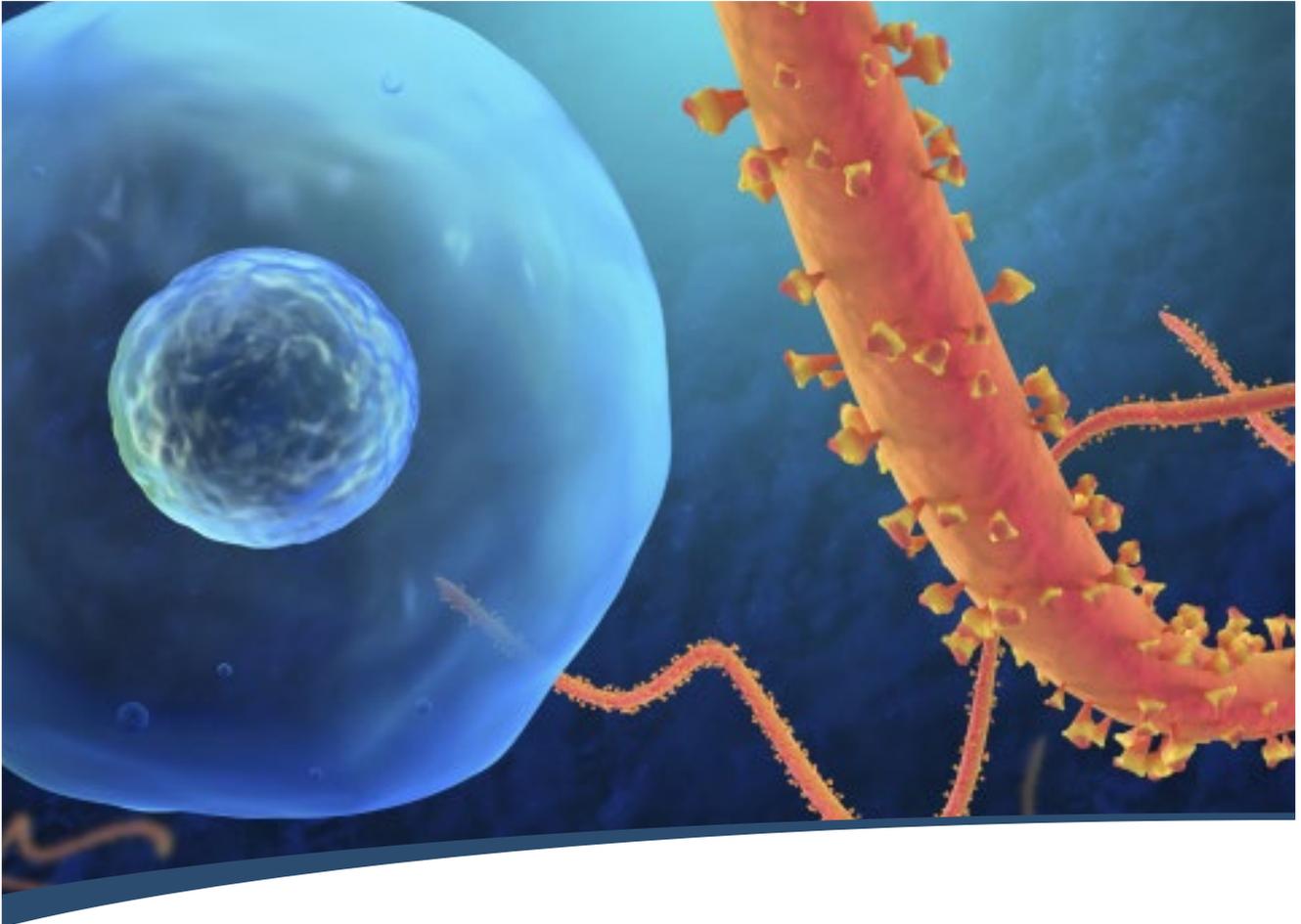


BRIDGES NETWORK

BRIDGES AFRICA

Trade and Sustainable Development News and Analysis on Africa

VOLUME 3, ISSUE 4 – MAY 2015



Trade recovery in the wake of Ebola

EBOLA

From crisis to recovery: Revitalising the gears of the economy

AGRICULTURE

The challenge of updating global rules on trade

TRADE FACILITATION

The paradox of trade facilitation in North Africa



International Centre for Trade
and Sustainable Development

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TRADE

- 4 **The Ebola crisis: Implications for trade and regional integration**

Dianna Games and Brendan Vickers

PRIVATE SECTOR

- 7 **Kick-starting the gears of the Liberian economy after the Ebola crisis**

Rahul Bhatnagar

AGRICULTURE

- 10 **Negotiations on agriculture: the challenge of updating global trade rules**

Christophe Bellmann and Jonathan Hepburn

FOOD SECURITY

- 14 **Challenges facing poor food-importing countries: Can WTO disciplines help?**

Panos A. Konandreas

FOOD SECURITY

- 17 **Import surges in a changing global market context: Implications for African countries**

Jamie Morrison and George Mermigkas

TRADE FACILITATION

- 20 **A Trade Facilitation Council to boost regional integration in North Africa**

Khalid El Bernoussi

AGOA

- 23 **Draft US bill provides for 10-year AGOA extension; South Africa eligibility under review**

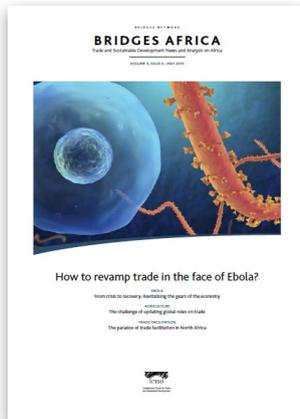
RULES OF ORIGIN

- 24 **LDCs prompt WTO discussions on rules of origin**

- 26 **The newsroom**

- 27 **Publications and resources**

Trade recovery in the wake of Ebola



It may be too early to make any decisive claims, but the fight against Ebola seems to be coming to an end. While Liberia has just been declared Ebola-free by the World Health Organization (WHO), weekly infections in Guinea and Sierra Leone have dropped to single digits for the first time since the peak of the epidemic. This is a long-awaited piece of good news, however, as countries struck by the virus start to think about recovery, the picture nonetheless looks rather grim.

First and foremost, the human costs of the epidemic for Liberia, Guinea and Sierra Leone have been absolutely tragic, with the number of deaths now exceeding 11,000. The entire social and economic fabric of these countries with already weak capacity has been severely damaged. Although it is impossible to determine the full impact of Ebola on the economies of these countries, estimations from the World Bank suggest that their GDP losses total US\$ 2.2 billion. In particular, trade relations and networks across the region have suffered a hard blow. Borders may well be reopened, but more importantly, trust between people will need to be restored.

This issue of Bridges Africa includes two articles that look at the considerable economic challenges encountered by the Ebola-struck countries. Dianna Games and Brendan Vickers examine the implications of the Ebola crisis on the three most affected countries in terms of trade and regional integration. In a separate contribution, Rahul Bhatnagar concentrates on the case of Liberia. After an assessment of the virus' impact on the Liberian economy, the author sketches the possibilities for revitalising the private sector and stimulating growth in the short and medium run.

These analyses make it clear: the post-Ebola recovery will be a long and bumpy road. While the top priority is ensuring that the epidemic remains contained, it is also necessary to start planning for social and economic reconstruction. From this perspective, trade could prove a powerful engine to regain economic dynamism.

As WTO members start crafting the contours of a possible Doha work programme, this issue of Bridges Africa also features several articles related to agricultural trade issues in the global context and their implications particularly for food security.

Finally, Khalid El Bernoussi, a Moroccan expert, tells us why trade facilitation is a paradoxical issue for North Africa arguing for the establishment of a Trade Facilitation Council to boost regional integration in the region.

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

TRADE

The Ebola crisis: Implications for trade and regional integration

Dianna Games and Brendan Vickers

In addition to the severe effects of Ebola, the virus has implications for trade, investment, and regional integration in West Africa. What can be done to revitalise trade in West Africa in a post Ebola context?

The outbreak of the Ebola virus in parts of West Africa has been widely declared a threat to peace and security and a public health emergency by international organisations. By February 2015, nearly 23,000 people had been infected and more than 9,000 people had died from the virus, almost all of them in the three worst-affected countries – Liberia, Sierra Leone and Guinea. The devastation wrought on these three countries has been incalculable, not just in human terms but in terms of social dislocation and economic impacts. This article examines the broad economic impact on the three main affected countries and the implications for trade, investment and regional integration in Ebola West Africa.

Closed borders, transport and connectivity

To contain the epidemic, the affected countries had closed their own borders with each other and most of their neighbours. Many countries within Africa banned citizens from the three countries from entering their borders as well as travellers who had been to the affected areas. The majority of airlines stopped flights into the affected countries, mostly to Liberia and Sierra Leone. Only two airlines, SN Brussels and Royal Air Maroc, continued flights to these countries, although more airlines have since resumed flights.

Concerns about the spread of Ebola through cargo movements have been disruptive, with increased scrutiny on cargo shipments from West Africa and screening crew members for possible infection. Despite these concerns, the ports remain open and sea traffic continues to provide a crucial channel for trade.

Visitors from Africa and further afield have, however, avoided the region for fear of contamination, resulting in reduced demand for hotels, airlines and service providers with links to international business. Sub-Saharan Africa has suffered to a lesser degree from an 'aversion' and branding impact from outside the continent, with cancellation of conferences, holidays and a slowdown in business activities, particularly in hospitality and aviation.

Economic and fiscal impacts

Liberia, Sierra Leone and Guinea are all least developed countries (LDCs) that confront extreme poverty and socioeconomic challenges. Although these countries experienced high growth rates in recent times, buoyed by favourable commodity prices and post-conflict assistance, the gains of the past decade are being quickly eroded due to the current Ebola crisis notably. The World Bank has estimated the virus has cost these nations more than US\$2 billion over 2014-15. Since mid-2014, the three affected countries have experienced flat or negative income growth.

The World Bank has further lowered the prognosis for 2015 on the basis of continuing new infections, second-round effects and investor aversion: -0.2 percent in Guinea, 3 percent in Liberia and -2.0 percent in Sierra Leone (down from pre-Ebola estimates of 4.3 percent, 6.8 percent and 8.9 percent respectively). The World Bank also estimates foregone income in 2015 of about US\$1.6 billion: US\$540 million in Guinea, US\$180 million in Liberia, and US\$920 million in Sierra Leone. This is more than 12 percent of their combined GDPs.❶

US\$2 billion

The World Bank has estimated the virus has cost these nations more than US\$2 billion over 2014-15. (Authors)

Multinational companies operating in the three most affected countries have pulled back new investment (especially mining, oil and gas), repatriated many foreign workers, and cut production of critical revenue generating exports. Their economic plight has been exacerbated by the simultaneous drop in iron ore prices on international markets, adding to the revenue woes of these mining economies.

Tax collection has been identified as another major fiscal impact. According to the World Bank, tax revenues in Sierra Leone for the 2014/15 fiscal year, initially projected at US\$399 million, could be US\$40 million lower. Money earmarked for capital spending has largely been diverted to recurrent spending on the Ebola crisis.

International and regional trade

The combined impact of Ebola and falling commodity prices from their peak a few years ago makes it very difficult to project the impact of the epidemic on the affected countries' current and future trade performance. According to UNCTAD data, over the past decade Sierra Leone has steadily increased its trade from US\$158 million in 2005 to US\$341 million in 2010, soaring to US\$1.917 billion in 2013. Much of this has been accounted for by foodstuffs and ores and metals destined for China. Sierra Leone's exports grew remarkably by 220 per cent in 2012 and 70.9 per cent in 2013 reflecting favourable commodity prices.

With these fragile countries now starting to look at post-Ebola recovery even as they continue to tackle new infections, there may be some light at the end of the tunnel.

Sierra Leone, for example, also confronts the challenge of diversifying its economy to take advantage of the various trade preferences offered to LDCs, notwithstanding their diminishing value. Sierra Leone also qualifies under the African Growth and Opportunity Act (AGOA), although its export performance under this scheme has been weak. Sierra Leone's advantage in terms of producing ginger, cashews, textiles and garments could still be exploited for export to the USA. AGOA expires in September 2015 but is expected to be renewed, perhaps with some new conditions.

Regional trade in West Africa is largely informal and beset with considerable insecurity to traders and goods from corrupt law enforcement agencies or cross-border gangs or syndicates. The insecurity of traders is compounded by inadequate border infrastructure (such as warehousing facilities and reliable transport) and that traders often do not have valid travel documents or certificates of origin for their wares. Overall, aggregate levels of intra-regional trade are typically low relative to other regions of the world economy due to the prevalence of trade barriers, undiversified and underdeveloped production structures and poor infrastructure.

Regional integration in West Africa is progressing. In January 2015, ECOWAS launched the long-awaited common external tariff (CET). It is too early to say what the effects of the new CET will be but there are fears it may push up the price of basic household goods in these import dependent countries. Although the CET includes protection for agricultural products, it raises the tariff on rice, which is zero in many countries, to 10 per cent with a view to increases over time. However, this may also provide a regional export opportunity for rice producing countries in the region, which include the Ebola-hit economies. There are other examples of trade that may, if carefully negotiated and managed, form part of the post-Ebola strategy.

Ironically, this deepening of regional integration comes at a time when the region has shut down borders and is focusing more than ever on national priorities. The Ebola-induced

The Ebola crisis

The current outbreak in West Africa, (first cases notified in March 2014), is the largest and most complex Ebola outbreak since the Ebola virus was first discovered in 1976. There have been more cases and deaths in this outbreak than all others combined. The most severely affected countries, Guinea, Liberia and Sierra Leone, have very weak health systems, lack human and infrastructural resources, and have only recently emerged from long periods of conflict and instability. (WHO)



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suspension of formal and informal intra-regional trade in goods and services could lead traditional West African trading partners to seek alternative suppliers, even from outside Africa, thereby undermining regional integration and potential trade-led regional value chains in ECOWAS.

Conclusion: Post-Ebola West Africa

The economic impact of the virus on West Africa is continuously being assessed.^① ECOWAS is projecting a regional growth rate of more than 6.4 percent in 2014, rising to 7.1 percent in 2015, largely discounting the Ebola effect but also based on a prediction of the epidemic ending by 2015. The three worst-affected countries are among the smallest economies in the region, accounting for about 2 percent of ECOWAS GDP compared to, for example, Nigeria, which accounts for more than 60 per cent. The growth projections do take into account the limited Ebola effect on Nigeria, Ghana and Côte d'Ivoire – the biggest regional economies, which are still trading with each other.

With these fragile countries now starting to look at post-Ebola recovery even as they continue to tackle new infections, there may be some light at the end of the tunnel. Already the International Finance Corporation has committed a financing package of US\$450 million to stimulate private sector recovery, trade and investment in Liberia, Guinea and Sierra Leone. Similar efforts are likely to come from other agencies as the medical spending starts to wind down, barring no new Ebola frontiers emerging. Liberia is so confident it has beaten the epidemic that it announced the lifting of a night-time curfew and the opening of the borders in late February 2015.

The full impact of the virus on the three economies is still largely speculative and growth projections are estimates only. To date it is safe to say the worst-case scenarios for the countries concerned will be realised in terms of lost growth, productivity, trade and other issues. Proper recovery is only expected to gain traction in 2016, with another year of economic crisis still ahead.

There are not only issues of rebuilding the economies, but of building trust between people, governments and investors. The branding effect of Ebola may last a lot longer than the contagion, with foreigners from both within and outside Africa wary of the region for some time to come for fear of another outbreak. Assuming there is no spread of the virus into larger economies and it remains contained, the medium-term prognosis for the region may still be positive.

The views expressed in this article are those of the authors and do not necessarily represent those of the Commonwealth Secretariat.

① World Bank, 'The Economic Impact of Ebola on Sub-Saharan Africa: Updated Estimates for 2015', paper prepared for the World Economic Forum in Davos, 20 January 2015.

② See UNECA, Socio-Economic Impacts of Ebola on Africa (revised edition), Addis Ababa, Ethiopia, January 2015.

PRIVATE SECTOR

Kick-starting the gears of the Liberian economy after the Ebola crisis

Rahul Bhatnagar

How has the Ebola crisis affected the Liberian economy? What possibilities exist around revitalising the gears of the private sector and spurring growth in the short term until existing medium-term reforms are implemented? Can a stimulus program aimed at MSMEs and consumers work in the country?

In a recent op-ed in the Financial Times, Liberia's finance minister Amara Konneh outlined the economic fallout of the Ebola crisis on the country's fragile economy. On a particularly somber and accurate note, Konneh added 'It is crucial to remember that the disaster does not end when Ebola is defeated'. Indeed, the economic dimensions of the crisis are expected to persevere well after the health crisis is resolved. By all accounts, this refrain rings true. The health crisis has severely impacted private sector operations in the country and beyond. It does not matter whether the business is small, medium sized or large, whether it is Liberian or an international concessionaire operating in the country, or even whether it involves roadside hawking or a multi million dollar concession such as a rubber plantation - the private sector is at its lowest ebb since the end of the civil war in 2004. In a post-conflict nation that has courageously attempted but not fully succeeded in dislodging the societal drivers of conflict, economic adversity on this scale could prove calamitous.

A quadruple shock on the economy

The government, faced with limited choices in the early days of the Ebola crisis, established travel restrictions, curfews and border closures to limit the spread of the virus. The reduced mobility impacted the ability of workers to report for duty. Many businesses simply told their staff to stay home. Except for the government, wages were curtailed in the majority of sectors. Cross-border trade, an important source of sustenance and employment in the informal sector has also been affected. According to polls conducted by the Gallup organisation and the Liberia Institute of Statistics and Geo-Information Services (LISGIS) nearly 50 percent of Liberian households are currently out of work, a situation that has been exacerbated since the crisis unfolded and even with the lifting of the travel restrictions.

With the loss of livelihoods and expectations of further losses, the spending capacity of consumers across a broad spectrum of sectors has decreased. Reduced consumer spending has significantly impacted the working-capital needed by Liberian businesses to maintain their operations – i.e. manufacturers have reduced capabilities for procuring raw material (especially imports), fuel, supplies, transportation services etc. Shopkeepers are facing challenges in procuring products and stocking shelves. The crisis has possibly worsened their existing low capital reserves. So businesses are expected to face challenges in procuring, producing, and supplying goods to the market.

Official support services have been impacted, adding to the woes of the private sector. Government revenues have taken a hit, decreasing more than 2 percent of Liberia's annual receipts over the last several months. Key ministries and technical agencies were operating on a skeleton staff basis with all non-essential personnel ordered home, although operations are slowly reverting to usual levels. This will certainly have fallout on critical support services that government institutions provide to the private sector ranging from company registration to issuance of export licenses.

The informal sector and MSMEs

Micro, Small and Medium Enterprises (MSMEs) have been the hardest hit, especially in the vast and deeply entrenched informal sector, which by its nature receives very

US\$650 million

The World Bank Group announced in April that it would provide at least US\$650 million during the next 12 to 18 months to help Guinea, Liberia and Sierra Leone recover from the devastating social and economic impact of the Ebola crisis and advance their longer-term development needs.

limited official support in the best of times. According to the latest (2010) labour force survey conducted in Liberia, nearly three quarters of a million people are engaged in informal employment, accounting for 68 percent of all employment. This is a significant percentage by all accounts. Agriculture, forestry, and fishing constituted the main slice of total informal employment (55 percent) followed by retail trade, which accounted for 27 percent of total informal employment.

Rates of informality ranged from over 60 percent in counties such as Montserrado and Nimba, and up to over 80 percent in Grand Gedeh and Lofa. A sobering insight is that this was the situation in 2010, when the economy was showing signs of revival. It is a fair assumption that the situation for MSMEs and operators in the informal sector is much worse now.

What can be done to revive the economy?

Both short term and medium-long term approaches will be necessary to support the private sector. In the medium-long term, the government must tenaciously review its reforms and development agenda. These include follow-up to the implementation of The National Trade Policy (NTP) and the National Export Strategy (NES), which were both launched by President Sirleaf in May 2014. WTO accession is another priority for Liberia, and the government has accelerated efforts to complete formalities in 2015.

Accession is expected to significantly increase market access for Liberian businesses, increase investment (beyond natural-resource rich sectors only), and establish as well as communicate a transparent trading environment. However, to concretise reforms across the breadth of the trade value chain, implementation of the NES will be key. The NES addresses critical constraints across the supply side, business environment and market side dimensions of priority value chains including cocoa, rubber, and fisheries. Interventions designed over the 5-year timeframe of the NES are expected to greatly improve competitiveness of MSMEs and increase their export capabilities.

Institutional reform at key ministries and technical agencies would also be an important consideration. In this and other aspects the government cannot walk alone. Donors and development partners would need to restart stalled projects and indeed explore options of further support.

In the short term, the stalled private sector 'vehicle' is in need of a jumpstart on both the supply side (the producers – shopkeepers, manufacturers, farmers, electricians, plumbers, taxi drivers), as well as the demand side (everyday Liberian consumers of the products that the supply side produces). Sellers must be helped so that their products can be brought to the market and sold; Spenders must be helped financially so that they can start spending.

Creative ideas and models must be explored, especially those that have proved successful in other countries in times of economic crisis. One of these ideas relates to direct infusion of financial resources where they are needed most – with enterprises (so that they can start producing and supplying goods to the market), and with consumers (so that they can start buying available goods).

On the supply side, a number of 'professions' could be selected on a priority basis including shopkeepers stocking food, clothes, medicines and other daily consumable goods that Liberians depend on day-to-day consumption needs. Potential beneficiaries could then be invited to register for the stimulus program and immediately receive a one-time, or a monthly stimulus allowance (direct cash) for procuring inputs and stock and starting production activities. By injecting directly at the source, an initial effort would have been made to get the gears of the supply side moving.

On the demand side (consumers), households must be financially supported in fulfilling their basic essential needs through a monthly allowance system lasting at least 6 months. With an estimated population of 4.3 million, of which 39 percent are possible candidates of such funds, there are between 670 thousand and 800 thousand households that could

be possible beneficiaries of this scheme. Vouchers (instead of cash) could be issued to consumers who would spend them to buy consumables at businesses that have registered for the stimulus program. The shopkeepers can exchange the spent vouchers for cash at select distribution points, thus also allowing for efficient tracking of utilised funds.

Other options could involve spurring demand for Liberian products among the international community present in Liberia. This includes UNMIL, UN agencies, International NGOs, consulates and embassies. Success stories do exist involving diverting procurement of non-essential items for the international community in a country from external suppliers to domestic suppliers potentially injecting millions of dollars of business into local businesses.

By no means are these the only creative solutions available for short term stimulation of the private sector, but these have worked in other cases ranging from the US, Mauritius to Afghanistan and East-Timor and could provide useful lessons for Liberia.

A sobering (but hopeful) bottom line

The work involved in energising the Liberian private sector activity will not be easy. Nor is it the first on the to-do list of national and international partners. The first action will be to ensure that the Ebola crisis has been contained. Then, efforts to stem the economic crisis must begin in earnest.

There is money on the way. The World Bank, in collaboration with the IMF is preparing several tranches of support for the short-medium term future in Liberia, and it is conceivable that a significant portion will be focused on economic revitalisation in addition to direct support to the health crisis. There is talk of US reallocating US\$750 million in war funds towards the Ebola battle (across the region). If properly utilised, this funding can help get the machinery moving on both the supply and demand sides. What will be required is a robust mechanism for ensuring that the funds are utilised in a targeted and efficient manner.

Conclusion

Increased resilience of Liberian private sector to future epidemics will ultimately depend on the speed and quality of reforms in the country. Port, transportation, and communications infrastructure improvement initiatives will be key, but so will be the ongoing task on building robust public institutions. At the policy level, a sustained implementation of endorsed policies and strategies must occur. The work involved will not be easy, nor cheap.

Fortunately, Liberia will not be starting from scratch. There is significant donor involvement in Liberia and the broader region. The analytical work conducted in the country such as the national export strategy etc. already provide detailed analysis of the private sector activity in the country – so the first base is already covered. What is required will be a structured and methodological approach to channel the funds so that the gears of the private sector machinery can start grinding again – and this time accelerating rather than stopping.

① <http://bit.ly/1zDI6Vp>



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AGRICULTURE

Negotiations on agriculture: the challenge of updating global trade rules

Christophe Bellmann and Jonathan Hepburn

Given the features of the new global context what could elements of a post-Bali work programme on agriculture be?

The global agricultural trade landscape has evolved significantly since negotiations froze in 2008 – and even more so since Doha was launched in 2001. As WTO Members start crafting the contours of a possible post-Bali work programme, developing a sound understanding of this new global reality and its implications for future multilateral disciplines in agriculture is critical.

The New global context

A rapidly evolving trade landscape

Over the last 15 years, global agricultural trade, excluding intra-EU flows, has nearly tripled to reach US\$ 1 trillion. While trade remains relatively concentrated among six key players – the EU, the US, Japan, India, China and Brazil – their collective importance has decreased, not least as a result of booming import markets in Africa. Emerging economies have also become more prominent with surging Chinese imports, the consolidation of Brazil as a key exporter, and the increasing participation of India with a net agricultural trade surplus of US\$ 9 billion and a doubling of its share in global imports over the same period.

Over the next decades, changes in demand – as a result of growing urban population and associated changes in diet – are likely to affect further the direction and geography of trade flows. Estimates suggest that an additional 1 billion people will join the “middle class” in 2020, a rise from about 1.8 billion in 2010. According to the OECD/FAO Agricultural Outlook, the Americas will strengthen their position as the dominant export region while Western Europe will display a negative trade balance with flat exports. The rapidly growing population and rising average income in Africa will result in increasing food imports, but the largest demand will come from Asia, which is expected to exhibit a trade deficit for all commodities except rice, vegetable oils and fish in 2023.

From a “demand-constrained” to a “supply-constrained” agricultural system?

Historically, agricultural markets have been characterised by a long-term trend towards declining real prices, with abundant supplies exerting downward pressure on food prices and ultimately farm incomes. As a response, policy-makers, particularly in OECD countries, had recourse to various forms of support policies. While these measures achieved their stated objectives at the domestic level, they induced surpluses that had to be disposed of in international markets, often with the help of export subsidies whose effect contributed to further lowering world prices. In developing countries, low prices provided in turn disincentives to invest in agriculture.

Over the last eight years, however, several agricultural commodities have experienced significant price spikes. These spikes appear to reflect the immediate impact of weather-related production shortfalls in major producer regions, against a backdrop of high energy prices, steadily rising demand due to higher average incomes, and low rates of productivity growth in many world regions. The extent to which these events mark a permanent transition towards higher prices remains hotly debated, particularly in light of recent price declines for several commodities and for fossil fuel. Most experts tend to agree however that markets are likely to experience higher levels of volatility in the future

1 billion

Estimates suggest that an additional 1 billion people will join the "middle class" in 2020, a rise from about 1.8 billion in 2010. (Authors)

Changes in domestic policies

Responding to changes in the global food system, domestic policies have also evolved. In the EU the new CAP requires farmers to respect additional environmental requirements as a condition for receiving support. But the shift towards less trade-distorting support initiated by successive previous reforms has slowed down with more emphasis given to the integration of new EU members. In the US, the new 2014 Agriculture Act abolishes direct payments to producers – seen by many as impossible to justify politically when prices are high. In their place, Washington has introduced subsidised insurance programmes for price and revenue. Such new schemes will likely be considered as "amber" box, implying a move away from the logic of gradually decoupling support from production. These new schemes combined with expected lower prices for key commodities might trigger higher payments in the coming years, making it difficult for the US to comply with the proposed domestic support disciplines under Doha.

China's fast-growing farm support schemes appear to be designed in part to rectify historical under-investment in the agricultural sector.

China's fast-growing farm support schemes appear to be designed in part to rectify historical under-investment in the agricultural sector. Support also aims to reduce the large, growing disparities between rural and urban incomes. China's farm support is heavily focused on green box payments for "general services" such as infrastructure, with some support also provided in the form of decoupled support payments. As the precise arrangements for providing this type of support vary across provinces, the actual degree of decoupling appears to vary. Finally, India's agricultural domestic support has also grown dramatically in recent years with a particular emphasis on input and investment subsidies in developing countries – article 6.2 of the AoA – which shelters payments for fertilizers, irrigation, electricity and seeds. Food purchases at administered prices are also important in the country's overall policy framework, with growing risks of breaching ceilings on trade-distorting *de minimis* support as illustrated by the ongoing controversy on public stockholding.

The emergence of "mega-regional" free trade negotiations

Another striking feature of recent evolutions in global trade has been the emergence of the so-called "mega-regional" free trade negotiations. The three largest "mega" initiatives – the Transatlantic Trade and Investment Partnership (TTIP), the Transpacific Partnership (TPP), and the Regional Co-operation in Asia and the Pacific (RCEP) – represent over three-quarters of global GDP and two-thirds of world trade. As such, they are effectively developing the road map for trade regulation regimes of the future, with results that involve deeper integration and "WTO plus" disciplines or liberalisation. The extent to which these initiatives might distract countries from multilateral negotiations or to the contrary help overcome the current deadlock, remains unclear.

The way forward

Market access

Since the launch of the Doha Round, applied tariffs particularly in developing countries have shown a downward trend as a result of unilateral liberalisation and regional trade agreements. Future progress made in mega-FTAs might facilitate further engagement, particularly in light of expected trends in imports resulting from the growth of the middle class in emerging economies.

The Doha Declaration adopted in 2001 has set ambitious goals in this area. Nevertheless, the same level of ambition has made the negotiations more difficult than initially expected. The need to find a politically acceptable deal for domestic stakeholders has led negotiators to soften the disciplines by introducing flexibilities that have rendered the negotiations more opaque and eroded the appetite to conclude the Round. In this context,



This article builds on the findings of a recent ictSd e-book "tackling agriculture in the Post-bali context: a collection of Short Essays", edited by Ricardo Meléndez-ortiz, christophe bellmann and Jonathan Hepburn.

the political costs of an agreement could be reduced substantially by exploring alternative formula cuts as recently envisaged in the talks. Such an option was already contained in footnote 2 of the Chair's text of August 2007, suggesting an overall 36 per cent reduction for developing countries with a minimum cut of 15 per cent on each line, following the Uruguay Round model. Another critical issue relates to the special safeguard mechanism (SSM). Here, the trend towards more volatile prices highlighted above seems to lend weight to calls for keeping a simple and effective instrument as part of an eventual Doha deal. Furthermore, keeping such an "insurance mechanism" might be important for many developing countries if prices continue to fall.

Domestic support

Domestic support payments in the EU, US and Japan have gone down to levels between 5 and 8 per cent of the value of production. In some cases such declines in non-green-box support are explained by a shift to the green box (e.g. the EU). In others, payments shrank as market prices went up (e.g. the US). In contrast, Brazil, China, India and Indonesia show a pattern of increasing long-term trends and today, supports expressed as a percentage of value of production overlap significantly for large developed and large developing countries.

As highlighted above, the more trade-distorting nature of the recent 2014 Farm Bill may mean that the US risks providing a higher level of support than previously discussed in the negotiations. Some agricultural exporting countries are nonetheless reluctant to water down the draft disciplines and would like to see tighter requirements established for domestic support in China and India. At the same time, these and other developing countries oppose further changes that would reduce the domestic policy options available to them under the current draft text. In this respect, negotiators could explore whether consensus could be found around current AMS and OTDS disciplines with a model that would retain current *de minimis* levels for all members, so long as a threshold level, defined in absolute terms, is not breached. With respect to the use of administered prices for the purchase of food for public stockholding purposes, options for a permanent solution might have to reassess the concepts of a fixed external reference price and eligible production.

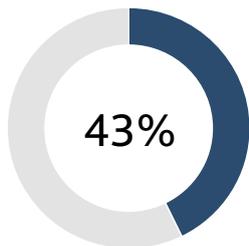
Some agricultural exporting countries are nonetheless reluctant to water down the draft disciplines and would like to see tighter requirements established for domestic support in China and India.

Export competition

The overall trend for export subsidies is declining, even though almost USD 500 million of export subsidies were still in place in 2011–12. The existing draft modalities in this area are not really questioned, though some fine-tuning may be required. Export competition should therefore be brought centre stage. This will provide a major impetus towards creating greater engagement, trust and confidence in a system where these are presently missing.

Export restrictions and taxes

Agricultural export restrictions are a policy area that is "under-regulated" in the WTO and where achieving political consensus remains particularly challenging. In cases of food shortages, export restrictions can significantly contribute to exacerbating the negative effects of price spikes on food security, by reducing the ability of poor consumers to access food at affordable prices. In the medium term, those restrictions also undermine confidence in international markets and their competing effects partially offset each other. There might nonetheless be a merit in exploring initial improvements in the disciplines by enhancing transparency or clarifying the conditions under which such instruments could



In 2012/13, China accounted for 43 percent of world imports of cotton.

legitimately be used. An agreement at the WTO to exempt humanitarian food aid from these measures could be a first small step in this direction.

Negotiators could explore whether China could agree to limit its subsidies independent of their classification within the WTO to the average amount granted in the period 2000–05.

Cotton

Cotton remains a symbol of the development dimension of the DDA, even if cotton policies have evolved drastically over the last few years. Recent EU policy changes provide more flexibility to its Member States to reintroduce production-related payments and the new US Farm Bill might result in higher cotton subsidies if prices go down. China has become a large subsidizer of cotton in absolute terms. While it is unclear what share of those subsidies are “green box”, China’s cotton production remains largely isolated from international prices. This new reality would call for consolidating envisaged cuts for the EU and US support, reducing them further, and seeking commitment to refrain from introducing new ones. Negotiators could explore whether China could agree to limit its subsidies independent of their classification within the WTO to the average amount granted in the period 2000–05 (a period of relatively low prices). Similarly, they could explore whether India would agree to limit its cotton subsidies to the amount given to other competing crops and refrain from imposing export restrictions. Finally, all countries could grant duty-free and quota-free market access to LDC cotton producers.

Conclusion

The instruction that trade ministers gave to negotiators at Bali – to prepare “a clearly defined work programme on the remaining Doha Development Agenda issues” – is an important opportunity. Agricultural markets are set to be placed under growing pressure in the years ahead, as a larger and increasingly wealthy global population requires more –and more varied – food at a time when climate change is increasing the prevalence of extreme weather events affecting farming. In this context, post-Bali talks could allow governments to take the first much-needed step towards ensuring the global trading system is better equipped to deal with the challenges of tomorrow’s world, by building a more efficient, equitable and sustainable framework of rules on agriculture.

This note is based on an ICTSD E-BOOK, Tackling Agriculture in the Post-Bali Context: A collection of short essays, October 2013.



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FOOD SECURITY

Challenges facing poor food-importing countries: Can WTO disciplines help?

Panos A. Konandreas

The food security of poor developing countries has been challenged in recent years due to high world market prices and price volatility. What have been the policy responses and what are the implications for WTO disciplines?

The food security of poor developing countries, especially the Least Developed Countries (LDCs), as defined by the United Nations, and the Net Food-Importing Developing Countries (NFIDCs), as established under the WTO, has been challenged in recent years on account of high world market prices and price volatility. In a span of a few years, global food markets have entered a period of constrained supply, after a very long period of ample supplies characterised by demand-constrained global markets.

As this transition was unfolding, some provisions of the Uruguay Round Agreement on Agriculture (AoA) were put at to a test with regard to their continuing relevance and adequacy, since they had been negotiated at a period of relative surplus in world food markets. While existing AoA disciplines on imports and domestic support provide a degree of comfort and predictability to exporting countries, similar disciplines on the export side, catering for the interests of net food-importing countries, have proven inadequate.

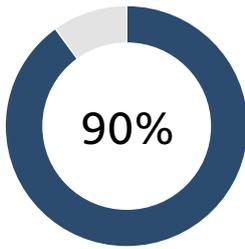
Policy responses

The recent period of global market volatility in food commodities has been characterised by considerable activity in trade and domestic policies. It is therefore relevant to ask what the policy interventions have been and what their effects on food security were, including in third countries. It is also relevant to ask if WTO rules have provided countries with the needed flexibility and whether they succeeded in restraining countries from adopting policies that could potentially harm others.

Among **trade-based policies**, reduction of tariffs has been the most widely adopted measure in importing countries. Although its impact on prices can be substantial, this option is severely limited when applied tariffs are already low, as is generally the case in many poor countries. For exporting countries, export taxes and export restrictions and prohibitions have been commonly used. Because of the short-term imperative of containing an increase in domestic market prices, longer-term effects on food security are rarely considered in such policy choices.

In addition, by insulating domestic markets from world price changes, trade measures not only fail to help the food insecure but also impose greater adjustment on other countries, which in turn respond with similar measures, so that each successive intervention undermines the efforts of others to stabilise domestic markets. Some authors have estimated that such restrictions were responsible for world price increases of around two fifths, one fifth and one tenth for rice, maize and wheat, respectively.

The release of public stocks was also among the most common **domestic market-based measures** applied by countries during 2007–08 to contain the effects of rising food prices. These were associated with providing targeted and untargeted subsidies for staple food. The extent to which market prices were contained clearly depended on the size of stocks released and the degree of targeting involved. For large countries with dominant public procurement and distribution systems, this type of intervention was more effective than for small open economies.



Self-sufficiency ratios (SSRs) in the case of cereal shock around 90 percent for LDCs.

Consumer-oriented policy responses that provide direct support to consumers (safety nets) have been relatively less common than market and trade interventions in developing countries, due to lack of resources to mobilise the necessary cash or food. Specific policies reported include cash transfers, direct food assistance and measures aimed at increasing disposable income. While such policy interventions are administratively more demanding, they are nonetheless among the best food security approaches to reach populations in need and to provide them with a substantial transfer value in relation to the cost of the policy. At the same time, market distorting effects are minimal compared to trade restrictions.

Finally, **production-oriented measures** include actions directed at supporting producers through non-market and market mechanisms. Most measures taken concerned non-market-based production support, including production subsidies, untargeted input subsidies and improved access to credit. By and large, developing countries – especially the poorest among them – have considerable scope for providing non-product and product-specific support to their farmers, especially under the special and differentiated treatment (SDT) provisions of the AoA. The limited use of these flexibilities has been due to a lack of resources.

Some implications for WTO disciplines

The recent period of world market volatility – through the policy responses it triggered – has been instrumental in revealing some weak points of the multilateral trading system (MTS) as well as the elements that need to be fixed for the system to be valuable for all participants. Four categories of concerns may be identified: (a) issues related to the interpretation of existing provisions; (b) issues related to the weakness of existing provisions in balancing out the interests of exporting and importing countries (and the absence of disciplines to restrain countries taking policies potentially harmful to others); (c) disciplines missing from the system altogether (especially in helping food-insecure countries improve their food security); (d) elements of the Uruguay Round Agreement of potential importance to food-insecure countries that have not been implemented at all.

A prominent example of a measure in the first category is public stockholding governed by clear food security purposes. Such stocks have proven to be of great importance to several countries in the recent period of price hikes. Questions have been raised about the compliance of some developing countries with domestic support commitments, considering that most of them can provide market price support only up to their de minimis level of 10 percent of the value of national production. The way such market price support is calculated remains a contentious issue and resulted in the “peace clause” agreed in Bali.

A telling example of weak existing disciplines is the export prohibitions and restrictions provisions of the AoA. Export taxation is not disallowed, and this tax could be prohibitively high because, unlike import tariffs, it is not bound. Essentially, current WTO rules allow the use of export prohibitions and restrictions in the face of domestic shortage; however, due consideration must be given to the effects on importing members’ food security. It is not clear to what extent countries that recently resorted to export prohibitions and restrictions have done so.

The asymmetry of WTO disciplines with regard to importers and exporters of food commodities was pointed out during the Doha Round negotiations on agriculture, and several countries have proposed stronger rules in this area. While the need for more symmetry is broadly recognised, there is also resistance from some WTO Members, casting doubt on whether stronger disciplines on export prohibitions, restrictions and export taxation will materialise anytime soon.

A prominent example for the third category related to missing disciplines on food security is related to the biofuel policies pursued by some countries. Biofuels do not fall under the purview of the AoA, although related policies represent an indirect means of circumvention of AoA commitments. In fact over the last decade, huge quantities of food

commodities were diverted to energy production. Recent reductions in distorting policies and the improved rationalisation of the use of biofuel in some major grain-based biofuel producers are welcome developments, but more can be done.

Finally, among the provisions agreed under the Uruguay Round but not implemented is the 1994 Marrakesh Decision. The Decision recognised that LDCs and NFIDCs could face short-term difficulties in financing normal levels of commercial imports of basic foodstuffs. The Decision also called for differential treatment on export credits as well as technical and financial assistance to improve agricultural productivity and food production. Developing rules on export credits under the Doha Round should aim at targeting LDCs and NFIDCs that face liquidity constraints for the timely scheduling of their food imports, thus avoiding high prices and additional financial charges.

Conclusion

The multilateral negotiations under the WTO have been the dominant force shaping the international policy environment for agricultural commodity trade during the past three decades. The integration of agricultural issues into the multilateral trading system is not yet complete, and the stalled Doha Round negotiations add doubts as to when some of the issues raised above may be adequately addressed.

The existing AoA contains numerous provisions specifically applicable to poor food-insecure developing countries on a SDT basis, aiming at providing more policy space and more flexibility in the implementation of the Agreement. Within this framework, developing countries undertook smaller reduction commitments during a longer implementation period than developed countries. LDCs were exonerated altogether from any reduction commitments.

Nevertheless, while these SDTs offer considerable policy space to food-insecure developing countries, certain provisions still need to be fixed, especially for specific policies (public stockholding for food security purposes) favoured by food-insecure import-dependent developing countries threatened by uncertainties in the world market. However, although doing "more good" by interpreting and/ or amending existing rules is important, it is equally essential to do "less harm" by strengthening provisions that could be detrimental to food security – especially export prohibitions and restrictions – and by developing disciplines and guidelines on production of biofuels and related national biofuel mandates.

Agricultural and food markets have evolved, but trade rules have not. The oversupply in the world market disappeared and periods of scarcity, high prices and price volatility ensued. The provisions of the AoA have proven to be rather weak in safeguarding the interests of importing countries under these new market conditions. Existing disciplines can deal primarily with the challenges of structural oversupply but not with the prospect of scarcity, rising and volatile food markets, which are expected to continue in the future. Exporters can rely on well-defined rules to address distortions in the import side, but not vice versa.

Creating symmetry as regards the needs and aspirations of both exporting and importing countries is a prerequisite for maintaining trust in the multilateral trading system and world food markets. In turn, this is an essential prerequisite towards concluding the reform process initiated in 2001 under the Doha Round.



Panos A. Konandreas

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FOOD SECURITY

Import surges in a changing global market context: Implications for African countries

Jamie Morrison and George Mermigkas

The incidence of import surges fell during the recent period of higher global food prices. Perhaps counter-intuitively, this was not because import volumes fell, but because they increased at a rapid and more constant rate. The implications of different patterns of imports therefore need to be better reflected in the design of safeguard mechanisms.

International trade in food products has increased rapidly in recent decades. Although this trend is widely held to have been beneficial in terms of increasing the availability of, and access to, food there remain concerns that openness to trade can expose developing agriculture sectors to greater levels of market instability and disruption. For example, significant, unexpected increases in imports – so-called “import surges” – can depress incentives for investment in domestic market development by private sector actors who generally have limited recourse to risk management instruments.

One of the modalities currently under negotiation in the Doha Round, and which is designed to address such concerns, is the establishment of a new Special Safeguard Mechanism (SSM) for use by developing countries. Negotiations on this mechanism have been particularly difficult, highlighting different perceptions about its effectiveness and the potentially negative consequences of its use, particularly if it were to be used in ways that unnecessarily disrupt trade.

The negotiations leading up to the release of the draft modalities texts in 2008 took place during a period of historically low agricultural market prices where further price depressions associated with significant increases in import volumes were deemed to be harmful. Since then, the global market context has changed dramatically and has created a very different scenario with respect to expectations regarding the incidence and impact of surges, and the requirements of a safeguard mechanism. Following an extended period of relatively low and stable global market prices, prices started to increase in the early 2000s. They rose sharply in 2007-2008, fell back somewhat during the next two years, before peaking in 2011. Since 2011 prices have followed a downward trend, but remain well above the levels of the 1980s and 1990s. Perhaps less well appreciated is that while global food prices have risen significantly since the 1990s, import volumes to an aggregate of 103 food importing developing countries, have also risen rapidly.

What are import surges and how can they be identified?

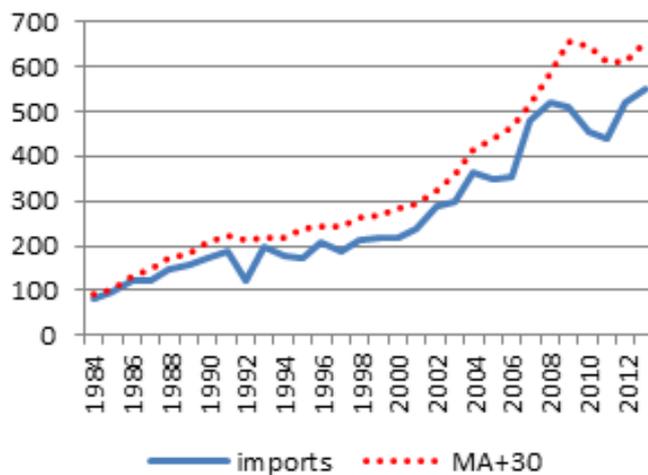
The term “import surge” has been used to highlight two types of potential shock to domestic agriculture sectors which may arise from increased openness to trade: (i) significant increases in volumes of imports from one period to the next, and (ii) depressions to domestic market prices that may result from increased connectivity to global market prices.

Previous FAO analysis demonstrated that import surges can be the result of factors internal to the domestic economy, such as domestic production shortfalls due to climatic reasons or to poorly functioning local markets, or they can be the result of external, global market factors such as diversion of product to new markets as a consequence of trade restrictions imposed in traditional markets. Whilst surges generated by external shocks can be potentially disruptive to domestic agriculture, those generated by domestic factors do not necessarily imply negative impacts. It is critically important therefore to keep in mind that the incidence of surges does not imply that a safeguard remedy should, or indeed is likely, to be applied in all identified cases.

There is no agreed definition of an import surge or of a methodology for their measurement. Commonly used definitions tend to be based on differing thresholds, with an import surge said to have occurred when the actual imports surpass that threshold. According to recent research, the total number of surges identified during the 30 year period 1984 – 2013 shows that the highest incidence of surges occurred in meats, to a slightly lesser extent in dairy products, significantly lower in most oilseeds, and with a mixed pattern in cereals. Across the time periods, a higher incidence of import surges was observed in 1994-2003 than in 1984-1993 (mainly meat and dairy). By contrast, all but two of the commodity groups saw a falling incidence from the period 1994-2003 to 2004-2013. The incidence of surges in all commodities continued to fall in the most recent decade, with total surges in 2009-2013 at approximately two-thirds of the 2004-2008 level.

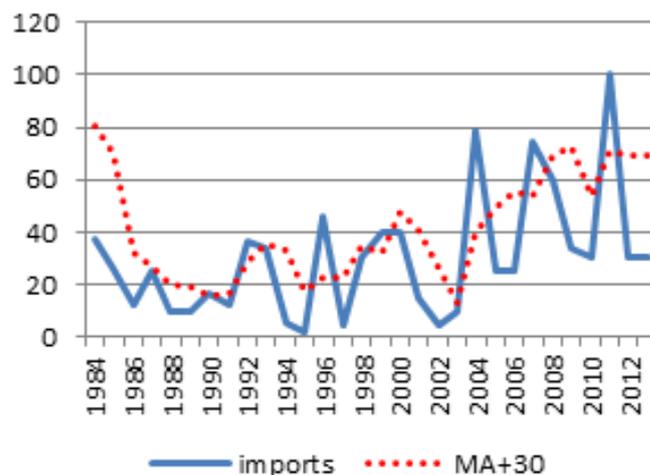
Interestingly, the lower number of surges was not the result of a reduction in imports. Indeed, typical of many of the analysed country/commodity cases, imports of palm oil to Kenya have risen relatively constantly since the early 1980s with very limited variation around the trend. As a result, the threshold of a three year moving average plus 30 percent (typically used in analysis related to import surges) remains significantly above the actual level of imports and no surges are identified. By contrast, imports of maize to Ghana have been more volatile, with annual increases often surpassing the threshold (see Figure 1 and 2 below). The pattern of imports is therefore a key variable in determining the incidence of surges.

Figure 1 Palm oil imports – Kenya (000 tonnes)



Source: Author calculations using FAO data

Figure 2 Maize imports – Ghana (000 tonnes)



Source: Author calculations using FAO data

Table 2 below depicts the average incidence of surges in different country groupings and geographical areas. It is notable that countries in the Small and Vulnerable Economies (SVE) group observed significantly fewer surges on average, with the Caribbean as a geographical grouping also reflecting that lower average number. Given their relatively high reliance on food imports as a proportion of total consumption, actual surges in some SVEs are unlikely to create significant deviations from the moving average, but the potential for negative ramifications can still exist.

Table 2 Average country incidence of surges by country group and by region (1984-2013)

Group	Region			
G33	76	Africa	79	48
SVEs	56	Eastern Asia	89	30
LDCs	77	Southern Asia	89	37
RAMs	74	South-East Asia	74	31
NFIDCs	66	Caribbean	57	42
Total	74	Total	74	

Source: Author calculations using FAO data - SVEs: Small and Vulnerable Economies; LDCs: Least Developed Countries; RAMs: Recently Acceded Members to the WTO; NFIDCs: Net Food Importing Developing Countries.

The incidence of price depressions fell more dramatically reflecting the rapid price increases during the recent period.

Implications for African countries

The sharp fall in the incidence of price depressions is unsurprising during a period in which prices rose significantly. However the fall in the incidence of volume surges is interesting in that it does not generally reflect a reduction in import volumes. Indeed, far from being the result of lower levels of imports (or lower rates of increases in imports), the reduced incidence of volume surges has been identified during a period in which imports of many commodities, by many African food importing countries, has been increasing significantly albeit at a more constant rate.

In Sub-Saharan Africa, economic growth rates have been lower than in many emerging developing countries suggesting that the increases in import volumes are more likely to be a result of population growth than of income growth. In many cases, structural deficiencies have prevented domestic production from growing as quickly as increases in demand. In such cases, a safeguard mechanism is unlikely to be used. Similarly, in North African countries, many of which face agro-climatic constraints to increased production, imports will continue to play an increasingly important role in satisfying consumption needs. Under these conditions, where imports increase at a relatively constant rate, the importance of a safeguard mechanism and the likelihood that it will be used to justify the imposition of an additional trade duty, is reduced.

However, the analysis also demonstrates that the sensitivity of the incidence of surges depends very much on the pattern of imports. In those cases where imports have fluctuated widely, such as in the Ghana example above, there remains a rationale for an effective mechanism for use in cases where surges could have potentially detrimental impacts.

While introducing country differentiation into the mechanism may be problematic, consideration could be given to the use of different trigger levels by country group. The analysis suggests that import patterns and hence the effectiveness of different trigger levels can differ quite significantly by country group. For some groups of countries, such as the SVEs, a more sensitive volume trigger may be appropriate.

The views expressed in this article are those of the authors and do not necessarily reflect the views of the Food and Agriculture Organization of the United Nations (FAO)



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TRADE FACILITATION

A Trade Facilitation Council to boost regional integration in North Africa

Khalid El Bernoussi

What are the intra-regional trade and trade facilitation situations in North Africa? What actions need to be taken to support trade and economic integration in the region?

The WTO General Council held on November 27, 2014 ended a deadlock lasting several months, impeding implementation of the Bali Package signed in December of 2013. Following resolution of the dispute between the United States and India regarding food security, members adopted a decision on the protocol of amendment for inserting the Trade Facilitation Agreement into the WTO texts.

This article aims to address the issue of economic integration in the North African sub-region—including Mauritania, Morocco, Algeria, Tunisia, Libya, Egypt and Sudan—as it is currently the least economically integrated sub-region on the African continent.

Intra-regional trade below the continental average

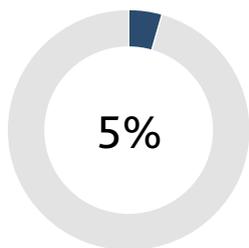
According to the United Nations Conference on Trade and Development (UNCTAD), on the average, intra-regional trade in North Africa represents only 5 percent of the region's total worldwide trade. This level is not only low, but far below the continental average, which is approximately 12 percent. The reality of the North African situation is that trade is primarily performed on a vertical basis with the European Union (EU), rather than on a horizontal basis. For example, North African trade with the EU represents, on the average, nearly 60 percent of the countries' total worldwide trade (with the exception of Sudan, which conducts over 65 percent of its trade with Asia).

Heterogeneous and potentially high transaction costs

In terms of the transaction costs associated with the export and import operations carried out by North African traders, according to data from Doing Business 2014, it appears that the price of transporting goods from one country to another varied from USD \$595 in the case of Morocco to USD \$2,900 in the case of Sudan. In comparison, the highest cross-border trade transaction cost among OECD countries was USD \$1,680 in Canada. Thus, the high transaction costs existing in North Africa represent a significant barrier to cross-border trade.

Lack of harmonisation in cross-border customs formalities and procedures

One of the primary explanations for the weakness in intra-regional trade and the high transaction costs is the lack of harmonisation in customs procedures from one country to the next. Differences in the number and types of documents required to carry out transactions, as well as differences in the processes at the border for circulating goods, have had a negative impact on trade. Furthermore, North African countries find themselves in the unique circumstance of participating in various customs union and free trade zone agreements (Agadir, CEN-SAD, COMESA, GAFTA and AMU) that also exhibit a lack of consistency in their approach to regional integration. Indeed, the same goods exported from the same country to a third North African country may be taxed differently depending on the regime to which they are subjected, which is determined at the discretion of the customs authority with no real possibility of being contested. This situation, which is conducive to potential conflicts of interest, seriously undermines intra-regional trade.



Intra-regional trade in north africa represents only 5 percent of the region's total worldwide trade.

The paradox of trade facilitation in North Africa

The trade facilitation situation in North Africa displays a certain form of paradox. On the one hand, there is an extremely low level of intra-regional trade. On the other hand, it appears that the majority of North African countries primarily adhere to the international trade facilitation standards set forth in the Bali Agreement.

More specifically, foreign trade legislation in Tunisia, Morocco, Algeria and Egypt is approximately 50 percent in compliance vis-à-vis the new trade facilitation measures defined in the Bali Agreement, while Libya, Mauritania and Sudan exhibit a level of compliance significantly lower than 50 percent. It is very likely that they will require strong technical assistance in order to build their capacity.

As a whole, the seven countries of North Africa coincide more readily in their ability to make the information on the formalities and procedures required for foreign trade available. They all use the Internet for this purpose, although some sites are more informative and interactive than others. Nevertheless, the Customs Code is present in all cases.

The deficiency that exists in all the analysed countries concerns the single window and its countrywide implementation.

The differences in trade facilitation performance are essentially related to the current procedures and arrangements governing the release and clearance of goods at the border posts. The first group of countries (in compliance with more than 50 percent of the Bali provisions on trade facilitation) has a higher propensity for accelerating the movement of goods, mainly due to the application of advance rulings, the separation of release from the final determination of customs duties and post-clearance audits. However, the second group of countries (with less than 50 percent compliance) is lacking one or more of the key measures that favour acceleration in the release and clearance of goods.

The deficiency that exists in all the analysed countries concerns the single window and its countrywide implementation. This measure, which is expensive by nature, represents the utmost degree of simplification in customs formalities and procedures.

The paradox that exists in North Africa, in terms of the low level of intra-regional trade in association with the relatively high level of compliance with international standards for trade facilitation, can be explained in large part by the presence in certain countries of bilateral agreements with the European Union, the United States or both. These agreements, which were concluded between 2000 and 2010 with Morocco, Tunisia, Algeria and Egypt, have had the effect of pushing those countries toward the implementation of customs reforms.

A North African Trade Facilitation Council to boost regional trade

With the aim of dynamising intra-regional trade in North Africa and unleashing the sub-region's economic potential, it would be appropriate to equip the zone with the necessary administrative framework for implementing a dedicated regional Action Plan (AP) for trade facilitation.

This administration would take the form of a North African Trade Facilitation Council, composed of existing or proposed national committees for trade facilitation—as envisaged in the texts of the Bali Agreement.

This structure would create synergy between the objectives of coordinating implementation of the provisions of the Agreement at the domestic level and coordinating implementation of the AP for facilitating regional trade—since the AP is based on the

same fundamentals as the Bali Agreement, i.e. simplification and standardisation of customs formalities and procedures, as well as the cooperation and involvement of the private sector.

A North African Trade Facilitation Council would promote effective harmonisation of trade procedures and quicker implementation of an Action Plan. It would also ensure consistency between the collective initiatives taken over time with the goal of sub-regional economic integration.

Moreover, a North African Trade Facilitation Council could be supported by the Arab Maghreb Union (AMU), which would assume the role of Secretariat. During implementation of the North African Action Plan, the two entities could elicit the support of the appropriate international and regional institutions that are active in the area of trade facilitation and development.

Four areas of priority for North Africa

The primary focus should be on: (i) harmonisation of formalities and customs cooperation; (ii) increased predictability for traders; (iii) training and exchange of information; and (iv) cooperation between the private and public sectors.

Recommendations in these four areas include standardisation of cross-border documentation for import and export, consolidation of juxtaposed border posts and single windows, simultaneous consolidation of the procedures for advance rulings and for processing the documentation of goods prior to their arrival, development of joint customs training programs, exchange of electronic data between customs authorities (C2C), and between customs authorities and exporting or importing companies (C2B), on declarations and trade flows.

Prioritising these types of actions and applying them consistently across all the countries will significantly reduce cross-border transaction costs in North Africa by creating economies of scale.

Prioritising these types of actions and applying them consistently across all the countries will significantly reduce cross-border transaction costs in North Africa by creating economies of scale, therefore saving time in the movement of goods—although other important factors also come into play, such as logistics and infrastructure quality.

The key to the success of a North African Trade Facilitation Action Plan for economic integration lies in cross-border cooperation. In this sense, a North African Trade Facilitation Council would be an appropriate instrument for providing cohesion, as well as a critical factor for success.

Finally, in addition to aiding regional integration, by attracting more large multinational and foreign investors, the North African Trade Facilitation Council would aid in the development of regional value chains in a current landscape in which production is fragmented. Regional integration will promote the emergence of North Africa as a major platform for global value chains, linking north and south, east and west.



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AGOA

Draft US bill provides for 10-year AGOA extension; South Africa eligibility under review

Ahead of its expiry on 30 September, US Congress introduced a new bill to renew the African Growth and Opportunity Act (AGOA) for another decade on 16 April.

A bipartisan bill to renew the African Growth and Opportunity Act (AGOA) for another decade was introduced in Congress on 16 April, quickly advancing out of the committee levels in both the House and Senate. The current version of AGOA is due to expire on 30 September unless renewal legislation is approved beforehand.

The scheme is considered the cornerstone of the US-African economic relationship, providing approximately 6000 products from Sub-Saharan Africa with preferential quota- and duty-free access to the US market.

AGOA expands upon the US Generalised System of Preferences (GSP), a set of formal exceptions from the WTO's most-favoured nation (MFN) principle, which allows developed countries to offer developing countries preferential treatment on specific goods.

The AGOA Extension and Enhancement Act of 2015, if approved by the full House and Senate, as well as the US President, would renew both AGOA and the Generalized System of Preferences (GSP), which expired in July 2013. The date of the floor votes in both chambers of Congress had not been announced at the time of this writing.

Long-awaited move

"Today's legislation gives our vital partnership with Sub-Saharan Africa renewed lift and focus, allowing us to continue our work together to raise standards and improve lives through trade," said US Trade Representative (USTR) Michael Froman on 16 April after the bill was introduced in Congress.

Potential delays in passing new AGOA legislation has been an ongoing source of concern, given the little time remaining before the 30 September expiration date. Officials and trade analysts alike have warned against a last-minute renewal in order to avoid job and investment losses, particularly for businesses that need to plan their orders months in advance. ([Bridges Africa 24 February 2015](#))

The renewal bill was introduced in the Senate Finance Committee by its Chairman, Orrin Hatch, a Republican from Utah, and the committee's Ranking Member, Democrat Ron Wyden from Oregon.

In the House Ways and Means Committee, Republican Chairman Paul Ryan of Wisconsin and Democratic Ranking Member Sander Levin of Michigan introduced the bill.

"I'm pleased we were able to come together and produce consensus legislation to help move America's trade priorities forward," said Hatch, who also touted the potential of promoting trade liberalisation and economic reform further through such preference schemes.

This is an abridged version of a longer version available [here](#).

RULES OF ORIGIN

LDCs prompt WTO discussions on rules of origin

The Least developed countries (LDC) group at the WTO presented on 30 April a paper aimed at stimulating a discussion among WTO members with regard to the implementation of the Bali ministerial decision on rules of origin in order to ultimately enhance market access for their products.

The submission of the paper entitled "Elements for a discussion on preferential rules of origin for LDCs" was submitted by Bangladesh on behalf of the LDC group during the WTO Committee of rules of origin held on 30 April.

Rules of origin specify how much processing must take place locally before goods are considered to be the product of the exporting country. They are often considered to be overly restrictive and inflexible; making it difficult for LDCs to take full advantage of the preferences they are granted.

Currently, these rules are designed on a unilateral basis without any harmonised standard, which critics say creates additional problems for the WTO's poorest members, forcing them to adapt to a range of rules depending on the intended export market.

A priority since Bali

The 2013 Bali ministerial conference adopted a package of decisions of importance for LDCs including the first set of multilateral guidelines on preferential rules of origin in response to their demand. The decision formally requests members to take into account certain guidelines contained in the decision to develop their rules of origin frameworks for LDCs.

Trade experts however were quick in noting that the decision is not legally binding and therefore it does not oblige members to follow the provisions strictly.

Since then, the LDC group have considered the implementation of the Bali decision on preferential rules of origin as one of their priorities in the WTO's post-Bali work.

In October last year the LDC group presented a substantive [report](#) to the WTO Committee on Rules of Origin, calling for a more effective design of preferential rules of origin. (See [Bridges Africa](#), 5 November 2014)

Reforms to reflect value chains requirements

The paper presented last week outlines six questions targeted to preference giving countries in order to better understand how they intend to address the various elements contained in the Bali decision related to rules of origin.

Speaking for the group, Bangladesh said it recognises that no single system of rules of origin used by preference-giving countries is better than the other.

However, members recognised "unequivocal evidence" that, under certain conditions, the reform of rules of origin to reflect current global value chains and commercial realities could generate benefits for LDCs.

The issue of adoption of a lower percentage requirements in case of percentage calculation of domestic content or greater allowance of non-originating materials to allow insertion of LDCs into global value chains was raised among other elements.

Regarding the value addition threshold, the document reiterates that "the value addition threshold should be kept as low as possible". On this aspect, the LDC group suggests allowing foreign inputs to a maximum of 75 percent of value in order for a good to qualify for benefits under LDC preferential trade arrangements.

Some observers consider however that ≤ 75 percent non-originating material (or ≥ 25 percent originating material) is in fact still prohibitive, given modern manufacturing methods based on global value chains which require in some cases only very little domestic content.

Limited productive capacity

The paper suggests that specific manufacturing or processing operation rules should take into account the productive capacity in LDCs and members should apply specific processing rules when they are beneficial to the LDCs.

"Considerable progress" in the textile and clothing sector by the allowance of a single stage process was noted by the LDC group. The Group however noted that a number of rules in other sectors like steel and metals still require double processing requirements which contradict LDC countries' limited productive capacity.

EU, Canada as role models

The paper also acknowledges that RoO reforms in Canada and in the EU respectively contributed to a higher utilisation rate as well as "relocation of factories to LDCs", "increased manufacturing capacity", "more skilled jobs" and "backward linkages."

The EU upgraded its allowance for non-originating material to 70 percent in many sectors – from the previous 40 percent – and retained a single instead of a double processing stage for clothing in 2011. The report presented in October last year finds that such reform efforts helped increase the utilisation rates of preferential margins by LDCs from 89 percent in 2010 to 99 percent in 2013, excluding fuel and agricultural products.

With respect to Canada, where the government implemented more lenient RoO including greater opportunities for cumulation in 2003, the same report argues that the LDC garment industry has reaped substantial benefits.

Triggering some answers

At the meeting, Canada said its rules of origin system were generally consistent with the Bali Decision guidelines.

The EU announced they would shortly send replies to the LDC Group's six questions and that it was looking forward to discussions on the paper.

The United States noted that legislation reinstating Generalized System of Preferences for LDCs was working its way through the US Congress.

China highlighted recent changes to its duty-free benefits programme that have already led to a 27 percent increase in LDC imports in the first quarter of 2015.

The newsroom

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WB grant millions for Ebola battle

The World Bank Group announced on 17 April 2015 at the summit Ebola organized as part of the traditional spring meetings of the World Bank and the IMF, the granting of additional aid worth of US\$ 650 million to the most seriously affected by Ebola country. The new funding is on top of the nearly US\$1 billion that the World Bank previously committed for the Ebola emergency response.

The new funding is intended to support Sierra Leone, Guinea and Liberia in their recovery efforts as well as address the alarming social and economic consequences of the epidemic of Ebola in the West African region.

"Even as we work relentlessly to get to zero new Ebola cases, the international community must help Guinea, Liberia and Sierra Leone jumpstart their recovery and build a safer, more prosperous and resilient future for their people," said Jim Yong Kim, President of the World Bank Group.

Gabon submit climate action pledge

Gabon became the first African nation to submit an individual national climate action contribution (INDC) by officially stating its greenhouse gas reduction commitments at 50 percent measured below an "uncontrolled" development scenario through to 2025. The Central African nation's contribution also includes a section on adaptation and climate finance.

According to Gabon's submission, the carbon stock stored in its forest biomass will not be included towards its reductions, given that these forests absorb four times more carbon than the country currently emits. Gabon will put in place programmes to achieve cuts in land-use and forestry – reportedly its largest emitting sectors – reduce flaring from the oil and gas sector, and boost energy efficiency.

In total 34 countries submitted climate action pledges to the UN as part of a bid to hammer out a global climate deal ahead of a meeting in Paris, France in December.

US Senate debate on food aid scheme

The long-running debate over potential reforms to the US' global food aid programmes has resurfaced in Washington political circles, with a Senate panel debating last month potential legislation on the subject.

The bill under scrutiny was introduced in February by Senator Bob Corker, a Republican from the US state of Tennessee, and Senator Chris Coons, a Democrat from the US state of Delaware.

The Senate Foreign Relations Committee – chaired by Corker – held a hearing on 15 April to present arguments for reforming current US laws on food aid and review the management of the country's global food assistance schemes. Known as the Food for Peace Reform Act of 2015, the legislation is identical to a previous bill that the two senators introduced last year, which did not make it out of committee mainly due to opposition from the maritime industry and some other interest groups, analysts say.

UN report focuses on industrialisation

Trade can help accelerate industrialisation and Africa's structural transformation, concludes the Economic Report on Africa 2015 released by the United Nations Economic Commission for Africa (UNECA) at the occasion of the Conference of African Ministers of Finance and Economic Development, which was held on 8 April, 2015 in Addis Ababa, Ethiopia.

The report stresses that trade continues to play a vital role in Africa's economic growth performance and it has the potential to promote "trade-induced industrialisation." The UNECA analyses that industrialisation can generate employment as well as strong forward and backward linkages with other sectors of the economy.

The report highlights that increasing intra-regional trade, improving infrastructure, strengthening trade facilitation, reducing business costs, and enhancing competitiveness are all together key determinants for Africa's structural transformation.

Publications and resources



Industrial Policies in a Changing World: What Prospects for Low Income Countries? – E15 Initiative – May 2014

This paper focuses on some industrial policies and strategies adopted by Low Income Countries (LICs) and the conditions under which their objectives were achieved (or not). They include Bangladesh's successes in building up a pharmaceutical industry focusing on affordable generic drugs, and a readymade garments industry that has a large share of the world market, in addition to Ethiopia's success as an exporter of cut flowers. Looking forward, as the nature of industrialisation and trade policies change, it looks at what policies LICs may adopt to catch up with the developed world. <http://bit.ly/1EIEJQz>



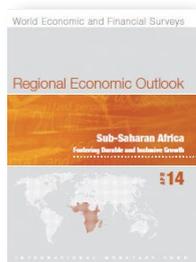
A 'Clean Sheet' Approach to Fisheries Subsidies Disciplines – E15 Initiative – April 2014

Fisheries subsidies have different economic and environmental impacts depending on their formal incidence and the bio-economic state of the fisheries they affect. With the exception of expenditure on fisheries management and the research supporting it, current evidence suggests that most subsidies are harmful in most circumstances, reinforcing the argument that disciplines are required. The fact that only a small fraction of global fisheries have any room for increased exploitation suggests that any exceptions to new disciplines should be carefully designed so as to minimize the potentially negative impact of production-enhancing subsidies on fish stocks, and thus on sustainable development in the long term. <http://bit.ly/1cwaaTG>



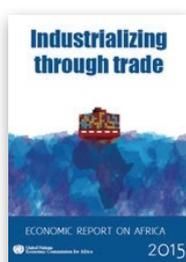
Tariff Escalation and Preferences in International Fish Production and Trade – E15 Initiative – March 2014

This think piece reviews available evidence on the effects of tariff policy (especially tariff escalation and preferences) on fish product production structures, development outcomes and fish stocks. The paper consists of a qualitative review of available literature produced by international agencies (e.g. FAO, OECD, World Bank), NGOs (e.g. Greenpeace, ICTSD) and academics. <http://bit.ly/1bAV9iY>



Regional Economic Outlook – International Monetary Fund – April 2015

Sub-Saharan Africa anticipates a pickup in economic growth in 2014 but the region continues to face risks from both external and internal factors, among them slower growth in emerging markets which could impact both export demand and commodity prices. This report analyses the possible impact of global forces on continued growth in sub-Saharan Africa and the policy actions that are needed to address these challenges. <http://bit.ly/PBYX7Y>



Industrializing through trade: Economic Report on Africa 2015 – United Nations Economic Commission for Africa (UNECA) – March 2015

This Report examines and provides analysis on the critical elements of effectively fostering industrialization and hence structural transformation based on an extensive review of experience with industrialised countries and Africa's post-independence attempt at industrialization. Ten country case studies were also conducted to shed light on industrializing through trade. The findings from this exercise informed the policy recommendations contained in this Report. <http://bit.ly/1BIJOU2>

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