The US Farm Bill: What implications for Africa?

**COTTON**
Is it time to put the cotton dispute to rest?

**FOOD SECURITY**
How does the US Farm Bill address food security issues for Africa?

**EPA**
Côte d'Ivoire EPA: Between a rock and a hard place
COTTON
4 Is it time to put the cotton dispute to rest?  
Harry de Gorter and Jaclyn D. Kropp

COTTON
7 The Brazilian private sector perspectives on the Farm Bill  
Celia Feldpausch

COTTON
10 The global cotton market has changed:  
What does it mean for African producers?  
Amanda P. Dakouré

FOOD SECURITY
12 How does the US Farm Bill affect food security in Sub-Saharan Africa?  
Edward Clay

AGRICULTURE
15 Risk management and trade in the new US farm legislation  
David Blandford

ECONOMIC PARTNERSHIP AGREEMENT
17 Côte d’Ivoire’s EPA: Between a rock and a hard place  
Ben Czapnik

GLOBAL VALUE CHAINS
20 Participation in global value chains  
is key for Africa’s transformation

AGRICULTURE
21 High level experts report calls for both  
green and blue revolution in Africa

CHINA
22 China to recalibrate approach to Africa  
with US$2 billion multilateral fund

23 The newsroom

24 Publications and resources
The US Farm Bill: What implications for Africa?

Earlier this year, the United States Agricultural Act 2014 (Farm Bill) was finally approved by the Senate after a nearly two-year effort to update it. The Farm Bill is the most important US legislation on agricultural support. The new legislation will slash direct payments to farmers and institute new crop insurance subsidies.

The new Bill combines two programmes - namely Agriculture Risk Coverage (ARC) and Price Loss Coverage (PLC) - into a final agreement, with farmers able to make a one-time choice for either system. Some experts have argued that these types of crop insurance programmes are likely to be considered trade-distorting support, and therefore should be subject to the WTO limits within the “amber box” category. Others maintain that the Bill was developed specifically to bring the United States into compliance with WTO rules and that the trade-distorting elements of the programme can be minimised.

The US Farm Bill includes a supplemental insurance mechanism specific to cotton, the Stacked Income Protection Plan (STAX). Since the STAX is a government programme, cotton growers elsewhere are therefore watching to see the kind of incentives the US Congress will provide US farmers. At the same time, one needs to bear in mind that global cotton production, trade, and support have changed dramatically in recent years, with cotton prices increasing dramatically, patterns of trade shifting, and new countries stepping in with subsidies of their own. For example, payments in the US have declined from historical heights and are projected to be lower in the future, and the European Union (EU) has changed its support system by eliminating the worst forms of subsidies. However, if prices were to fall again, some observers note that the minimum prices as established in the new Farm Bill could lift US production and hurt some of the poorest farmers in the world.

At risk is not only the annual US$147.3 million provided to Brazil under a framework agreement with the US on the cotton dispute, but also the livelihoods of West African farmers. In fact, discussions between US and Brazilian officials to resolve their dispute over illegal US cotton subsidies are still ongoing, with Brazil considering whether to request a WTO compliance panel in the coming months.

This month, Bridges Africa brings you insightful analyses related to the implications of the US Farm Bill for the trade and production of cotton of African countries, the impacts of the Bill on food aid, as well as the food security challenges for Africa.

As usual, we welcome your substantive feedback and contributions. Write to us at bridgesafrica@ictsd.ch.
Is it time to put the cotton dispute to rest?

Harry de Gorter and Jaclyn D. Kropp

It may be time for Brazil and the C-4 to accept the US cotton policy reforms and move on to more important issues in agricultural trade policy.

The new US Farm Bill eliminated two subsidy programs for cotton (direct and countercyclical payments), required marketing loan rates to decline (up to 10%) with market prices, and introduced a special “revenue insurance” program for cotton, the Stacked Income Protection Plan (STAX), that complements the longstanding crop insurance program.

The new Farm Bill also introduced the Supplemental Coverage Option (SCO) program, which allows producers of cotton and other grain crops to purchase additional crop insurance at highly subsidized rates. SCO indemnity payments are triggered by lower losses than the losses needed to trigger crop insurance payments and hence lowers the insurance deductible of crop insurance. STAX works in a similar manner, but is only available to cotton producers and, unlike SCO, STAX does not require participation in crop insurance program. Both SCO and STAX have payment limits and hence do not cover deeper losses that crop insurance are designed to cover. While cotton producers are eligible for both SCO and STAX, producers are prohibited from enrolling the same plantings in both programs. Given higher subsidies on STAX premiums and higher coverage rates, it is likely that cotton producers will elect to participate in STAX over SCO.

Meanwhile, cotton is being excluded from two other crop programs: a modified countercyclical payment program called Price Loss Coverage (PLC), which provides payments based on historic production (plantings during a set historic time period) when prices fall below target prices, and the more PR-savvy, Agriculture Risk Coverage (ARC), which provides payments when revenues falls below benchmark revenues. The PLC program replaces the countercyclical payment program, but functions similarly. However, the PLC program has higher target prices (39 percent higher on average) and allows producers to update their historic production upon which PLC payments are calculated. Thus, the PLC has the potential to be more production distorting than the countercyclical payment program which it replaces.

Cotton was singled out for the first time in the 81 year old history of field crop subsidy programs because of the U.S-Brazil cotton dispute in the WTO. These unprecedented developments made significant progress towards reforming cotton subsidy programs.

Cotton received four times the subsidy per unit of revenue in the years of the WTO dispute relative to other crops but is now projected to have subsidy rates in line with other crops. Meanwhile, U.S world market share for cotton has fallen, and policy initiatives by China in the form of import barriers and stockholding may impact world prices much more than U.S cotton subsidies in the new Farm Bill. Thus, it may be the time to put the U.S-Brazil WTO cotton dispute to rest to maintain the credibility of the WTO dispute settlement mechanism and move onto more important issues in the Doha Round.

The US-Brazil cotton dispute
Since 2002, Brazil and four African cotton producers (Benin, Burkina Faso, Chad and Mali, called the C-4) have been embroiled with the US in a dispute over how cotton subsidies reduce world prices and unfairly hurt cotton farmers around the world. From the beginning, the C-4 pursued a “cotton initiative” within the Doha trade negotiations, which, like the Doha negotiations, has stalled.
Brazil on the other hand chose a different path by lodging a complaint at the WTO. When Brazil first filed its complaint, other field crops had exactly the same subsidy programs. But cotton was, at that time, a particularly egregious case: cotton subsidies were about 50 percent of market revenues, significantly higher than subsidies for the other crops. After countless meetings between lawyers and government officials, the WTO panel ruled in Brazil’s favor.

The country was allowed to hit back at American trade interests with taxes on imports – a judgment worth more than 800 million dollars. Brazilian officials cleverly targeted the intellectual property industry, which in turn pushed the Bush administration to seek a compromise.

In exchange for Brazilians laying down their arms, American taxpayers promised to pay Brazil 147 million dollars each year. These payments were to continue until "successor legislation" to the 2008 Farm Bill was passed, presumably when Congress would finally stop funneling excess amounts of subsidies averaging almost 3 billion dollars per year in the early 2000s to approximately 53,000 cotton farmers.

How cotton subsidies have declined

In the past, as a proportion of total farm revenue, U.S cotton farmers, compared to all other U.S crop farmers, got twice as much crop insurance subsidies (even though the rules are the same for all crops), three times as much direct payments, five times as much marketing loan deficiency subsidies and twelve times as much countercyclical subsidies (cotton loan rates and target prices were set above market prices more than other crops). Overall, cotton’s rate of subsidy averaged four times that of other crops.

Precipitated by biofuel policies, crop prices tripled in 2008 and again in 2011, with volatility in between. This generated record farm incomes and hence direct payments became politically embarrassing and thus eliminated in the new Bill. Because target prices/loan rates generated few subsidies in the era of high prices for commodities other than cotton yet the political desire to transfer income to farmers remained, the revised countercyclical program (PLC), SCO, STAX and ARC were introduced to complement the pre-existing crop insurance program that is now much more prominent.

Subsidy rates for U.S cotton are projected to be well below subsidy rates for all of agriculture in OECD countries.

Crop insurance subsidies in recent years have become the biggest spending category (~ US$7bn in total not including the approximately 5 billion dollars that the government pays to crop insurance companies to administer and deliver the program). The CIP has been continually expanded in recent Farm Bills by moving from yield to revenue insurance (which in itself almost doubled the subsidy), increasing the number of eligible crops, and increasing subsidy rates to farmers, insurance companies and their agents. This, combined with high market prices that increase participation rates (by giving incentive to farmers to purchase the most expensive insurance available with lower deductibles), has added to federal spending and production distortions. Although not part of the original US-Brazil cotton dispute, crop insurance now accounts for about 50 percent of total cotton subsidies (up from an average of 9 percent before 2009).

In the last five years, cotton subsidies have averaged about 12 percent of total market revenues, significantly lower than 47 percent in the years of the Brazil WTO cotton dispute. Allowing the cotton loan rate to fall with market prices, and excluding cotton from the PLC and ARC subsidy programs, means future cotton subsidies relative to other crops should continue to decline even if all crop prices fall towards historical levels. Subsidy rates for U.S cotton are projected to be well below subsidy rates for all of agriculture in
OECD countries. The impact of any U.S cotton subsidy on world markets is also declining. U.S cotton production was 12.4 percent of the world total in 2011, down from 20 percent in 2000.

The way forward

A major controversy in last year’s House legislation was a seemingly mundane detail of a “reference price floor” of 69 cents per pound as part of STAX, which was below the previous cotton target price. Brazilian government officials protested loudly and threatened to re-open the WTO dispute should this proviso become law. Consequently, the reference price for cotton was dropped from STAX. The six principal subsidy programs for cotton that Brazil claimed were in violation of U.S domestic subsidy commitments in the WTO did not include crop insurance subsidies. If the crop insurance program is an issue, then Brazil should have screamed louder when it protested the minimum price in STAX. As a consequence of exclusions, special provisions, and no minimum price for STAX, analysis indicates subsidy rates for cotton payments will now be in line with that of other crops.

This paper evaluates the Stacked Income Protection Plan for cotton, as well as its accompanying measures. It also includes recommendations on how the policy might be improved and offers insights on trends in US cotton production.

Brazil should accept this new legislation as a sufficient resolution to the dispute because the U.S has effectively reformed its cotton program.

This provides a golden opportunity for Brazil and C-4 to consider locking in these major U.S cotton policy reforms by agreeing to drop their respective cotton disputes. Cotton has been a critical concern for countries at the WTO and a leading symbol for what is wrong with farm trade policy in general. After years of negotiations and the U.S-Brazil framework agreement to reduce cotton subsidies, the United States has now made good its promise to reform cotton policies. While the cotton policy reforms may help to resolve the U.S-Brazil cotton case, in an ironic twist, Congress has put in place subsidy programs for other crops that invite more trade disputes. Therefore, instead of cotton being a poster child for what is wrong with farm trade policy; it is beginning to look like a poster child for other sectors to reform equally.

Brazil should accept this new legislation as a sufficient resolution to the dispute because the U.S has effectively reformed its cotton program. Meanwhile, the U.S could repair many rifts by agreeing to limit payments to what they were in 2010 or 2008 (1.6 billion dollars, well above projected cotton subsidies) as a group of cotton producing West African countries proposed at the last WTO Ministerial in 2011.

Seasoned agricultural economists predicted right to the end that cotton would not be singled out in the new Farm Bill. But cotton was singled out and this provides further evidence that the U.S reformed cotton policies in an unprecedented manner. Failure of Brazil and the C4 to accept the reforms would jeopardise the credibility of the WTO’s trade dispute mechanism and incentives to reform farm policy in the future will be severely diminished.
The recent passage of the 2014 Farm Bill by the US Congress broke a three-year stalemate in the legislative framework. The new Bill, effective for the years 2014-2018, went through a turbulent process, and its approval involved various stakeholders, requiring intense bargaining between the party leaderships from the House of Representatives and the Senate. The complexity of the issues, the divergent positions between the parties concerning social programs and budgetary difficulties, among other matters, traced a long and unpredictable path to a finally passed version of the Bill.

Content and main points
The new US Farm Bill covers agricultural and food policies, including several programs of commodity support, nutrition subsidies and conservation. The Bill introduces changes in commodity support, provides new measures of crop insurance, simplifies conservation programs, modifies and reduces the nutrition support program, and expands support to special crops, organic products, bioenergy and rural development of farmers and new ranchers. The Bill is nearly 1,000 pages and covers a variety of subjects, categorised under 12 titles: Title I, Commodities; Title II, Conservation; Title III, Trade; Title IV, Nutrition; Title V, Credit; Title VI, Rural Development; Title VII, Research; Title VIII, Forestry; Title IX, Energy; Title X, Horticulture; Title XI, Crop Insurance; Title XII, Miscellaneous.

According to the Congressional Research Service (CRS) report "The 2014 Farm Bill (P.L. 113-79): Summary and Side-by-Side", the new Bill authorises a budget of US$956 billion in subsidies and nutrition programs over the next ten years, and US$489 billion over five years. It is notable that out of the US$956 billion, only US$200 billion are allocated to agricultural issues, i.e., subsidies for nutrition programs (US$756 billion) make up 80 percent of the Farm Bill’s outlays (see Chart 1).

The CRS report also notes that the approved version reduces outlays by US$16.6 billion over a ten-year period. The House-passed Bill would reduce spending by US$51.9 billion, and the Senate’s by US$17.9 billion over the same period. Also – and this is relevant to Brazil – the new version substitutes the annual direct payments to cotton producers by the Stacked Income Protection Plan (STAX), a new crop insurance policy for the sector. This mechanism ensures 70-90 percent of the revenue estimated by cotton farmers.

Recent research by the Brazilian government, the private sector and the Brazilian National Confederation of Agriculture (CNA, in Portuguese) indicate that the STAX program is more trade-distorting than direct payments. During a seminar held on March 26 that assessed the agricultural policy of the United States and the European Union (EU), the CNA presented a study entitled Agricultural Policy of the United States and the European Union: Impact on Brazilian Agribusiness. The document cautions that “these are programs that will support the US agricultural production at current or even higher levels, causing a drop in international prices and, thus, distorting markets.” The CNA also indicated an increase in the crop insurance premium rates, which now cover 70 percent to 90 percent of farmers’ losses. According to the study, this change should keep the levels of production high, driving world prices down.
Controversial points
From the standpoint of the US Congress, the new Farm Bill was a great challenge for several reasons. First, because the producers of commodities such as corn, wheat and soybeans have regional representation, it is difficult to standardize a single support program that caters for all sectors. Second, the new system would have to cover crop prices and weather conditions, and at the same time, have the president’s support and signature. Moreover, the vast difference between the House and Senate versions of the Bill, especially concerning the support for the Supplemental Nutrition Assistance Program (SNAP) demanded political capital from both Democrats and Republicans.

Dairy and livestock support programs, and the US$ 125,000 annual limitation on payments to farmers were central among the issues that hindered the process. They were resolved only in the last weeks of negotiations. "In the end, Congress came together to support 16 million American jobs, save taxpayers billions and implement the most significant reforms to agriculture programs in decades", said the chairwoman of the Senate Committee on Agriculture, Nutrition and Forestry, Debbie Stabenow (D-Michigan). Meanwhile, Rep. Frank Lucas, chairman of the House Agriculture Committee said: "The Agricultural Act contributes major savings to deficit reduction, significant reforms to policy, and yet still provides a safety net not only for the production of American food and fiber, but also to ensure our fellow citizens have enough food to eat."

Agricultural Policy of the United States and the European Union: Impact on Brazilian Agribusiness

Notwithstanding the comments of the US Congress, the current position of the Brazilian government and the private sector is that the new law is more harmful than the previous one and does not comply with international requirements established by the World Trade Organization (WTO).

Trade issues and the cotton dispute
The new Farm Bill is tied to the resolution of the cotton dispute, which was ruled in favor of Brazil against the United States at the WTO. Brazil initiated the WTO dispute settlement in 2002 (DS267) and, after nearly eight years of litigation, in August 2009, the WTO authorised retaliation against the United States. In 2010, both countries signed a
temporary Framework Agreement, which halted retaliation. As a result, it was established that the United States would pay US$147.3 million to the Brazilian Cotton Institute (IBA, in Portuguese) until the new Farm Bill was passed.

The new Farm Bill makes the following changes:

- removes the reference price in STAX (present in previous versions of the proposal);
- eliminates direct payments and implement the STAX program, beginning in 2015;
- reduces the minimum marketing loan rate from US$0.47 to US$0.45;
- shortens the export credit guarantee program (GSM-102) from 36 to 24 months; and
- allows funds already received by IBA to be used for research with the Department of Agriculture (USDA) or US universities/agencies.

Another trade issue involving the Farm Bill is the new meat labeling law. Rancher entities have complained that the Bill did not eliminate a new US regulation that requires labeling of the country of origin where the animal was born, raised and slaughtered – known as the country-of-origin labeling (COOL). Brazilian meat, which may soon enter the US market, would face this new requirement. Meat producers argue that labeling is costly and may cause retaliation by Canada and Mexico, under WTO rules. The new Farm Bill provides an economic analysis of COOL.

With the approval of the new Farm Bill, the Brazilian private sector awaits an official government analysis on the conformity of the above-mentioned measures with the decisions regarding the WTO dispute settlement. So far, sources indicate that the government has already signaled against the Farm Bill. In February 2014, the Council of Ministers of the Foreign Trade Chamber (CAMEX) authorised the establishment of a WTO compliance panel in order to evaluate whether the new US farm legislation conforms with the rules of the multilateral body on subsidies to the cotton industry in the United States. Although the implementation of the new WTO panel is already authorised by the CAMEX, it is not clear when the Brazilian Foreign Ministry will formalise the complaint in Geneva. CAMEX has officially stated that "preliminary analysis by the Brazilian government indicates that some elements in the new US Bill remain distortive to international cotton trade." CAMEX’s decision was supported by Brazilian cotton producers, who expressed concerns about the new crop insurance program (STAX). According to the Brazilian cotton sector, the STAX program guarantees up to 90 percent of expected revenue by US producers and causes more distortion than the programs of the previous Bill.

Role of the private sector
The Brazilian private sector, represented by the Brazil Industries Coalition (BIC), based in Washington, D.C., closely followed the process of negotiation and adoption of the Bill. In particular, the entity monitors aspects of the Farm Bill relating to trade, cotton subsidies and sectors such as energy and forestry, as well as the implementation by the US Department of Agriculture. Along with the Agriculture Committees and others within the jurisdiction of the law, BIC conducted several visits to the Congress, including the presidential visit of the Brazilian Association of Cotton Producers (ABRAPA) to Washington, D.C. in January. In such meetings, it became clear that, due to the long process of negotiation of the Farm Bill, the congressmen and their aides wanted to turn that page, showing little inclination in Congress to allow changes to the already reached agreement, under the argument of political infeasibility. Another recurrent comment by the Congress concerned the small significance of the cotton case for the vast majority of congressmen, who are more concerned about meeting their districts’ demands than attending to a WTO case.

Finally, under the possibility of a new WTO panel against the United States, American negotiators traveled to Brazil in the end of March, hoping to sign an agreement on the case. The latter was not reached and both parties will continue negotiations until further notice.
COTTON

The global cotton market has changed: What does it mean for African producers?

Amanda P. Dakouré

The cotton global market is rapidly shifting, with a new US Farm Bill and China abandoning its stockpiling policy. What can African LDCs expect on the forefront of the global cotton market?

Cotton has been a very contentious issue for the past decade within global trade liberalisation negotiations. Concurrently, a group of African countries comprised of Benin, Burkina Faso, Chad and Mali (also known as Cotton-4) united forces to become the key protagonists of the fight against price depressing cotton subsidies. Moreover, major players in the global cotton market are changing their positions with regard to cotton policies; the US recently passed its much anticipated Farm Bill, while China is abandoning its stockpiling policy of cotton. What will that mean for Least Developed Countries (LDCs)?

Bali ministerial declaration

Cotton was an integral part of the package that the LDCs Group submitted during the ninth Ministerial Conference (MC9) held in Bali. The ministerial decision on Cotton [WT/ MIN(13)/41; WT/L/916] was very simplistic with no elaborate solutions to the actual problem of subsidies. The decision therefore did not amount to any new or significant improvement for developing countries and LDC’s with regard to the issue of cotton.

In 2012/2013, ten countries provided subsidies averaging 26 cents per pound which was up the average of 17 cent per pound in 2011/2012 according to the International Cotton Advisory Committee (ICAC). A major concern for the issue is that it has been divided in two components: (1) trade-related component; and (2) development component. With most of the attention and efforts focused on the development component, the most important component – trade distortions – has been left untouched. With regard to market access, developing countries declaring themselves in a position to do so, have agreed to provide duty-free and quota-free (DFQF) market access for products originating from LDCs. To date China, the world’s largest cotton importer has included cotton to its DFQF scheme which will have repercussions for Cotton-4 and other cotton producing LDCs.

Regrettably, the progress that the cotton issue made in the global trade liberalisation talks this past decade came to a halt with the non-compliance of the US to the recommendation of the WTO Panel and Appellate Body to eliminate its trade distorting subsidies in the US – Upland Cotton Dispute (DS267).

Brazil – US cotton subsidies dispute & new US Farm Bill

In 2002, Brazil brought a claim before the WTO against the US regarding prohibited and actionable subsidies provided to US cotton producers. These subsidies provided payments to US farmers when cotton prices fell below a certain level. At the time, the US was the top exporter of cotton. The US reached an agreement with Brazil to avoid retaliation; the US would subsidise Brazilian cotton-farmers through a fund providing approximately US$147 million a year to Brazilian cotton producers while it brought its Farm Bill in conformity with its WTO obligations. This could have been the end of it but subsidies have the reputation of being controversial because they come in different forms and can be altered over time to conform to WTO obligations.

The new US Farm Bill no longer has a guaranteed price, however, it contains a new program known as the Stacked Income Protection Program (STAX) – designed by the National Cotton Council (NCC), a powerful cotton farmers lobby group, which allows cotton
producers to buy insurance that protects most of their income when crops fail or when markets drop. STAX has been defined as an insurance policy funded by US taxpayers and according to the NCC, insurance programs are allowed under WTO rules, but realistically, STAX has the effect of guaranteeing farmer’s incomes will not fall below the revenues expected, which amounts to a contradiction with WTO obligations. Although US subsidies have had important repercussions on the global cotton market, attention must be turned to China, the largest provider of cotton subsidies.

\[
\text{With an evolving global cotton market, supply and demand is no longer what it used to be.}
\]

**New trends and developments in the global cotton market**

With an evolving global cotton market, supply and demand is no longer what it used to be. With recent trends, such as increasing demands of biofuel and handmade fibre, cotton fields are being substituted for other crops in the US. The ICAC forecasts that the cotton production will decrease by 25 percent for the season 2013/2014. The decrease in US cotton production has led to an increase in price.

However, this result is misleading since China, currently a leading importer of cotton, has been stockpiling its cotton since 2011. This policy of stockpiling cotton to set a cotton price floor leads to diverting raw materials from textile mills which resulted in the import of cotton yarn. The stock is estimated at more than half the world’s cotton stock. China recently dropped its stockpiling cotton policy for a region-specific subsidies system. This will surely have repercussion on the African cotton producers, as China is the key market of these African cotton producers. In 2012/2013, China accounted for 43 percent of world imports. This number will decrease over the next years with the flow of very high levels of stock. Additionally, China’s new subsidies policy will continue to contribute to trade distortions, as it has always been the main global cotton market issue.

The price of cotton in the next years will hopefully become more representative of reality. African cotton is to be introduced to a new world cotton contract, which will give a better representation of the prices in the global marketplace. West African cotton from countries such as Benin, Burkina Faso, Cameroon, Ivory Coast and Mali together with other net cotton exporters like Australia, Brazil, and India will end the rule of the US cotton in the determination of global cotton prices.

**Conclusion**

Cotton is clearly an important issue for developing countries and LDCs. The key protagonists of cotton have managed to bring the issue to a higher level within the WTO agriculture negotiations but there is still much work needed. There is little chance that this issue gets the attention it deserves if it is always presented with alternatives such as demands for development assistance. Cotton-4 could have a stronger voice with the help of all other cotton producing LDCs. They need to focus on one issue, that of the subsidies reduction and elimination of trade distortions. The ICAC predicts that over the next 10 years, important shifts will occur; cotton production in Africa is expected to triple in 2022/2023 reaching 9 percent of the world’s total production whereas production in China is forecasted to decrease by approximately 15 percent. Although cotton prices have stabilised well above average, the situation is not sustainable and cotton prices will inevitably drop in the future with any release of those global cotton stocks on the market. Cotton-4 and LDCs need to be at the top of their game for what is to come as the global cotton market is shifting.

**Amanda P. Dakouré**

Barrister & Solicitor to the Law Society of Upper Canada. LL.M. Graduate from the London School of Economics.
How does the US Farm Bill affect food security in Sub-Saharan Africa?

Edward Clay

The US 2014 Agriculture Act (Farm Bill), which revises the enabling framework for US food aid until 2018 (fiscal year) has left many questions unanswered. A great effort by the administration, sponsoring members of Congress, and many civil society organisations over three years has actually resulted in modest substantive changes.

Since 2006, successive US administrations have been attempting to free up the use of some funds appropriated for food aid and emergency humanitarian response in two ways:

- some untying of humanitarian assistance to allow unrestricted procurement of whatever combination of foodstuffs is deemed most appropriate and can be delivered in a timely way;
- using food aid funds where appropriate for other forms of food assistance – such as cash, tokens, as well as seeds, inputs, and tools for crisis-affected farmers, as recognised, for example, in the 2012 Food Assistance Convention.

In 2013 President Obama’s administration proposed:

- allowing more than 50 per cent of funds to be available for local and regional procurement (LRP) when appropriate;
- gradually phasing out monetisation, thereby limiting the ability of non-governmental organisations (NGOs) to sell imported food on the local market to generate local currencies, and to provide compensation funds for NGO projects that would lose out;
- making food aid part of foreign assistance rather than part of the US Department of Agriculture (USDA) budget.

These reform proposals are similar to steps taken by most donors in the Organisation for Economic Co-operation and Development (OECD) in untying almost all their food aid funding during the long, drawn-out Doha Development Round. In the end, it was a close call: the process and the way some domestic interests (notably, maritime businesses and unions, a minority of NGOs committed to monetisation, and a possible lack of enthusiasm on the part of the USDA) frustrated the proposals to reform food aid is well described by Jennifer Clapp in “Turning the tied?”

Most commentators agree that there are some detailed improvements, but no dramatic changes. A consortium of US-based NGOs emphasises four positive aspects of the reform. First, LRP, introduced in the 2008 pilot project, has been regularised at the same level as the pilot, USD 80 million a year, equivalent to about 4 per cent of budgeted food aid appropriations in recent years.

Second, the proportion of funds under the US Agency for International Development (USAID) Title II Emergency and Development Food Assistance Programs that can be used for associated, and now more widely defined as non-food costs has increased from 13 per cent to 20 per cent, thereby reducing the need for monetisation.

Third, there is provision for more transparency, including a requirement that when monetisation generates less than 70 per cent of the cost of acquiring, processing, and

Given the expected food insecurity in low-income countries in the future, the reforms to food aid currently being pursued in the United States (US) have important direct implications for food insecure countries and may influence global agricultural trade negotiations.
shipping, the food can be sold on the local market. Finally, the reform will fund more prepositioning of food for emergency responses.

However, in a trade context, monetisation and the instruments that the US deployed to provide highly concessional trade credits as emergency and development assistance when stocks are high and global markets weaken, remain in the enabling legislation (PL 480 Title I and Section 416 of the 1949 Agricultural Act).

The actual effect of the reform, therefore, will depend largely on actual appropriations agreed by Congress and how the resources are deployed by the USAID, the USDA, and their partners and the uncertain conjuncture of markets and policy. The outcome can be positive, as in 1992-93, or highly unfavourable, especially when global prices hike with low stocks intensifying food insecurity, particularly in low-income countries such as those in sub-Saharan Africa.

The battle for reform continues
The US administration’s proposition for 2015 that up to 25 per cent of emergency aid under Title II (equivalent to 12-13 per cent of total recent year appropriations) could be used for interventions, such as local or regional procurement of food, food vouchers, or cash transfers has received NGO support.

In contrast, the House appropriations sub-committee has left out of the 2015 agriculture budget bill all the funding for LRP. The 2014 budget approved by the House is also effectively proposing to transfer to the USAID budget a possible USD 50 million of extra costs incurred by the ‘minimum tonnage requirement’ that at least 50 per cent of the gross tonnage of US food aid be shipped on registered US-flag vessels by ending reimbursements from the United States Maritime Administration. There is even a proposal to increase the minimum tonnage requirement from 50 per cent to 75 per cent in the Coast Guard and Maritime Transportation Act of 2014 currently before Congress. This could make emergency responses more inflexible, especially within a broadly constant budgetary envelope, thereby reducing the real value of the transfer to recipient countries and people.

The outcome of the debate on these proposals will be a test of the impetus for reform. Experience suggests that dramatic changes that pinch domestic interests are unlikely in a mid-term election year. If this is the case, recent practice offers the most likely picture of what to expect in the near term.

Business as usual: Possible implications for SSA
The scale, uses and sourcing of food aid in the 2011 report to Congress on US food assistance provides a snapshot of what the extrapolation of recent developments might imply for food security in SSA.

Final appropriations for all US food aid programmes were about USD 2 billion, broadly similar to the levels of the past decade. USAID also provided some USD 1.8 million of financial aid as humanitarian assistance. The relative growth in such financial aid for humanitarian assistance and decline in food aid, which currently stands at about half of average annual levels in the 1990s, not only from the US but also other OECD donors, increases the flexibility of international responses to disasters and the ability to manage protracted humanitarian crises. This is why the importance of food aid, a declining and uncertain resource, should not be overstated.

In 2011, SSA received some 3.0 million tonnes of food aid, including in-country local purchases; the US contributed 1.48 million tonnes. The sourcing of food aid highlights the sharply contrasting tying and untying practices of different donors: while 93 per cent of US assistance was directly transferred or shipped from the US, other donors provided only 20 per cent of 1,562 million tonnes as tied aid (half of that Japanese rice); 39 per cent was local purchases, and 53 per cent represented triangular transactions, acquired in third countries. In 2011, 70 per cent of food aid was provided as emergency aid, 27 per cent as
projected development aid with food security and nutritional improvement as declared objectives, and just 3 per cent was bilateral programme aid.

From a food security perspective, emergency food aid as categorised by the World Food Programme (WFP) can be broadly seen as intended to address acute food insecurity associated with humanitarian crises and natural disasters, causing vulnerability predominantly in SSA. Again, there are widely divergent donor practices in sourcing: while the US provided approximately half of international emergency assistance to SSA largely as tied aid (94 per cent), other donors sourced only 6 per cent of their assistance directly, 39 per cent as local purchases, and 56 per cent from third countries.

The US contributed to emergency operations in 23 countries in 2011, with 51 per cent directed to 3 large-scale protracted humanitarian crises in 5 countries: Chad, Ethiopia, Kenya, Somalia, and Sudan. Other donors channel most of their humanitarian assistance through the World Food Programme (WFP), which is then responsible for ensuring timely and complementary assistance, combining local and international procurement with shipments from the US. Some donors are also increasingly providing humanitarian assistance as cash, inputs, and tokens through the WFP and other NGOs. The global and regional significance of US humanitarian assistance in saving lives and mitigating crises is widely acknowledged and implicitly recognised in the “safe box” for emergency aid in the Doha Development Round draft Agreement on Agriculture.

The US administration is acknowledging through its repeated proposals for more flexibility that tied aid with additional shipping and processing restrictions is on balance less likely to allow effective responses in times of disaster or humanitarian crises. However, recipient countries, relief agencies, and other donors, compelled by humanitarian moral imperatives, must deliver emergency assistance around the domestically created inflexibilities in the US food aid industry.

The US provides a greater share of its food assistance as projected development aid compared with other donors: 37 per cent as against 15 per cent in 2011 for SSA. Roughly 53 per cent of US development aid was also monetised, covering non-food costs direct distribution of food aid and local currency funding of social projects. At the micro level some USAID partners accomplish good things with project food aid, but tied aid and monetisation, as the OECD and the US Government Accountability Office (GAO) have found, are very cost-ineffective ways of transferring resources to promote food security.

Conclusion
To continue the reform effort is a must for the US administration and civil society; external peer group pressure may encourage those who want change to keep trying. Lack of progress could be a continuing source of friction in both aid and trade negotiations.

There is, however, a major issue of regional food security in SSA, as highlighted by the global price spike in wheat, rice, and maize in 2007-08, when food insecure countries had to adjust because they largely paid more to import less.

Recent predictions of an emerging El Nino event in late 2014 point to another risk of intense regional food crisis similar to that in Southern Africa precipitated by the 1991-92 drought, though it is difficult to quantify with climate change. This risk carries a more consequential weight than in 1992, because that crisis was contained by a combination of commercial imports, partially internationally financed and large-scale food aid, especially from the US. Markets during that time were weak, and surplus commodities were rapidly committed as aid. The likely levels of appropriations for food aid and the many accompanying restrictions could limit an early and adequate response should disaster strike. This makes the moment a serious one for internationally coordinated contingency planning!
RISK MANAGEMENT AND TRADE IN THE NEW US FARM LEGISLATION

David Blandford

As the risks of crop-damaging climate change increase, a shift towards insurance-based subsidies could be a source of tension in international trade.

Farming can be a risky business. Agricultural prices and yields can be quite volatile. Farmers do not know what price they will receive when they plant a crop and they cannot predict the weather during the season. Livestock farmers also face uncertainty about prices for their products and risks of losses due to weather or disease. Climate plays a key role in generating risk in farming, and the greater variability foreseen with climate change is likely to increase risk and uncertainty for the industry.

The latest version of agricultural legislation or “Farm Bill” in the United States - the Agricultural Act of 2014, signed into law by President Obama on February 7 - places a major emphasis on risk management. It authorises a range of farm programmes that address price and output risk, and the combined effect of these on revenues or on the margin between costs and returns. A key aim of the Act is to provide a safety net to protect farmers from the vagaries of the weather and market volatility.

Complex legislation
Because the issues are complex, the legislation is also complex. It took almost four years from the start of discussions to reach a compromise via legislation in the House and the Senate. The process was complicated by mandated reductions in federal spending and by the difficulty of obtaining consensus in an increasingly politically polarised Congress. One of the major sticky points was how much total projected expenditure would be reduced under the new legislation and how that reduction would be distributed. Farm legislation includes a range of provisions including commodity programmes that benefit farmers, domestic and international food assistance, and programmes promoted by environmental groups. Layered on top of structural complexity, farmers in different parts of the United States or those producing different products often have differing interests in the legislation. Balancing the wide range of competing interests poses a major challenge.

The new Act is a significant departure from earlier legislation and relatively few major provisions for commodities have been retained from the previous version of the farm Bill. The most important survivor is the marketing assistance loan programme, which provides subsidies to farmers when prices of major crops fall below pre-determined levels. A programme that made payments to farmers regardless of prevailing market conditions - known as direct payments - was eliminated, primarily because of the difficulty of maintaining these under pressures to reduce federal spending.

Safety net provisions
The provision of a safety net for farmers is addressed through two different components of the Act - Title 1 covering commodity programmes and Title XI dealing with crop insurance. Crop insurance has become a much more prominent feature and the insurance concept has been extended to other areas, for example to milk production.

For the 2014/15 crop year farmers will have a choice of being covered under two different commodity programmes. The first is the price loss coverage (PLC) scheme - essentially a deficiency payments programme - in which payments are made if crop prices fall below predetermined levels. The second is the agricultural risk coverage (ARC) scheme, which provides payments to farmers when revenues fall below a benchmark figure calculated...
using country or farm average yields. Producers have the option to update the area and yield of crops on their farms used in determining payments when they enrol in the scheme of their choice.

Layered on top of these commodity provisions are a range of crop insurance options. Under the federal crop insurance programme, private companies market and manage the delivery of crop insurance policies covering yield or revenue risks. The Federal government provides reinsurance, and reimburses administrative and operating expense to the companies. It also subsidises premiums at rates varying between 38 to 80 percent, depending on the level of coverage and options chosen by producers. Proponents argue that high levels of subsidy are necessary to make the products affordable to producers. Opponents argue that the subsidy encourages producers to plant on land where production is risky.

There are several additions to the suite of insurance options in the new legislation. Beginning with the 2015 crop year, farmers who elect to participate in the PLC scheme will have a Supplemental Coverage Option (SCO) that provides area-based insurance based on county average yield or revenue. The subsidy rate for premiums is 65 percent. Cotton producers will have a special scheme called the Stacked Income Protection Plan (STAX) in place of PLC and ARC. The subsidy rate for premiums is 80 percent. An important feature of these insurance options is that unlike commodity programmes there are no payment limitations or eligibility restrictions based on income.

Insurance-based approach in the WTO context

The shift towards an insurance-based approach in the new Farm Bill is the most striking feature of the legislation, but the provisions are far removed from those allowed under Annex 2 - the green box - of the WTO Agreement on Agriculture for government participation in income insurance and safety-net programmes.

The small losses in revenue compensated through traditional crop insurance and new schemes such as SCO and STAX mean that these do not qualify for the green box as being minimally distorting for production and trade. Consequently, subsidies provided under US safety-net programmes must be notified to the WTO under the aggregate measurement of support (AMS). With high commodity prices in recent years notified support under the product-specific category of the AMS has been relatively low. For their part, insurance subsidies have accounted for virtually all of the US$9 billion of support notified under the non-product-specific AMS category. But that is substantially less than 5 percent threshold of the total value of agricultural production which would require such support to be counted against the US total AMS commitment of US$19.1 billion.

Many economists argue that risk management will become increasingly important for farmers as the effects of climate change become more pronounced, and that the use of insurance should be encouraged. But US programmes can be criticised for the high levels of subsidy that they provide and their potential impact on production and trade. Wealthy countries, such as the US, can afford to subsidise risk management options for farmers, but poorer countries may be unable to do so.

Brazil, which won a case at the WTO on US cotton support, may soon reopen its case on the basis that the new legislation continues to provide an unfair competitive advantage to US cotton producers. If commodity prices fall sharply, as they sometimes can, there is a risk that the United States will notify much higher levels of support to the WTO. This may not be a problem under the current ceiling on total support, but a proposed reduction to US$7.6 billion under the draft Doha Agreement on Agriculture could prove to be more problematic. More broadly, the issue of the extent to which governments should be involved in helping farmers to manage risks associated with climate change, and how much financial assistance they should provide seems likely to be heavily debated as the importance of the issue increases.

This article first appeared in the Biores Volume 8, Number 3, April 2014.
ECONOMIC PARTNERSHIP AGREEMENT

Côte d'Ivoire's EPA: Between a rock and a hard place

Ben Czapnik

It is commonly heard amongst trade negotiators that “no deal is better than a bad deal.” This refrain probably doesn’t apply in the case of Côte d’Ivoire’s EPA negotiations with the EU where no agreement would turn out to be a very bad deal for many of their leading exporters, especially of agricultural products. The Côte d’Ivoire Government is working with its civil society, business and government partners throughout West Africa and at home to find a solution.

When senior officials and chief negotiators from West Africa and the EU reached a deal on a regional EPA earlier this year, it appeared to be a result which guaranteed market access to the EU while reinforcing West Africa’s trade integration. However, the signature of this agreement has since been delayed and its content is being called into question as Nigeria and other countries assess whether the deal is in the interest of their economies.

If key partners in the West African region choose not to sign and implement the regional EPA, Côte d’Ivoire will face a daunting choice – lose its preferential access to the European market or undermine its regional integration with West Africa under the ECOWAS Trade Liberalisation Scheme (ETLS). It is a very difficult position for a country which prides itself as both the motor for integration in West Africa and the region’s biggest (non-oil) exporter to Europe.

The Ministry for African Integration (which is responsible for EPA negotiations as well as West African regional integration) has a very clear view on this potential dilemma. “Our Leaders have given us a mandate to negotiate a regional EPA which promotes development and reinforces regional integration in West Africa” says Stéphane Aka Anghi, Conseiller Technique at the Ministry of African Integration, “as long as a regional EPA remains on the agenda, it is our plan A, B and C”.

Market access to the European Union

Côte d’Ivoire officials are acutely aware of what they stand to lose if no reciprocal free trade agreement is reached with the EU by October 2014. Chief among their concerns is preferential access to the EU for their main exports including cocoa, bananas, wood, tuna and a range of other products.

Without continued duty-free quota-free access to the EU market, these industries could disappear or, at the very least, they would suffer drastic reductions in exports. Exports of these products at preferential rates account for one third of Côte d’Ivoire’s total exports to Europe and generate millions of jobs, especially in vulnerable rural communities.

In the case of tuna and the four canneries which the industry supports in Côte d’Ivoire, exports to the EU are the backbone of the business. With trade preferences removed, and no EPA in place, tariffs would rise from zero percent to over 20 percent – a move that could wipe out the entirety of Côte d’Ivoire’s exports to Europe. Ivorian industry is already coming under increased competition due to preference erosion with respect to some competitor countries, such as South Korea which can now export tuna at a tariff of 12 percent under the EU-Korea FTA.

However, failure to reach a deal would not just undermine Côte d’Ivoire’s exports of primary products to Europe - it could also reverse the industrialisation process already underway in some sectors. The case of cocoa illustrates the dilemma they are facing.

Côte d’Ivoire is the world’s leading producer of cocoa (it is responsible for around one third of global production) and the sector is directly or indirectly responsible for millions
of livelihoods in the country. Côte d'Ivoire is currently using its comparative advantage in cocoa to move up the value chain and start exporting value-added cocoa products. While this process is in its infancy, it is a promising sector which could create higher paying industrial jobs and contribute to the country’s development.

If Côte d'Ivoire finds itself under the Generalised System of Preferences (GSP) later this year, its cocoa industry will certainly survive in some form. However, the high tariffs in the form of mixed or specific duties on finished chocolate products, as well as the 9.6 percent ad valorem rate for cocoa paste, would drive Côte d'Ivoire back down the value chain to being a mere commodities exporter (with duty-free entry for cocoa beans).

Côte d'Ivoire is currently using its comparative advantage in cocoa to move up the value chain and start exporting value-added cocoa products

Solidarity with the West African region
It is too early to start thinking about a plan B and Côte d'Ivoire continues to invest fully in reaching agreement on a regional EPA which preserves its market access to Europe and strengthens regional integration. However, many actors in the region are starting to think about what might happen if the regional deal falls through and various ECOWAS countries, including Côte d'Ivoire, start to seriously consider bilateral deals with the EU.

Such bilateral deals, rather than a region-wide EPA, would make the West African common market unworkable and Côte d'Ivoire could lose many of the benefits it currently enjoys under the ETLS. These benefits include preferential access into the markets of other West African countries for products which have been approved under the ETLS.

Côte d'Ivoire understands the importance of West Africa's regional integration - it has played a key role in driving the process and is responsible for around one quarter of trade in the region. Further, for some of its industries, and especially for processed and industrial products, West Africa represents a much more significant market than Europe.

For the Grand Moulins d'Abidjan, with their towers visible from all around the city, any move away from Côte d'Ivoire's integration with West Africa would be disastrous. They do not export to the EU, but harvest one fifth of their turnover from trade in West Africa. Flour is a highly sensitive product in the region and their preferential access to markets is thanks to the ETLS.

Each country in the region has to manage its own nuances and trade interests. For example, Ghana is at a similar stage of development to Côte d'Ivoire and is facing a similar dilemma, however it has a different export profile and this has influenced its approach to EPA negotiations. Ghana's overall exports to the EU are worth only half of what Côte d'Ivoire exports. Moreover Ghana has gone further along the path of producing industrial products for the West African market and has developed a range of employment-generating sectors such as plastics, pharmaceuticals and wood and furniture products.

Nevertheless, the failure to reach a deal in the EPA negotiations would see Ghana lose access to the EU market for certain key commodities such as bananas, tuna and cocoa. Despite the importance of the regional market for Ghana's processed products, it would be unlikely to seriously consider any outcome which resulted in lost access to Europe for these important commodities.

Fragmentation of West African trade policy
Many in West Africa argue that if a regional EPA cannot be delivered then Côte d'Ivoire should sacrifice its access to the EU market and prioritise regional integration under the ETLS. Nigeria adopted a similar path when it chose not to sign an interim EPA in 2007 and
saw its preferential access to the EU downgraded from the Cotonou regime to the less-generous GSP.

However, the trade flows suggest that this would be a much more difficult decision for Côte d'Ivoire as it is responsible for almost forty percent of West Africa's non-oil exports to the EU. Despite the much larger size of its overall economy, Nigeria's non-oil exports to the EU are worth only one third of what Côte d'Ivoire exports. In addition, Côte d'Ivoire trades more in those products covered by Cotonou but excluded from the GSP (such as cocoa and bananas), compared to Nigeria's overwhelming reliance on petrol exports to the EU which remain duty free even under the GSP regime.

While a bilateral EPA between Côte d'Ivoire and the EU would undermine West Africa's goal of integration, the reality is that trade policy has been fragmented in the region since the EU's Cotonou regime was found to be inconsistent with WTO rules in the 1990s.

Out of 16 countries in West Africa (the 15 members of ECOWAS plus Mauritania which has joined the bloc for the purpose of EPA negotiations), 12 are currently classified as LDCs and qualify for duty-free quota-free treatment under the EU's "Everything But Arms" regime. These countries have tended to be less supportive of opening their markets to competition from Europe as they have little risk of losing preferential access to the EU in the near future. Nevertheless, these countries aspire to graduating from LDC status and would be adversely affected by any developments which undermine ECOWAS trade integration.

Cape Verde, which graduated from LDC status in 2008, exports to the EU under a regime which no other West African country shares. In December 2011, it became the first African country to gain GSP+ access to the EU market, though this access must be regularly renegotiated and it remains conditional on satisfying certain criteria relating to human rights, labour rights and the environment.

Nigeria has been under the GSP scheme since 2007 and Ghana and Côte d'Ivoire have had their duty-free quota-free preferences extended since they initialled interim EPAs in December 2007.

Even if Côte d'Ivoire and other non-LDCs in the region renounce the EPA with the EU, they would still be a long way from having a harmonised and coherent trade policy in West Africa. There would be several different regimes governing trade relations with their most important export destination - the European Union. Further, some countries in the region have already started entering into bilateral deals with other trade partners.

**Conclusion**

The next few months will be critical in determining the future of trade policy in West Africa, especially with regard to access to the European market and regional integration under the ETLS. Notwithstanding the different circumstances in each of their economies, ECOWAS countries are working hard with their civil society, business groups and development partners to find a solution.

No deal in the EPA negotiations may turn out to be a very bad deal for key industries in Côte d'Ivoire and other ECOWAS countries. They have a strong interest in finding a way to retain an integrated West African region with continued access to the European market.

*The views expressed herein are those of the author and do not necessarily reflect the views of the International Trade Centre or of the United Nations*
By participating more effectively in the global production of goods and services, Africa can transform its economy and achieve a development breakthrough, according to the latest African Economic Outlook, released at the African Development Bank Group’s Annual Meetings on 19 May.

Themed “Global Value Chains and Africa’s Industrialization”, the 2014 report – a joint effort by the African Development Bank (AfDB), the OECD Development Centre and the United Nations Development Programme (UNDP) – uniquely highlights how Africa’s engagement in the global economy can foster industrialization.

The continent’s growth is projected to accelerate to 4.8 percent in 2014 and 5 to 6 percent in 2015, performing better than the upper-middle-income nations in the north of the continent, the report says.

Africa’s economic growth is more broad-based, argues the report, driven by domestic demand, infrastructure and increased continental trade in manufactured goods.

“In order to sustain the economic growth and ensure that it creates opportunities for all, African countries should continue to rebuild shock absorbers and exercise prudent macro management. Any slackening on macro management will undermine future economic growth,” said Mthuli Ncube, Chief Economist and Vice-President of the African Development Bank.

While presenting the key note address at the launch of the report, Pascal Lamy, former Director General, World Trade Organization (WTO), noted that African countries have capacity to leapfrog and integrate into a value chain without having all the other steps of the chain in place.

Through participation in a value chain, he argued, countries and firms can acquire new capabilities that make it possible to upgrade. Experts often emphasise that global production networks offer significant integration opportunities through specialisation in specific tasks. For example, that trade in tasks provides a window of opportunity for African countries to industrialise. However, Lamy cautioned that African countries must be prepared to deal with emerging issues in global trade in particular the non-tariff barriers (NTBs) to facilitate the development of global value chains.

“There is need to consider these changes in trade policy,” he said, underscoring that trade barriers as a result of NTBs can no longer be solved by preferential trade agreements.

In his remarks, Mario Pezzini, Director of the OECD Development Centre, emphasized that the challenge for most African economies is to ensure that greater insertion into global value chains is achieved and has a positive impact on people’s lives.

However some observers note that in general most LDCs that managed to integrate into a given value chain have remained at the low end of it. It is not clear at this stage what the upgrading trajectories are for such countries and how they can build comparative advantages on a global competitive basis.
AGRICULTURE

High level experts report calls for both green and blue revolution in Africa

Africa has the potential to feed not just itself but other regions too, according to this year's Africa Progress Report, "Grain, Fish, Money: Financing Africa's Green and Blue Revolutions". The report finds that African countries can reduce poverty and inequality by boosting agriculture.

Authors argue that the continent will one day play a critical role in helping the world to meet global food demand, which is expected to double by 2050.

"After more than a decade of growth, there is plenty to celebrate,” said Annan, speaking at the release of a stocktaking report by an influential expert group, the Africa Progress Panel.

"But it is time to ask why so much growth has done so little to lift people out of poverty – and why so much of Africa's resource wealth is squandered through corrupt practices and unscrupulous investment activities," Anan continued.

"For me it makes absolutely no sense that Africa is spending 35 billion dollars importing food," said Nigeria's agriculture minister, Akinwunmi Ayo Adesina during a discussion on the report.

Boosting Africa's agricultural productivity will require better infrastructure, broader access to financial services, and freer intra-African trade, the Africa Progress Report finds. Other policy recommendations in this area include a focus on smallholder farmers and building links between the farm economy, the off-farm rural economy, and markets in urban centres. Boosting regional trade is posited as a key to success. Trade barriers – such as transport cartels, poor storage, and non-tariff measures – must be addressed.

The authors also draw attention to the precarious nature of farming in the face of climate change, stressing the importance of access to risk mitigation options such as insurance.

The report also outlines the urgent need to stop the plunder of Africa's timber and fisheries.

Publication analysts, that are part of the African Progress Panel, estimate that West Africa loses around USD1.3 billion from illegal, unregulated, and unreported fishing. They also argue that these numbers underestimate the real loses given the important role fisheries play in the social, economic and environmental fabric of many coastal communities across the continent. (See Bridges Africa, Former UN leader calls for action on Africa’s illicit resource trade, 16 May 2014)

"In each case resources that should be used for investment in Africa are being plundered through activities of local elites and foreign investors," the report said.
China to recalibrate approach to Africa with US$2 billion multilateral fund

China and the African Development Bank jointly unveiled a US$2 billion multilateral investment fund last week, marking a symbolic shift in their partnership. The initiative, known as the “Africa Growing Together Fund (AGTF), would operate by allocating contracts to the most appropriate bidder, rather than being limited solely to Chinese companies.

The agreement was announced in Kigali, Rwanda on 22 May by Chinese Central Bank Governor Zhou Xiaochuan and African Development Bank President Donald Kaberuka, during the course of the African Development Bank’s Annual Meetings. The fund will be administered by the Bank, and will provide co-financing to projects over the next decade, with the goal of supporting African infrastructure and industrial development. Future disbursement under the fund will therefore not be restricted only to bilateral government-government projects – a notable change from China's traditional forms of financial support.

The fund appears to be part of a broader effort by Beijing to recalibrate its relationship with Africa, analysts say, especially given the growing criticism in some quarters over recent bilateral investment deals. Chinese officials themselves have lately acknowledged that some past agreements with African countries have been less than ideal.

The US$2 billion investment fund, Zhou said, could serve as a way for China to begin changing the way it does business in Africa.

China-Africa trade has significantly increased over the past decade, with last year’s estimates placing it at US$200 billion – a twenty-fold increase from what it was in the year 2000, according to customs data cited by the Financial Times. However, critics have often pointed to the fact that China primarily relies on Chinese labour for many of its infrastructure projects and is more keen on pulling in African raw materials than on transferring skills. In fact, China’s commercial engagement in Africa is characterised by a heavy concentration on imports of natural resources which, according to some experts, perpetuates the continent’s dependence on primary commodities.

The fund, observers say, represents a significant departure from China's history of “cheque book” diplomacy, which critics say has often prioritised the advancement of strategic economic interests as a political tool to cultivate other types of advantages.

What is most notable is that the fund will be working through a multilateral development institution such as the AfDB, which receives funding from various countries, both from within Africa and outside it. In addition, the fund will operate under the AfDB’s rules.

Despite this move, bilateral aid still remains a key element of Sino-African ties. The announcement of the Fund comes just weeks after Chinese Premier Li Keqiang paid his first visit to Africa. Li’s declaration came following a pledge to increase his country's aid to Africa by US$10 billion in bilateral loans, totalling US$30 billion.
EU and Senegal strike fisheries deal, local groups critical

Brussels and Dakar inked a new fisheries partnership last month, following a successful third round of talks in the Senegalese capital.

In return for €8.69 million over the next five years, 38 EU vessels will be granted licenses to target tuna and limited numbers of black hake in the West African state’s waters, or Exclusive Economic Zone (EEZ).

According to Reuters, the new arrangement caps the amount of tuna that can be removed from Senegalese waters by the EU fleet at 14,000 tonnes per year, with black hake restricted to 2,000 tonnes.

On paper the collected funds are earmarked for sectoral support ranging from maritime research to fighting illegal, unreported, and unregulated fishing.

Brussels has come under fire, however, from some marine and environmental groups. Concerns have been raised that the process was not sufficiently inclusive, and foreign trawlers are depleting Senegal’s marine stocks, making it increasingly difficult for local fishermen to compete.

“We are selling off our resources and it amounts to a recolonisation by the EU in the fishing sector,” said Adama Lam, vice-president of Gaipes, a Senegalese fisheries representative.

Fisheries play a key financial and social role in the country’s economy. For example, the sector generates around 600,000 direct and indirect jobs and is the main provider of protein in the country, according to USAID.

In response to local complaints about the presence of large foreign factory ships, the incoming Senegalese government in May 2012 cancelled licenses of 29 foreign fishing trawlers. In January of this year, Senegalese officials seized two Russian trawlers under the auspices of illicit activity, fining both 600 million CFA francs (USD1.25 million).

Billion dollar investment for Africa’s development

About 68 billion dollars worth of investment projects were registered at the end of the World Economic Forum on Africa that took place in Abuja, Nigeria from 7-9 May on the theme “Forging inclusive growth, creating jobs”.

Participants of the event, which included government functionaries, the NGO community, and business leaders, and others, held the view that Africa’s prosperity can only be driven by inclusive growth strategies that create jobs and include all Africans.

Winifred Byanyima, Executive Director of Oxfam International, United Kingdom, agreed that “growth is good” but many are being left behind. She reminded participants that 60 percent of Africans are living below the poverty line and Oxfam’s records have shown that Africa is the second most unequal continent in the world next to Latin America, and six out of 10 of the most unequal countries are in Africa.

Li Keqiang, China’s Prime Minister stated that economies of China and Africa were highly complementary and that development was an opportunity for both sides.

As part of their development efforts, China offered its cooperation to construct railways, highways and regional aviation network in Africa in effort to promote interconnection across the continent.

The Chinese representative explains that China is willing to support a transfer of labour-intensive industries to Africa, support Africa to increase productivity and help the continent’s energy and resource industries extend into both upstream and downstream areas, thereby improving Africa’s overall self-development capacity.

Participants agreed that inclusive job creating growth strategies should reinforce Africa’s prosperity in the long run. In fact, Africa is one of the world’s fastest growing regions and seems set to remain so for the foreseeable future – with seven of the world’s fastest growing economies in Africa, according to the International Monetary Fund.
Publications and resources

This paper analyses the case for a link between the EU ETS and the upcoming South Korean ETS. The authors, Sonja Hawkins and Ingrid Jegou, placed the linkage debate in the larger context of international cooperation on climate change. [http://bit.ly/1nEeO1I](http://bit.ly/1nEeO1I)

**The Shale Gas Revolution — ICTSD — March 2014**
This paper, authored by Thomas L. Brewer, a senior fellow of ICTSD, sheds light on these complex issues and calls on governments, industry and international agencies to evaluate the full effects of shale gas on the environment and climate change to determine how it can best fit into a sustainable development agenda. [http://bit.ly/1lEdvlC](http://bit.ly/1lEdvlC)

**Agriculture and Food Security Group: A Post-Bali Food Security Agenda – ICTSD – February 2014**
This policy analysis paper was prepared for the E15 Agriculture and Food Security Group by Theme Leader, Stefan Tangermann. The paper builds on group discussions of the proposals and analysis submitted to the group and subsequently discussed. Initiated by ICTSD in 2011, the E15 Initiative is a partnership of the ICTSD and the World Economic Forum to create a non-partisan, expert-led multistakeholder dialogue aimed at exploring options for strengthening the governance and functioning of the multilateral trade system. [http://bit.ly/1ePIuTp](http://bit.ly/1ePIuTp)

**Evaluating Aid for Trade on the Ground: Lessons from Bangladesh — ICTSD — December 2013**
This study assesses the effectiveness and impact of AfT in Bangladesh. By doing so, it also tries to identify the reasons of the decline in disbursements which is quite uncommon among other least developed countries. The study argues that the results of AfT are somewhat mixed for Bangladesh. More important, the study shows that the lack of efficient administrative mechanisms, limited human capacity, political instability, and stringent donor requirements are major reasons for low absorption capacity. [http://bit.ly/1euCkvo](http://bit.ly/1euCkvo)

This paper explores, among other things, how some trade-related barriers could be addressed within the context of a sustainable energy trade agreement for a positive impact on expanding access to sustainable energy. [http://bit.ly/1dXYjwy](http://bit.ly/1dXYjwy)
List of Environmental Goods: An Overview — ICTSD — December 2013
This paper briefly examines the early history behind the development of formal lists of environmental goods including the OECD’s illustrative list and APEC’s Early Voluntary Sector Liberalization (EVSL) lists and the purposes for which they were developed. http://bit.ly/1dXYTEn

Transforming the APEC Outcome on Environmental Goods into a Broader Sustainable Energy Trade Initiative: What are the Options? — ICTSD — December 2013
This paper provides options for transforming the APEC initiative, stemming from the Honolulu mandate, into a more comprehensive “Sustainable Energy trade Initiatives”, SETIs and proposes options for this transformation in three phases. It provides a policy guide toward establishing SETI into enforceable legal footings. http://bit.ly/1aVOFd6

This paper answers the question by by examining the dynamics and interactions among economic and environmental factors such as exports and imports, carbon emissions, energy and electricity prices, employment generation and income, import tariffs and local content measures (LCRS). http://bit.ly/1nN5DNR

This paper examines the exhaustion doctrine from a comparative perspective by presenting different regional and national experiences (the United States, the European Union, Brazil, China and India). It offers insights into the how properly tailored doctrines can contribute to innovation and well-being. http://bit.ly/1ip0uIH

Protecting Shared Traditional Knowledge: Issues, Challenges and Options — ICTSD — November 2013
This paper provides an overview of the different facets of this complex issue and suggests a number of options on how to address it. http://bit.ly/1nkGifK

Working Together: How to Make Trade Contribute to Climate Action — ICTSD — November 2013
This information note explores the potential for synergy and cooperation between the trade and climate change regimes and answers related critical questions. http://bit.ly/1wyHQWu