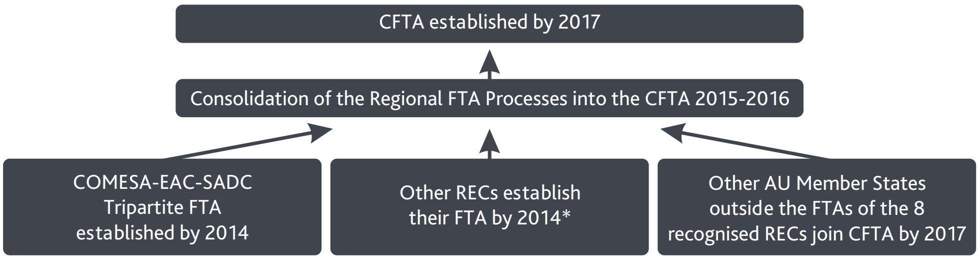
Regional integration has been a core element of African countries' development strategies since their independence. The Africa-wide development agenda, as championed by the African Union (AU), is based on regional integration and the formation of an African Economic Community (AEC). This was laid out in the 1980 Lagos Plan of Action for the Economic Development of Africa and the Abuja Treaty of 1991. The Africa regional integration roadmap considers the Regional Economic Communities (RECs) as the building blocks of the AEC. The AEC is to be formed in six phases over 34 years, as outlined below:

Figure 1: The African Union Continental Integration Agenda

Phase 1 (5 years)	Strengthen existing RECs and create new RECs in regions where they do not exist
Phase 2 (8 years)	Ensure consolidation within each REC, with a focus on liberalising tariffs, removing non-tariff barriers etc
Phase 3 (10 years)	Set up in each REC a FTA and customs union (with a common external tariff and single territory)
Phase 4 (2 years)	Coordinate and harmonize tariff and non-tariff systems among the RECs with view to establishing a continental customs union
Phase 5 (4 years)	Set up an African common market
Phase 6 (5 years)	Establish the AEC, including an African Monetary Union and a Pan-African Parliament

At its 18th Ordinary Session in January 2012 in Addis Ababa, on the theme "Boosting Intra-African Trade," the Assembly of Heads of State and Government of the AU adopted a decision and a declaration that reflected the strong political commitment of African leaders to accelerate and deepen the continent's market integration. The Heads of State and Government agreed on a roadmap for establishing a Continental Free Trade Area (CFTA) by the indicative date of 2017.

Table 1: Continental Free Trade Area (CFTA) Roadmap



As highlighted in the roadmap, the CFTA is set to build on the Tripartite FTA negotiations, which would create a free trade area among the 26 countries of the East African Community (EAC), the Common Market for Eastern and Southern Africa (COMESA) and the Southern African Development Community (SADC). Since the formal launch of the negotiations in 2011, significant progress has been made, and leaders have expressed confidence that the negotiations will be successfully concluded by the end of 2014, with the agreement to be fully implemented by 2016. The 26 Tripartite countries represent close to 60 percent of the AU's GDP and population, and an FTA among them would constitute a fundamental building block for the CFTA.

The 18th AU Summit in early 2012 opened the discussions on a second bloc of combined RECs (ECOWAS, ECCAS, CEN-SAD, and AMU) to emulate the TFTA. Initial consultations took place in April 2013, and the first negotiation meeting on the second bloc occurred in December 2013. A formal Memorandum of Understanding outlining how decisions will be made and establishing coordination mechanisms still needs to be signed, along with the launching of work on technical studies and key institutional preparatory work on the formation of this second bloc.

Rationale for a CFTA

During its 19th Ordinary Session in July 2012, the AU adopted a decision that highlighted the gains from the CFTA for intra-African trade, through the High-Level African Trade Committee and the consultations of the Committee of Seven Heads of State and Government, which addresses the challenges of intra-African trade, infrastructure and productive capacities.

The creation of a single continental market for goods and services, with free movement of business people and investments, would help bring closer the Continental Customs Union and the African Common Market envisaged in phases 4 and 5 and turn the 54 single African economies into a more coherent, larger market. The larger, more viable economic space would allow African markets to function better and promote competition, as well as resolve the challenge of multiple and overlapping RECs, helping thereby to boost inter-REC trade. Moreover, the sheer size of the single market would provide a more conducive environment for industrial diversification and regional complementarities than what is viable under existing individual country approaches to development.

The United Nations Economic Commission for Africa (UNECA) calculates that the CFTA could increase intra-African trade by as much as $35 billion per year, or 52 percent above the baseline, by 2022. Imports from outside of the continent would decrease by $10 billion per year, and agricultural and industrial exports would increase by $4 billion (7 percent) and $21 billion (5 percent) above the baseline, respectively. If coupled with complimentary trade facilitation measures to boost the speed and reduce the cost of customs procedures and port handling, the share of intra-African trade would more than double over the baseline, to 22 percent of total trade by 2022.

Looking at the potential impact on the EAC for instance, one can see the potential for significant gains from a CFTA. Despite significant increases in intra-community trade within the EAC, the levels of trade between the EAC and other African countries, particularly those outside of the Tripartite area, remains limited. There has been renewed interest in expanding trade and investment links further afield. For example, Nigeria - which officially became the largest economy in Africa in 2014 - and the ECOWAS sub-region could present a significant export market for EAC businesses. In 2012, EAC exports to ECOWAS amounted to $132 million, for a market of close to 300 million people. West Africa currently relies on extra-African imports of coffee and tea, and the EAC could be in a position to tap into this market, if high tariffs and weak transport links can be addressed. In May 2014, Kenya and Nigeria signed trade pacts aimed at deepening trade ties, following high-level political meetings and several large Nigerian business delegation visits to East Africa. Trade with neighbouring Central African States (ECCAS) has shown significant growth, with exports to the region expanding by close to 40 percent between 2010 and 2012, from $1.2 billion to almost $1.7 billion. The CFTA would further open doors to West and Central Africa, through the reduction and eventual elimination of tariffs and improved trade facilitation and infrastructure.

Current Status of the CFTA

The January 2014 AU Heads of State meeting reaffirmed the commitment to the CFTA roadmap, and highlighted the need to launch the CFTA negotiations in 2015.

Table 2: Status of implementation of the Abuja Treaty per REC

	Phase 1 (1994-1999)	Phase 2 (2000-2007)		Phase 3 (2008-2017)		Phase 4 (2018-2019)	Phase 5 (2020-2030)	Phase 6 (latest 2034)
	Strengthening existing RECs and creation of new RECs where they do not exist	Coordination and harmonization of activities	Gradual elimination of tariff and non-tariff barriers	Free Trade Area	Customs Unions	Continental Customs Union	Establishment of an African Common Market	Monetary and Economic Union
UMA	X	X	In progress	Not yet	Not yet	This stage will be achieved when all RECs have achieved Customs Union and harmonized their respective Common External tariff (CET), with a view of creating one single continental CET.	This stage will be achieved when all RECs have achieved Continental Customs Union as well as free movement of labour and capital.	This stage will be achieved when all RECs have achieved African Common Market at which time there will be a common currency, issued by the African Central Bank.
IGAD	X	X	In progress	Not yet	Not yet			
SADC	X	X	X	X	Not yet			
CENSAD	X	X	Not yet	Not yet	Not yet			
ECOWAS	X	X	X	X	2015			
COMESA	X	X	X	X	X			
ECCAS	X	X	X	X	No date fixed			
EAC	X	X	X	X	X			

Source: African Union

The second meeting of the Continental Task Force on the CFTA took place in Addis Ababa in early April 2014. The meeting put forward draft objectives and guiding principles for negotiating the CFTA, which were presented to the Extraordinary Session of the Conference of AU Ministers of Trade (CAMOT) in Addis Ababa between April 23 and 28 this year. The session was attended by officials from member states, six RECs (including the EAC), and private sector organisations (East African Buisness Council, CBC, Federation of West African Chambers of Commerce).

Key recommendations from the ministers included the following:

- Further discussions on and refining of the Draft Objectives and Principles and the Draft Institutional Arrangements for the CFTA, should be undertaken and presented to the 9th Session of CAMOT (scheduled for early December 2014).

- The AU Commission should prepare Draft Terms of Reference of the CFTA-Negotiating Forum based on best practices in the RECs and/or the Tripartite FTA and submit a draft for discussion at the next meeting of senior trade officials.

During the June AU Heads of State Meeting in Malabo, the High Level African Trade Committee (HATC) called on member states to maintain the momentum in the CFTA time table, and authorised trade ministers to meet as often as needed to ensure the launch remains on track.

The Role of RECs

Even though member states have the sole mandate to negotiate and agree to international trade agreements, the RECs can play an important role in facilitating the negotiations and building national-level capacity and ownership, especially if the CFTA structure is to build on the Tripartite FTA as well as ECOWAS and ECCAS FTAs (CFTA acquis).

In terms of the implementation strategy for the broader Boosting Intra-African Trade (BIAT) initiative, the April Extraordinary Session of the CAMOT recommended the following:

- The AU Commission, REC Secretariats and UNECA should continue their consultations with all Member States in order to ensure ownership;

- There is need for more coordination between AUC and RECs including the exchange of information on integration so that regional processes will feed into continental processes;

- Member States and REC Secretariats should designate national and regional focal points and establish the technical working groups for the BIAT/CFTA in line with the July 2012 Summit Decision.

Opportunities and challenges

Negotiating an agreement of this magnitude will be an enormous undertaking, and will require the political will of leaders across the continent. Important issues to be considered include:

- The AU includes many smaller least-developed countries, as well as economic powerhouses such as Nigeria and South Africa. It will be important that the CFTA negotiating framework allows for all member states to effectively participate and the negotiations reflect the interests of the poorest countries on the continent. Capacity building on the key technical issues will be a vital component to ensure all countries can effectively engage.

- The TFTA negotiations included two phases, the first covering tariff liberalisation, rules of origin, customs procedures and simplification of customs documentation, transit procedures, non-tariff barriers, trade remedies and other technical barriers to trade and dispute resolution, and the second covering trade in services, facilitating movement of business people, competition policy and intellectual property. It may be more practical for the CFTA to cover all of these areas from the get-go, to conform to modern FTA structures.

- Constructive engagement with the private sector and civil society will be vital to generate the momentum to drive the process forward. The private sector must be engaged from the start, including via national and regional chambers of commerce, to understand the process and potential economic benefits from the agreement. In November 2013, the Pan-African Chamber of Commerce and Industry (PACCI), representing 35 national chambers, signed a Memorandum of Understanding with the African Union outlining its support to the CFTA process and highlighting the need to engage with the business community.

The way forward

The meeting of trade ministers in December will be a critical milestone as the AU Commission will present key negotiating principles for consideration prior to the January 2015 High Level African Trade Committee, currently chaired by the President of Ghana, John Dramani Mahama.

To ensure the successful launch of the negotiations by June 2015, there will be a need for further thinking on the key technical issues and structure for the negotiations, as well as a concerted drive to engage with the private sector and the public at large across the continent to ensure this will not be just another Addis-driven "top-down" political exercise.

Ilmari Soininen
Senior consultant with Saana Consulting and a grant officer with the DFID Trade Advocacy Fund.

REGIONAL INTEGRATION

Are we heading for "same old, same old" for the proposed Tripartite FTA Rules of Origin?

Eckart Naumann

A more flexible and practical approach in the design of common Rules of Origin, coupled with facilities that ensure greater certainty and predictability for economic operators in the region, is needed to give true meaning to the objectives of a grand preferential trade area in Eastern and Southern Africa.

SADC, COMESA and EAC comprise 26 Southern and East African Countries currently negotiating a comprehensive tripartite FTA with new preferential origin rules.

The SADC-COMESA-EAC Tripartite Free Trade Area (TFTA) was formally launched at a summit in Johannesburg, South Africa, in June 2011. This followed a Tripartite Summit in Uganda in 2008 where the heads of State and Government of the respective Regional Economic Communities (RECs) agreed on a "programme of harmonization of trading arrangements amongst the three RECs, free movement of business persons, joint implementation of inter-regional infrastructure programmes as well as institutional arrangements on the basis of which the three RECs would foster cooperation"[1].

The comprehensive TFTA would be negotiated in tranches, with market access forming part of the first 3-year tranche. This self-imposed deadline has come and gone, with significant progress made on market access offers and in other areas.

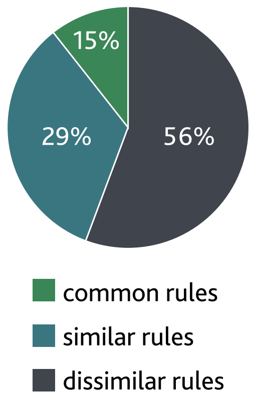
Rules of Origin (RoO) are the regulations that specify the level of local processing of materials and goods, where these contain imported content, that must be undertaken in order to earn local origin status, and thus qualify for trade preferences. With so much at stake – since RoO count among the critical fine-print that defines trade liberalisation at a practical level – this aspect of the negotiations was always going to be fraught with challenges. Key amongst them is the fact that each of the respective RECs apply their own set of origin rules, notwithstanding a frequent misperception that two of the RECs (COMESA and EAC, with overlapping membership) already employ the same rules.

Towards a common TFTA RoO standard

In order to give effect to the notion of a preferential trade area, the regions will have to adopt a common RoO standard. In this respect, history is not particularly kind, given that the SADC FTA RoO negotiations took a decade to complete (exceptions remain), having switched to a line-by-line approach under the Amended Trade Protocol. SADC adopted the "European style" RoO, similar to what South Africa already had in its bilateral agreement with the EU, and which the other partner states already knew from the EU GSP and Cotonou arrangements. This 'new' model has implications for the TFTA negotiations, as it significantly increases the areas of divergence with COMESA and EAC rules.

TFTA negotiations are conducted through the Tripartite Trade Negotiations Forum (TTNF), with specific technical areas being dealt with by Technical Working Groups (TWG), for example on RoO (the RoO TWG had met seven times as of August 2014), the TWG on trade remedies, the TWG on customs cooperation and so forth. Given the substantial differences between the respective REC RoO, and the sensitivities around RoO, the TWG adopted a somewhat practical approach, involving an audit of the respective RoO instruments and drawing up three matrices identifying cases where the product-specific rules (also known as the 'list rules') are substantively the same across the RECs, instances where they are similar, and those where they are different. Given the complexities involved in achieving a common outcome, and the pace of the negotiations, it was agreed in the TTNF not to re-open negotiations in those categories where 'common or identical'

Rules of origin across COMESA, SADC and EAC



rules exist. These commonalities would thus represent a low hanging fruit, so to speak, to cover at least some product categories when the trade agreement launches.

This exercise resulted in 15 percent of tariff headings being identified as having common rules – not necessarily *verbatim* but to equal effect. An additional 29 percent were found to have 'similar' rules. More than half of the rules were found to be different (in other words neither common nor similar) across the RECs, implying that common rules would need to be negotiated on a line-by-line basis in these instances. This has not happened yet but indications are that the process could begin in earnest later in 2014 at the next TWG meetings.

More than half of the RoO are different across the three Regional Economic Communities.

Without doubt, this is a daunting process not only given the divergent economic offensive and defensive interests within the 26-member TFTA group and the different levels of development, but also from an entirely different perspective: This involves negotiations

(a) that are often highly technical in nature and therefore demanding on the officials tasked with negotiations (along with the fact that there is often personnel change among officials, which risks undermining continuity);

(b) that by nature (should) require broad national consultations and scenario planning to derive informed positions;

(c) whose outcomes and implications are often difficult to measure or predict; and

(d) which potentially impede on current or future policy space, often leading to reservations or intense caution among those involved in the negotiation process.

What progress thus far?

Essentially, the focus to date has been both on the RoO audit (the 'matrices'), broad agreement on how to deal with the common rules, and on the RoO Protocol. This text – the main RoO Protocol - comprises the general RoO clauses representing the overall framework, dealing with important principles such as cumulation, certification, principles and definitions of what constitutes "wholly produced", simple (or insufficient) processing, aspects around fisheries (definition of vessels, ownership and registration criteria), agreement on the type of competent authorities tasked with administering origin certification, and so forth.

Notable (albeit expected) early outcomes include provisions for full cumulation among TFTA member states, thus allowing joint compliance with the respective origin requirements among Member States, an aspect that reduces the individual burden of compliance and which is a common feature among preferential trade agreements.

While these developments represent headway towards a TFTA that significantly liberalises trade between Member States and is an important stepping stone in relation to a continental FTA, they might represent relatively little practical benefit to traders and other stakeholders within the region initially. This is notwithstanding the recently agreed roadmap, which proposes signature on at least a partial FTA and agreement on the remaining processes of ratification at the Third Tripartite Summit later this year (with formal launch of the TFTA early in 2015).

The crux for traders however is to what extent tariff liberalisation offers have been agreed and concluded, what is considered 'sensitive' and thus excluded from liberalisation, and what the RoO will look like. This process, concerning more than half of the applicable RoO, will no doubt be a difficult and likely time-consuming task.

For example, in terms of the design of RoO, how will countries weigh up local development needs and possible incentives for local production against competing interests in neighbouring countries? What will textile RoO look like, when some countries – as has historically been the case - seek to protect upstream cotton (and to a far lesser extent fabric production) by in effect barring an outcome that would see producers being able to tap into global supply chains for competitive (in terms of price, quality and variety) fabric and yarn to ensure competitive local manufacture of garments? How will say coffee bean or tobacco leaf interests weigh against the needs for some flexibility of downstream beneficiation activities?

The evidence whereby highly restrictive RoO induce development is tenuous, especially with decreasing tariff barriers

How will potentially protectionist leanings by say more industrialised Member States (with greater vested interests relating to established industries) reconcile with those countries that would benefit from greater flexibility? Questions like these raise the all-important issue of development in the TFTA and the role that RoO can, or indeed should, play. The evidence whereby highly restrictive RoO induce development is tenuous, especially within an environment of decreasing tariff barriers (in a sense the counterweight to restrictive rules), which raises the question to what extent 'development' should even be considered as something for which RoO are an 'appropriate' tool, and to what degree they should carry the burden of responsibility for this.

In that regard, how do we even begin to define 'development' in the RoO context? Is a set of (RoO) criteria, designed to induce local economic activities in the hope that a "captive" downstream sector will later utilise these supplies for further beneficiation, a realistic outcome that leads to development? Will these (final) products still be internationally competitive in the respective export market? Or can it not be accepted as realistic that development may more likely flow from "development-friendly" rules where the incentive is provided by flexibility in sourcing (since this is attractive to producers of intermediate and final goods), given that producers would in any case most likely (still) chose local supplies over imports if these are competitive, irrespective of RoO? It is critical not to overlook the link between restrictions that protect upstream suppliers or impose heavy local processing requirements, and the ultimate objective of final goods being able to still compete in the export market.

There is little doubt that rules that simply mitigate (or avoid) the risk of trade deflection and transshipment will often not lead to significant benefits under a preferential trade framework. The regional evidence in TFTA points to relatively low levels of intra-regional trade.

While a good overall balance between these somewhat opposing approaches to RoO is desirable, this will likely remain a challenging task in the broader TFTA context. Given the complexities of RoO negotiations, and the task of doing this for such an extensive list of products currently subject to dissimilar rules within the respective RECs, it may be worthwhile to focus less – perhaps – on the line-by-line negotiations with all its complexities, but rather to ensure first and foremost that mechanisms are agreed that will reduce the effective restrictiveness and compliance burden of the RoO outcome. Specifically, this means a strong focus on extensive and full cumulation among Member States, but also mechanisms for administrative cooperation between all customs bodies and border agencies, to ensure smooth passage for regionally traded goods and agreed instruments to ensure efficient cooperation on the enforcement side.

At a practical level, this could involve a number of features, including:

- A common free-standing instrument on administrative cooperation on all RoO matters and signed by all parties (rather than bilateral arrangements), to ensure seamless application and respect for the principle of cumulation.

- Comprehensive and ongoing training and capacity building programs for RoO 'operators' (both within customs agencies and private sector) and a priority focus on trade facilitation.

- A facility such as the Binding Origin Information (BOI) certification, currently available for imports into to the European Union, which could give operators greater long-term certainty through an advanced and binding ruling on the origin status of their goods, usable throughout the TFTA region and respected at each border.

- A RoO "helpdesk", specifically to assist regional operators and customs bodies on technical matters relating to the interpretation of rules (or resolution of RoO-related disputes), could potentially play an important role in facilitating and growing regional trade under TFTA preferences. Inconsistent application and adjudication of the rules has been an issue afflicting operators throughout the TFTA region, imposing significant yet avoidable costs on traders and creating uncertainty.

A little bit of thinking outside the box here and there may be some of the tonic that is needed during the next phase of negotiations.

Conclusion

It is worth recalling that it is primarily individuals and firms, not States, which trade with each other and who are the ultimate beneficiaries of RoO. It is they who carry the burden, or enjoy the practical benefits, of regional trade preferences and the associated RoO criteria. While is known that limited consultation between private sector stakeholders and government negotiators does take place, there is an overriding sense that this is not necessarily so throughout the TFTA region and positions are often developed by second-guessing what might be a desirable (and desired) outcome. The TFTA process offers the opportunity of a RoO outcome that deals with some of the challenges and at times highly restrictive practices of the past. A little bit of thinking outside the box here and there may be some of the tonic that is needed during the next phase of negotiations.

[1] Final Communique of the COMESA-EAC-SADC summit of heads of State and Government. Kampala, 22 October 2008. [Online] tinyurl.com/ls6khxe

Eckart Naumann
Consultant economist, and Associate of the Trade Law Centre (TRALAC).

FOOD SECURITY

Do export restrictions affect food security and humanitarian food assistance in Africa?

Issa Sanogo

Given the unabated trends of hunger and malnutrition in Africa, what are the implications of the ongoing negotiations to reform trade for food security in developing countries?

Africa has the highest prevalence of chronic hunger, with around 25 percent of the population in sub-Saharan Africa unable to meet its dietary energy requirements and some 25 million people facing temporary lapses in their access to food, according to the 2013 joint report of the United Nations Food and Agriculture Organization, the Fund for Agricultural Development (IFAD) and the World Food Programme (WFP) on the State of Food Insecurity in the World.

Nearly three quarters of Africa's countries face high to severe food access problems. Many of these countries are already at risk of economic decline and poverty, with a limited ability to assist their most vulnerable populations, in addition to being plagued by natural disasters, conflicts, and protracted socio-political instability and insecurity.

Against this backdrop, policy makers are increasingly concerned with trade measures—especially export restrictions—that could have major repercussions on food security and humanitarian food assistance capacities.

Why export restrictions?

Countries impose export restrictions on food commodity trade not only for political reasons, but also due to concerns over domestic food security. In the face of major economic upsets or natural disasters (e.g. the production shortfalls in Russia in 2010 and Ukraine in 2012), many countries react to the resulting volatility in food prices by reducing exports or facilitating imports to mitigate the effects of domestic inflation on the population.

Some countries also apply export restrictions to reduce seasonal shortages, especially when there are significant lapses in time between successive harvests. In such situations, export restrictions are imposed to ensure that domestic consumption needs are met during the periods between crop seasons and to avoid depletion of the national food stocks and potential food shortages when supplies cannot be increased in a timely manner through harvests (Mitra et al. 2009).

There are also economic reasons behind export restrictions. Sudden import surges caused by the sharp appreciation of the importer's currency or devaluation of the exporter's currency can divert producers from the domestic markets. To prevent a sudden scarcity of food due to these fluctuations in exchange rates, countries often impose export restrictions. Such restrictions (e.g. export taxes) are also imposed in order to finance government expenditures. Yet another economic motive for restrictions is to encourage the development of agri-business through processing. Many agricultural products are consumed in their processed form. The rationale for restricting the export of these products in their raw form is to boost the domestic economy through the increased income resulting from the higher export value of the processed products.

Do export restrictions affect food security in Africa?

The debate on the impact of export restrictions remains unsettled. Rather than directly linking trade restrictions to the recent spikes in food prices, many studies identify export restrictions as a factor that has significantly fuelled an existing crisis, caused by other factors, by putting additional upward pressure on prices (Giovanni, 2013).

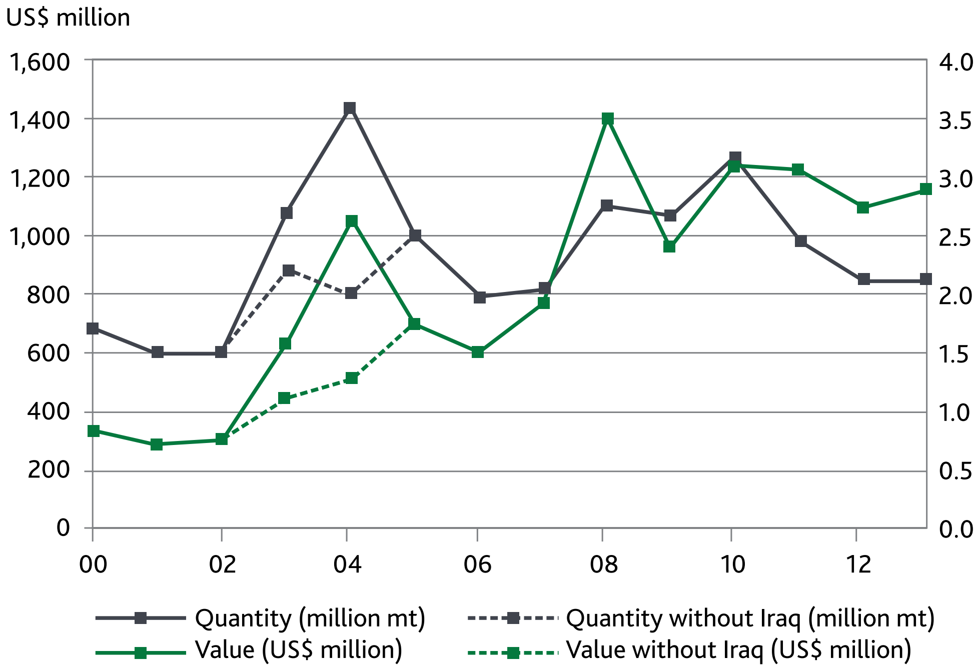
However, it comes as no surprise though, that the imposition of export taxes and other restrictive measures (e.g. licenses, quotas, bans and embargoes) on food exports has generally elevated food prices in net food deficit and low-income countries. Such controls, when imposed by major food-exporting countries in order to mitigate the impact of upsets in domestic prices, reduce international supplies and exacerbate the increase in global prices. In countries with limited customs capacity and porous borders, however, export restrictions can be counterproductive, as they encourage informal cross-border exports without generating the expected revenue.

Therefore, in the absence of mitigation measures, the adverse effects of export restrictions can fuel increases in the number of food insecure and malnourished people in Africa. When maintained for excessive periods, export restrictions can diminish the incentive for smallholders to produce because such restrictions often reduce the prices and income of domestic producers. Additionally, they reduce income and employment opportunities for casual agricultural labourers, who, like smallholders, live close to the poverty line. Increased prices resulting from export restrictions can also have an adverse effect on the income, food and nutrition security of the poorest populations, who are generally the net buyers of food commodities.

Implications for humanitarian food assistance

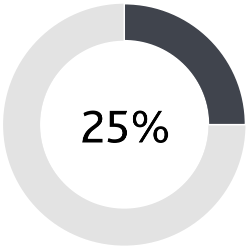
According to the 2013 WFP Performance Report, global food aid deliveries over the past 5 years (2009-2013) have ranged from 5 to 7 million tonnes. The WFP accounts for over 50 percent of this amount each year and purchases over 2 million metric tons of food at a value of approximately USD $1 billion. This food is critical for approximately 10 percent of the world's hungry, totalling over 80 million people. The graph below depicts WFP food procurement for 2013.

Figure 1: WFP Food Procurement Trends



WFP (2013): Annual Procurement Report

Export restrictions often compound the challenges already faced by the WFP in efficiently and effectively managing its food supply chain, due to increased transport and transaction costs as well as delays in the delivery of food to the hungry. As a result, when food commodity prices increase, the WFP is forced to purchase less food and reach fewer of the



25 percent of the population in sub-Saharan Africa is unable to meet their dietary energy requirements.

people facing acute food insecurity. At the same time, the vulnerable net food buyers face reduced affordable access to food.

Many countries continue to impose export restrictions on food commodities, compelling the WFP to appeal to, and negotiate with, governments to allow exemptions to export and transport food for humanitarian purposes. As of mid-2014, 25 nations, most of them developing countries, continue to impose export restrictions, a figure that has remained virtually unchanged since 2008.

The imposition of export taxes has generally elevated food prices in net food deficit and low-income countries.

With the shift from food aid to food assistance, the WFP is buying locally with increasing frequency in order to mitigate the side effects of export restrictions and reduce the risks of displacing trade, while also reducing transport costs and delivery times and helping to sustain local economies and smallholder agriculture. Currently, WFP purchases are predominantly local (about 40 percent) and regional (20 percent), with the rest coming from the global market. Wheat, vegetable oil, pulses and specialised nutritional products continue to be sourced primarily from global markets, given their production deficit in most of the recipient countries. Export restrictions on these commodities will continue to pose a threat to timely responses, especially in life-saving interventions.

In order to reduce the risks related to supply chain breaks and pricing fluctuations, the WFP established a Forward Purchase Facility (FPF) in 2011. This has enabled the organisation to procure commodities when prices are favourable in anticipation of future needs. It has therefore resulted in significant reductions in delivery times and the overall cost of food purchases and has contributed to more secure and responsive supply chains. However, the efficiency and effectiveness of the FPF depends, to a great extent, on the availability of multi-year, multilateral, flexible funding.

In addition to food aid, the WFP is also using cash-based transfers with increasing frequency in order to meet the food and nutritional needs of the food insecure and most vulnerable populations in situations of crises and chronic hunger. In 2013, nearly 10 percent of WFP beneficiaries—about 8 million people— were assisted through cash and vouchers, an increase of 64 percent since 2009.

Policy options to enhance the effectiveness of food security and assistance

Pursue efforts for early completion of negotiations on food aid for humanitarian purposes:
It is in the best interests of governments to ensure the unhindered and safe movement of humanitarian food within and across their borders in order to strengthen the food security of their own populations. The regulations of the WTO provide an opportunity to support this process, encouraging member states to eliminate all prohibitions and quantitative restrictions on food exports, especially when such exports are intended to provide humanitarian food assistance to hungry and vulnerable populations.

Despite continued and repeated commitments and declarations from the international community, from the G8 summit in L'Aquila (2009), over the World Summit on Food Security in Rome (2009) and the G20 gathering in Paris (2011) to the WTO Bali Ministerial Conference (2013), so far, it has not been possible to get nations to agree to refrain from imposing restrictions on exports for humanitarian purposes.

Increase and sustain investment in agricultural food production to ease the demand pressure on global food supplies and facilitate humanitarian access to food through domestic sources.
Continued effort to boost agricultural production and productivity are equally important, particularly in developing countries. This will contribute to easing the demand pressures of net food-importing developing countries on global food supplies.

Meanwhile, increased investments in food reserve solutions, such as community granaries and warehouse receipt systems, will not only help bridge the gaps in supply between harvests, but they will extend marketing periods, encourage farmers to store food and enable smallholder famers, local communities and humanitarian agencies to better manage fluctuations in food prices and supplies volatilities.

Facilitating humanitarian access to food reserves by waiving visibility requirements for food borrowed from national reserves and by building emergency food reserves at the national or regional level can also help speed up responses during emergencies.

It has not been possible to get nations to agree to refrain from imposing restrictions on exports for humanitarian purposes.

Addressing the increasing needs stemming from the current crises in Africa will also require enhanced international preparedness and response in order to provide financial support for additional imports to the affected countries and to support humanitarian food assistance. Increased support for preparedness and prevention programmes would contribute significantly to improving food security and nutrition. Between 2005 and 2012, humanitarian assistance consisted of emergency response (88 percent) and relief and rehabilitation efforts (9 percent), with only 3 percent targeted at prevention and preparedness.

Expand social protection and safety net programmes to offset the need for export restrictions, although they may sometimes imply a higher fiscal burden.
Social protection, including safety nets, is required in order to address the chronic needs of the poor, vulnerable and hungry in developing countries. However, access to social protection remains limited, especially in sub-Saharan Africa, where 75 percent of households have no access to any form of social protection, according to the World Bank 2012 Social Protection and Labour Strategy.

Issa Sanogo
Senior Policy Programme Advisor and Team Leader in the Economic and Market Analysis Unit of the Food Security Analysis Service of the World Food Programme in Rome, Italy.

FOOD SECURITY

How to promote food security through better discipline on export restrictions?

Giovanni Anania

Countries intervening to restrict their exports are not among the main causes of food insecurity of the poor in the developing world. Nevertheless, export restrictions have proved to significantly contribute to exacerbating negative effects on food security when an unexpected, rapid increase of food staple prices occurs and a food crisis develops.

Agricultural export restrictions are a policy area which remained 'underregulated' in the Uruguay Round agreement; current provisions are weak and largely ignored. It was not until the severe food price spike of 2007/08 that concerns about export restrictions gained visibility in on-going multilateral negotiations. A country restricting its exports in order to reduce the transmission to the domestic market of raising international prices makes prices in other countries increase further. Food security at home is pursued at the expense of food security of the poor elsewhere. As we can expect severe price spikes to occur again, having in place an improved, multilaterally agreed regulatory framework to reduce the negative effects of export restrictions on food security would certainly be useful. However, despite the widely shared concern that has emerged in recent years on the need to introduce more stringent WTO disciplines on export restrictions, so far no agreement has been reached.

The current legal framework

WTO law on export restrictions is an area of evident 'underregulation' or 'regulatory deficiency', as it neither properly defines the circumstances under which quantitative restrictions can be used, nor regulates export taxes[1]. This leaves countries with ample space for policy decision-making on export restrictions, a space which they do not have when it comes to restricting imports. In fact, while export restrictions are very weakly regulated, with the Uruguay Round Agreement on Agriculture (AoA) all import restrictions for agricultural goods different from tariffs had to be reverted to tariffs, all tariffs were bound and reduction commitments introduced. This means a clear asymmetry exists in how country policy interventions limiting exports and imports are treated in the WTO.

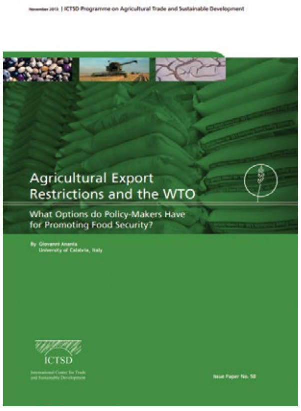
While WTO members decided not to impose any tangible constraint on their own policies restricting exports, they have forced acceding countries to accept significant limitations on their ability to do so. China, Mongolia, Russia, Saudi Arabia, Ukraine and Vietnam had to accept obligations which go beyond, to different extents, existing WTO rules. Export restrictions are often regulated in Regional Trade Agreements (RTAs), including bilateral ones, and in this case as well provisions often go well beyond those in the WTO.

The recent food crises, the policy reactions by some of the main exporters, the implications of their decisions on the food insecurity of the poor in net food-importing developing countries and the negative effects of what happened on the reputation of international markets as a reliable source of food in national food security strategies, make for a different environment with respect to the one at the time of the Uruguay Round negotiations.

Still, reaching an agreement for the introduction of a multilaterally agreed more stringent discipline on export restrictions is a particularly complex process. In the negotiations since 1999, both in the WTO and in other international fora, exporting countries have proved as strong as importing ones in defending every single square inch of their policy space.

Options to promote food security

This article presents six alternative options for an agreement to modify current disciplines on the use, on a temporary basis, of export restrictions for agricultural goods in the event of suddenly and rapidly soaring international prices. The options are presented in



This article is based on this ICTSD paper which seeks to provide an evidence-based analysis of the likely trade, food security and development implications of various options for disciplining agricultural export restrictions.

increasing order of 'ambition' in terms of their capacity to limit the policy space currently available to exporting countries. The options are additive, in the sense that, in general, not only they are not mutually exclusive, but, quite the contrary, each of them should include the relevant provisions of the less ambitious ones.

(a) Exempting from the imposition of export restrictions food purchases by international organizations to be distributed as food aid.

Starting from the lowest level of ambition, the first option is an agreement to exempt from the imposition of export restrictions and export taxes food purchased by international organizations, to be distributed on a non-commercial basis for humanitarian purposes. Less restrictive disciplines would call for the prohibition to be imposed on extraordinary export taxes only, rather than on export taxes altogether, and for it to apply only to purchases made by selected international organizations, such as the World Food Program (WFP). Were this option to be implemented, its impact on volumes traded and market prices would be marginal. However, the benefits in terms of the amount of food humanitarian organizations would be able to distribute under their relatively rigid financial constraints would be sizeable, as it would prevent the imposition of an additional cost on the purchase and distribution of food for humanitarian purposes when this is needed the most but hardest to access.

(b) Improving the enforceability of existing disciplines.

The second option considered does not modify current WTO disciplines, rather it aims at making them enforceable by clarifying some of the terms used, adopting a transparent, unambiguous language. Under this option export taxes would remain a policy instrument countries may use; only the conditions to allow the use of export restrictions different from a tax would be clarified. This is a necessary condition to make it legally possible to identify agricultural export restrictions different from an export tax contrary to Article XI of GATT 1994, and, subsequently, to challenge such restrictions within the WTO dispute settlement framework. Also, the procedures to be followed to implement an export restriction, including consultation and notification obligations, would be strengthened. Implementation rules similar to those suggested under this option are included in several RTAs.

This option would be a significant step forward with respect to the existing discipline, as it would improve the transparency and predictability of the use of export restrictions and, hence, reduce information asymmetries and transaction costs for traders and investors and the uncertainty about world markets as a source of food when this is most needed.

The impact of this option on the quantities traded and prices would be very small, as countries could always opt for an export tax instead of the now more transparent export restrictions. However, the higher institutional cost of introducing export restrictions may deter some countries from implementing export restrictions and reduce the probability of 'panic' policy reactions, such as the sudden introduction of an export ban.

(c) Limiting the impact of export taxes and restrictions on world markets, rather than imposing a discipline on export taxes and restrictions directly.

This option involves a completely different approach to disciplining export restrictions. Rather than tightening the discipline on export taxes and quantitative restrictions, it imposes a constraint on their effects on world markets. Current disciplines would be left unchanged (but for what is foreseen in options (a) and (b) above), but their use would be made conditional on exporting country- and product-specific constraints on the volume exported. In order to be allowed to use policies limiting exports, countries will have to maintain unchanged with respect to the recent past the share of domestic production of the specific product which is exported. This approach can be found in some of the initial negotiation proposals on agriculture post-Uruguay Round. Provisions similar to those considered here are included in the North America Free Trade Agreement (NAFTA) and in the Canada-Costa Rica and Canada-Chile RTAs. This option would make it possible for the exporter to limit the increase in the domestic price, while allowing, at the same time, domestic producers to accrue at least some of the benefits deriving from higher international prices (depending on the policy instrument used). It also has the advantage that it would not need any negotiation of the details defining the exceptional circumstances under which a country could use export restrictions.

(d) Prohibiting the use of export restrictions, other than export taxes, on exports directed towards poor net food importing countries.

This option goes beyond strengthening the existing discipline on export restrictions as it involves making illegal the use of export restrictions on staple food exports directed towards those countries who will be more severely affected, i.e. poor net food importing countries. However, under this option too - as was the case under options (a) and (b) – the use of export taxes would remain unrestricted. The provisions should include the definition of the set of poor net food importing countries whose imports cannot be subject to export restrictions, and the list of the staple foods which would be subject to the prohibition.

(e) Introducing stricter disciplines for export restrictions as well as export taxes.

The ambition of this option lies in the stricter disciplines it would impose on the use of export restrictions and on the fact that the same restrictions would now apply to export taxes. However, the provisions under this option would not go as far as imposing limitations on policies restricting exports analogous to those currently imposed on policies which restrict imports. Essentially under this option export restrictions and export taxes would be declared illegal and then exceptions defined under which this prohibition would not apply. The exceptions could relate to the countries that would be allowed to intervene to restrict their exports, the staple food products which cannot be subject to export restrictions and the trigger mechanism which would allow a country to restrict its exports. These exceptions need to be defined in a simple and transparent way, resulting in 'automatic' and easy to verify, legally enforceable rules. Export restrictions and taxes would now be treated equally. This approach is common to the vast majority of RTAs.

(f) Full 'symmetry' in regulating import and export restrictions.

The feasible option with the highest ambition is that of extending to export restrictions, *mutatis mutandis*, the provisions for import restrictions currently in place. These provisions should be integrated with those in options (a), (b), (c) and (e) above, as appropriate. Bindings for export taxes and the prohibition on introducing new ones are included in the accession protocols of some of the countries which became members of the WTO since the Uruguay Round as well as in many RTAs. If an agreement were to be found to conclude the Doha Round, this would certainly include revised disciplines for market access; in this case these new provisions would be those to be extended, *mutatis mutandis*, to export restrictions. The effectiveness of this option in expanding volumes traded and reducing price increases in the event of a price rise initially due to an exogenous shock would be substantial.

Fighting food insecurity is a complex challenge, involving numerous factors

Six possible options for a WTO agreement on export restrictions have been identified and discussed, with different levels of ambition in terms of their capacity to limit the use of temporary export restrictions aimed at preventing the transmission to the domestic market of soaring international prices.

1 The key legal text regarding the discipline of export restrictions in the WTO is Article XI (General Elimination of Quantitative Restrictions) of GATT 1994; as far as export restrictions in agriculture are concerned, they are also dealt with in Article 12 (Disciplines on Export Prohibitions and Restrictions) of the 1994 Agreement on Agriculture (AoA).

Giovanni Anania
Professor in the Department of Economics, Statistics and Finance at the University of Calabria, Italy.

CLIMATE CHANGE

Can Africa expand its trade in the face of climate change?

Richard Munang and Jessica Andrews

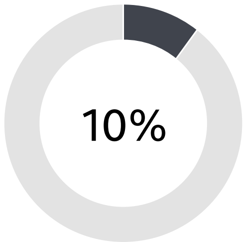
Specific adaptation strategies, coupled with smart trade policies, could play a role in helping African economies ensure future climate-proof development pathways.

Africa's share of global trade has increased steadily from 2.3 percent in 2001, equal to roughly US$277 billion, to 4.6 percent in 2011 weighing in at around US$1 trillion. This amounts to a doubling over 10 years. However, while the continent as a whole makes up 20 percent of the world's land, African economies currently account for less than five percent of global trade. The region clearly still has a long way to go to integrate into the global economy. Meanwhile, the ominous threat of climate change looms, a factor that could seriously stunt any potential future growth in the region.

One of the clearest climate change impacts on trade will be on infrastructure and trade routes. Across the African continent, coastal sea level rise is expected to be 10 percent higher than in the rest of the world, and studies have shown that major port cities stand to undergo substantial damages to infrastructure (AAGR, 2013). The port in Dar es Salaam, Tanzania – one the largest in East Africa – could experience asset losses of up to 10 percent of GDP or US$10 billion (Kebede and Nicholls 2011). Agriculture is another sector where climate change will take its toll. This will have significant implications for trade in foodstuffs worldwide. Africa stands to be particularly affected in this respect given that food imports already exceed exports by US$22 billion (FAOSTAT, 2011). In sub-Saharan Africa crop yields could be reduced by up to 20 percent by 2050 in a two degree Celsius warming scenario. Africa lost its status as a net exporter of agricultural products in the early 1980s when prices of raw commodities fell and production stagnated. Since then, agricultural imports have grown faster than exports, reaching a record high of US$47 billion in 2007 (FAO, 2012).

A brief glance at the continent's natural resource and landscape statistics suggests that this should not be the case. Africa holds about 60 percent of the world's uncultivated land (On our doorstep: The African growth story 2012) and 65 percent of its workforce is engaged in agriculture (Realising Africa Potential Report, 2013). Additionally many economies rely on natural resources as an engine for economic growth. But can African economies make more of these endowments faced with potential grave climate impacts? The answer is yes. For lasting success, many African nations must pursue development plans that foster structural transformation, industrial productivity, as well as ecological resilience. And the good news is that examples exist where some African countries have demonstrated how food systems can be adapted to climate change and coastal zones can be safeguarded against further erosion (KTAAA, 2014).

At a time when the global population needs to make a critical shift towards a low-carbon and energy-efficient development pathway, Africa could forge ahead in this respect, and simultaneously shore up some of its climate vulnerabilities. Based on an approach called ecosystem-based adaptation (EBA), the continent could generate ecosystem goods and services, with future climate-proof sustainable production and trade in mind. Examples of ecosystem goods include food – meat, fish, and vegetables – water, fuels, and timber. Climate-boosting services range from clean air, clean water, the natural recycling of waste, to soil formation and pollination. EBA uses biodiversity and ecosystem services as part of an overall adaptation strategy to help people and communities cope with the negative effects of climate change at local, national, regional, and global levels. Unlocking the potential of this approach, however, will require various regulatory and governance changes at all levels.



Coastal sea level rise is expected to be 10 percent higher in Africa than in the rest of the world

Increasing trade in Africa through use of ecosystems goods and services

Can African countries use their ecosystems to protect the continent's productive sectors from the negative impacts of climate change? Without sufficient adaptation and preparation for climate impacts, African economies could face damages equal to around seven percent of the continent's total GDP, according to a 2013 Africa Adaptation Gap report.

Beyond the exchange of goods, trade can also have unintended or unaccounted environmental impacts, which under certain scenarios can exacerbate the climate challenge. For example, increasing food production can lead to deforestation, resulting in less carbon sequestration. Such trade-offs may seem economically viable in the short-term but are likely to be costly further down the line. This is where various governance mechanisms and global trade system come into play. There are ways to create win-win scenarios.

Natural resources such as Shea trees provide a range of ecosystem services such as carbon mitigation, soil stabilisation, and the production of non-timber forest products such as Shea butter. Burkina Faso's second highest export product after cotton is the Shea nut. Issues related to the production of quality Shea butter, however, prevent the sector from securing even more gains from international markets. Consequently, in one national project 120 female workers were trained in high quality Shea butter production techniques. The training was a success; the women are now able to generate higher profits and each brings home around US$18 a month from Shea butter sales. This increase brings these individuals much closer to the average national monthly income of US$47 for a family of six. At the same time the participants are incentivised to protect five hectares of Shea trees and the associated ecosystem from destruction. Scaling up such practices would significantly benefit rural dwellers who account for the bulk of Africa's one billion citizens. But securing both development and climate gains will also require a shift in global trade preferences towards sustainable production.

In Mozambique, ecosystem-based adaptation was used to reduce environmental damage in the form of coastal erosion, which had previously resulted from the destruction of mangroves. Found mostly in developing countries, mangroves provide ecosystem goods ranging from food to timber and perform essential ecological functions. Mangrove degradation poses a serious challenge worldwide, however, with estimates suggesting these important ecosystems are currently being destroyed at a rate three to five times higher than average deforestation rates and resulting in economic damages of between US$6 and US$42 billion annually. Key hotspots of mangrove loss are in Mozambique and Western Africa, where the coastal forests have been impacted by agriculture, dam construction, pollution and tourism. In certain instances, however, the EBA approach in Mozambique helped to diversify livelihoods away from practices that resulted in environmental degradation. Communities were able to develop crab and fish farming businesses while also rehabilitating mangroves. In addition to stabilising the coastline, the restored mangrove habitat had the added benefit of reviving fish populations, serving to provide another income from wild fish catches.

An "ecosystem-based adaptation for food security" is a subset of the EBA approach, and entails the harnessing of ecosystems services to enhance the productivity of ecosystems, address climate change, and build resilient food systems. An ecosystem-based adaptation strategy for food security can increase agricultural volumes through higher crop yields generating the potential for more sustainable trade and promotes ecosystem resilience in the face of climate change. In Zambia these approaches have resulted in surplus increases of up to 60 percent per household.

The ecosystem-based approach and the subsequent trade in ecosystem goods and services offers the opportunity to sustainably increase trade volumes. This is particularly true for African least developed countries (LDCs) where the bulk of people's livelihoods is directly based on their natural environment. By working to scale up the value of ecosystem goods and services African economies can simultaneously move towards sustainable development and climate resilience. To this end, good international policies that help to properly value, protect, and market these ecosystem goods and services and, where possible, international trade policies that recognise their value globally will be important.

What needs to be done to boost sustainable African trade?
In addition to removing barriers to trade in various tradable ecosystem goods and services, there are a number of additional ways to boost sustainable trade on the continent, all the while addressing climate challenges. Potential actions would include granting reciprocal preferences and incentives for trade-relevant ecosystem goods and services in Economic Partnership Agreements (EPAs) currently under discussion with the EU. Strong preferences for goods derived from an EBA approach could also help to allay some of the concerns regarding unfair competitive advantages enjoyed by large European firms once trade agreements are sealed.

To this end it will also be important to ensure the inclusion of climate change assessments in all trade negotiations. Although many developed countries now require environmental assessments as part of any trade agreement that they enter into, these assessments tend to focus on national rather than cross-border or global environmental impacts. In order to move to a more modern approach, which takes account of the reality of global value chains, various platforms such as the UN climate talks, the Sustainable Development Goals (SDGs), or the multilateral trade community could offer support in this area. In particular, certain developing economies would need assistance in building the capacity to conduct such assessments. Completing in-country trade-climate assessments would also be a useful exercise around understanding the interaction between trade expansions and climate change impacts. For example, if a country's comparative advantage is found to be in a low-carbon production system, then it could perhaps seek to establish trade preferences based on this finding. This would likely require additional capacity building that could be facilitated through existing international commitments around technology transfer and capacity building.

Evaluating the "demand pull" and "supply push" international incentives for tradable ecosystem goods and services will also be important. "Demand pull" mechanisms are measures that target changes in consumer behaviour. "Supply push" mechanisms work in the opposite direction, in other words, they provide subsidies or other benefits to encourage producers to produce in an environmentally friendly way. The ideal incentives may vary by product or country. African countries should examine the potential benefits and drawbacks of each approach from global, regional, and national perspectives.

Another option would be to explore possibilities for endorsement of ecological production methods. Ecosystem-based adaptation or climate resilience production certification schemes could take place between trading partners either at a bilateral, regional, or international level. Granted, however, the bilateral level may prove to be an easier first step although this does of course raise the question of generating a complex plethora of labelling schemes. African countries could also consider including "like product" verification schemes in trade agreements that do not harm national and local producers and at the same time ensure environmental accountability.

Climate change poses a significant threat to development objectives. As evinced by the latest warnings from UN climate scientists, no society or landscape will remain untouched from its effects, and colossal damages are foreseen for some of the poorest on this planet. There are ways to both limit further impacts and cope with consequences that are already locked in. Africa, with its vast natural resources and potential to leap frog over out-dated technologies and approaches, is well positioned to expand its trade through products derived from EBA strategies. As the world gears up to clinch both a post-2015 development agenda and a global emissions-cutting deal next year, it is worth boosting such strategies, which could help the continent achieve both sustainable development and climate objectives.

The views expressed here are those of the authors and do not necessarily represent those of the institution with which they are affiliated.

Richard Munang
Coordinator of the Africa Regional Climate Change Programme at the United Nations Environment Programme (UNEP).

Jessica Andrews
Ecosystem Adaptation Officer in the UNEP Regional Office for Africa.

ECONOMIC PARTNERSHIP AGREEMENTS

EU and EAC seal EPA deal

The EU and the East African Community (EAC) initialled their Economic Partnership Agreement (EPA) on 16 October, leaving thereby the deal for domestic approval in the partner states.

The EU and the East African Community (EAC) finalised their Economic Partnership Agreement (EPA) on 16 October. According to a press release by the European Commission, negotiators from both regional blocs initialled the EPA deal, which "is now going to be presented for approval according to the domestic procedures of each partner." This step seals the third EPA between Europe and an African regional grouping, with Brussels having already concluded two other such agreements involving the Southern African Development Community (SADC) and the Economic Community of West African States (ECOWAS), this past July. In Africa, the EU is still in the process of negotiating EPA deals with the country blocs of Eastern and Southern Africa (ESA) and Central Africa.

The EU-EAC EPA contains commitments from both parties: The EU pledges to ensure duty-free-quota-free (DFQF) access to its market for all EAC products. The DFQF provision is particularly vital for the developing country Kenya, which, unlike the four other least-developed members of the EAC (Burundi, Rwanda, Uganda and Tanzania), has seen its preferential margins in Europe eroded after negotiators failed to meet a deadline on October 1. Currently, Kenya's exports to the EU are categorised under the latter's Generalised System of Preferences (GSP), which implies tariffs on Kenyan exports and thereby is less favourable than the DFQF scheme. Meanwhile, the LDC members of the EAC continue to benefit from DFQF access to the EU under the Everything But Arms regime.

While praising the conclusion of the EPA, the Kenya Association of Manufacturers (KAM) also called for a swift implementation of the deal in order to place Kenya on an equal footing with the LDC members of the EAC.

The EU Commissioner for Trade Karel De Gucht seconded this affirmation by expressing his hope that the "EPA will be signed and implemented soon." In the agreement, the five East African countries have committed to increase the share of their duty-free imports to 80 per cent over the next 15 years, which brings the deal into compliance with the reciprocity requirement of the WTO. Moreover, the EAC members have acquiesced to a most-favoured nation provision, which will automatically extend any trade concession made to third countries to the EU.

Regarding one of the most politically contentious points in the EPA talks, namely export taxes, the European Commission spoke of a "balanced outcome" achieved among the delegations.

The process to establish EPAs between the EU and various regional groupings of African, Caribbean and Pacific (ACP) countries began over a decade ago, with the goal of ensuring trade reciprocity, promoting sustainable development, and advancing integration between the parties involved. In Africa, the EU is still in the process of negotiating EPA deals with the country blocs of Eastern and Southern Africa (ESA) and Central Africa.

Trade flows between the EU and the EAC totalled 5.6 billion € in 2013. EU imports from the EAC (2.2 billion €) are intensive in coffee, cut flower, tea, tobacco, fish and vegetable products. The EU's exports to the EAC (3.5 billion €) are mainly constituted of machinery, mechanical appliances, equipment and parts, vehicles as well as pharmaceutical products.

ICTSD reporting

WTO

Obama, Modi highlight TFA impasse concerns, call for "urgent" WTO consultations

US President Barack Obama and Indian Prime Minister Narendra Modi concluded their meeting in Washington on 30 September., directing their officials to "consult urgently" on the issues related to the Trade Facilitation Agreement and the public food stockholding.

President Obama and Prime Minister Modi said that they discussed both their "concerns" about the ongoing stalemate, as well as its potential effects of the multilateral trading system, according to a joint statement released following the meeting.

"We had a candid discussion on [the] Bali ministerial of the WTO," Modi acknowledged to reporters, referring to the December 2013 meeting where the TFA text was agreed. "India supports trade facilitation. However, I also expect that we are able to find a solution that takes care of our concern on food security."

The Indian premier added that he believes "it should be possible to do that soon."

Neither leader went into further detail in their remarks, and it remains to be seen what impact their statements may have on the ongoing WTO discussions.

Speaking at the New York-based Council of Foreign Relations one day before his meeting with Obama, the Indian premier had reiterated his stance that, while being in favour of the trade facilitation pact itself, advancing its implementation would need to go "hand-in-hand" with a result on food stockholding.

"It cannot be that you do this first and we will see the other later on," he said.

Months of discord

The highly-anticipated summit in Washington, which was the first between the two leaders since Modi took office in May, had been looked to by trade observers as an opportunity for potentially resolving the conflict, which has dominated WTO talks in Geneva for the past couple of months.

Efforts to advance the implementation of the TFA – one of the main deliverables from last December's WTO ministerial conference in Bali, Indonesia – screeched to a halt in late July, after India refused to back the adoption of a Protocol of Amendment that would have incorporated the text of the deal into the global trade body's legal framework. (See Bridges Weekly, 31 July 2014)

At the time, India explained that it would not be able to support the Protocol until it saw sufficient signs of movement on developing a "permanent solution" on public food stockholding. This solution, it has said, should be reached by the end of this year.

The latter issue had been a subject of protracted discussions during the December meeting in Bali, with India having agreed to accept an "interim solution" on the subject while a permanent one was being negotiated in advance of the 2017 ministerial. (See Bridges Daily Update, 7 December 2013)

Under the terms of the interim solution, WTO members committed to "refrain from challenging through the WTO Dispute Settlement Mechanism, compliance of a developing member with its obligations under Articles 6.3 and 7.2 (b) of the Agreement on Agriculture (AoA) in relation to support provided for traditional staple food crops in pursuance of public stockholding programmes for food security purposes."

This commitment is subject to certain conditions, such as the notification of these programmes to the WTO's Committee on Agriculture by the developing country in question. The latter must also take steps to make sure that the stocks procured under these stockholding schemes do not distort trade, nor affect the food security of others.

Questions of trust

Back in Geneva, delegates have been meeting in various configurations in an effort to determine next steps.

WTO Director-General Roberto Azevêdo, as chair, reported to the Trade Negotiations Committee (TNC) on October 16 that in spite of intensive consultations "we have not found a solution to the impasse" more than two months after the Juli deadline had passed. "This could be the most serious situation that this organization has ever faced," Azevêdo added, and while members should keep working for a solution to the current impasse, "we should also think about our next steps".

At an earlier occasion, the WTO chief warned that a prolonged stalemate could have a "freezing effect" on the global trade body's other work, including on efforts to advance the remaining parts of the Doha Round negotiations.

Sources say that meetings of the agriculture and non-agricultural market access committees have already shown signs of this difficulty, with members unable to agree on how – or whether – to advance any post-Bali work, given the current impasse. Many have reportedly raised the question of whether too much trust has been lost. (See Bridges Weekly, 18 September 2014)

During the global trade body's annual Public Forum in early October, Azevêdo told a packed conference hall that the Bali deal – of which the TFA and interim solution on food stockholding were a part – is "this kind of construct that, when you touch one piece, everything moves."

"The biggest gain from Bali was the recovery of trust," he noted, given the long-running struggles of the Doha Round of trade talks, which have been underway since 2001. "We're beginning to lose that trust once again, and we cannot let that happen."

TF Committee hits snag

A meeting on September 29 of the Preparatory Committee on Trade Facilitation – which was established following the Bali ministerial, and is tasked with shepherding the trade pact into force – saw notable divergences among members over its future work.

The US said that discussions on TFA implementation are now at the General Council level, and should not be continued in the Preparatory Committee. Furthermore, the US delegation said that the Committee had completed its work and should thus not host further meetings – a statement that reportedly drew considerable pushback from other members, with some saying that the committee still has more to do.

Others reportedly said that it is up to the chair – Ambassador Esteban Conejos of the Philippines – to determine when the next meeting should take place, and asked him to get clarification as to whether a single member could block the hosting of a meeting. The ambassador had suggested 7 November as a tentative meeting date.

While Australia reportedly agreed that the situation is a political one, and the Preparatory Committee is a technical body, the EU during the TNC meeting on October 16 called for an engagement in the process and discussions as suggested by the chair of the Comittee.

See the latest update here: "New Stage of Consultations Begins as WTO Deadlock Persists" (http://bit.ly/1u1uFPo), Bridges Weekly, 23 October 2014.

ICTSD reporting

CLIMATE CHANGE

UN climate summit strengthens renewable energies and food security in Africa

At the UN Climate Summit in New York on 23 September, the participants announced two initiatives for the use of and access to clean and renewable energy in Africa and small island developing states (SIDS). Moreover, the heads of state and representatives from business and civil society joined an alliance for the promotion of climate-smart agriculture.

ICTSD reporting

Several ministers from Africa endorsed the African Clean Energy Corridor, a project aimed at reducing carbon dioxide emission levels among 22 countries in Eastern and Southern Africa by 310 metric tons by 2030. Moreover, the corridor is planned to witness an increase in the portion of renewable energy use from currently 12 percent to at least 40 percent by 2030.

Speaking at the climate summit, Nkosazana Clarice Dlamini-Zuma, chairperson of the African Union, affirmed that "Africa's surging economic growth can be fuelled by an energy mix that emphasises the development of its vast renewable energy resources."

Dlamini-Zuma was seconded by the Kenyan President Uhuru Kenyatta who promoted regional cooperation on renewable energy in Africa, saying that these efforts would save 2'500 metric tons of cumulative carbon monoxide emissions by 2030, and double electricity supply. Currently, four-fifths of all electricity in Eastern and Southern Africa comes from gas, oil or coal.

SIDS, in turn, will benefit from the Small Island Developing States Lighthouse Initiative which aims to foster the use of clean energy through financial commitments ($ 500 million within the next five years) and the installation of approximately 120 megawatts of renewable energy by 2019. The latter will comprise new solar photovoltaic capacity, wind power, small hydropower, geothermal energy, and marine technology. The Lighthouse Initiative was introduced earlier this month at the UN Small Island Developing States Conference in Apia, Samoa.Both initiatives are spearheaded by the International Renewable Energy Agency (IREA), an Abu-Dhabi based intergovernmental organisation. The Director-General Adnan Z. Amin promoted the two projects with the idea that "renewables can provide an affordable pathway for developing economies to leapfrog the dominant energy paradigm and move towards a sustainable energy future."

Another deliverable from the UN Climate Summit is that more than 20 governments as well as 30 organisations and companies joined the Global Alliance for Climate-Smart Agriculture, whose purpose is to ensure the prospect of climate-smart agriculture for 500 million farmers by 2030. Speaking at the reception of the alliance one day after the summit, US Secretary of State John Kerry praised the efforts of the World Bank and the UN Food and Agriculture Organization in "making successful investments in drought-resistant corn, soybeans, [and] other climate-resilient crops".

The negative ramifications of climate change are particularly pronounced for African farmers: According to a report by the World Bank, the agricultural sector – accounting for 30 to 40 percent of African GDP – will suffer from drought-induced reductions in arable land if global warming is perpetuated. For example, the World Bank predicts that "35% of cropland will become unsuitable for cultivation in a 5°C world." Even if temperature increases are contained to lower levels, the agricultural sector will be undermined, with a "1.5°C to 2°C increase in temperature by the 2030s and 2040s (...) [leading] to a 40- to 80-percent reduction in the area of land suitable for growing maize, millet and sorghum." These products constitute the main pillar of African diets.

The newsroom

Be sure to visit ictsd.org/news/bridgesafrica regularly for breaking African trade and development news.

Seychelles' WTO accession terms finalised

The WTO members involved in negotiating the accession of Seychelles to the multilateral trade organisation came to an agreement on the membership terms for the Indian Ocean archipelago on 17 October.

Seychelles' accession package will now be forwarded to the WTO's General Council consisting of all the existing 160 members, whose formal approval is required during this year's December meeting to seal the accession deal.

In its membership terms, Seychelles commits to bind tariff rates on average at 9.5 percent, to join the Information Technology Agreement and to initiate negotiations to accede to the Government Procurement Agreement within 12 months of its accession, among other elements.

If the WTO General Council approves the accession, the national parliament of Seychelles will have to ratify the membership terms by 1 June 2015 for the country to become the 161st WTO member.

WTO involved in South Africa-EU citrus dispute

The government of South Africa has transferred its dispute with the EU over the latter's regulations on the Citrus Black Spot (CBS) disease to the WTO's Sanitary and Phytosanitary Committee.

In a media statement from 16 October, the South African Minister of Trade and Industry Rob Davies is quoted to have "expressed the view that the EU stance is fundamentally driven by protectionist, rather than plant health concerns".

The root cause of the dispute lies in the fungal disease CBS, which leaves visible black spots on citrus fruit. South African and European citrus growers and trade officials disagree over the risk that imports from South Africa inflicted with CBS could infect European orchards.

Currently, South African citrus exports to the EU are suspended with respect to all products except mandarins based on a voluntary decision by the South African Citrus Growers' Association taken on September 8 this year.

WTO discusses trade and Africa

"Whenever I think of Africa, I think of a growing process." With these words, the WTO Director-General Roberto Azevêdo opened the second plenary debate at the multilateral organisation's Public Forum organised from 1-3 October in Geneva.

Under the heading "why trade matters to Africa", participants reflected upon the nexus between trade liberalisation and economic growth for Africa.

In his opening remarks, Azevêdo underscored Africa's "sheer potential" for economic growth, but also the "homework to be done" in areas such as income distribution.

Azevêdo and four fellow panellists identified four main areas for action in trade policy for African countries: Regional integration, the development of small and medium-sized enterprises, aid for trade and trade facilitation.

US and Brazil resolve cotton trade row

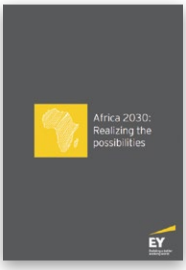
Brasilia and Washington have reached an agreement to end their long-running WTO dispute (DS267) over US cotton subsidies, government officials confirmed on 1 October.

Under the terms of the deal, the US will make a one-off payment of US$300 million to the Brazilian Cotton Institute (IBA), a technical fund for Brazilian farmers.

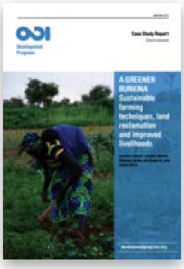
The contribution can be used for technical assistance and capacity-building in Brazil as well as to strengthen international cooperation in cotton.

The US has also agreed to rules on how it administers and informs about its cotton export credit guarantees. In return, Brazil will make sure that the IBA meets domestic law. Furthermore, the country will no longer hold onto its right to retaliate against or legally challenge the US on the cotton issue.

Publications and resources



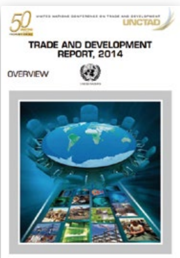
Africa 2030: Realising the possibilities – Ernst & Young – October 2014
This report assesses the economic progress that has been made in Africa over the past 15 years. With this in mind, it also presents the perspectives of a diverse group of leaders with interests in Africa, providing points of view on what the future of Africa might look like, and what the drivers of change and critical success factors are likely to be. It identifies priority areas of action ranging from shared value over regional integration to infrastructure building.
http://bit.ly/1wlc7Gv



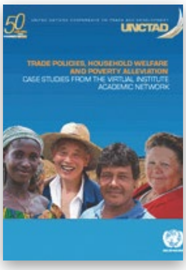
A greener Burkina: sustainable farming techniques, land reclamation and improved livelihoods – Overseas Development Institute (ODI) – September 2014
This case study describes the factors that have enabled 200'000 to 300'000 hectares of degraded land in Burkina Faso to be brought into productive use through the application of improved traditional farming techniques. Important lessons can be drawn for other countries regarding the diffusion and adoption of appropriate agricultural technologies, effective social organisation and the role of finance in supporting and promoting progress in sustainable agriculture.
http://bit.ly/ZDXZx8

SME Finance in Africa – World Bank Group – September 2014
This paper uses cross-country firm-level surveys to gauge access to financial services and the importance of financing constraints for African enterprises. It compares access to finance in Africa and other developing regions of the world, within Africa across countries, and across different groups of firms. The paper relates firms' access to finance to firm and banking system characteristics and discusses policy challenges.
http://bit.ly/1t78N41

SACU after ten years: taking stock and looking ahead – Trade Law Centre (TRALAC) – September 2014
This brief analyses the status of the Southern African Customs Union (SACU) ten years after the new SACU Agreement entered into force. It shows that SACU has been a well-functioning customs union as far as the administration of its common external tariff (CET) and single customs territory are concerned. At the same time SACU displays some unique features resulting mainly from the dominant position of the South African economy.
http://bit.ly/1t7iM8e

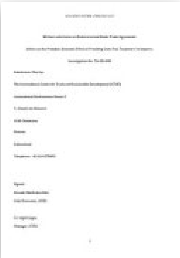


Trade and Development Report 2014 – United Nations Conference on Trade and Development (UNCTAD) – September 2014
The report emphasizes the role that proactive trade and industrial policies can play in the post-2015 development agenda. On trade, it argues that negotiations on rule making need to refocus on multilateral agreements recognizing the legitimate concerns of developing countries. It also highlights that developing countries should carefully consider the loss of policy space when engaging in bilateral and regional trade and investment agreements.
http://bit.ly/1uB9wqN



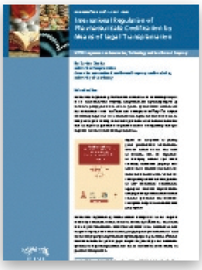
Trade policies, household welfare and poverty alleviation –UNCTAD – September 2014

The studies collected in this volume examine the welfare and poverty consequences of external trade shocks and domestic trade-related policies for households in a range of developing countries. One set of studies examines the welfare impact of the recent increases in global food prices. The other set analyses the welfare effects of trade policy and exchange rate changes.
http://bit.ly/1uLL9c3



Advice on the Probable Economic Effect of Providing Duty-Free Treatment for Imports – ICTSD – August 2014

In April 2014, the International Trade Commission of the United States opened an investigation into the potential economic effects of a trade agreement on environmental goods, EGA. The investigation will culminate in a confidential report to the Office of the US Trade Representative, to be delivered in August. ICTSD made a written submission as a contribution to that process, highlighting steps and measures that can be undertaken in the upcoming negotiation so that the resulting agreement will contribute positively to climate action by allowing for improved markets and thus facilitating a scale up of renewable energy. http://bit.ly/1uLLfR1



International Regulation of Pharmaceuticals: Codification by Means of Legal Transplantation – ICTSD – July 2014

This Information Note draws on the introductory chapter of the book Intellectual Property, Competition and Regulatory Aspects of Medicines, jointly published in 2013, in Spanish, by Universidad Javeriana and ICTSD.
http://bit.ly/1r5AHei

Intellectual Property, Competition and Regulatory Aspects of Medicines: International Determinants and Public Policy – ICTSD – July 2014

The book's fourteen chapters offer a comprehensive overview of the legal aspects of the pharmaceutical chain, which are key to the development of new drugs and access to medicines.
http://bit.ly/1AUxVK0

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ICTSD

International Centre for Trade and Sustainable Development
Chemin de Balexert 7-9
1219 Geneva, Switzerland
+41-22-917-8492
www.ictsd.org

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