BRIDGES NETWORK

BRIDGES WEEKLY

Global trade news from a sustainable development perspective

VOLUME 19, ISSUE 25, 9 JULY 2015

TRADE AGREEMENTS

TPP Countries Gear Up for High Stakes Ministerial Meeting

The Trans-Pacific Partnership (TPP) countries are gearing up for a highly-awaited ministerial meeting at the end of July, in a gathering that many officials predict could bring the talks to a close.

The gathering, now scheduled for 28-31 July in the US state of Hawaii, will be preceded by a meeting of chief negotiators from 24-27 July.

"Since they last met in May, trade ministers from the twelve TPP countries have been working continuously. As a result, we have made considerable progress in closing gaps on remaining issues, and we continue to work intensively to address specific issues bilaterally," the Office of the US Trade Representative (USTR) said in announcing the meeting.

"The upcoming ministerial provides an important opportunity to build on this progress as we work to conclude the negotiation," the statement said.

The ministerial announcement comes less than two weeks after US President Barack Obama signed Trade Promotion Authority (TPA) into law, following a bruising trade debate among American lawmakers over the merits of the TPP and other trade deals.

The TPA legislation, which outlines Washington's negotiating priorities in trade deals and sets the terms for their ratification in Congress, among other provisions, was widely considered an essential step for any TPP deal to come to fruition, with US trading partners unwilling to put their final offers on the table beforehand. (See Bridges Weekly, 2 July 2015)

Bilaterals underway

With the date and venue for the high-level meet now set, the next few weeks are set to see a flurry of activity among TPP member countries – a group that includes Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, the US, and Vietnam – as they work to finalise the trade talks.

Various bilateral meetings among officials from TPP member countries are already underway, with more scheduled in the coming weeks, in an apparent effort to bridge some of the remaining gaps before the ministerial event.

Officials from the US and Japan, for example, were set to meet from 7 July for bilateral talks on market access and automotive trade, according to a press schedule from the Office of the US Trade Representative.

USTR Michael Froman also met on Monday with Vietnam's General Secretary Nguyen Phu Trong, who was then scheduled to meet with Obama on Tuesday at the White House, with TPP one of the subjects on that event's agenda.

Afterward, Trong referred to those talks with the US President as "constructive and candid," with the two leaders discussing both their differences and possible next steps.

The TPP talks were also reportedly raised during a 5 July meeting in Vancouver between US Vice President Joe Biden and Canadian Prime Minister Stephen Harper, with a White House "readout" of the meeting indicating that the two officials "reaffirmed the shared commitment to deepening robust trade relations and the early conclusion of negotiations for the Trans-Pacific Partnership," without going into specifics.

Remaining issues

The planned trade agreement is set to cover a wide-ranging set of areas, such as textiles and apparel, sanitary and phytosanitary standards (SPS), rules of origin, goods market access, services, labour, environment, investment, and intellectual property, to name a few.

How much of the 12-country deal has yet to be finalised remains uncertain, with some officials suggesting that at least six chapters of the approximately 30 under negotiation are still not finished. Areas still requiring political decisions reportedly include intellectual property, state-owned enterprises, and rules on investment, according to Jiji Press, citing unnamed Japanese government officials.

"Around 10 percent of issues are still to be agreed, but I hope we can seal an agreement in a final round of negotiations at the end of the month," Mexican Economy Secretary Ildefonso Guajardo told the Wall Street Journal in an interview.

For his part, Australian Trade Minister Andrew Robb said in late June that TPP countries "are really one set of negotiations amongst all of the ministers away from a conclusion," though the Australian official also noted that there is the possibility that two rounds may be required.

ISDS

Among the more controversial areas that remain include issues such as investor-state dispute settlement, or ISDS, which has drawn significant public scrutiny in recent months, both in the TPP context as well as in discussions relating to the US' planned trade deal with the EU, known as the Transatlantic Trade and Investment Partnership (TTIP).

"The fact of the matter is that the so-called investor-state dispute settlement which is being discussed as part of the [TPP] agreement is something that Australia has entered into with 28 other countries for 30 years now," said Robb during a radio interview last week, in response to questions over the trade deal's investment rules.

"We've only ever had one case taken against us, which is the tobacco case," he added, in an apparent reference to the lawsuit filed by Philip Morris under the Australia-Hong Kong bilateral investment treaty (BIT) over Canberra's plain packaging rules for tobacco products.

Furthermore, he said, the modifications that have since been made to ISDS under TPP are geared toward ensuring governments' right to legislate in certain areas.

Agriculture, intellectual property

Agricultural market access also remains a sticking point for some of the group's members. While the efforts to clinch a US-Japan bilateral deal on the subject have been underway for several months, with reports indicating that the two are still working to reach mutually acceptable terms on rice, tensions are still running high over what terms Canada is willing to provide on dairy and poultry.

Canada's supply management system for such farm goods tightly regulates their price and production, via the use of "marketing boards." Officials from countries such as New Zealand have said that they are hoping to see Canada make a "meaningful" offer. The US is also among those reportedly asking more from Ottawa.

Some reports have suggested that, should this disagreement persist, Canada may even consider withdrawing from the trade talks. However, Prime Minister Harper said last month that being a TPP member is "essential" for Ottawa, while pledging to take steps to protect the supply management system.

Regarding intellectual property, a document that purported to be the draft chapter on the subject was leaked last month to Politico, which said that the US has been arguing for stricter protections with regards to pharmaceuticals, putting it at odds with many TPP partners.

These include, for example, mandatory "patent linkage" – in other words, preventing TPP members from approving generic drugs should there be patent issues not yet finalised with the original – as well as terms regarding what can be included in a patent, terms regarding their extension, and more.

The main area of disagreement regarding pharmaceuticals, Australia's trade minister said in late June, relates to the issue of biologics, which are those drugs that come from a biological background rather than a chemical one.

These drugs cost an average of 22 times more than non-biologic drugs, according to the Brookings Institution. Meanwhile, some have argued that making it easier to develop "biosimilars," which are "follow-ons" to an original biologic, could significantly slash the costs of producing such medicines.

Politico's report of the draft intellectual property chapter says that the US has been advocating for patent linkage to also extend to biologics, along with other requests such as long periods for data exclusivity, among other provisions. The chapter is dated May of this year, and its authenticity has not been confirmed, the news agency said.

ICTSD reporting; "Mexican Official Sees Deal on Pacific Trade Zone in Late July," THE WALL STREET JOURNAL, 6 July 2015; "TPP ministers to gather in Hawaii July 28-29," KYODO, 6 July 2015; "6 chapters of TPP pact still unresolved," THE JAPAN NEWS, 5 July 2015; "Pacific trade ministers to gather in Hawaii from July 28," KYODO, 7 July 2015; "Trans-Pacific Partnership building momentum for deal this summer," THE GLOBE AND MAIL, 6 July 2015; "Leaked: What's in Obama's trade deal," POLITICO, June 2015; "Canada Pledges Support for 'Powerhouse' Pacific trade Pact," BLOOMBERG, 7 July 2015.

EU Parliament Adopts TTIP Resolution, ISDS Compromise Language

EU parliamentarians adopted a series of recommendations regarding how the European Commission should approach the Transatlantic Trade and Investment Partnership (TTIP) on Wednesday afternoon, just weeks after a previous attempt to vote on the resolution was aborted.

Calling for an "ambitious" and "balanced" deal, lawmakers during the plenary meeting in Strasbourg adopted the overall TTIP resolution by a 436-241 margin, with 32 lawmakers abstaining. The report was drafted by Bernd Lange, who chairs the Parliament's committee on international trade (INTA).

Along with the resolution on the report itself, votes were also taken on over 100 amendments that had been tabled by lawmakers in recent weeks. The high number of amendments had been the reason behind European Parliament President Martin Schulz's move to refer the matter back to INTA for a second time in June. (See Bridges Weekly, 4 June 2015)

The day prior to this week's vote, the 751-member legislative body held a debate on the resolution and its associated amendments, following a presentation by Cecilia Malmström, the EU's Trade Commissioner.

"To get [TTIP] right, we need the engagement of the whole of this Parliament. This resolution is providing that engagement," Malmström said on Tuesday in making the case for their support.

"There is, Honourable Members, as you know an unprecedented debate about this agreement. That's a good thing," she added, noting that the concerns raised both by the public and lawmakers are those that she takes seriously.

Though the plenary vote is non-binding, the process to reach a final outcome was still fraught with setbacks and bitter disagreements, highlighting the polarising nature of the debate on the trans-Atlantic deal. The recommendations approved on Wednesday are meant to give an indication of what parliamentarians would deem acceptable in a final trade agreement, which they will need to approve or reject.

"We have given clear guidance for the Commission on what kind of deal we want. And if, at the end of the day, the agreement is bad, we will reject it. If it's good, we will vote in favour," Lange said.

ISDS compromise

The vote on Wednesday came a week after lawmakers from the Socialists and Democrats (S&D) group – the second-largest coalition in the Parliament – clinched a deal on language for an amendment on investor-state dispute settlement (ISDS), which has proven particularly divisive among lawmakers.

One of the major sticking points in the TTIP resolution had been what language to use to address the issue of investor-state dispute settlement, including whether to recommend stripping it from the TTIP deal entirely.

A compromise amendment, proposed last week, called for TTIP to ensure "that foreign investors are treated in a non-discriminatory fashion, while benefiting from no greater rights than domestic investors."

Notably, it then went on to call for replacing the ISDS system "with a new system for resolving disputes between investors and states which is subject to democratic principles and scrutiny, where potential cases are treated in a transparent manner by publicly appointed, independent professional judges in public hearings and which includes an appellate mechanism, where consistency of judicial decisions is ensured, the jurisdiction of courts of the EU and of the member states is respected, and where private interests cannot undermine public policy objectives."

Prior to the vote, S&D President Gianni Pittella said that the compromise language meant that "ISDS is dead."

"We will demand that it is replaced by a new public and transparent system of investment protection in which private interests cannot undermine public policy and which is subject to public law," Pitella explained.

The compromise language passed on Wednesday with 447 votes in favour, 229 against, with 30 abstentions.

However, the compromise amendment approved on Wednesday drew some harsh criticism from some trade watchers, with some calling it just ISDS "rebranded." Some observers have noted that the language in the amendment raises some potential ambiguities, leaving the final verdict unclear.

"Centre-left MEPs claim this is a No to the inclusion of investor protection in TTIP, yet the centre-right insists this vote supports the Commission's reformed investor-protection proposal," said Cécile Toubeau, senior policy officer of the Brussels-based Transport & Environment organisation.

"That ambiguity means the European Commission can feel in no way certain its version of investor protection will be acceptable to the Parliament," Toubeau added.

Malmström: new system to come

"What today's vote signals is that the old system of investor-state dispute should not and cannot be reproduced in TTIP – Parliament's call for a 'new system' must be heard, and it will be," Malmström said following the vote.

Earlier this year, Malmström presented parliamentarians with a concept paper in which she outlined a series of proposed reforms aimed at improving the functioning of the ISDS mechanism, including in the longer term backing the creation of a multilateral investment court and appellate mechanism. (See Bridges Weekly, 7 May 2015)

The EU trade chief pledged on Wednesday that she would "press ahead to flesh these [reform ideas] out," with the goal of turning them into legal proposals. These, she said, could then be incorporated into the EU's TTIP proposals.

When the investment protection and ISDS part of the negotiations with the US – on hold for over a year now – will resume is not yet clear, with Malmstrom not giving a timeline for the development or introduction of these proposals.

Data protection, public services

Parliamentarians also repeated past calls for ensuring that public services be excluded from the overall TTIP deal, as well as insisting on high levels of protection for EU data relating to consumers, health, and safety.

Malmström and her American counterpart, US Trade Representative Michael Froman, had issued a joint statement in March saying that any trade deals involving either party will not in any way limit domestic governments from providing services in areas such as water, education, and health, nor do they require government privatisation of services. (See Bridges Weekly, 26 March 2015)

Furthermore, they pledged at the time, such deals will not "impede governments' ability to adopt or maintain regulations to ensure the high quality of services and to protect important public interest objectives, such as the protection of health, safety, or the environment."

However, the issue continues to remain an area of concern at both the public and legislative levels, despite officials' repeated assurances.

Other recommendations from parliamentarians included the strong protection of the EU's geographical indications deal, special treatment for sensitive agricultural and manufacturing goods, and improved EU access to US goods, services, telecommunications, and public procurement markets.

Tenth round coming up

News of the vote comes ahead of the tenth round of the TTIP talks, which is scheduled to run from 13-17 July in Brussels. Details about the event's agenda have not yet been confirmed, and what role the Parliament's recommendations will play in the talks as they move forward remains to be seen.

Across the Atlantic, a similar process has just concluded, with the US Congress agreeing last month to grant the White House for at least three years – with the possibility of going up to six years – the authority to negotiate trade deals that can then be submitted to the legislative branch for consideration, as well as the terms for how these are voted upon. (See Bridges Weekly, 2 July 2015)

Whether and how the approval of this Trade Promotion Authority in the US will affect the pace of the talks remains unclear, particularly given the concurrent push by Washington trade negotiators to conclude a deal with 11 other Pacific Rim countries in the near term, possibly in the coming weeks. (For more on the Trans-Pacific Partnership talks, see related story, this edition)

A final TTIP deal is not expected until next year at the earliest, despite the commitment by leaders at a G-7 summit last month to work toward an outline of an agreement by the end of 2015. (See Bridges Weekly, 11 June 2015)

ICTSD reporting; "Parliament's TTIP vote cleared by S&D, with a new ISDS," EURACTIV, 1 July 2015; "European Parliament Seeks ISDS Curbs in U.S. Trade Pact," BLOOMBERG, 8 July 2015.

CLIMATE CHANGE

EU Parliament Approves Carbon Market Reserve

The European Parliament voted in support of a "carbon market stability reserve" (MSR) for the EU Emission Trading System (EU ETS) on Wednesday during a plenary session held in Strasbourg, France, marking the penultimate step in the mechanism's approval process.

The vote comes following a years-long debate within the 28-nation bloc on how best to steadily increase carbon prices within the trading scheme, and in doing so, spur investments in low-carbon technologies and improvements in energy efficiency.

Wednesday's decision, voted through by a 495 to 158 margin, comes after a compromise was reached during so-called trialoge negotiations between member states, parliamentarians, and the Commission to hammer out the start date and specific functions of the EU ETS reform.

A spokesman for the Latvian presidency said that the reform will likely become law following approval by EU member states during a meeting on 18 September.

This sign off in September is being viewed merely as a procedural step, since member state officials already approved the draft MSR text in early May. (See Bridges Weekly, 7 May 2015)

"The Market Stability Reserve is an efficient, market-driven tool that will stabilise our ETS system and thereby save the central pillar of Europe's sustainability and climate policy," said Ivo Belet, the Belgian centre-right EPP member in charge of steering the bill through the legislative body.

January 2019 start date

The mechanism, which was first proposed in January 2014, is now set to be operational on 1 January 2019 instead of the original 2021 date suggested by the European Commission. This agreement on a start date was reached only after heated negotiations with Poland, which is heavily reliant on coal, and other like-minded member states.

The mechanism intends to address the surplus of emission allowances that have built up in the EU ETS since the economic downturn of 2008.

The MSR will effectively act as a price buffer, removing excessive emissions allowances from the EU carbon market based on set "trigger" thresholds and putting them into a reserve. The mechanism can also feed those allowances back into the system when there are too few allowances on the market.

Analysts say that this flexibility reform of the market could increase permit prices, which have been hovering around €7.50 per tonne for the past three weeks, to €15 by 2020. Some analysts are even predicting a €30 per tonne price by 2021.

The deal also says that the 900 million "backloaded" allowances from the 2014-2016 period to 2019-2020 will be placed in the reserve. Any unallocated permits at the end of 2020 would also be placed into the market reserve instead of being auctioned back into the market, though this will come up once more under the overall review of the ETS directive that the Commission will be tabling later this year.

From short to long-term solutions

Launched in 2005, the EU ETS is currently the largest multinational cap-and-trade scheme for regulating greenhouse gas (GHG) emissions. The scheme, which operates in the bloc's 28 member states as well as Iceland, Liechtenstein, and Norway, first sets a cap on total emissions allowed and then requires companies to submit emissions permits, or allowances, for every tonne of GHG emitted. These permits can be bought or allocated, and can also be traded across companies.

According to European Commission data, approximately 45 percent of all EU GHG emissions are regulated under the system.

Since its implementation, the EU ETS has suffered from an imbalance between the supply and demand of permits, due both to the economic crisis as well as a surplus of permits. At the end of 2013 the number of surplus allowances grew to over 2.1 billion.

In order to control this supply, the EU agreed last year to "backload" allowances, removing them from the market to reduce the surplus. This redistribution of permits was implemented through an amendment to the EU ETS auctioning regulation passed in February 2014.

Thus, in 2014 the auction volume was reduced by 400 million allowances, in 2015 it will be reduced by 300 million, and in 2016 by 200 million. (See Bridges Weekly, 16 January 2014)

These 900 million allowances were set to return to the market at the end of the third phase of the EU ETS in 2020, consequently acting only as a short-term solution. Many environmental groups and lawmakers voiced concerns that this excess of permit supply would set back the carbon signal price even further, making the EU's climate goals harder to reach.

"We need a strong system which helps to effectively reduce emissions in a cost-efficient manner whilst ensuring that industries remain competitive and operating in Europe," said Labour MEP Miriam Dalli during the plenary session on Wednesday.

According to some experts, this new legislation provides a long-term solution by introducing flexibility into the EU ETS. However, other analysts argue that the MSR will not reduce the surplus of allowances fast enough.

According to a recent article by Carlo Carraro, Director of the Venice-based International Center for Climate Governance, it would take 10-15 years to clear the market of the current two billion permit surplus, with the current MSR proposal pulling permits into the reserve at an extraction rate of 12 percent starting from 2018.

"It seems necessary to increase the extraction rate as this is far too long to get the market back on an even keel," he wrote in the article, which was published by Carbon Pulse.

Geneviève Pons from WWF said after the vote that the deal "goes some way in reducing the oversupply of ETS pollution permits on the market." However, Pons added, this is neither fast enough nor permanent. "These toxic tonnes could continue to haunt the EU's carbon market, unless the European Commission gets its act together in the post-2020 reform."

Post-2020 reforms

The finalised ETS reform proposal will be incorporated into a broader "Summer Package" of post-2020 market reforms set to be released by the European Commission on 15 July.

These suggested reforms will likely include a reassessment of how free allowances are distributed, as well as a possible increase of the annual linear reduction factor. The latter determines the EU ETS cap in order for the 28-nation bloc to reach its domestic GHG reduction target of at least 40 percent emissions reductions by 2030 compared to 1990 levels.

The emissions trading scheme will play a leading role in reaching this target; however, the current rate of cap reductions needs to increase to 2.2 percent starting in 2021. The rate is currently set at 1.74 percent.

Some officials say that the MSR reform is a good start to reaching the agreed upon targets.

"The market stability reserve is a market mechanism that will enable the emissions trading scheme to function much more effectively and the goal is to cut [carbon] emissions 40 percent by 2030," said Antti Timonen, European People's Party spokesperson earlier this week.

Ahead of Paris

The MSR reform vote comes as the international community continues its preparations for the upcoming UN Framework Convention on Climate Change's (UNFCCC) annual Conference of the Parties (COP) in Paris, France, this December. At that meeting, countries are aiming to agree on a global climate deal to take effect from the end of the decade.

The issue of market-based tools for emissions reductions has been a controversial one in the discussions leading up to the Paris meet, including at the UNFCCC's mid-year negotiations in Bonn, Germany last month, where the issue saw little progress. (See Bridges Weekly, 18 June 2015)

"This crucial reform will give a boost to green investment and reduce our reliance on imported fossil fuels," said Liberal Democrat MEP Catherine Bearder after the vote. "Europe has the world's first and largest carbon market; fixing it gives an important signal as we approach global climate talks in Paris later this year."

ICTSD reporting; "MEPs set to back carbon market 2019 reform start," EURACTIV, 7 July 2015; "European Parliament approves EU ETS Market Stability Reserve," CARBON PULSE, 8 July 2015.

DISPUTES

Japan Files WTO Challenge Against Brazilian Tax Advantages

Japan filed a WTO complaint (DS497) against Brazil last Thursday, citing alleged discriminatory taxation and charges affecting sectors such as automobiles and information and communication technology (ICT).

Sources familiar with the case told Bridges that it concerns basically the same measures as those raised in a separate dispute by the EU (DS472) in late 2013, also against Brazil. In that case, which is now at the panel stage, Japan is already participating as a third party. (See Bridges Weekly, 16 January 2014)

Japan's claim

In a statement published by Japan's Ministry of Economy, Trade and Industry last Thursday, Tokyo alleged that Brasilia provided favourable tax advantages only to domestic products and products imported from certain countries, therefore treating other imported products unfairly.

The measures challenged by Japan include a significant raise in September 2011 of the Brazilian Industrial Product Tax (IPI, by its acronym in Portuguese) – a value-added tax imposed on industrial products – as well as a tax advantage scheme known as "Inovar-Auto" in October 2012. The latter gives automobile manufacturers the option of offsetting their IPI provided they meet certain local content requirements.

The IPI was raised by 30 percent for automobiles in 2011. If they wish to offset this tax, producers must meet requirements such as carrying out certain manufacturing processes inside Brazil, along with investing in domestic research and development in the country.

Japan's claim also covers tax advantages provided in other areas, such as ICT, automation, and related goods, as well as tax breaks established for exporting companies that are conditioned on export performance.

Tokyo argues that Brasilia's measures violate the non-discrimination provisions of the General Agreement on Tariffs and Trade (GATT), along with WTO disciplines prohibiting export subsidies and "other obligations" under global trade rules.

The GATT's most favoured nation (MFN) provision requires members not to discriminate among their fellow WTO member countries. Japan also claims there has been a breach of a separate GATT article on national treatment, which obliges members not to treat imports less favourably than their domestic counterparts once those products have entered the domestic market.

Japan's trade and investment with Brazil has grown in recent years, with automobiles and automotive parts being among its key exports. The Asian island country is also the fifth biggest export destination for Brazilian products, according to WTO data.

Ongoing EU case

Japan's complaint comes three months after the composition of a panel to hear the EU's own complaint on alleged Brazilian tax advantages, which is usually an advanced stage in dispute settlement proceedings.

Citing the non-discrimination claims under the GATT, Brussels has also alleged that the Brazilian measures violate certain provisions of the WTO Agreement on Subsidies and Countervailing Measures (SCM) and the Agreement on Trade-Related Investment Measures (TRIMs).

For instance, Brussels says that the Inovar-Auto programme links tax credits to the level of expenditure involved in producing a car in Brazil, for instance the money spent on strategic inputs and tools such as automotive components. These tax credits offset the IPI that would otherwise be due on the domestic sale of motor vehicles.

Brussels explained that expense on those strategic inputs is "the item which translates into the largest tax credit," and it is thus "decisive" upon the actual tax burden on motor vehicle sales, according to the panel request.

The EU argued that, as a result, the advantage of a lower tax burden on finished vehicles is contingent largely on using domestically-sourced inputs.

Brussels claims that this Inovar-Auto programme amounts to local content subsides prohibited under the SCM Agreement, providing a tax advantage which relies on using domestic inputs over their imported equivalents.

The EU also argues that the programme, through requiring enterprises to purchase or use Brazilian inputs in order to qualify for the tax advantage, violates the TRIMs Agreement, which says that any investment-related measures requiring enterprises to purchase domestic products run contrary to the GATT's national treatment requirements.

The 28-nation bloc has also raised similar concerns over Brazil's measures in providing exemptions or reductions in the fields of ICT, automation, and related goods.

The EU claims that the measures introduced by Brazil, outlining that companies exporting more than a specific percentage of their output during a certain amount of time will be exempt from taxes and charges that would otherwise apply, amount to prohibited export subsidies given that they are contingent on export performance.

Next steps

Japan and Brazil must now hold consultations for a minimum of 60 days in an effort to resolve their differences. Should a mutually agreed solution not be reached during that process, Tokyo may then request that a WTO panel be established to hear the case.

ICTSD reporting.

AGRICULTURE

OECD, FAO: Farm Product Prices to Fall Over Next Decade

Real prices for agricultural products are expected to decline over the next decade, according to a new report released last week by the Organisation for Economic Co-operation and Development (OECD) and the UN Food and Agriculture Organization (FAO).

After the unusually high and volatile prices that contributed to the 2007-08 and 2010-11 food crises, markets are returning to more "normal" conditions, OECD Secretary-General Ángel Gurría told reporters last week during the launch of this year's Agricultural Outlook, which includes projections from 2015 to 2024.

Despite the expected decline of real prices over the next ten years, which is in line with a long-term decline, food and agricultural prices are likely to remain at higher levels than in the years before 2007-08. These falling agricultural prices, the report says, is driven by a combination of supply and demand factors.

High food prices have stimulated agricultural production, with global cereal production growing by seven percent in the eight years before the food price spike of 2007-08. In the eight years since, it has grown by 18 percent.

Agricultural productivity is also expected to increase, facilitated by reduced prices for inputs such as for fertilisers, which is in turn due to lower oil prices. The fast decline of oil prices has also disincentivised the production of first-generation biofuels made from food crops, the two organisations said, lowering pressure on food prices.

At the same time, the increase in demand for agricultural products may have slowed, due both to the fragile recovery of the global economy and the fact that the consumption of many food staples and other agricultural products is very high and might have reached saturation in many parts of the world.

"Most of the OECD-FAO projections are consistent with our modelling," David Laborde, Senior Research Fellow in the Markets, Trade and Institutions Division at the International Food Policy Research Institute, told Bridges. However, Laborde stressed that uncertainty of future oil prices will affect such projections.

Global food demand, nutrition

Over the next decade, the major shift in global agricultural demand will mainly come from developing countries, especially in Asia. Indeed, continued but slowing population growth, as well as higher per capita incomes and urbanisation, will boost food demand. As a result of these economic and demographic dynamics, people in the developing regions of the world are expected to diversify their diets by increasing the consumption of animal protein relative to starches.

Nevertheless, "hunger could persist," FAO Director-General José Graziano da Silva told reporters last week, noting that least developed countries remain "significantly behind advanced economies." However, developing countries are also struggling with problems of overweight, obesity, and other diet-related non-communicable diseases, he warned.

Due to these shifts in global food demand, prices of meat and dairy products are expected to be high relative to crop prices. At the same time, prices of coarse grains and oilseeds, which are used for animal feed, are expected to increase relative to the prices of food staples.

As highlighted in previous OECD-FAO reports, crop production increases will likely be driven by yield improvements worldwide. In South America, higher crop production is also expected to come from additional cultivated land.

Meanwhile, Africa is set to see only modest crop production growth, the report says, which will further increase the continent's reliance on international agricultural markets to meet its food needs.

Food, agricultural trade

With the exception of biofuels, trade volumes of most agricultural commodities are projected to expand over the next ten years. Nevertheless, agricultural trade will increase more slowly than in the previous decade.

Agricultural and food exports are expected to become further concentrated in fewer exporting countries while an increasing number of countries will rely on imported food and other agricultural commodities.

According to the two organisations, this could increase market risks, including those associated with climate change, natural disasters or the use of "disruptive" trade measures.

Within this context, "the smooth functioning of international markets" is essential in allowing food and other agricultural commodities to be produced where it is economically efficient and environmentally sustainable, and transported efficiently where it is consumed, Gurría told reporters last week.

"Governments must resist the temptation to revert back to outdated and ineffective policies," the OECD chief warned, citing export bans and support for crop-based biofuels as contributing to higher food prices during the last two food price spikes. At the same time, with projected lower agricultural prices, he urged governments to refrain from adopting producer support policies that distort global markets.

Major shock likely, resilience key

It is very likely that at least one severe shock will affect global agricultural markets, the report warns, should historical variations in yields, oil prices, and economic growth hold true over the next ten years.

It is therefore crucial to build a global agriculture system that is resilient to these shocks, Jonathan Brooks, Senior Economist in the Trade and Agriculture Directorate at the OECD told Bridges.

"A key feature of the latest Agricultural Outlook is the incorporation of uncertainty which characterises agricultural markets," Brooks explained.

Brazil's agricultural boom

The 2015 outlook pays additional attention to Brazil, given its remarkable agricultural sector growth in recent decades, which has led the country to become the second largest supplier of food and agricultural commodities worldwide.

Since 1990, Brazil's total agricultural output has more than doubled and livestock production tripled. At the same time the South American country has made "outstanding progress" in reducing hunger and poverty, along with improving the sustainability of farm practices.

The OECD and FAO predict that Brazil will grow to be the world's largest food supplier and will contribute to meeting additional global demand for agricultural products, mostly originating from Asia. For instance, 80 percent of additional global oilseeds export demand will come from China, with Brazil expected to supply half of that.

The report suggests that Brazil's agricultural growth can be achieved sustainably by backing sustainable cultivation practices, converting natural and degraded cropland to pasture, and integrating crop and livestock systems.

Some agricultural experts, such as IFPRI's Laborde, argue that the report does not properly consider the environmental costs in terms of land use, such as the greenhouse gas emissions generated from the livestock industry.

ICTSD reporting.

INVESTMENT

UNCTAD: Higher Foreign Investment Growth Expected in 2015

Global foreign direct investment (FDI) flows are set to see a rebound this year and the two following, a new UN report has said, after a general decline of investment globally in 2014.

Last year, these inflows fell by 16 percent, the UN Conference on Trade and Development (UNCTAD) said in its annual World Investment Report, with all FDI flows to developed countries declining by 28 percent, or US$499 billion. Meanwhile, inward flows to developing economies reached a new high of US$681 billion, a two percent rise, according to the report.

The new report, released late last month, estimates that FDI will now grow by 11 percent in 2015, or by US$1.4 trillion. Additional increases in 2016 and 2017 – to US$1.5 trillion and US$1.7 trillion, respectively – are also projected. This recovery option is, however, susceptible to risks such as the continued uncertainties in the Eurozone, economic spillovers of conflicts, and the vulnerabilities of emerging economies.

UNCTAD also noted the continued global shift towards services FDI, as these become more tradable and more liberalised. Another factor, the agency said, is the growth in global value chains, or GVCs. Services' share in global FDI stock is over twice that of manufacturing, the report said.

Global trade, investment

In a nod to the various trade and investment negotiations currently underway among different country groupings, the report took a specific look at the latest investment trends for members of these regional integration initiatives.

"The groups of countries negotiating the Transatlantic Trade and Investment Partnership (TTIP) and Trans-Pacific Partnership (TPP) saw their combined share of global FDI inflows decline," the report said, referring to an EU-US agreement and 12-country Pacific Rim deal, respectively.

Both of the two initiatives are currently under negotiation, with TPP reportedly nearing the finish line. The TTIP is a comparatively newer negotiation, having kicked off just two years ago, and is not expected to be completed until 2016 at the earliest. (For more on these two negotiations, see related articles, this edition)

Meanwhile, the report noted that another regional grouping – the 10-country Association of Southeast Asian Nations, or ASEAN – has seen an increase in FDI inflows by five percent, to US$133 billion. That group is working toward establishing an economic community by the end of this year.

Those countries involved in another Pacific-focused trade negotiation, the Regional Comprehensive Economic Partnership (RCEP), also saw increases by four percent, to US$363 billion.

These regional group trends were largely the result of broader global trends, as well as geopolitical and economic performance factors. The agency predicts that as these integration efforts advance, FDI in these groups will increase both intra- and extra-regionally, though for different reasons.

Investment regime

One of the issues that has captured the public spotlight during both these "mega-regional" trade negotiations and others is the planned inclusion of investor-state dispute settlement mechanisms (ISDS), and the resulting debate over whether such provisions could affect a member country's right to regulate domestically in the public interest.

The UNCTAD report address the issue of international investment governance, arguing for a reform of the international investment agreement (IIA) regime.

"There is a pressing need for systematic reform of the global IIA regime," the UNCTAD report said. "The question is not about whether or not to reform, but about the what, how, and extent of such reform."

Among the various policy options put forward by the UN agency include safeguarding the right to regulate; reforming ISDS; promoting and facilitating investment; ensuring responsible investment; and improving the "systemic consistency" of the current IIA regime.

Specifically regarding ISDS reform, the report suggests options such as reforming current *ad hoc* arbitration for this mechanism, as well as replacing existing ISDS arbitration systems.

Furthermore, the document says, countries who aim to replace the ISDS system could do so by setting up "a standing international investment court," or instead by focusing on state-to-state resolution of disputes.

Regarding the regime's overall coherence, these new mega-regional initiatives could potentially serve as a way to consolidate various existing bilateral investment treaties (BITs), the report said in its IIA suggestions, warning about the current "spaghetti bowl" in intertwined agreements and the resulting overlaps and inconsistencies.

"Although to date parallelism has been the prevalent approach, current regional and megaregional IIA negotiations (e.g. negotiations for the EU–United States Transatlantic Trade and Investment Partnership (TTIP) or for the Trans-Pacific Partnership (TPP)) present an opportunity to consolidate the existing network of BITs," the report says.

Should these groups and others choose to replace existing BITs with these forthcoming agreements, it could "streamline" the current IIA regime significantly, the UNCTAD report said.

Sustainable development

This year's report comes shortly before the Third International Conference on Financing for Development (FfD3) conference in Addis Ababa, Ethiopia. This high-level UN meeting, set for 13-16 July, is aiming to reach an intergovernmentally negotiated and agreed outcome on development financing. A new draft outcome document for the conference was released on 7 July.

In that context, the UNCTAD report highlights the potential role FDI can play in financing for development, as well as the need for improving mobilisation of domestic resources in order to fund progress in meeting the planned Sustainable Development Goals (SDGs), also under negotiation under another UN process.

The report notes the role taxation plays as a source of development financing, warning that "tax avoidance practices are responsible for a significant leakage of development financing resources."

"An estimated US$100 billion annual tax revenue loss for developing countries is related to inward investment stocks directly linked to offshore investment hubs," the report said.

The UNCTAD document also called for ensuring that international tax and investment policies "are mutually reinforcing," citing the role these can play in establishing an enabling environment for investment, as well as meeting development financing targets.

ICTSD reporting.

EVENTS & RESOURCES

Events

Coming Soon

13 – 16 July, Addis Ababa, Ethiopia. THIRD INTERNATIONAL CONFERENCE ON FINANCING FOR DEVELOPMENT. This event will bring together high-level political representatives to analyse the progress made in implementing the development financing commitments from the Monterrey Consensus and the Doha Declaration, as well as identify barriers to putting these in action. Discussions will also address emerging issues regarding multilateral international development cooperation, with the UN meeting expected to adopt an intergovernmentally negotiated and agreed outcome. To see full event details, visit the United Nations website.

14 July, London, UK. FINANCIAL SECTOR DEVELOPMENT IN GHANA: ENABLING EFFICIENCY AND BROAD-BASED GROWTH. Hosted by the Chatham House, this research event will focus on developing Ghana's financial sector as a means to achieve long-term economic goals. Ghana has experienced four years of slowing economic growth, despite consistent increases in loans to the private sector and small and medium-sized enterprises (SMEs). To register and learn more, visit the Chatham House website.

16 July, London, UK. THE RISE OF PRIVATE ENTERPRISE IN CHINA. The Chatham House will host its corporate members to discuss the global repercussions of the Chinese private sector's expansion. As entrepreneurs are contributing to more growth than government control, according to the World Bank, the panel will lead a discussion on the potential implications for the global economy and possible responses for the international community. To learn more, visit Chatham House's website.

17 July, London, UK. CHINA'S PATH TO INNOVATION. Hosted by the Overseas Development Institute (ODI), Professor Xiaolan Fu of Oxford University will lead a discussion on her new book, "China's Path to Innovation." The author reviews how China's innovation path has developed, and where it may take the Asian economic giant next, looking also at the economic boom that it has seen over the past three decades. The event will also be webcast live. To learn more, visit ODI's website.

WTO Events

An updated list of forthcoming WTO meetings is posted here. Please bear in mind that dates and times of WTO meetings are often changed, and that the WTO does not always announce the important informal meetings of the different bodies. Unless otherwise indicated, all WTO meetings are held at the WTO, Centre William Rappard, rue de Lausanne 154, 1211 Geneva, Switzerland, and are open to WTO members and accredited observers only.

14 + 16 July: Trade Policy Review Body – Madagascar

15 – 16 July: Committee on Sanitary and Phytosanitary Measures

15 July: Committee on Trade in Civil Aircraft

20 July: Dispute Settlement Body

Other Upcoming Events

22 July, London, UK. EU-US TRADE POLICIES: COMPETITION OR COOPERATION? This Chatham House discussion will be led by speaker Pascal Lamy, current President Emeritus of Notre Europe – Jacques Delors Institute and former Director-General of the WTO. Lamy will introduce potential areas for trade cooperation and competition between the EU and US as part of the US Project's series on US and European Perspectives on Common Economic Challenges. Attendance to this event is by invitation only. To learn more, click here.

15 + 16 September, Manila, Philippines. EVALUATION LEARNING EVENT: THINK SUSTAINABLE, ACT RESPONSIBLE. Hosted by the Asian Development Bank, this learning event discusses the need for international evaluation of the Millennium Development Goals (MDGs) and the momentum toward achieving the Sustainable Development Goals (SDGs), currently under negotiation. Sustainability discussions will focus on macroeconomic and fiscal sustainability, project and investment sustainability, and environmental sustainability, building off of various recent thematic studies. To learn more, click here.

21 September, London, UK. ANTICIPATING AND MITIGATING MAJOR DISRUPTIVE RISKS TO GLOBAL FOOD TRADE. This one-day research event, hosted by Chatham House, invites key stakeholders to discuss potential disruptions to global food trade, and the sector's current and future vulnerabilities and trends. This meeting is part of a Chatham House research project to discover the possible choke points in global food trade. The challenges in commodity trading and transport are an important component of infrastructural, security, and climate issues facing today's global economy. To learn more, visit Chatham House's website.

25 September, Boston, US. COUNCIL ON BUSINESS AND SOCIETY: ENERGY FORUM. Hosted by the Council on Business and Society and organised by an alliance of global business schools and various corporate partners, this international dialogue will focus on the new developments seen in the energy sector; what capabilities will help businesses navigate this energy transition smoothly; and how to incorporate and manage societal interests and requirements. To learn more about the forum, visit the Council on Business and Society's website.

30 September – 2 October, Geneva, Switzerland. WTO PUBLIC FORUM: TRADE WORKS. This year's WTO Public Forum comes as the global trade body celebrates its 20th anniversary. The theme of "Trade Works" will focus on the contribution that global trade cooperation over the past two decades has made to the world economy. More information on the event is available at the WTO website.

7 + 8 December, London, UK. A SUSTAINABLE FOOD FUTURE. In response to the UN Summit to adopt the post-2015 development agenda in September, the Chatham House will host a conference to discuss challenges of the Sustainable Development Goals (SDGs) and international methods to develop a more robust global food system. The debate will analyse implications for policy and business, changes in food production and consumption, and climate impacts. To learn more, click here.

14-17 December, Nairobi, Kenya. TRADE AND DEVELOPMENT SYMPOSIUM. This biennial event, organised jointly by the International Centre for Trade and Sustainable Development (ICTSD) and the government of Kenya, will be held in parallel to the WTO's Tenth Ministerial Conference. The four-day event will include various high-level plenaries, press events, and private roundtables, among other features. A call for proposals is now underway for those interested in hosting partner sessions during the symposium. Further details can be found on the official event website.

Resources

SEIZING THE GLOBAL OPPORTUNITY: PARTNERSHIPS FOR BETTER GROWTH AND A BETTER CLIMATE. Published by The New Climate Economy (July 2015). This new report highlights a series of new opportunities and challenges for low-carbon growth and international development. These include, among others, trends in record-low clean energy and energy storage prices, as well as increased interest in areas such as infrastructure investment and climate risk. The authors also note key areas for international and multi-stakeholder action, outlining recommendations for speeding up better, low-carbon growth across ten key areas. To learn more, or to view the report in full, click here.

THE END OF COAL: ONTARIO'S COAL PHASE OUT. Written by Marisa Beck, Ivetta Gerasimchuk, and Melissa Harris. Published by the International Institute for Sustainable Development (IISD) (29 June 2015). The Canadian province of Ontario moved to end all coal use in 2014. This working paper discusses the potential for replicating this model abroad as others seek to move toward a low-carbon future. The analysis relies on the theory of "windows of opportunity," considering the various "panes" of champions, concerns, and complementary policies. To read the full paper, visit IISD's website.

SHIFTS IN US MERCHANDISE TRADE 2014. Published by the US International Trade Commission (USITC) (30 June 2015). This annual report explores changes within in US merchandise trade, including imports and exports of agricultural and manufacturing industries and changes in bilateral trade with China, Japan, the EU, and sub-Saharan Africa. The report also includes the effects of US trade flow changes on certain measures, such as tariff reductions and foreign-trade zones. This comprehensive trade review can be reviewed on USITC's website.

GUIDELINES FOR GOOD GOVERNANCE IN EMERGING OIL AND GAS PRODUCERS. Edited by Valérie Marcel. Published by Chatham House (June 2015). Compiled by the New Petroleum Producers Discussion Group, this research paper explores the common challenges facing emerging oil and gas producers. It addresses the challenges from the perspectives of the exploration phase, recent discoveries, and early oil production. Recommendations include proper licensing for early revenue and building capacity to ensure meaningful participation of national organisations in resource development. To read the full paper, visit Chatham House's website.

ENVIRONMENTAL SUBSIDIES TO CONSUMERS. Edited by Shigeru Matsumoto. Published by Routledge (28 June 2015). This book aims to answer the following question: "How did [environmental subsidies] work in the Japanese market?" As a response to climate change and environmental problems caused by consumers underestimating energy saving benefits and underinvesting in energy efficiency, governments have started providing subsidies for eco-friendly products in an attempt to drive down these harmful effects. This book reviews Japan's subsidy programme and provides policy recommendations in both the environmental and industrial sectors. To learn more, visit Routledge's website.

GLOBAL TRADE STARTS AT HOME. Broadcasted by the International Monetary Fund (2 July 2015). This interview with Mari Pangestu, the Director of the Center for Strategic and International Studies in Jakarta, Indonesia, discusses the potentially positive growth effects of global trade. Pangestu comments on the future of trade in response to the lower rates of economic and trade growth experienced by economies globally, urging for the development of efficient, open, and fair regional trade deals that can create a better international trade environment. To listen to the whole podcast, click here.

EXPLORE THE TRADE AND SUSTAINABLE DEVELOPMENT WORLD FURTHER WITH ICTSD'S BRIDGES NETWORK

BIORES
Analysis and news on trade and environment for a global audience
http://www.ictsd.org/bridges-news/biores
English language

BRIDGES AFRICA
Trade and sustainable development news and analysis on Africa
http://www.ictsd.org/bridges-news/bridges-africa
English language

PUENTES
Latin America-focussed analysis and news on trade and sustainable development
http://www.ictsd.org/bridges-news/puentes
Spanish language

МОСТЫ
CIS-focussed analysis and news on trade and sustainable development
http://www.ictsd.org/bridges-news/МОСТЫ
Russian language

PONTES
Analysis and news on trade and sustainable development for the Portuguese-speaking world
http://www.ictsd.org/bridges-news/pontes
Portuguese language

桥
Analysis and news on trade and sustainable development for the Chinese-speaking world
http://www.ictsd.org/bridges-news/桥
Chinese language

PASSERELLES
Africa-focussed analysis and news on trade and sustainable development
http://ictsd.org/news/passerelles
French language

PUBLISHED BY

ICTSD

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

Bridges Weekly Trade News is made possible through generous contributions of donors and partners including

DFID - UK Department for International Development

SIDA - Swedish International Development Agency

DGIS - Ministry of Foreign Affairs Netherlands

Ministry of Foreign Affairs, Denmark

Ministry of Foreign Affairs, Finland

Ministry of Foreign Affairs, Norway

Your support to BRIDGES and the BRIDGES series of publications is most welcome; if interested, please contact Andrew Crosby, Managing Director at +41-22-917-8335.

Contributors to this issue are Sofía Alicia Baliño, Jana Eckei, Sara Emanuelsson, Paolo Ghisu, Kylie Grader, and Jess McDonald. This edition of Bridges Weekly Trade News Digest is edited by Sofía Alicia Baliño.

The Publisher and Director is Ricardo Meléndez-Ortiz. The Editor in Chief is Andrew Crosby. Comments and suggestions are welcomed and should be directed to the editor or the director.

Price: €10.00
ISSN 1563-0