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## WASHINGTON

# Obama Vetoes Keystone Pipeline Legislation

US President Barack Obama vetoed legislation on Tuesday that would have required the approval and construction of the Keystone XL oil pipeline, citing excessive intervention by the US legislative branch in the executive process.

The move, while expected, is likely to add fuel to both the controversy specific to this pipeline as well as the broader debate over balancing economic competitiveness and energy independence concerns with environmental priorities.

"Through this bill, the United States Congress attempts to circumvent longstanding and proven processes for determining whether or not building and operating a cross-border pipeline serves the national interest," Obama said in his [veto message](#) to the Senate on Tuesday.

"Because this act of Congress conflicts with established executive branch procedures and cuts short thorough consideration of issues that could bear on our national interest – including our security, safety, and environment – it has earned my veto," the US president explained, without referring to or ruling out the possibility that the pipeline could be approved later down the road.

The proposed pipeline would bring crude oil and bitumen from the Athabasca tar sands in Canada's western province of Alberta to the US Gulf Coast, and was first tabled by the TransCanada energy company in 2008.

Unlike pipelines built entirely on US soil, this one requires review and approval by the US State Department – which falls under Obama's authority – given that it involves a transnational boundary, thus raising the profile of the project.

The current version of the proposal, submitted in May 2012 with a revised route for the pipeline in order to avoid the environmentally sensitive Sand Hills region of the US state of Nebraska, would aim to transport 830,000 barrels of oil per day from the Canadian tar sands.

This route is also shorter than previous versions, as it would connect to existing pipelines in the US rather than requiring the building of an entirely new pipeline.

### Little "fanfare"

Tuesday's veto came as no surprise, having already been promised by the White House in January after lawmakers in both chambers advanced earlier versions of the Keystone XL bill. (See Bridges Weekly, [15 January 2015](#))

The Senate and the House of Representatives had passed [a final version](#) of the bill, known formally as the Keystone XL Pipeline Approval Act, on 11 February, which was then transmitted to the White House for Obama this Tuesday to approve or reject.

The day before Obama issued his veto, White House Press Secretary Josh Earnest acknowledged the move would likely be made quickly and without much ceremony.

"I wouldn't anticipate a lengthy delay. Everybody is acutely aware of the administration's position on this, so I wouldn't anticipate a lot of fanfare or drama," Earnest [told](#) reporters on Monday.

Just over three years ago, Obama had vetoed an earlier bill that would have similarly forced his hand on the Keystone XL decision, explaining at the time that Congress had set an arbitrary deadline that would not have allowed the relevant US agencies to continue their reviews of the project's merits on several levels. (See Bridges Weekly, [18 January 2012](#))

Before Tuesday's veto even took place, Senate Majority Leader Mitch McConnell and Speaker of the House John Boehner, both Republicans, jointly published [an op-ed](#) in USA Today calling the expected White House decision "political," particularly over a "no-brainer" issue like Keystone.

Noting that the Keystone process has drawn out "2,300 days" since the project was first tabled, the leaders called the extent of this delay "extreme, even for Washington," while arguing that pipeline approval used to be "routine."

The two Republican officials also criticised so-called liberal extremists for making the Keystone project an "environmental litmus test for the president," and one that he has sought to pass.

Following the veto announcement, both Boehner and McConnell were quick to pledge additional legislative action. The Speaker of the House [referred](#) to the decision as a "national embarrassment," noting that Russia and China are moving ahead with major pipeline projects of their own.

The Senate Majority Leader, in turn, has promised to attempt a veto override in his chamber on 3 March.

While a presidential veto can be overridden if there are enough votes in Congress, analysts say that there are not sufficient numbers to ensure the needed two-thirds majority in both chambers.

### Jobs, climate impact?

Supporters of the bill have touted the potential of the pipeline to create new jobs and reduce dependence on oil from other countries. Opponents note, however, that while the [State Department](#) currently places the number of jobs generated by the construction of the pipeline at 42,100 per year, the same review finds that the actual operation of the pipeline after its completion would only yield 50 jobs – 35 permanent ones and 15 temporary contractors.

Meanwhile, the US economy is on the upswing and domestic oil production is at its highest level in decades, raising further questions about the need for the project. The North American country also holds the title of largest natural gas producer in the world.

Obama had famously pledged in a 2013 climate policy speech that he would only approve the Keystone XL pipeline if it was clear that the project would not lead to a net increase in carbon emissions. (See Bridges Weekly, [27 June 2013](#))

The Environmental Protection Agency (EPA), the US government body tasked with regulating health and environment issues, released in early February a letter outlining its review of a previous State Department assessment of the Keystone project.

While agreeing overall with the main points of the US State Department's Final Supplemental Environmental Impact Statement (SEIS), the EPA said that the fall in oil prices since that report was released meant that the conclusions regarding greenhouse gas emissions deserved a second look.

"While the overall effect of the [Keystone] Project on oil sands production will be driven by long-term movements in the price of oil and not short term volatility, recent large declines in oil prices (oil was trading at below US\$50 per barrel last week) highlight the variability of oil prices," the 2 February [letter](#) said.

The EPA specifically raised a "low-cost scenario" that had been outlined by the State Department, where oil prices were sustained at US\$65 to \$US75 per barrel, with a resulting increase in transportation costs for rail shipment.

"In other words, the Final SEIS found that at sustained oil prices within this range, construction of the pipeline is projected to change the economics of oil sands development and result in increased oil sands production, and the accompanying greenhouse gas emissions, over what would otherwise occur," the letter said, adding that this possibility should be accorded additional weight during the decision making process.

The continued fall in oil prices has shaken up international markets. Last month, the price nearly hit US\$45 a barrel, one of the lowest levels it has reached in six years.

In light of the oil price volatility, members of the OPEC oil cartel raised the prospect this week of holding an emergency meeting to coordinate a response. The countries involved in the group are already limiting their production levels at 30 million barrels per day, in an effort to avoid losing market share.

ICTSD reporting; "Oil fall may trigger Opec emergency meeting," FINANCIAL TIMES, 23 February 2015; "Obama expresses scepticism over Keystone pipeline," THE GUARDIAN, 19 December 2014; "Obama vetoes Keystone XL pipeline, leaving it in limbo," REUTERS, 24 February 2014.

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## CLIMATE CHANGE

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# EU Lawmakers Back Carbon Market Stability Reserve for End of 2018

The European Parliament's Environment Committee on Tuesday overwhelmingly supported the start of a market stability reserve (MSR) to act as a price buffer for the EU's ailing carbon market. Lawmakers said that the reserve should be established in 2018 and be operationalised by 31 December of that year.

A proposal put forward by the European Commission last February for an "automatic stabiliser" – which would remove surplus emissions allowances from the market based on certain trigger thresholds – envisaged a 2021 start date. Ahead of Tuesday's vote some members of the Green party in the European Parliament had instead called for a 2017 kick-off.

Tuesday's decision, supported by 57 votes to 10, also calls for some allowances to be put into the reserve from the start. Parliamentarians said that, as a temporary fix to support the carbon price, some 900 million emissions credits being withheld during 2014-2016 through a "backloading" policy could be kept in the reserve rather than returned to the market in 2019 and 2020 as initially envisaged. (See Bridges Weekly, [16 January 2014](#))

The Parliamentary vote also supported investing the profits generated by the auctioning of 300 million allowances into a dedicated fund geared towards helping industry scale up low-carbon technologies.

### Fixing the carbon price

The bid to better regulate the EU's flagship Emissions Trading System (ETS) comes after a glut of surplus allowances in recent years – linked to Europe's economic woes and over-supply of free allowances to certain industries – caused permit prices to plummet from historical highs of €30 per tonne to lows of €5 per tonne. Benchmark carbon prices closed at €7.53 on Tuesday.

The EU ETS was created in 2005 as part of an effort to cut climate-warming greenhouse gas (GHG) emissions by capping the total emissions allowed across the bloc and then requiring companies to surrender emissions permits, or credits for every tonne of GHGs emitted. Enterprises can trade these permits, allowing them to sell excess allowances or buy more permits, depending on their needs.

Environmental campaigners have argued that both the reserve and possible removal of current excess allowances from the ETS would be essential to encourage investments in low-carbon technology and improvements in energy efficiency.

Reacting to the vote on Tuesday, UK-based advocacy group Sandbag said that the move was a "game changer," and a significant boost to the bloc's efforts to reduce emissions by 40 percent by 2030 relative to 1990 levels.

"The new climate target translates to around half a billion tonnes less supply in the ETS between now and 2030," [said](#) Damien Morris, Sandbag's Head of Climate Policy, referring to the bloc's medium-term emissions reduction target. "The market stability reserve could reduce [excess emissions permit] supply by two billion tonnes or more," he added by way of comparison.

Other groups, however, expressed concern around the ambiguity of the parliamentarians' proposed start date. The European Wind Energy Association told the Financial Times that the MSR would effectively begin in 2019 and this could delay investments in renewable power.

### **Triologue talks, member state divisions**

Tuesday's Environment Committee vote represents a compromise position on EU ETS reforms hammered out between the Parliament's largest political groups. A series of so-called triologue negotiations will now take place between member states, parliamentarians, and the Commission in order to reach an agreement on the final arrangements for the reserve. That deal will then be put before a full Parliament for a vote before becoming law.

A group of countries led by the UK and Germany have over the last year pushed hard for an early start to the MSR. Earlier this week, eight member states released a joint statement on the ETS reforms, calling for a 2017 start.

"First, unlike many other trading systems around the world, and unlike normal free markets, the EU ETS market has no flexibility within a phase to adjust supply in response to large changes in demand," the ministers [said](#).

"Without a more stable and meaningful low carbon investment signal from the EU ETS, that engenders market confidence, we risk seeing critical low-carbon investments delayed and the overall costs of decarbonisation rise unnecessarily in the future," they continued.

However, while other member states do not favour an early market reserve start, reports suggest that a majority do support moving last year's backloaded permits directly into the MSR whenever it does come online.

Member states will need to agree to a common position in order to move forward with the triologue talks. This could take place at the next energy council meeting either on 5 March or 11-12 June.

Latvia, which currently holds the European Council's rotating six-month presidency, has said that it hopes to have the EU ETS reforms wrapped up by the end of June.

Some commentators suggest that this could strengthen the EU's hand in the multilateral talks towards crafting a global emissions cutting deal under the UN Framework Convention on Climate Change (UNFCCC) at a meeting in Paris, France in December. Countries have decided that the overall deal will be composed of national climate action contributions.

### **Carbon leakage concerns**

Some member states have in the past expressed concern that the bifurcated approach of the current global climate regime – the Kyoto Protocol, which mandates emissions cuts from developed nations only – runs the risk of so-called carbon leakage. This is where industry and associated emissions relocate abroad to jurisdictions with less stringent climate regimes.

In a bid to address such concerns, Brussels institutions have over the years curated a list of select EU industries as recipients of free allowances. (See Bridges Weekly, [25 September 2014](#))

The joint ministerial statement from eight countries supported an October European Council decision to continue this free permit allocation up to 2030 as long as no comparable mitigation efforts are made in other economies.

However, the ministers did acknowledge findings from various studies that have found no evidence of production moving abroad as a result of Europe's carbon price.

Brussels on Wednesday became the first UNFCCC party to outline its national contribution for the planned Paris climate deal. The shape of some other countries' efforts will become clearer in the coming months.

Meanwhile the bid to bolster the EU ETS will likely be watched with interest in the international community. An increasing number of governments in recent years have turned to market-based tools as a way to cut emissions.

Debate continues at the multilateral level, however, around the precise role for market mechanisms in the new climate deal and how to coordinate various market and non-market based actions underway in various nations in relation to UNFCCC commitments. (See BioRes, [19 February 2015](#))

ICTSD reporting; "MEPs vote for early EU carbon market fix," THE CARBON BRIEF, 24 February 2015; "EU Politicians back 2018 reform of carbon market in preliminary vote," REUTERS, 24 February 2015; "EU reforms boost European carbon market," THE FINANCIAL TIMES, 24 February 2015.

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## WORLD TRADE ORGANIZATION

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# WTO Chief Urges Members to Focus on Solutions as July Deadline Looms

WTO members need to shift into "solution-finding mode" if they aim to develop a work programme that would lead to a quick conclusion of the Doha Round trade talks, Director-General Roberto Azevêdo [said](#) on Friday at a meeting of the organisation's General Council.

The global trade body's members have only five months left – until July – to sign off on this work programme, after a previous end-2014 deadline was extended last November.

"In the past few weeks, members have started to engage more substantively – particularly in the three core areas," Azevêdo reported on Friday. "Progress is slow, but we are moving forward."

The WTO chief characterised the tone of the past month's talks to date as positive, even if no major changes have been seen in members' known positions across the Doha areas. "And from my conversations with ministers I am confident that there is now real political will behind our work. That is truly invaluable."

Since the start of the new year, Azevêdo has been holding his own consultations with members on the planned work programme, as well as two broader "Room W" meetings that brought together the full membership.

The latter meetings involve ambassadors plus one official for each member, and are geared toward allowing members to interact directly across all Doha issues, rather than repeat past positions. Negotiating group chairs have also been holding their own meetings, which have continued this week.

In some negotiating areas, for example, information or stocktaking sessions have been held to familiarise members with the past discussions. While useful, the WTO chief has said that members now need to move to the next stage if they hope to make real progress.

"If we are to do this then members need to be ready, willing, and able to discuss the shape of the deals that they believe to be achievable," Azevêdo said.

### Members divided on approach to 2008 draft texts

The three core issues of a potential Doha Round work programme are broadly agreed to be agriculture, non-agricultural market access (NAMA), and services.

In that context, members have been debating on whether to use the 2008 draft texts for both agriculture and NAMA – known as Rev. 4 and Rev. 3, respectively – as the starting point for the work programme discussions, and if so to what extent.

"When we connect the dots, what is revealed, undeniably, is that we are nowhere near consensus," US Ambassador Michael Punke [said](#) on Friday.

"To illustrate what I mean by a lack of consensus, I would cite the fact that we now have clear indications from a number of members, both developed and developing, that Rev. 3

in NAMA is not a viable basis for concluding our negotiations, while others remain attached to that text," he added.

Regarding Rev. 4 in agriculture, the US official cited the "very stark presentation of facts" that Washington would be the only member that would need to cut its current domestic support programmes, should the 2008 draft text on agriculture be applied. (See Bridges Weekly, [5 February 2015](#))

"Meanwhile, those members have stated clearly their expectation that this mind-boggling imbalance, which would clearly fall short of any true effort to reform trade-distorting agricultural subsidies, should be preserved," Punke said, adding that the US will not be able to endorse such a result.

In recent weeks, a series of new formal and informal proposals have been tabled by members in the agriculture talks, on issues such as export subsidies and tropical products. Issues of market access have also been raised, with the US strongly pushing for increased access in large developing economies, as well as domestic support concessions from China and India. (See Bridges Weekly, [19 February 2015](#))

Washington has been specifically advocating for "differentiation" regarding market access – an approach that has been criticised by some major developing country members such as India – with Punke stressing on Friday that this suggestion would not entail "graduation" or a new category of members under the WTO.

Rather, the US official said, those developing countries with large agricultural domestic support programmes and influence on global markets "will necessarily have to participate in negotiations, and contribute to outcomes," at a level that other developing countries that do not meet this criteria would not.

"Such developing countries are different from other developing countries, and we cannot succeed if we pretend otherwise. But let me also be clear: the United States is not seeking new market access outcomes in Doha from those WTO members who would not have applied the formula under the existing NAMA framework," he said.

India, for its part, reportedly said on Friday that the trading system was highly inequitable and trade often did not lead to development.

### **NAMA, services**

The outcome of the talks on agriculture are widely expected to set the level of ambition for the other two core areas of the negotiations, though some members reiterated on Friday the importance of balance across the three topics.

"All of the core issues need to be taken forward in parallel and will have to achieve commensurate levels of ambition," EU Ambassador Angelos Pangratis [said](#) at Friday's meeting. "Still, the EU accepts that agriculture may determine what will and won't be possible in the [Doha Round] overall, keeping in mind, however, that finally a balance will be needed within the agriculture pillar as between all the areas of a possible outcome."

Regarding NAMA, discussions so far have taken the form of bilateral meetings with that negotiating group's chair, with the focus mainly being on tariffs. The group will hold an open-ended meeting next Monday to discuss the results of these consultations.

One of the main questions that has come up so far is whether to continue with the so-called Swiss formula outlined in Rev. 3, or to pursue alternative approaches, as advocated by some members. The Swiss formula in the 2008 draft text involves using separate coefficients for developed and developing country members in calculating tariff cuts for industrial products, with higher coefficients meaning lower tariff reductions.



Formula-applying members would only be around 40 of the WTO's 160, with others having special provisions. However, those members that would use the Swiss formula under Rev. 3 make up approximately 90 percent of global trade.

Under this formula, developed countries would be subject to the same coefficient of 8, while developing countries will have a few options (20,22, 25) depending on the level of flexibilities they would like to use, with a lower coefficient involving high flexibility, and vice versa.

Some members in favour of moving away from the current version of the Swiss formula appear to be interested in either more flexibilities or coefficients, sources say. One potential factor in the talks would be how the EU pursues its suggestion of "simplification" in NAMA, one official suggested, as well as what other members who have advocated for "alternative approaches" might suggest.

On services, an open-ended meeting was held on Tuesday, following up on bilateral consultations that the negotiating group chair has held in recent weeks with over 40 members.

The chair, Colombian Ambassador Gabriel Duque, urged members on Tuesday to consider "what" their aspirations would be for a Doha services outcome at this stage, rather than discussing "how" to get there.

Talks on the latter would likely depend more on the progress seen in parallel discussions in agriculture and NAMA, sources familiar with the services talks said.

Some members, reportedly led by the African, Caribbean and Pacific (ACP) country group, requested that an informative meeting be organised as a refresher on the services negotiations to date. Similar exercises have already been held in recent weeks in other negotiating groups, such as the discussions on a geographical indications (GI) register for wine and spirits under the TRIPS Council.

### **Request-offer suggestion**

Argentina recently suggested in an informal non-paper the possibility of using a "request-offer" approach for market access in agriculture and NAMA, which would essentially entail countries requesting trade concessions from negotiating partners, and also identify areas in which they could make reciprocal offers.

The suggestion is not yet a formal proposal, sources say, but has already sparked some discussion among the membership.

Some sources familiar with the discussions have said that, while the suggestion as a stand-alone approach would be unwieldy and probably unlikely to gain much traction, it could possibly work in tandem with other methods. For instance, request-offer could be used by interested members in the NAMA talks on top of using formulas, one suggested.

The subject was raised at last Friday's General Council meeting, with the US ambassador among those expressing an interest in further discussions, without specifically backing the idea.

"We welcome this contribution to the discussion as a much-needed element of the fresh thinking the United States has long been seeking," Punke said in his intervention, indicating that the US would like to study the suggestion and discuss it with proponents in further detail.

While advocating caution in pursuing the request-offer approach, given that it “could prove to be significantly more complex and time-consuming than any of us might current envision,” the US official said that the topic could be worth exploring at greater length – provided that the approach was framed by “acceptable parameters” on areas such as duration and scope.

**Next steps**

While no dates have been confirmed for the next Room W meetings at this stage, the WTO chief said that more will be held in the months to come following his return from various meetings abroad.

For the moment, negotiating chairs are holding additional group meetings to discuss next steps, in an effort to move from the general to the specific.

The next meeting of the General Council is currently scheduled for 5-6 May.

ICTSD reporting.

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## EUROPEAN UNION

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# EU Commission Unveils Energy Union Plans, Contribution for Paris Climate Deal

In a highly-anticipated announcement, the EU's executive branch on Wednesday unveiled a blueprint to establish a single market in energy supplies, purchases, and consumption within the 28-nation bloc.

A 15-point [action plan](#) would move the EU towards a so-called energy union including, among other things, new legislation to overhaul the bloc's electricity market; efforts to ensure more transparency in member states' international energy agreements; and the use of external policy instruments such as trade policy to further integrate into global energy markets.

The Commission also intends to step up reporting on energy prices in the union, including analysis on the role of taxes and subsidies, which will help it to identify measures that distort the EU's internal market.

In a move geared towards energy consumers, plans for a redesigned electricity market would boost the power of Brussels against national energy regulators, and allow for more choice when buying electricity services. Measures will also be taken to bolster energy efficiency.

Wednesday's strategy adds that a reformed EU Emissions Trading System (ETS) would help send the right carbon price signals for investment in low-carbon technology. EU lawmakers on Tuesday backed an end-2018 start for a market stability reserve to act as a bolster for tumbling emissions permit prices. (See related story, this edition)

An accompanying [roadmap](#) released on Wednesday outlines initiatives to be developed in each of the 15 action areas, with a timetable for adoption and implementation, as well as corresponding institutional responsibilities between the Commission, member states, national regulatory authorities, and transmission operators.

Wednesday's strategy also includes a [communication](#) geared towards achieving a target of 10 percent electricity interconnection between member states by 2020, building on previous commitments made by member states in this area. The document shows which member states currently meet that target and where projects – including pipelines and grid infrastructure – will be necessary to fill identified gaps.

Brussels argues that ramping up intra-EU trade will boost security of supply, ensure affordable prices in the internal market, and help decarbonise the economy by plugging in renewable sources of energy from different regions. An interconnected grid could save consumers €40 billion a year, according to a Commission [press release](#).

### Energy security concerns

The EU is the world's largest energy importer, relying on foreign sources for around 53 percent of its power needs, running to the tune of around €400 billion annually.

"Today, we launch the most ambitious European energy project since the Coal and Steel Community," said Maroš Šefčovič, the European Commission Vice-President leading Brussels' energy union work, citing the post-World War II origins of the EU project.

"A project that will integrate our 28 European energy markets into one Energy Union, make Europe less energy dependent and give the predictability that investors so badly need to create jobs and growth," he continued.

Energy security has been a major concern for some member states over the last year as relations with key gas supplier Russia have deteriorated over the situation in Ukraine. Last June, the European Council endorsed the Commission's European Energy Security Strategy and called for a diversification of sources given that a third of the EU's gas is imported from Russia, with almost half of this passing through Ukraine.

On Wednesday the Commission said it would explore new supply regions for fuels, as well as new technologies, and further develop indigenous sources. According to the strategy, this will involve preparing a plan for boosting liquefied natural gas (LNG) trade, looking at the required transportation infrastructure.

### **EU climate contribution**

The EU executive on Wednesday also outlined its contribution to the global climate deal negotiators from just under 200 nations are hoping to hammer out by a December meet being held in Paris, France.

The decision to outline new energy and climate commitments together follows the current Commission President Jean-Claude Juncker's plan to address the two policy areas in tandem, [according](#) to Commission officials.

Wednesday's communication translates decisions taken at an October European Council summit to cut the bloc's emissions by at least 40 percent by 2030 relative to 1990 levels into the EU's "Intended Nationally Determined Contribution" (INDC). Countries have said these should form the basis of the Paris deal. (See Bridges Weekly, [30 October 2014](#))

The EU's proposed INDC would be an absolute, economy-wide reduction across a number of greenhouse gases (GHGs), with agriculture, forestry, and other land uses included. The reductions would not include efforts made by purchasing emissions reductions from international markets.

The document released on Wednesday outlines the planning process for achieving the EU's INDC and subsequent legislative action, while providing information on the fairness and relative ambition of its contribution as well as the metrics and methodologies applied. A list of sectors that would be covered is also detailed.

The Commission said that the EU's INDC, outlined in a table format that could be followed by other countries, was articulated according to decisions taken at the latest UN climate meet held last December in Lima, Peru.

Parties to the UN Framework Convention on Climate Change (UNFCCC) agreed on that occasion that their INDCs should be transparent and clear, with other potential information including reference points, scope, and coverage, among others. (See Bridges Weekly, [18 December 2014](#))

Wednesday's climate communication also supports the introduction of a global sectoral abatement target for aviation and shipping industries.

### **Paris protocol?**

The Commission document also calls for all countries to submit their INDCs and proposed emissions reduction targets well in advance of the Paris conference, and by the end of March for countries such as China, the US, and other G-20 economies.

Overall commitments should add up to a global emissions reduction of around 60 percent below 2010 by 2050, the EU communication says, and the deal should be underpinned by a review process every five years.

In the title of the communication – Paris Protocol – the EU affirms a stance held at recent climate talks that the agreement should take a legally binding form. Some parties, such as the US, have resisted this move given the expected difficulty of passing an international treaty through their domestic legislatures.

The EU suggests that the Protocol could come into force under the UNFCCC as soon as it is ratified by countries totalling 40 gigatonnes of carbon dioxide equivalent emissions – in other words, around 80 percent of 2010 global emissions.

While some environmental groups welcomed the EU's effort to make the deal more legally binding, some said that the 60 percent global abatement target would not keep the world below a two degree Celsius warming compared with pre-industrial levels, following figures released by UN climate scientists last year.

"The communication is absolutely not in line with the two degrees target and is a missed opportunity after the latest [Intergovernmental Panel on Climate Change] report clearly stated that there is a cumulative carbon budget," Bas Eickhout, member of the European Parliament for the Green Party, told The Guardian.

Some observers have also pointed out the absence of commitments on climate financing in the EU's INDC. However, Wednesday's communication says that implementing the new deal will require large scale shifts in investment patterns and a mobilising of climate finance, and that a full picture of the volumes required after 2020 will only become clearer once more INDCs and national adaptation plans are published.

The communication also underlines the importance of achieving climate resilience through adaptation, scaling up international cooperative action, supporting the development of climate technologies, capacity-building, and mobilising a variety of policy measures, although none of these are included in the EU INDC table.

### **Mobilising trade**

Among the other policy measures that could complement climate action, the Commission on Wednesday cited the importance of liberalising trade in environmental goods and services, in both its energy union and climate communications.

In the proposed energy union strategy, the Commission says that it will pursue an active trade and investment agenda, including securing access to foreign markets for European technology and services.

Meanwhile, in the Paris Protocol document, the Commission highlights the role of trade policy to promote climate goals, through bilateral trade agreements, preferential treatment, and an ongoing effort between the EU and 14 other WTO members to secure a tariff-cutting deal on select environmental goods. (See Bridges Weekly, [5 February 2015](#))

These negotiations, known formally as the Environmental Goods Agreement (EGA) talks, were launched last July.

The Commission said on Wednesday that it hoped to conclude the deal before the end of 2015 in order to increase the dissemination and up-take of climate-friendly technologies.

### **Next steps**

The Energy Union strategy will be presented to both the European Parliament and Council for endorsement.

The Paris Protocol communication will be put before EU environment ministers at their next meeting on 6 March. The EU will then finalise and submit its INDC to the UNFCCC secretariat by the end of the first quarter.

The Commission also said on Wednesday that it was considering convening an international conference in November to help build mutual understanding across the various national contributions. The event will bring together stakeholders from government, academic, think tanks, and international organisations.

The UNFCCC secretariat has been mandated by parties to prepare a synthesis report, also by November, on the aggregate effect of the INDCs towards keeping under the two degree Celsius warming limit.

ICTSD reporting; "EU wants Paris climate deal to cut carbon emissions 60% by 2050," THE GUARDIAN, 23 February 2015.

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## AGRICULTURE

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# Developing Country Farm Subsidies Violate WTO Rules, US Groups Claim

A law firm representing three major US farm industry groups has claimed that subsidy programmes in five developing countries "violate those countries' subsidy commitments" under WTO rules. However, the methodology used to calculate the farm support levels has been questioned by some trade officials and other observers.

Craig Thorn, a partner at DTB Associates and former US trade negotiator, presented the [analysis](#) to a few dozen Geneva-based delegates at a private meeting at the WTO on 18 February.

The paper, which updates an [earlier](#) study originally published in 2011, examines support for wheat, corn, and rice in Brazil, China, India, Thailand, and Turkey, and was sponsored by US Wheat Associates, the US Rice Federation, and the US Grains Council.

"This study shines a light on what is really happening," said Shannon Schlecht, Vice President of Policy at US Wheat Associates, in a [statement](#).

However, some developing country trade officials in Geneva dismissed the findings as inaccurate. "It's a faulty methodology," one source told Bridges.

Trade sources said the study was likely to be controversial in the context of the ongoing WTO Doha talks on how to achieve "substantial reductions" in agricultural domestic support. (See Bridges Weekly, [5 February 2015](#)).

### Violating commitments?

The study claims that three countries provide trade-distorting "amber box" subsidies despite not being allowed to do so under current WTO rules.

China, India, and Turkey have a zero ceiling on their "aggregate measure of support" – AMS, or amber box – at the global trade body. The DTB study claims that China provided between US\$48 billion and US\$117 billion in domestic support, that India provided between US\$61 billion and US\$81 billion, and that Turkey provided US\$8 billion.

"Their support is extremely high," Thorn told Bridges.

The analysis also alleges that although Brazil and Thailand have AMS ceilings of less than US\$1 billion, support provided by the government exceeded their permitted limits. DTB claims that Brazil's support was just above the US\$1 billion threshold, while Thailand's may have been between US\$2 billion and US\$11 billion.

Thorn also told the meeting last week that some of the countries examined are subsidising exports. The study finds that India is subsidising exports of sugar and probably wheat; Brazil is doing so for corn, wheat, and rice; Thailand is doing so for rice; and that Turkey is subsidising wheat flour exports.

Support prices per tonne for rice, corn, and wheat in the five countries were also much higher than US support levels in almost all cases, the study claimed.

### **Study faults reporting**

The study estimates farm subsidy data for several countries which have not reported their payment levels to the WTO in recent years.

China has only reported figures up to 2008, while India last year reported a seven-year backlog of data up to 2011. (See Bridges Weekly, [19 October 2011](#) and [18 September 2014](#), respectively)

Four weeks ago Brazil also reported data for the 2012-13 marketing year. (See Bridges Weekly, [12 February 2015](#))

"The extent to which the policies violate WTO obligations has been obscured by the fact that some of the countries are delinquent in reporting their subsidy programs to the WTO," the report argues.

The DTB study also claims that the methodology used to report farm support data has underestimated the true level of support – a claim the countries concerned deny.

### **Definition of "eligible production" questioned**

The different calculations result in part from different definitions of what counts as "eligible production" – a key variable in the equation that governments must use when reporting their domestic support to the WTO.

The WTO's Agreement on Agriculture says that market price support should be calculated by taking the gap between a fixed external reference price and the administered price applied by the government, and multiplying this by "the quantity of production eligible to receive the applied administered price."

The study by DTB Associates argues that this quantity should mean total production of the farm good in question – and not just the amount purchased by the government under a given scheme.

"The methodology we used is consistent with WTO law," Thorn told Bridges, pointing out that developed country members such as the US and EU took this approach when reporting their own farm subsidies to the global trade body. (See Bridges Weekly, [15 January 2015](#) and [30 October 2014](#), respectively)

The study draws on jurisprudence from the US' WTO dispute against Korea on beef imports ([DS161](#)) to argue that the methodology is justified.

### **Minimum prices in disadvantaged regions**

However, trade officials pointed out that the WTO dispute panel and Appellate Body findings in that case allowed for the possibility that a smaller production volume could also be used in some instances, such as where the price support scheme is only available to producers in certain disadvantaged regions.

In countries where the support scheme only purchases a small percentage of total production, announcing the volume in advance could also mean countries would be justified in using the smaller figure to calculate farm support levels.

The DTB study argues that China's price support schemes for corn, wheat, and rice affect prices throughout the country, even though they only operate in a limited number of provinces.



### **Contention over reference prices**

Some trade sources also questioned the approach DTB had adopted in determining the external reference price to be used in their market price support calculations.

For China, the law firm had chosen data from the "Global Trade Atlas" rather than using the figures that the government had provided when negotiating its accession to the WTO.

"I can imagine China arguing before a dispute settlement panel that the prices they submitted should be the legal base," Thorn acknowledged.

However, he argued that other governments had not properly scrutinised the original data as Beijing's agricultural domestic support was actually negative at the time.

### **Price inflation and exchange rates**

Other trade sources questioned why Turkey's reference price had been used to try to evaluate market price support levels in India.

The DTB study states that the Turkish figures had been used "for comparison purposes only."

At the WTO, countries have argued that New Delhi should report its farm subsidy schemes in rupees rather than in US dollars, pointing out that trade rules require governments to make their calculations "taking into account the constituent data and methodology used in the tables of supporting material."

The interpretation of this phrase remains "a grey zone in the agreement," one trade source argued.

However, Thorn told Bridges that he thought the language of the agreement was unambiguous.

Along with other members of the G-33 developing country coalition, India has repeatedly argued that WTO rules should be modified to take into account the impact of price inflation in developing countries. (See Bridges Weekly, [28 November 2014](#))

### **Input subsidies: "product specific" payments?**

The DTB study notes that China agreed to count any input and investment subsidies it provides towards its WTO ceiling on trade-distorting amber box support, as part of its negotiations to join the global trade body.

A clause in the WTO's Agreement on Agriculture normally allows developing countries to exclude these payments from any cap or ceiling, provided that they meet a number of conditions such as being generally available to producers.

The DTB analysis instead counts these payments as product-specific support under the country's "de minimis" allowance, which in China's case is equivalent to 8.5 percent of the value of production.

Thorn claimed that farmers have to be producing wheat, rice, corn, or a few other listed products in order to be able to benefit from the support.

"It's not the case that they're subsidising all fertiliser use in the country," he told Bridges.

**Right versus fair?**

A number of developing countries have argued that current rules need to be changed in order to allow them properly to address the impact of price inflation.

Thorn told Bridges that trade negotiators had anticipated that over time inflation would gradually erode the degree to which countries had flexibility to use highly trade-distorting market price support programmes. "We were anxious to steer countries away from using price incentives," he said.

Developing countries nonetheless argue that negotiators also anticipated at the time that new limits would soon be agreed on developed country farm subsidies as part of the "built-in agenda" of negotiations on agriculture and services. Repeated missed deadlines under the long-running Doha Round have meant these new limits have still not materialised.

"While each country is supposed to conform to its AMS obligations in the WTO, the fact remains that current rules are heavily tilted in favour of countries who were heavy subsidisers of their production in the past," observed Raul Montemayor, an agricultural trade expert affiliated with the Federation of Free Farmers of the Philippines.

Thorn argued that developing country support levels are nonetheless substantially in excess of developed country limits under WTO rules.

"If they would come down to the US limit, we'd be in much better shape than we are now," he told Bridges. Washington is currently allowed to provide up to US\$19.1 billion in trade-distorting amber box payments, although in recent years has paid farmers much less. (See Bridges Weekly, [15 January 2015](#))

Montemayor said that developed countries would have the moral authority to tell other countries what to do or not to do if they agreed to limit their trade-distorting subsidies to the same "de minimis" levels that most developing countries have accepted.

ICTSD reporting.

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## DISPUTES

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# WTO Panel to Review EU-US Civil Aircraft Dispute

A WTO panel is now set to hear the EU's complaint against the US over allegedly unfair subsidies provided to American aerospace giant Boeing, following a meeting of the trade organisation's Dispute Settlement Body on Monday.

The subsidies at issue are provided to Boeing by the US state of Washington, and take the form of tax incentives that are conditioned on local content requirements, the EU says.

Brussels [claims](#) that this policy is estimated to be worth US\$8.7 billion and constitutes the largest subsidy for the civil aerospace industry in US history, while putting the European aircraft industry at a massive disadvantage.

The EU had filed its original request for consultations – the first stage in WTO dispute settlement proceedings – last December.

### Extended legal fight

For over a decade, the EU and the US have been embroiled in legal fights at the global trade body against the support that both have granted to their respective aerospace industries.

In late 2004, the US filed a formal WTO complaint challenging the EU's support of civil aircraft manufacturer Airbus ([DS316](#)); the following year, Washington's own support of Boeing at the federal, state, and local levels came under fire from Brussels ([DS353](#)).

In both cases, the complainants argued that the respondents were providing their respective aerospace giants with illegal subsidies.

The Appellate Body, the WTO's highest court, then found in 2011 and 2012, respectively, that both the US and EU had violated certain aspects of the WTO's subsidies disciplines. Both findings confirmed those from earlier dispute panel rulings on the subject.

Original expert panels have now been called to review in both cases whether the respondents have fully complied with the Appellate Body's findings.

### New dispute?

The long-standing row took a new turn last December, when the EU filed this latest dispute ([DS487](#)). In the complaint, the 28-nation bloc is challenging a 2013 Washington state law known as Substitute Senate Bill 5952, together with its relevant amendments and implementing measures, which provide tax incentives for civil aircraft development, manufacturing, and sale.

Brussels [says](#) that those tax incentives are being provided to induce Boeing to manufacture its new 777X airliner, which builds on the existing 777 model. Furthermore, these tax breaks have been extended from 2024 until the end of 2040.

The EU claims that this new measure is an extension of the US' original subsidies schemes, which were found to be WTO-illegal in the earlier dispute.

At Monday's DSB meeting, the US replied that the EU's request is a brand new, free-standing WTO dispute on large commercial aircraft, not a continuation of the previous legal fights, according to sources familiar with the meeting.

The US also reportedly expressed disappointment over the "significant delay" in the compliance panel proceedings for the ongoing Airbus case.

Industry officials from both sides of the Atlantic have also weighed in since the dispute was filed late last year.

While Airbus chief executive Fabrice Brégier has complained that the tax breaks Boeing receives are even greater than the costs of developing the new aircraft model – making it nearly impossible for other producers to compete – Boeing spokesman Marc Birtel told the New York Times in December that these tax breaks are equally accessible for Airbus and other manufacturers as well.

### **Financial contribution, local content requirements**

Under the WTO's Subsidies and Countervailing Measures (SCM) Agreement, subsidies are defined as a financial contribution by a government or public body which confers a benefit. The agreement also regulates the countervailing measures that WTO members can take to counter the effects of unfair state aid.

The EU argues that Washington state's tax incentives constitute specific subsidies under the SCM Agreement, to the extent that these provide a "financial contribution" through government revenue that would otherwise be foregone, and subsequently confer a benefit to Boeing.

In its complaint, Brussels has also cited a separate SCM provision that prohibits subsidies that require recipients to meet certain export targets or to use domestic goods instead of imported goods.

According to the EU, the above-mentioned tax incentives were made contingent upon the sites for wing production and final aircraft assembly to be established in the state of Washington. Furthermore, the assembly of airplane wings and of the final commercial aircraft itself must be done in that same state.

These alleged local content requirements, Brussels says, thus violate subsidy rules.

### **Next steps**

Cases under the SCM Agreement, while generally relying on the WTO's Dispute Settlement Understanding, can be subjected to expedited timelines in cases containing only prohibited subsidies claims.

The EU's request for a panel, for instance, was granted following a first submission and the request for immediate establishment; normally, WTO rules allow respondents to reject a first panel request, with the second one leading to the automatic establishment of a panel.

Under WTO rules for trade disputes under the SCM Agreement, for purely prohibited subsidies cases, a panel shall circulate its final report to members within 90 days from the composition of the panel itself and the establishment of its terms of reference.

ICTSD reporting; "State Tax Deal for Boeing Draws an E.U. Challenge," THE NEW YORK TIMES, 19 December 2014.

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## CHINA

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# China to Speed up Agricultural Modernisation, Food Safety Efforts

Ensuring food safety and modernising the domestic agriculture sector are among China's key priorities for this year, Beijing has said in its flagship annual policy statement, known as "No.1 Central Document."

The [document](#), which was jointly released by the Central Committee of the Communist Party of China and the State Council at the beginning of February, calls for reforms and innovation in agriculture to tackle falling agricultural productivity and growing concern over China's future food supply.

It is the 12<sup>th</sup> year in a row that the document has focused on agriculture and rural issues. The shift began in 2004, with the declared objective of increasing the incomes of people in rural areas.

Over the years the focus on agriculture has remained, while shifting from plans aimed at enhancing agricultural productivity to water management reforms. Since 2012 the emphasis has been on speeding up rural reform and agricultural modernisation. (See Bridges Weekly, [8 February 2012](#) and [13 February 2013](#))

"The document provides a long term vision of agricultural policy in China" and is consistent with the priorities of the last few years, Andrzej Kwieciński, Senior Agricultural Policy Analyst at the Organisation for Economic Co-operation and Development (OECD), told Bridges.

Compared with previous years, this latest document puts more emphasis on environmental protection, food safety, and strengthening rule of law, said Kwieciński.

### **Agriculture, rural areas, farmers in focus**

The document highlights some of the challenges facing China's agricultural sector, including surging production costs, shortages of agricultural resources, excessive exploitation of natural resources, and worsening pollution.

"The cost of rural production has continued to rise quickly," Chen Xiwen, Deputy Head of Central Rural Work Leading Group and Director of the Office of the Central Rural Work Leading Group, [told reporters](#) earlier this month.

Chen cited difficulties, for instance, in advancing rural development due to limited resources and environment-related restrictions, as well as the difference between domestic prices for major agricultural commodities relative to the international prices, the latter of which tend to be lower.

"Solving these problems will be a major undertaking in our rural work," Chen continued.

The Chinese government has long provided price support to farmers who produce wheat, rice, maize, cotton, and some other commodities, Kwieciński commented, effectively providing an incentive to over-produce.

Meanwhile, international prices for these goods are considerably lower, providing an incentive for buyers to import these goods rather than buy them domestically.

Prevailing low prices for grains and other food commodities in international markets over recent months have prompted an increase in China's food imports. According to official data cited by [Xinhua News Agency](#), China imported 19.5 million metric tonnes of cereals in 2014 – a record year-on-year increase of 33.8 percent. During the same period, its grain imports topped 90 million metric tonnes.

Beijing is now attempting to move away from this minimum price system toward a more market-price focused scheme for cotton and soya beans, the OECD analyst noted. If successful, this strategy could later be extended to wheat and rice.

The document lists five aspects and 32 points for detailed government work on reforms related to agriculture, rural areas, and farmers.

### **Investment, subsidies to promote rural development**

In order to promote rural development, public and private investment are encouraged to help improve infrastructure, including irrigation systems, transportation, and energy networks, as well as to provide rural public services.

To increase farmer income and narrow the large disparities between urban and rural areas, the document outlines various specific measures, such as improving the pricing mechanism for agricultural products and improving the efficiency and effectiveness of agricultural subsidy policies.

Moreover, the government will intensify farm subsidy spending, with grain producers in particular receiving more direct payment – continuing a trend towards rapidly-growing farm support in recent years.

However, China's most recent farm subsidy notification to the WTO places all of this support under the “green box” category, meaning that these subsidies are not supposed to cause more than minimal trade distortion. Therefore, they are allowed without any limit in the current WTO regime.

According to that notification, submitted by China in 2011, product-specific payments, which are considered trade-distorting, were well below 8.5 percent of the value of production – the ceiling that China committed to respect when it joined the WTO in 2001. (See Bridges, [19 October 2011](#))

However, this notification only includes official data up to 2008, and more recent information has not yet been filed at the global trade body. Analysts and trading partners alike have questioned the lack of current data on Beijing's levels and composition of agricultural support.

The No.1 Central Document does not provide any figures or estimates on the amount of investments and support that will be channelled to agriculture. In fact, it only gives broad policy directions and it remains to be seen how it will be implemented in the coming months.

### **Prioritising food safety**

The Chinese government has said that, in order for the domestic agricultural sector to remain competitive in this day and age, modernisation should not just prioritise improved productivity, but also focus on environmental sustainability and food safety issues.

"Although the country is self-sufficient in its most important food crops, it has paid a huge price for its intensive farming practices," Chinese Prime Minister Li Keqiang recently wrote in the Chinese Communist Party journal [Qiushi](#).

The Chinese premier cited excessive fertiliser and pesticide use as among the practices that were putting both food safety and the environment at risk.

To address these challenges and ensure food security and safety, which the government says is a top priority, the policy document highlights the designation of permanent basic farmland, high-quality farmland development, soil fertility conservation, and improvement of farmland.

Other plans include innovation in agricultural investment and financing mechanisms, follow-up or supporting projects for medium- to large-scale irrigation facilities, water-efficient technology, and achieving breakthroughs in environment-friendly production systems.

ICTSD reporting.

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## POST-2015 DEVELOPMENT AGENDA

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# UN Talks Focus on Post-2015 Development Agenda Declaration

UN delegates charged with elaborating text for a post-2015 development agenda began work last week in New York on its declaration component. The section has been slated by a number of stakeholders as having a key role to play in outlining the multilateral vision or narrative for sustainable development out to 2030.

Delegates initially exchanged ideas on possible content, formulation, and style for the eventual declaration, building off a [document](#) circulated by the post-2015 process Co-Facilitators earlier this month. A second [document](#) was then introduced last Thursday in an effort to capture the meeting's initial discussion.

Last week's talks reportedly focused on the opportunity offered by the declaration section to effectively communicate what will likely be a complex and lengthy post-2015 development agenda. However, differences emerged on the type of language to use, according to ENB reporting. In other words, some delegates support using fresh language, while others favour previously agreed terminology.

Several African nations, including Mozambique and Ghana, reportedly supported inserting references to trade into the declaration section.

At a closing session on Friday, Co-Facilitator Macharia Kamau, Permanent Representative of Kenya to the UN, said that a zero draft for each section of the post-2015 development agenda text would be available in April. Kamau added that the Co-Facilitators would provide a stocktaking summary of the week's talks. The Co-Facilitators also encouraged delegates to build effective communication with capitals on the New York process.

The post-2015 development agenda is due to be adopted by world governments at a high-level UN summit in late September in New York. As part of a mandate agreed at the UN Conference on Sustainable Development (Rio+20) held in June 2012 in Rio de Janeiro, Brazil, the new agenda will include a set of sustainable development goals (SDGs), designed to replace the current Millennium Development Goals when they expire at the end of this year.

### Forging links between talks

A briefing session was held last week on the relationship between the post-2015 talks and parallel negotiations on the outcome document for the Third International Conference on Financing for Development (FfD3), which is due to be held in July in Addis Ababa, Ethiopia.

A current set of proposed SDGs – put forward by a designated UN group last July – list a variety of means of implementation (Mol), or the means to achieve the new goals, some of which include finance options. Systematic Mol feature in a final proposed goal and more specific Mol are listed alongside other individual proposed goals.

A number of delegates and experts alike have acknowledged that it is not yet entirely clear how the post-2015 and FfD processes will come together, although the Co-Facilitators of both processes are meeting regularly.



The President of the UN General Assembly, Sam Kutesa, earlier in the month held a high-level thematic debate on MoI priorities in both the post-2015 and FfD processes. Some delegations expressed a preference for discussing MoI only once, either in the FfD outcome document or the SDG talks, while others resisted this move.

Various references to the role for trade, trade tools, and trade policy reform to help achieve sustainable development are positioned in current documents linked to both processes. (See BioRes, [6 February 2015](#))

Some sources suggest that the July Addis outcome could be slotted into the post-2015 agenda without further renegotiation of the MoI for the SDGs. This would imply that the former would need to match the latter in terms of ambition, including around the role for trade.

The Co-Facilitators of the post-2015 talks last week said that the 20-24 April session will review finance questions related to the SDGs. That session will come directly on the heels of the second drafting session on the FfD3 outcome document. A zero draft for the latter process is due to be released by its respective Co-Facilitators later this week.

### **Measuring success?**

The UN Statistics Division also briefed post-2015 delegates last Wednesday on the eventual formulation of indicators for the SDGs and targets. The UN Statistical Commission (UNSC) will present a preliminary proposal on these just ahead of the next post-2015 session.

A group of countries known formally as the Group of Friends of the UNSC Chair have reportedly said that a "core list" of global indicators should be no longer than 100-120. This could then be supported by a larger, disaggregated indicator structure at relevant national, regional, and sectoral monitoring levels.

Some delegates raised questions last week around whether the indicator process would include a "technical proofing" of the goals' targets, given that the former will be geared towards measuring the latter.

Suggestions to review the targets already proved somewhat controversial earlier in the post-2015 process, with some delegates arguing that the proposed SDG targets need to be reviewed by experts to ensure their credibility, while others strongly resist any attempts to re-open last July's SDG proposal.

Meanwhile sources have suggested that the process of finally defining the indicators may be delegated to UN technical bodies.

The next post-2015 session will be held at UN headquarters in New York from 23-27 March and is set to focus on the proposed SDGs and targets.

ICTSD reporting; "Summary of the Second Session of Intergovernmental Negotiations on the post-2015 Development Agenda: 17-20 February 2015," EARTH NEGOTIATIONS BULLETIN, 23 February 2015.

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## AFRICA

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# US Lawmakers Consider AGOA Renewal as September Deadline Approaches

The debate over the renewal – and updating – of the African Growth and Opportunity Act (AGOA) has ramped up in Washington in recent weeks, with US lawmakers sparring over the potential length, funding, and features of the scheme's next iteration, given that the current version will expire on 30 September.

In the [budget](#) sent to the US Congress earlier this month, the Obama Administration backed a full renewal of AGOA, calling for lawmakers to enact a 15-year extension.

The current version of the trade legislation provides about 6000 African products with preferential quota- and duty-free access to the US market.

The bill 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.

Continuing the AGOA scheme already enjoys bipartisan support, US Trade Representative Michael Froman said when [testifying](#) on the President's trade agenda at hearings last month of the Senate Finance and House Ways and Means Committees

Paul Ryan, the Republican who chairs the Ways and Means panel, is among those lawmakers who support a seamless and early renewal of AGOA, Froman said.

To renew AGOA, legislation must first be tabled in the above-mentioned committees in the Senate and the House. Once they pass out of those committees, the legislation would move to consideration to the full membership of those respective chambers.

Any differences between the Senate and House versions of those respective bills would then need to be reconciled – with a final agreed version subsequent to another vote in both chambers – before going to the US President for approval or veto.

### Length of extension

During the US-Africa leaders' summit held last August, leaders agreed on the importance of a long-term renewal of the scheme and also pledged to work together to increase its utilisation by African countries. (See Bridges Africa, [13 August 2014](#))

The length of the renewal still remains undecided and some observers indicate that this will likely be proportional to the amount of funding that will be made available.

The African Union has called for an extension of the scheme as well as the third-country fabric provision (TCF) for at least 15 years in order to ensure more predictability for investors.

The current version of AGOA was enacted nearly fifteen years ago, in 2000.

### Time running out

Though several months remain before the end-September deadline, officials and trade analysts alike have warned against leaving the scheme's renewal to the last minute, given the potential consequences for producers and exporters in AGOA beneficiary countries

"If the renewal process is delayed to AGOA's expiration date of September 30 of this year, it will undermine much of what the legislation has achieved, especially in the apparel sector," said Witney Schneidman in a recent [blog post](#).

Schneidman is a non-resident fellow with the Africa Growth Initiative of the US-based Brookings Institution and a member of the Trade Advisory Committee on Africa in the Office of the US Trade Representative.

"It is very necessary that the legislation is renewed urgently because otherwise we are going to lose jobs and trade," said Eliachim Molapi Sebatane, who serves as Lesotho's Ambassador to the US, while leading the African group discussions on AGOA in Washington.

Sebatane added that AGOA beneficiaries previously suffered major losses of orders and jobs because of the delay in renewing the third-country fabric (TCF) provision, a special rule that allows US apparel imports from African LDCs to qualify for duty-free treatment even if the yarns and fabrics used in the production are imported from non-AGO countries.

In 2012, the TCF received a three-year extension just days before it was due to expire, a delay which was [blamed](#) for thousands of job losses and important investment decline.

In the absence of a confirmed reauthorisation, US importers could choose to source their imports elsewhere in order to be able to secure on-time sales, which could in turn deter future investments, explained Schneidman.

Within non-energy products, the apparel sector constitutes the top export for several AGOA countries. Countries such as Lesotho, Kenya, and Mauritius are among those which make significant use of the apparel benefits.

"I am very optimistic we will get there [with the renewal], we just need to find the right vehicle to get the right programme in place and move it ahead," said Froman during a policy [discussion](#) last month.

### Reciprocal trade with advanced economies

In recent years, some US experts have argued that Washington should focus more on two-way trade agreements with Africa in order to preserve its competitive advantage.

The European Union, by comparison, has now concluded reciprocal trade deals with three regional economic communities in Africa: the Economic Community of West African States (ECOWAS), the South African Development Community (SADC), and the East African Community (EAC). South Africa, for its part, has had an FTA with the EU since 1999.

Debates in Washington have therefore focused on making AGOA more effective by "graduating" more advanced countries, such as South Africa and enhancing its utilisation. (See [Bridges Africa](#), [31 July 2014](#))

Apart from energy and apparel products, South Africa accounts for the majority of US imports under AGOA, especially for vehicles. Some [experts](#) argue that excluding large

countries such as South Africa or Nigeria from the scheme could jeopardise efforts to deepen regional value chains.

In the past month, the South Africa-US dispute over poultry trade has been at the centre of the AGOA renewal debate. US senators Chris Coons and Johnny Isakson cautioned South African President Jacob Zuma that continued refusal to eliminate “unfair” duties on US poultry could threaten South Africa’s continued eligibility.

A proposal to end the row was tabled by South African Minister of Trade and Industry Rob Davies at the end of January, though a formal resolution between the two sides has not been announced. (See Bridges Africa, [27 January 2015](#))

During his appearance before the Senate Finance Committee last month, Froman said that the resolution of this poultry impasse would be critical in moving ahead with AGOA’s renewal.

### **Towards AGOA 2.0**

In a speech at the August 2013 AGOA forum, US Trade Representative Michael Froman said that the reauthorisation of the scheme would serve as an opportunity to “lay the foundation for AGOA 2.0” based on the “lessons” learned so far.

Since then, AGOA has been under review, with the US Government Accountability Office recently releasing a report intended to assess AGOA’s eligibility process and economic impact.

The annual AGOA eligibility review process has been a recurring source of concern for the scheme’s beneficiaries. Some countries have highlighted the difficulty of meeting certain AGOA eligibility criteria – such as having a market-based economy; eliminating barriers to US trade and investment; applying the rule of law; protecting human and labour rights.

On the other hand, some US officials argue that any change to eligibility criteria could decrease the potential leverage of AGOA to foster economic and political reforms in beneficiary countries.

Since AGOA was put in place, 13 countries have lost their eligibility, although seven eventually had it restored, according to the GAO report.

Six countries – Central African Republic, Democratic Republic of Congo, Eritrea, The Gambia, South Sudan, and Swaziland – lost their eligibility primarily due to political reasons and have not regained it to date.

A 2013 European Commission study found that while EU preference eligibility is on the same level as the US preference eligibility, the utilisation rate of EU preference schemes is significantly higher compared to the US.

“Higher or lower utilisation rates are mainly the result of the stringency and/or complexity of rules of origin and ancillary requirements,” the Least Developed Country (LDC) Group at the WTO said in a report released last October.

The paper called upon WTO members, particularly the United States, to review the substance and form of their rules of origin systems, which “have not materially changed” since the 1970s. (See Bridges Africa, [5 November 2014](#)).

Other aspects appear to be constraining the AGOA’s effectiveness, such as the legislation’s product coverage, experts say.

Some key agricultural products of interest for beneficiary countries are excluded, for example. Furthermore, some of those agricultural products included in the scheme are subject to tariff-rate quotas which limit the amount that may enter the US market duty-free.

In addition to these limitations, observers have also highlighted AGOA's lack of focus on intra-African trade, the geographical concentration of the scheme, as well as the difficulty for some countries with capacity constraints to meet sanitary and phytosanitary standards.

Some [experts](#) argue that in the current context of the current Doha Round negotiations at the WTO, full duty-free, quota-free market access should be extended to all LDCs, even though such move could lead to substantial preference erosion for some countries.

According to Froman, tariff preferences need to be part of a larger investment strategy that should include elements such as capacity building and trade facilitation to ensure that an AGOA beneficiary can take full advantage of the scheme.

"The access is not enough if you don't have the capacity to take advantage of it," he [said](#) last month during a Washington speech.

ICTSD reporting; "Sunset on AGOA?," BROOKINGS INSTITUTION, 12 February 2015; "US-Africa Commercial Relationship: Time is Running Out for AGOA Reauthorization," TADIAS, 4 February 2015; "AGOA, un renouvellement rapide souhaité," LE MAURICIEN, 27 January 2015.

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## PREFERENTIAL AGREEMENTS

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# China, South Korea Initial Bilateral Trade Agreement

South Korea and China initialled a bilateral free trade agreement on Wednesday, following two years of negotiations. Officials say that they hope to complete the formal signing process during the first half of the year, with ratification by both sides before the end of 2015.

The agreement aims to reduce and remove barriers of trade and investment between the two Asian countries, excluding those placed on major agricultural products, motor vehicles, and auto parts. Topics covered under the deal are reported to include 17 areas, including but not limited to goods, services, government spending, e-commerce, and investments.

Within the first 10 years following its entry into force, the deal will lead to Seoul eliminating tariffs on 79 percent of imported Chinese products, while Beijing will remove tariffs on 71 percent of South Korean goods. Those numbers will then rise to 92 and 91 percent, respectively, two decades after the FTA takes effect.

Average tariff levels between the two sides are currently at 8 percent for South Korea and 4.1 percent for China; together with the high volume of bilateral trade between them, eliminating tariffs on so many products is expected to yield a notable boost in trade and investment.

### Regional integration

China is the world's largest exporter and is South Korea's biggest trading partner. While the free trade agreement between the two countries is expected to have significant impacts on their individual economies, Chinese President Xi Jinping has said he hopes the deal will also serve to "promote the integration of the Asia-Pacific region."

The news comes fast on the heels of other major trade developments in the region, with China and South Korea separately reaching individual trade deals with Australia over the past year and a half, the latter of which is already in force. (See Bridges Weekly, [20 November 2014](#) and [12 December 2013](#), respectively) South Korea has also [concluded](#) talks for an agreement with New Zealand.

Notably, both countries are also part of a broader initiative known as the Regional Comprehensive Economic Partnership (RCEP), an ongoing 16-country negotiation that also features all members of the Association for Southeast Asian Nations (ASEAN), as well as Australia, India, Japan, and New Zealand. (See Bridges Weekly, [21 November 2012](#))

The RCEP talks were officially launched in November 2012, with the most recent round of negotiations taking place this month in Thailand. The deal, if completed, would form one of the world's largest trade pacts.

ICTSD reporting; "S. Korea, China expected to initial free trade deal next week: official," ARIRANG NEWS, 21 February 2015; "FTA to reshape Sino-Korea relations," CHINA DAILY, 26 January 2015; "S Korea, China initial bilateral free trade pact," YONHAP NEWS AGENCY, 25 February 2015; "Korea, China sign provisional FTA, aim to conclude it in H1 2015," ARIRANG NEWS, 25 February 2015.

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## EVENTS & RESOURCES

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# Events

### Coming Soon

27 February, New York, US. MULTI-STAKEHOLDER PARTNERSHIPS: MAKING THEM WORK FOR THE POST-2015 DEVELOPMENT AGENDA. The United Nations Economic and Social Council (ECOSOC) will host this event to examine the mechanisms prevalent in successful partnerships and to discuss how to best measure success and align partnerships as part of the post-2015 development agenda. The aim of the event is to create proposals or recommendations for how to conduct future frameworks for evaluating partnerships in the post-2015 context. For more information about this event, please visit this [website](#).

27 February, New York, US. UN STATISTICS DIVISION SEMINAR ON NATIONALLY OWNED MONITORING SYSTEM FOR SDGs. This high-level seminar, in preparation for the Statistical Commission Session, will provide a forum for discussing methods of data monitoring and production under the wider scope of the 2015 development agenda. It is open to Statistical Commissions, policy makers, and experts. For more information about this event, please visit this [website](#).

3-6 March, New York, US. THE DEVELOPMENT OF AN INDICATOR FRAMEWORK FOR THE POST-2015 DEVELOPMENT AGENDA: TOWARDS A NATIONALLY OWNED MONITORING SYSTEM FOR THE SDGs. The United Nations Statistical Commission (UNSC) will host this seminar in order to discuss the development of monitoring requirements for the planned post-2015 development agenda targets, specifically under the Sustainable Development Goals (SDGs). Participants will be able to exchange views with both data producers and users on how to approach the higher data requirements that will result from this new agenda. For more information about the event, please visit this [website](#).

3 March, Geneva, Switzerland. LOOKING AT TRADE POLICY THROUGH A GENDER LENS. This event, presented by the United Nations Conference on Trade and Development (UNCTAD), aims to increase awareness of trade and gender issues by presenting country case studies, discussing policy recommendations, and launching a teaching platform on the issue. For more information about the event, please visit this [website](#).

3 March, Washington, US. COMPETITIVE APPROACHES TO SOUTHEAST ASIA AND THE FUTURE OF REGIONALISM. This lecture, hosted by the Carnegie Endowment for International Peace and co-sponsored by the US-Japan Research Institute, will focus on regionalism in Asia, with a particular emphasis on China and Japan's efforts in engaging with fellow Asian economies in areas such as trade, security, finance, and development. For more information about this event, please visit this [website](#).

4 March, Brussels, Belgium. EUROPE AND THE NEW FRONTIERS OF ENERGY: TURNING GRAND STRATEGY INTO EFFECTIVE POLICY. The 2015 Energy Annual Conference, presented by the Institut Français des Relations Internationales (IFRI) will discuss issues such as increasing energy efficiency, energy-related geopolitics, and new technological frontiers, with a focus on Europe. For more information about the event, please visit this [website](#).

4 March, Washington, US. WHY THE TRADE FACILITATION AGREEMENT IS A BIG DEAL. This panel discussion, hosted by the Washington International Trade Association (WITA) will address the steps already taken and still required to implement the WTO's Trade

Facilitation Agreement, which was agreed in December 2013 by the global trade body's members and is now in the process of being ratified domestically by individual countries. For more information about this event, please visit this [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.

4 March: Committee on Agriculture

### Other Upcoming Events

13 March, Geneva, Switzerland. PHILANTHROPY AND INTELLECTUAL PROPERTY. This event, hosted at the University of Geneva's Faculty of Law, will be the third of four conferences as part of a series on philanthropy. The 13 March discussion will feature a panel of experts from international organisations, research foundations, and the pharmaceutical industry, who will address a series of questions regarding access to medicines for developing countries in relationship to philanthropy. More information is available on the event [website](#).

25-26 March, Brussels, Belgium. 10<sup>TH</sup> MARKET WORKSHOP: PV DEVELOPMENT DRIVERS IN THE EU AND WORLDWIDE. This workshop, hosted by the European Photovoltaic Industry Association (EPIA), will focus on the future of the photovoltaic (PV) industry in Europe and elsewhere. Sessions will address issues such as energy market development, trends and opportunities in global PV markets and European growth opportunities. More information, including a full workshop agenda, is available at the EPIA [website](#).

7-11 June, Toronto, Canada. THIRD INTERNATIONAL SYMPOSIUM ON CORPORATE RESPONSIBILITY AND SUSTAINABLE DEVELOPMENT. The symposium, themed "Exploring the Nexus of Responsibility for Sustainable Development," will be held at Ryerson University in Toronto, Canada. The event aims to explore the ways in which differing interests of business, government, and multilateral organisations intersect to shape and affect socio-economic development. Proposals, either conceptual or research based, should be sent to [ccrsd.org@gmail.com](mailto:ccrsd.org@gmail.com) by 30 April at the latest; if accepted, the participant will be invited to register as a presenter in the symposium. For more information on deadlines for submitting proposals, please visit this [website](#).

30 June – 2 July, Geneva, Switzerland. FIFTH GLOBAL REVIEW OF AID FOR TRADE: REDUCING TRADE COSTS FOR INCLUSIVE, SUSTAINABLE GROWTH. This event, hosted at WTO headquarters, will focus on the various actions underway to reduce trade costs, at levels ranging from the national, bilateral, regional, and multilateral, as well as the private sector and non-governmental. Participants will be asked to consider which actors are involved in what; how the issue of trade costs is being addressed by national governments and regional organisations in their planning; and whether sufficient progress has been made, and if not, how to improve it. To learn more about this biennial event, visit the WTO [website](#).



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## Resources

ECONOMIC SURVEY OF LATIN AMERICA AND THE CARIBBEAN 2014: CHALLENGES TO SUSTAINABLE GROWTH IN A NEW EXTERNAL CONTEXT. Published by the UN Economic Commission for Latin America and the Caribbean (February 2015). The latest edition of this publication examines the slower regional growth, increased government consumption, and increased net contribution of exports in 2014 in comparison to the previous year. For more information, please refer to the UN Publications [website](#).

ON THE FIRST-ROUND EFFECTS OF INTERNATIONAL FOOD PRICE SHOCKS; THE ROLE OF THE ASSET MARKET STRUCTURE. By Rafael Portillo and Luis-Felipe Zana for the International Monetary Fund (23 February 2015). This working paper examines the effects of international food price shocks in developing countries, with findings that the authors say do not support the view of international food price shocks as innately inflationary in developing countries. The full paper may be accessed [here](#).

INVESTMENT IN THE EURO AREA: WHY HAS IT BEEN WEAK? By Bergljot Barkbu, Pelin Berkmen, Pavel Lukyantsau, Sergejs Saksonovs, and Hanni Schoelermann for the International Monetary Fund (19 February, 2015). This working paper argues that the euro area has not yet regained pre-crisis levels of investment as a result of output dynamics, high capital costs, financial constraints, corporate leverage, and uncertainty. It predicts that with a stronger recovery and less uncertainty, investment will increase despite reductions in potential investment caused by financial fragmentation and high corporate leverage. The full paper may be accessed [here](#).

NATIONAL TRADE FACILITATION BODIES IN THE WORLD. Published by the UN Conference on Trade and Development (February 2015). This updated publication analyses 50 trade facilitation bodies and provides recommendations and conclusions for countries wishing to strengthen their national trade facilitation working groups. The full report is available [here](#).

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