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FfD forum produces disappointing outcome

The UN Economic and Social Council (ECOSOC)'s inaugural forum on Financing for Development (FfD) follow-up was held at the UN headquarters on 18-20 April. However, deep divides between developed and developing countries at the forum scuppered chances of coming up with a meaningful outcome document that would move forward the FfD process and advance the means of implementation of the UN's 2030 Agenda for Sustainable Development.

- FfD review forum fails to deliver meaningful outcomes – *p2*

Also in this issue:

US and friends line up against development goals in Doha services talks

p6

Flows to offshore financial hubs remain sizeable

p14

Commodities rout threatens commodity-dependent countries

p11

A look at illicit financial flows

p16

Contents

CURRENT REPORTS

- 2 FfD review forum fails to deliver meaningful outcomes
- 6 US and friends line up against development goals in Doha services talks
- 7 EU airs aggressive new trade agenda after sinking Doha talks
- 8 Azevedo pressure on members to amend export subsidy schedules
- 9 WTO environmental goods pact vs climate change accord
- 11 Commodities rout threatens commodity-dependent countries
- 14 Flows to offshore financial hubs remain sizeable

OPINION

- 16 A look at illicit financial flows

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FfD review forum fails to deliver meaningful outcomes

A UN forum mandated to advance the mobilization of resources to fund development ended up yielding little of note, report *Ranja Sengupta and Bhumika Muchbala*.

The inaugural UN Economic and Social Council (ECOSOC) forum on Financing for Development (FfD) follow-up witnessed a dismal performance, dashing the hopes of developing countries and global civil society for a substantial and action-oriented intergovernmentally agreed outcome that lays the foundation of an effective review process and implementation of FfD outcomes and means of implementation of the 2030 Agenda for Sustainable Development.

The forum, which was mandated by the Addis Ababa Action Agenda of the third International FfD Conference held in 2015, was held at the UN headquarters in New York on 18-20 April. It was chaired by ECOSOC President Oh Joon. The co-facilitators were Ambassador Drobnjak, the Permanent Representative of Croatia, and Ambassador Zinsou, the Permanent Representative of Benin.

The FfD forum was partly informed by the first report of the Inter-agency Task Force on Financing for Development, which largely limited itself to identifying gaps and processes. Although the forum was mandated to have up to five days of meeting annually, the important inaugural meeting was limited to just three days.

(The UN Secretary-General had meanwhile, on 22 April, convened a summit-level signing ceremony of the Paris Agreement under the UN Framework Convention on Climate Change that eclipsed the FfD forum in degree of public attention.)

The forum included the special high-level meeting of ECOSOC with the Bretton Woods Institutions, the World Trade Organization and the UN Conference on Trade and Development (UNCTAD) on the first day.

The discussion through the rest of the forum clearly did not play to the officially agreed theme of the forum, which was "Financing for sustainable development: follow-up to the Addis Ababa Action Agenda". According to its mandate, the forum was to "address the follow-up and review of the Financing for Development outcomes and the means of implementation of the 2030 Agenda for

Sustainable Development", with the modalities of participation the same as those utilized at the International FfD Conferences.

But in spite of continued efforts by the developing countries, as articulated by the Group of 77 and China, to get something of substance into the agreed outcome document, the persistent refusal of developed countries to include content already agreed upon in the Addis Ababa outcome document on official development assistance (ODA) and capacity building, among others, made it impossible to include anything useful in terms of either substance or process. The developed countries' resistance to an outcome document with any mandated action or recognition and acknowledgment of existing commitments made it clear that the problem was not over the nitty-gritty that was the subject of wrangling in the run-up to and during the forum. Rather, it reflected an effort to completely disarm and render into nothing the review forum itself. This is consistent with the unwillingness demonstrated between 2012-14 by major developed countries to hold a third International FfD Conference.

The hard fight over an agreed outcome

The informal negotiations leading up to the FfD forum started on 23 March and continued on 6 April and then again every day from 14 April. As the forum opened on 18 April, informal negotiations took place in parallel with the official proceedings until the afternoon of the final day (20 April).

The last official draft document was dated 13 April though several informal iterations were the basis of the successive rounds of informal negotiations.

[This article reports on the informal negotiations based on inputs from observers and other sources who talked to Third World Network (TWN) about the negotiations.]

According to sources, the informal negotiations found it impossible to reach consensus on several of the 15 para-

graphs that had been discussed since 15 April. The instability of the informal negotiations was perhaps reflected in the length of the document, which fluctuated from 17 paragraphs on 30 March to 15 in the 15 April version. The last informal draft that was worked on through the informal negotiations was the seventh version, which was released on 18 April with 18 paragraphs. The final outcome document ended up having only four paragraphs.

The G77 and China (represented by Thailand) had seven red lines at the start of the negotiations, including capacity development (paragraph 5, informal draft dated 18 April); countries under foreign occupation (this never got into the draft); mention of ODA commitments in paragraph 9 (informal draft dated 18 April); reporting mechanism and institutionalized system of the Global Infrastructure Forum (paragraph 12d, informal draft dated 18 April); mention of UNCTAD and the Doha Development Round in the paragraph on trade (paragraph 10, draft dated 13 April; paragraph 15, informal draft dated 18 April); policy space (paragraph 8, informal draft dated 18 April); and illicit financial flows (paragraph 11, informal draft dated 18 April).

(The last official draft, dated 13 April, is so far removed from the actual final negotiations that this article draws language from the informal draft dated 18 April, on which the final negotiations were reportedly based.)

Global Infrastructure Forum

Paragraph 12 (draft dated 18 April) and the earlier paragraph 9 in the 15 April version, on welcoming specific actions outlined in the Addis Ababa Action Agenda, included section (d) that lauds the recent launch of the Global Infrastructure Forum (GIF).

The proposed paragraph 12(d) in the 18 April draft read: "the launch of the Global Infrastructure Forum (GIF), led by the multilateral development banks (MDBs), on 16 April 2016 in Washington, D.C., and appreciate the inputs to this Forum".

The G77 and China's proposal was to be more cautious on the GIF, and in particular add a reference to a reporting mechanism and an institutionalized system of the GIF, which was a red line for the Group. The language they suggested was: "The outcome of the Global Infrastructure Forum will report to the FfD forum, and the responsibility for hosting

the Forum will rotate among the MDBs." The Group wanted reference to the inputs by the GIF deleted as well.

The US, on the other hand, wanted the reference to inputs by the GIF to the forum specifically mentioned and opposed the G77 and China proposal on adding language on the GIF's reporting mechanism.

By the week of the FfD forum, the G77 and China showed willingness to drop the reference to the reporting mechanism.

Capacity development

The G77 and China wanted specific reference to the UN Industrial Development Organization (UNIDO) on capacity development in paragraph 5 of the 18 April text. Emphasis on UNIDO stems from a renewed interest among many developing countries in the "inclusive and sustainable industrialization" language in both paragraph 15 of the Addis Ababa Action Agenda, which references the body, and Sustainable Development Goal 9 on industrialization and infrastructure.

Paragraph 5 of the 18 April text read: "[We recognize that capacity development will be integral to achieving the 2030 sustainable development agenda. In this regard, we reiterate the call for enhanced international support to reinforce national efforts in capacity-building.]"

However, facing stiff opposition from the developed countries, the Group was willing to drop the proposed reference.

Trade

Paragraph 15 (18 April version) on trade was also contentious until the end. The initial configuration was just around recognizing the outcome of the 10th World Trade Organization (WTO) Ministerial Conference, held in Nairobi in December 2015. The language in this paragraph in all the versions circulated remained: "[We also welcome the 'Nairobi Package', adopted at the WTO's 10th Ministerial Conference (Nairobi, Kenya, 15-19 December 2015), and look forward to its prompt and effective implementation.]"

However, according to sources, the G77 and China wanted two issues added to this paragraph: mention of the Doha Development Agenda (DDA) and of UNCTAD's 14th Meeting, to be held in Nairobi in July 2016. According to ob-

servers, the text they had proposed prior to the 15 April draft was as follows: "We call on WTO members to redouble their efforts to promptly conclude the negotiations on the Doha Development Agenda and reiterate that development concerns form an integral part of the Doha Development Agenda. We look forward to the fourteenth session of the United Nations Conference on Trade and Development (UNCTAD XIV) to be held in Nairobi, 17-22 July 2016."

The G77 and China also wanted the deletion of the language "We call for an early conclusion of the [Doha Round of] [ongoing] multilateral trade negotiations".

(It is to be noted that at the WTO there is an ongoing conflict over developed countries' push to conclude the DDA and bring in new issues but without having fulfilled the DDA's development mandate.)

According to sources present during the negotiations, the European Union, the US, Japan and Australia, among other developed countries, refused any additional reference to the DDA and in particular the language suggested by the G77 and China, and asked that the paragraph be dropped if no consensus could be found on the DDA.

TWN learnt that during the forum negotiations the G77 and China had agreed to drop references to UNCTAD in the trade paragraph but were insistent on retaining the language on the DDA to reference the language on the Nairobi Package.

Climate change

Paragraph 14 (18 April draft) on climate change was a major bone of contention on several grounds and this was bracketed (indicating lack of consensus) until almost the end.

The paragraph read: "[We welcome the Paris Agreement on climate change and look forward to its signing ceremony on 22 April 2016.]"

Earlier France had proposed the addition of the word "historic" before "Paris Agreement": "We welcome the (historic) Paris Agreement on climate change and look forward to its signing ceremony on 22 April 2016."

The EU had proposed the addition of a line at the end: "We need to ensure that our development efforts enhance resilience in the face of these climate-related threats."

The EU then suggested new lan-

guage on the Green Climate Fund (GCF) which read: "We welcome the decision of the Board of the Green Climate Fund (GCF), taken on 6 November 2015, (to approve GCF funding of USD 168 million to support aid projects worth a total of 624 million)."

The G77 and China rejected the proposal to include "historic" but accepted the addition of language referencing the decision of the GCF Board.

Over the course of the negotiations, the EU proposed an additional paragraph that read: "Environmental degradation, climate change and other environmental risks threaten to undermine past successes and future prospects. We need to ensure that our development efforts enhance resilience in the face of these threats. We recognize that well-designed actions can produce multiple local and global benefits, including those relative to climate change."

The G77 and China had concerns with this language and did not accept it. However, this was included in the 18 April version of the draft text in brackets under paragraph 10.

Towards the end of the negotiations, the G77 and China showed considerable flexibility on language related to paragraph 14 and were willing to agree to the paragraph with the proposed additional language from France on "historic" and from the EU on resilience and the GCF, provided their proposal on ODA (see below) was agreed to.

Illicit financial flows

Illicit financial flows (IFFs) have been a contentious issue between the developed and developing countries for some time now. In Addis Ababa, this divide was clear not only in the mention of IFFs but also in the single most heated issue of the conference, which was the creation of an intergovernmental tax body with the universal membership of the UN, aimed at tackling IFFs as one of its key objectives. The proposal by the developing countries for the tax body was finally rejected by the developed countries in Addis Ababa.

During the informal negotiations of the FfD forum, developing countries proposed as a key red line a specific reference to IFFs. This was inserted in brackets in the 16 April version of the draft text. It was no surprise that this discussion was probably one of the most divided and saw several proposals moving back and forth.

According to information received by TWN, the additional language (in italics below) suggested by the G77 and China in the 16 April draft was aligned to paragraph 24 of the Addis Ababa Action Agenda, which recognized the High Level Panel on Illicit Financial Flows from Africa. It read: "[We remain committed to promote and increase transparency in financial flows in all aspects. To help combat illicit flows, we invite the International Monetary Fund (IMF), the World Bank and the United Nations to assist both source and destination countries. We urge countries to work together in the fight against illicit financial flows *in order to work towards the global framework to tackling illicit financial flows.*]"

This proposal was rejected by Japan and the US unless references were made to good governance and combating corruption.

The key opposition to the above proposal was by the US. It wanted to retain only paragraph 18 of the Addis Ababa Action Agenda, which mentions IFFs in the same sentence as "good governance, rule of law ... and measures to combat corruption". Arguments were made to the effect that IFFs cannot be mentioned without also mentioning corruption and good governance.

Later the G77 and China suggested specific language that read: "We remain committed to promote and increase transparency in financial flows in all aspects. To help combat illicit flows, we urge countries to work together in the fight against illicit financial flows." The Group was willing to drop the language on the global framework to tackle illicit financial flows.

Subsequently the US reportedly proposed compromise language with a combination of paragraphs 18 and 24 from the Addis Ababa Action Agenda that read: "[Good governance, rule of law, human rights, fundamental freedoms, equal access to fair justice systems, and measures to combat corruption and curb illicit financial flows will be integral to our efforts. We remain committed to promote and increase transparency in financial flows in all aspects. To help combat illicit flows, we invite the International Monetary Fund (IMF), the World Bank and the United Nations to assist both source and destination countries.]" (18 April draft text)

This language was rejected by the G77 and China. The discussion on rule of law had been contentious during the negotiations on the 2030 Agenda for Sus-

tainable Development. Notably, the language on IFFs was also weaker than in the 16 April draft formulation. Up till the end of the forum, there was no clear agreement on this issue.

Policy space

Paragraph 8 in the 15 April draft read: "[We reassert our firm intention that sustainable development commitments not be put at risk and that support for the implementation of the Sustainable Development Goals be maintained. We further commit to pursuing policy coherence and an enabling environment for sustainable development at all levels and by all actors.]"

The G77 and China spokesperson sought an explicit reference to policy space in this paragraph as a red line, on the grounds that policy space has always been a key developing-country issue in finance and development and that he (the negotiator) did not have any mandate to manoeuvre without the mention of language on policy space.

According to observers, the US and Japan had earlier rejected references to policy space and proposed deletion of the entire paragraph. They later agreed to keep the paragraph (unchanged) but only if references to ODA were withdrawn from the document. The EU had agreed to the proposed language without the added reference to policy space.

Even though national policy space is agreed language in paragraph 9 of the Addis Ababa Action Agenda, the G77 and China signalled its willingness to drop the reference to policy space towards the end of the negotiations.

Official development assistance

According to sources, ODA was the subject of a bitter fight for the G77 and China that in large part determined the meaningless conclusion of the FfD forum.

Developing countries stressed that ODA language was a "make or break" red line. They had suggested paragraph 9 (18 April draft) specifically on ODA, which remained bracketed until the end. This read: "[We reiterate that the fulfilment of all ODA commitments remains crucial and ODA providers reaffirm their respective ODA commitments, and urge all those that have not met their targets to make additional concrete efforts. We will continue our efforts to reverse the declining trend of ODA to

LDCs [least developed countries], many of whom continue to rely on concessional finance to meet sustainable development needs.]”

The developed countries including Australia, the EU, Japan and Norway, however, strongly opposed language on ODA. In particular, they said it amounted to cherry picking. If ODA was to be mentioned, they wanted other resources, for example, domestic resource mobilization, to be mentioned as well.

The G77 and China responded by saying it was not possible to eradicate poverty without ODA, particularly for LDCs and countries in special situations. They proposed using “international public finance” instead of ODA and reframing the paragraph accordingly. However, this proposal was also rejected by the developed countries.

On 20 April, the G77 and China flagged ODA as their red line and argued that there was no point in moving forward on negotiations for a substantive outcome document if ODA language was not acceptable. They then agreed to the original developed-country position that negotiations for a substantive document should be abandoned and a “bare bones” document, with paragraphs of mostly decorum and logistical nature, be agreed to.

According to an observer, many developing countries felt that if a compromise on the most essential issue of ODA could not be reached, it was better to have no document than to have an outcome document that was an even further regression from the Addis Ababa Action Agenda.

(It is worth noting that the Addis Ababa Action Agenda saw the G77 and China compromise on several key issues of immense interest to them, including an intergovernmental tax body and increased ODA commitments, among others.)

The shift in stance, or not quite

Interestingly, many developed countries, which had earlier made their distaste for a substantive outcome quite clear, appeared to have changed their position and were now seemingly arguing for a substantive outcome. This was a surprising but not very convincing turnaround from their earlier stance, including their insistence on outright deletion of several paragraphs when there was no immediate consensus, rather than an attempt to find compromise language.

According to some observers in the room, the G77 and China responded by arguing that they had been the only group asking for a substantive document while everyone was asking for just a few paragraphs or half a page. Now that they (the G77 and China) were giving them what they had always wanted, they were claiming that this was not acceptable. The Group reportedly reminded the meeting that some country representatives had walked out of the room when they had tried to have substantive discussions earlier.

The G77 and China also argued that they had been extremely flexible on many issues but all their attempts had been rejected. They retained only a few issues for consideration but even these were being rejected. So they were giving what the others had always asked for, which was a short procedural outcome. The Group suggested that they come up with a more substantive document in the future but work on a bare-bones skeleton document (option 4 in a set of four options outlined by the forum co-facilitator from Croatia) at this stage.

With the G77 and China agreeing to the bare-bones document that had been advocated by the developed countries, the fate of the outcome document was virtually sealed. The co-facilitator from Benin tried one last time to restore the substantive outcome document, but this was again not acceptable to the member states.

The final agreed outcome document

The four paragraphs that survived the informal negotiations were paragraphs 1, 2, 12(b) and 18 of the 18 April draft. The final draft of the outcome document (20 April) contains the following four paragraphs:

“1. We, ministers and high representatives, gathered in New York at UN Headquarters from 18 to 20 April 2016 for the inaugural ECOSOC Forum on Financing for Development Follow-up, affirm our strong commitment to the full and timely implementation of the Addis Ababa Action Agenda of the Third International Conference on Financing for Development, which builds on the Monterrey Consensus and Doha Declaration.

“2. We recognize that the Addis Ababa Action Agenda provides a global framework for financing sustainable development, and is an integral part of the

2030 Agenda for Sustainable Development, supports and complements it and helps to contextualize its means of implementation targets with concrete policies and actions. These relate to domestic public resources, domestic and international private business and finance, international development cooperation, international trade as an engine for development, debt and debt sustainability, addressing systemic issues and science, technology, innovation and capacity-building, and data, monitoring and follow-up.

“3. We welcome the proposed three-pronged approach of the 2016 Inter-agency Task Force (IATF) report, and look forward to future IATF reports which contain a discussion of the global context and its implications for the follow-up process; an overview of each chapter of the Addis Ababa Action Agenda highlighting synergies between the chapters of the Addis Ababa Action Agenda, including the pertinent updated data and issues, while covering the broader set of commitments and action items in an on-line annex, and analyses of thematic issues.

“4. We look forward to future sessions of the ECOSOC Forum on Financing for Development Follow-up, and underline the importance of deciding, well in advance, on its dates, themes and other organizational matters.”

The FfD review forum outcome is to feed into the overall follow-up and review of the implementation of the 2030 Agenda for Sustainable Development at the High-level Political Forum on Sustainable Development (HLPF), the first meeting (after the adoption of the 2030 Agenda) of which is supposed to be held in July this year.

The stiff resistance from the developed countries has rendered the so-called “intergovernmentally agreed” outcome a meaningless document in terms of any clear content, without having outlined even a structure or process of reviewing the FfD process and the means of implementation for the 2030 Agenda. The Chair’s Summary that will accompany the intergovernmentally agreed document is due to be released soon but, while it is an important document by itself, will not have the same weight as the negotiated outcome.

However, a continuous and committed engagement by member states in this review process following the forum can

(continued on page 10)

US and friends line up against development goals in Doha services talks

The first meeting of the WTO negotiating body on services trade since the Nairobi Ministerial Conference brought into relief the differing priorities of developing and developed countries in this sector.

by D. Ravi Kanth

GENEVA: Several developing and least-developed countries on 3 May pressed for adhering to the "developmental" goals in restarting the unfinished Doha services negotiations at the World Trade Organization (WTO).

However, the United States struck a discordant note, and insisted on members adopting "new approaches" because of what it claimed was the "historic turning point" at the WTO's tenth Ministerial Conference in Nairobi, Kenya, in December, negotiators told the *South-North Development Monitor (SUNS)*.

The Nairobi Ministerial Declaration (NMD), according to the US, acknowledged the fundamental differences among members over the Doha Development Agenda negotiations. Further, the NMD offered a "historic opportunity to reinvigorate the WTO's negotiating function". Services, according to the US, was one area where "new approaches" were needed, negotiators told *SUNS*.

At an informal open-ended meeting of the Doha services negotiating body convened by the chair, Ambassador Gabriel Duque of Colombia, the developing countries and the least-developed countries (LDCs) put forth their priorities, which starkly differed from the objectives spelt out by the US, Australia, the European Union, Canada, Norway and other major developed countries, negotiators said.

Although it was the first informal meeting of the Doha services special session and members remained upbeat on kickstarting the unfinished services negotiations, the differences over the immediate priorities among the developed countries on the one side, and the developing countries and LDCs on the other, suggested that the way forward was going to be difficult, said a South American negotiator.

Many countries – Nigeria, Mexico, Colombia, Korea, Singapore, Switzer-

land, Uruguay, Chinese Taipei, Norway, Egypt, China, the EU, Australia, Chile, Ecuador, Uganda, Turkey, the US and South Africa, among others – made "positive" statements about the importance of the services negotiations.

Deep water

Australia said the services negotiations must remove the deep water between bound and applied commitments in services, a position that would require the developing countries to bind their current applied commitments.

Australia, which is a major spokesperson for the developed countries in the services negotiations and also a convener of the closed-door negotiations of the Trade in Services Agreement (TiSA) among 23 countries outside the WTO, called for a "sectoral approach" in the WTO services negotiations. Australia also touched on transparency in domestic regulation.

Australia, the EU and Canada spoke about the importance of e-commerce in services negotiations.

EU Trade Commissioner Cecilia Malmstrom has already stated that "digital trade", which involves both goods and services, is a major priority area.

"The whole sector [digital trade] barely existed when the Doha Round was launched ... And the Doha work programme on e-commerce has moved far more slowly than the incredible changes we have seen to the online world in the last 15 years," she told participants at a meeting at Geneva's Graduate Institute.

The EU also is a strong demandeur of doing away with the special and differential treatment (S&DT) architecture. "If 164 countries are prepared to open their markets on same terms [without S&DT] that's good for everyone," she maintained at the Graduate Institute.

Therefore, the EU and the US are on

the same page in terms of starting with new approaches, said an African negotiator.

Although other developed countries – Australia, Canada, New Zealand, Switzerland and Japan – do not openly acknowledge their support for "new approaches", they are also silent supporters of removing the S&DT architecture once and for all, the negotiator said.

The EU's Trade Commissioner has also called for "filling in the gaps on domestic regulation of services, which would also do something generally for a sector that's only going to become more important in international trade over time."

But the EU's position on domestic regulation doesn't seek to do away with the complex domestic regulation barriers, particularly the economic needs tests and other technical standards, according to an Asian services negotiator.

Mexico, which is a major participant in the TiSA negotiations, called for pursuing the WTO negotiations in all sectors and modes of supply in services.

China said it is willing to consider any ideas and proposals that would accelerate the services negotiations on a strong footing.

India said it had tabled a proposal on Mode 4 concerning the movement of short-term services providers. India said its interests in services are well known and that services, particularly market access and domestic regulation, are very important.

India called for ensuring that the interests of the LDCs take precedence over all other priorities.

India said the integration of developing and least-developed countries in the global trading system in services is important.

The 2004 July framework agreement emphasized that "members shall aim to achieve progressively higher levels of liberalization with no *a priori* exclusion of any service sector or mode of supply and shall give special attention to sectors and modes of supply of export interest to developing countries. Members note the interest of developing countries, as well as other Members, in Mode 4."

The 2005 Hong Kong Ministerial Declaration provided that "the negotiations on trade in services shall proceed to their conclusion with a view to promoting the economic growth of all trading partners and the development of developing and least-developed countries, and with due respect for the right

of Members to regulate.”

Annex C of the Hong Kong Ministerial Declaration stated: “Members shall aim to achieve progressively higher levels of liberalization with no *a priori* exclusion of any service sector or mode of supply and shall give special attention to sectors and modes of supply of export interest to developing countries. Members note the interest of developing countries, as well as other Members, in Mode 4.”

South Africa, Ecuador and India called for achieving the “developmental” goals as agreed in the Doha services negotiations. The G-90 countries and the African Group spoke about the centrality of the developmental dimension in

the services negotiations.

South Africa, Ecuador and India spoke about the flexibilities accorded to developing countries. The three countries called for preserving the developmental priorities as well as S&DT flexibilities.

In short, if the first informal open-ended meeting of the Doha services negotiating body after the Nairobi Ministerial Conference is any indication, then it is clear that the US and its developed-country allies will seek to ensure that the developmental priorities of the developing and poorest countries based on the previous Doha mandates are put to bed once and for all, negotiators maintained. (SUNS8236) □

EU airs aggressive new trade agenda after sinking Doha talks

After playing a major part in undermining the Doha Round talks, the EU is now pursuing a fresh trade agenda at the WTO, one that could entrench developed-country dominance in the global trading system.

by D. Ravi Kanth

GENEVA: The European Union has come out in the open by unveiling an aggressive trade agenda to be pursued at the WTO, after collaborating with the United States in torpedoing the Doha Development Agenda trade negotiations at Nairobi last December, several trade envoys told the *South-North Development Monitor* (SUNS).

[In a comment, Chakravarthi Raghavan, Editor Emeritus of *SUNS*, notes that even at Marrakesh in 1994, in concluding the Uruguay Round negotiations and signing on to the WTO treaty and its annexed agreements, the EU (at that time the European Communities) had laid the groundwork for a new negotiating round to enable it to delay and avoid undertaking the commitments for reforms to its heavy subsidization and protection of its agriculture sector. The US, which initially opposed such a new round of negotiations, joined the EU in launching the negotiations on the Doha Work Programme in 2001.

[In retrospect at least, adds Raghavan, it is clear that the two dominant partners engaged in delaying tactics to make a mockery of the so-called rules-based WTO multilateral trading system and jettison their own treaty commitments, most recently under the dubious argument that many of the Doha Work Programme issues are now out of

date.]

Brussels’ new trade agenda for the WTO includes several new issues such as investment, export restrictions on energy and raw materials, local content requirements, state-owned enterprises, and sectoral market access agreements for goods.

In a detailed policy statement made before the EU’s civil society representatives on 26 April, EU Trade Commissioner Cecilia Malmstrom sought to make out a strong case for leaving the Doha Work Programme behind even though it contains many issues that are “just as relevant today, as they were in 2001, if not more so.”

“We don’t need to get bogged down in the question of whether Doha is dead or alive,” the commissioner said.

Joining forces

The EU had joined forces with the US in running away with the Trade Facilitation Agreement at the WTO while wrecking the remaining issues of the Doha Work Programme’s single undertaking.

The EU, which hitherto had played a “countervailing” role to contain its trans-Atlantic trade partner, the US, at the GATT (General Agreement on Tariffs and Trade) forum and subsequently

the WTO, has changed course since 2008 by being the principal ally for Washington to pursue an agenda that stands diametrically opposite to the demands made by developing and least-developed countries, according to several trade envoys.

Brussels joined Washington in pursuing an aggressive “differentiation-cum-graduation” approach by painting China and India as separate from the rest of the developing countries even though they still contain the largest number of people dependent on agriculture and living below the poverty line.

“[T]he economic rise of countries like China and India has not only changed the balance of power in the WTO, it has changed the interests of some key developing countries,” Malmstrom claimed, parroting Washington’s thesis on emerging economies which need to undertake higher commitments without special and differential treatment.

Although the EU’s priorities in agriculture, rules and even some developmental issues differ from the US positions, Brussels allowed itself to be treated as a handmaiden of the US for pursuing a diabolical new trade agenda, a South American trade envoy told *SUNS*.

Otherwise, it is difficult to explain how the EU, which had fought fiercely with the US over agriculture in the previous Uruguay Round and until the 2003 Cancun Ministerial Conference, allowed Washington at Nairobi to get the disciplines it wanted in the Doha agriculture export competition pillar, particularly in areas such as export credits and food aid, the envoy added.

The EU had vehemently opposed the US demands on export credits and food aid at the WTO’s sixth Ministerial Conference in Hong Kong in 2005 when then Trade Commissioner Peter Mandelson refused to budge on Washington’s demand for kid-glove treatment on food aid.

At Nairobi, however, the EU merely swallowed whatever was demanded by its trans-Atlantic trade partner on export credits and food aid.

Further, the EU gave up its own agenda on trade-distorting domestic support because the US was not interested.

It allowed the WTO Director-General Roberto Azevedo to pursue the US agenda on agriculture, said a developed-country trade envoy who asked not to be quoted.

Little wonder that Commissioner Malmstrom said there are many issues

in the Doha Work Programme “that cannot be addressed in bilateral or regional trade agreements and can only be tackled in the WTO.” Among the three big issues to be tackled at the WTO, she mentioned “domestic support to agriculture.”

“This is one of the most important and challenging unresolved issues, which many members care about,” Malmstrom argued. “Therefore, advancing on domestic support will be crucial for progress to be achieved on other issues.”

The commissioner is fully aware that domestic support will now remain on the backburner forever because the EU’s trans-Atlantic trade partner will not allow it due to the farm bill that was passed by the US Congress in 2014. That US farm bill overshoot domestic subsidy payments well beyond the levels that were nearly negotiated in the Doha Round and, in some cases, went beyond the previous Uruguay Round, according to the South American trade envoy.

Further, the EU knows that the US will refuse to move on domestic support unless China, India and other leading developing countries undertake commensurate commitments without provisions on special and differential treatment or “less than full reciprocity”.

New issues

Coming to the new issues, the EU and the US are almost on the same page on digital trade, which is being pursued in the plurilateral initiative on the Trade in Services Agreement (TiSA) and also the Transatlantic Trade and Investment Partnership (TTIP) negotiations.

Despite some difference on data privacy and sharing issues in e-commerce, the two trade elephants will try and push for launching negotiations on digital trade at the WTO, an Asian envoy said.

“[T]his [digital trade] is an area where we actually have a WTO work programme – on e-commerce – but where progress has been slow and economic reality has moved on,” said Commissioner Malmstrom.

“It’s also interesting because 23 WTO members are already in talks on the issue in the negotiations for a Trade in Services Agreement. Other countries appear interested too. For instance, China has raised the issue in the context of its G20 presidency,” she said.

The third main issue for the EU after domestic support and digital trade is the most controversial “investment” issue. “This was part of the Doha Round until members dropped it in 2003,”

Malmstrom said.

She justified the need to start discussions on investment because of the “impact of the bilateral approaches on investment protection that countries have taken to the issue since.”

“It’s become one of the most sensitive issues in the public debate and different approaches are proliferating,” she added.

Significantly, “there does appear to be interest among some WTO members now to come back to it, including again from China,” Malmstrom argued.

But the US remains reluctant to pursue a multilateral investment agreement when it is extracting major concessions for itself through bilateral agreements, said an envoy familiar with the backroom discussions on investment.

The second group of some eight issues of importance for the EU includes five new issues such as “good regulatory practices and transparency for technical barriers to trade”; subsidies for manufactured goods; export restrictions on energy and raw materials; local content requirements; and state-owned enterprises. The three remaining issues Malmstrom mentioned – fisheries subsidies, food security and public

stockholdings, and domestic regulation – are already on the agenda.

Malmstrom said “the final group” of two issues covers “only a plurilateral approach” for “sectoral market access agreements for goods” and “more” to be done in trade facilitation.

The EU argued that while sectoral market access agreements need to be pursued on the lines of the Information Technology Agreement, there is strong ground for other areas such as chemicals.

For expanding the Trade Facilitation Agreement, the EU commissioner said Brussels is working with a “subset” of WTO members.

In many ways, Malmstrom’s ideas for the WTO seem to replace the infamous “Millennium” trade agenda that was pursued by previous EU trade policy chief Sir Leon Brittan with another set of ambitious issues that would ensure the continued dominance of the developed countries in the global trading system.

It remains to be seen how the developing and poorest countries will respond to the EU’s ambitious agenda after suffering the loss of the Doha Development Agenda round of trade negotiations because of the EU’s role. (SUNS8232) □

Azevedo pressure on members to amend export subsidy schedules

WTO chief Roberto Azevedo’s move to get member states to amend their schedules of commitments on farm export subsidies has thrown up question marks among some trade envoys.

by D. Ravi Kanth

GENEVA: The World Trade Organization Director-General Roberto Azevedo, in closed-door, one-on-one meetings with 16 countries, has been attempting to drive home his message that they must amend their schedules on agriculture export subsidy commitments as agreed at the tenth Ministerial Conference in Nairobi, according to trade envoys.

This initiative of the WTO chief, on what is just one of the Nairobi Ministerial Decisions, has raised “systemic” concerns, several trade envoys told the *South-North Development Monitor* (SUNS).

Although the Nairobi ministerial decision on export subsidies doesn’t say that members have to amend their schedules, the Director-General is creating an unusual situation in which he is asking those countries that have scheduled commitments on export subsidies to amend

their schedules in which export subsidy entitlements are brought to zero, according to a trade envoy who asked not to be quoted.

[In a comment on this issue, Chakravarthi Raghavan, Editor Emeritus of *SUNS*, notes that in 1994, when the Uruguay Round talks were concluded and the WTO treaty was signed at Marrakesh, members were required to submit schedules of their export subsidy reduction commitments (volume and value) over a six-year reform period beginning in 1995. These schedules were multilaterally scrutinized before incorporation to become an integral part of the WTO accords, and made a binding multilateral commitment of the member concerned.

[The modification of schedules in accordance with the Nairobi ministerial decision has to be in respect of these com-

mitments. Unlike specific provisions in the General Agreement on Tariffs and Trade (GATT) for modifications of tariff schedule commitments, and procedures laid down for such modifications, there are no analogous provisions in the Agreement on Agriculture (AoA). In terms of the GATT, members can voluntarily reduce their tariffs and file reduced "commitments", but there have been some questions as to whether these can be effected under the AoA as a binding multilateral commitment by the member on its own, in the absence of a specific protocol incorporating the results of the Nairobi ministerial decision into the WTO framework.

[As in the case of applied tariffs on imports of goods, members can no doubt voluntarily act on their own in reducing or ending their export subsidies to effectuate the Nairobi decision. However, it is difficult to see how they can be made to do so (in terms of the Director-General's efforts) and, for that matter, under what AoA provision. – *SUNS*]

The Nairobi ministerial decision on export subsidies says in paragraph 6: "Developed Members shall immediately eliminate their remaining scheduled export subsidy entitlements as of the date of adoption of this Decision."

Further, this paragraph is clarified in footnotes 3 and 4:

"3. This paragraph shall not cover quantities counted against export subsidy reduction commitments found to exist by the Dispute Settlement Body in its recommendations and rulings adopted in disputes DS265, DS266, and DS283, with respect to the existing programme, which expires on 30 September 2017, for the product concerned by those disputes.

"4. This paragraph shall not cover processed products, dairy products, and swine meat of a developed Member that agrees to eliminate as of 1 January 2016 all export subsidies on products destined for least developed countries, and that has notified export subsidies for such products or categories of products in one of its three latest export subsidy notifications examined by the Committee on Agriculture before the date of adoption of this Decision. For these products, scheduled export subsidies shall be eliminated by the end of 2020, and quantity commitment levels shall be applied as a standstill until the end of 2020 at the actual average of quantity levels of the 2003-05 base period. Furthermore, there shall be no export subsidies applied either to new markets or to new products."

As regards the developing countries, the Nairobi decision says in paragraph

7: "Developing country Members shall eliminate their export subsidy entitlements by the end of 2018." And it is further clarified in footnote 5 that they can eliminate the export subsidies by 2022 due to Article 9.4 of the AoA.

Other decisions

The moot issue is, "Why is the Director-General not adopting the same course on other issues that are there in the Nairobi or Bali ministerial decisions?" the envoy asked.

And "why is he hosting closed-door meetings instead of convening a Room W meeting for the sake of transparency?" the envoy added.

"What about the market access decision on cotton and why can't [it] be included in the scheduled commitments of members?" asked a South American envoy.

The Nairobi ministerial decision on cotton market access says, "Developed country members, and developing country members declaring themselves in a position to do so, shall grant, to the extent provided for in their respective preferential trade agreements in favour of LDCs, as from 1 January 2016, duty-free and quota-free market access for cotton produced and exported by LDCs."

It further says in paragraph 4: "Developed country members, and developing country members declaring themselves in a position to do so, shall grant, to the extent provided for in their respective preferential trade arrangements in favour of LDCs, as from 1 January 2016, duty-free and quota-free market access for exports by LDCs of relevant cotton-related products included in the list annexed to this Decision and covered by Annex 1 of the Agreement on Agriculture."

Clearly, these two provisions on cotton market access can also be included in the scheduled commitments, but the Director-General has not raised this, the envoy said.

"Why did the DG not hold meetings with members to include the Bali decision as well as the modified decision on public stockholding programmes for food security in the schedules?" asked an African envoy.

India had already raised the issue at the last meeting of the Doha negotiating body on agriculture, saying that all ministerial decisions pertaining to Bali and Nairobi must be included in the schedule instead of only export subsidies, according to negotiators familiar with the meeting.

The Director-General must address these issues in an open forum instead of holding unusual closed-door meetings, the envoy said. "Otherwise, they raise systemic issues," the envoy suggested.

Meanwhile, the chair of the Doha agriculture negotiations, Ambassador Vangelis Vitalis of New Zealand, told trade envoys of the informal group of developing countries on 28 April that an overwhelming majority of countries want domestic support to be addressed on a strong footing, according to an envoy present at the meeting.

Vitalis, who held some 50 bilateral meetings, said many major developed and developing countries have not notified their latest domestic support programmes, the envoy said.

Around 24 members have to notify their latest domestic support payments, including the US, China and India, the envoy suggested.

The least-developed and African countries have urged the chair to accelerate the negotiations on domestic support. (*SUNS8233*) □

WTO environmental goods pact vs climate change accord

Ongoing plurilateral talks to free up trade in "environmental goods" are not quite the climate-change-tackling initiative they are touted to be, writes *D. Ravi Kanth*.

GENEVA: After blocking efforts to resume the Doha market access negotiations for industrial goods (non-agricultural market access or NAMA), a group of countries led by the United States, the European Union and Australia has accelerated negotiations for a plurilateral tariff elimination agreement on environmental goods through the backdoor at

the WTO, several trade envoys told the *South-North Development Monitor (SUNS)*.

Astonishingly, the proposed deal is being showcased as an attempt to combat climate change, even as the drivers of the agreement at the WTO are putting up numerous hurdles in the way of developing countries' efforts in the UN cli-

mate change negotiations to obtain commitments for transfer of climate-friendly technologies.

The 13th round of negotiations for the plurilateral initiative on an Environmental Goods Agreement (EGA), which took place here on 18-22 April, also raised some delicate questions about China's role and how it intends to pursue the special and differential treatment architecture, trade envoys maintained.

China, according to several trade envoys, remained silent during the April meeting. Beijing did not circulate its list of environmental goods that would be subjected to tariff elimination, said an EGA trade envoy.

Countries involved in the EGA initiative include Australia, Canada, China, Chinese Taipei, Costa Rica, the European Union, Hong Kong, Iceland, Israel, Japan, New Zealand, Norway, Singapore, South Korea, Switzerland, Turkey and the United States.

Prior to the 13th round of negotiations, the chair of the EGA talks, Andrew Martin of Australia, circulated a draft list of around 350 tariff lines which represent 10 categories of environmental goods.

The 10 categories include solid and hazardous waste management, water waste management and water treatment, air pollution control, renewable energy generation, energy efficiency, environmental remediation and clean-up, noise and vibration abatement, environmental monitoring and analysis, environmentally preferable products and resource efficiency. Further, the 10 categories were expanded into as many as 50 sub-categories.

During the April negotiations, the participants discussed the chair's list as well as their lists based on commercial and environmentally justifiable criteria. Several countries maintained that the chair's list of 350 products is far too expansive and will make it difficult for countries to have such an ambitious commercial agreement under the pretext of addressing environmental issues, according to participants.

The final landing zone, according to a developed-country envoy, will be at around 200 products. Out of these 200-odd products, there will be many items that would be subjected to immediate tariff elimination, while sensitive environmental products will be subjected to different staging periods for tariff cuts. "There will be no special and differential treatment other than those two categories for the developing countries," the envoy told *SUNS*.

Except for China, Chinese Taipei

and a few other members, other EGA members had submitted their draft schedules ahead of the April meeting, the negotiator added.

Chinese concerns

Despite the week-long meeting, the EGA talks faced a major hiccup as China privately conveyed its sharp concerns over several issues. China has made it clear that the final list of products cannot number more than around 140.

China has raised four specific concerns for engaging in the EGA negotiations:

(i) China wants tariffs on environmental goods to be suitably reduced but not eliminated altogether. It argued that the agreement must keep tariffs above zero.

But China's demand is not acceptable to major industrialized countries, particularly the US and the EU. The trans-Atlantic nations have rejected the Chinese demand on the ground that the EGA initiative is premised on a tariff elimination framework but not formula-specific reduction commitments.

(ii) China has called for systematic application of special and differential treatment (S&DT) flexibilities in the EGA that would include less-than-full-reciprocity commitments.

Here again, the US, the EU and other industrialized countries in the EGA have opposed China's demand for S&DT, maintaining that there will be two lists for developing countries containing products for immediate tariff elimination and products with different staging periods for removing the tariffs. The S&DT principle will not be applicable for the EGA, the industrialized countries told China.

(iii) China has indicated it is much more positive about the Doha Development Agenda negotiations and also drew a linkage between the negotiations for a Trade in Services Agreement (TiSA) and the EGA. China has subtly indicated that its participation in the EGA will much depend on its entry into the TiSA negotiations, according to EGA negotiators.

China's overtures for entering into the TiSA talks are not acceptable to the US and Japan while the EU and many other countries remain open. The EU is ready to facilitate China's entry but will do so only if Beijing is ready to accept the existing negotiated disciplines, an envoy said.

(iv) There is no clarity yet on the level of critical mass – the percentage of products that are going to be covered in the agreement and their share in the glo-

bal trade – of the EGA and on what will happen if the number of products falls short of the critical mass.

China has indicated that the final product list of the EGA must not include more than 140 tariff lines. Major industrialized countries, however, want the EGA deal to cover close to 200 products depending on the issue of critical mass, an EGA envoy said.

The entire plurilateral EGA initiative makes a mockery of the participants' commitment to addressing climate change as it is based only on commercial considerations within a mercantilist framework, a non-EGA envoy maintained.

Under the pretext of environmental goods, the EGA participants are bringing a sectoral tariff elimination agreement through the backdoor as it was not possible to do so in the Doha Work Programme, the envoy said.

Further, the developing countries will have to undertake costly commitments for technology-sharing, the envoy suggested.

In short, a genuinely global developmental plan to address climate change, which is a problem facing the global commons, is not possible because of the continued domination of WTO-based mercantilist commitments. (*SUNS8230*) □

(continued from page 5)

hopefully bring more clarity to both the process and substance. The G77 and China as well as global civil society seem to be hopeful that 2017 will see more substance or forward steps, especially as the 2030 Agenda, with its Sustainable Development Goals, proceeds.

It is clear that by next year, this forum needs to be able to contribute meaningfully to the review of FfD and means of implementation deliverables. Being the key structural policy dimensions in the UN's new development paradigm, these two areas are integral to the realization of the 2030 Agenda.

Meeting the ambitious 2030 Agenda as well as new and emerging development challenges will require a deeper effort towards intergovernmental cooperation and progressive compromise in order to activate the potential of the financial and non-financial instruments that developed countries in particular have already committed to at the three International FfD Conferences and in the 2030 Agenda itself, and subjecting these efforts to serious scrutiny at the intergovernmentally agreed FfD review forum. □

Commodities rout threatens commodity-dependent countries

Low commodity prices are clouding the outlook for commodity-dependent developing countries, says a UN development body, pointing to the need for policy measures to promote diversification of these economies.

by Kanaga Raja

GENEVA: The prices of commodities on the whole have continued on a downward trend since 2011 and this rout in the global commodities market poses a serious threat to commodity-dependent developing countries in terms of export earnings, employment and public service provision, the UN Conference on Trade and Development (UNCTAD) has said.

This warning was highlighted in a Note prepared by the UNCTAD secretariat for the Multi-Year Expert Meeting on Commodities and Development that took place here on 21-22 April.

The UNCTAD paper said that the adverse impacts of declining global commodity markets on the world economy, particularly on the economies of commodity-dependent developing countries, could be addressed if pragmatic policies such as economic diversification were adequately implemented.

"Addressing these issues is critical for the sustainability of the global economy, especially in view of the recently adopted Sustainable Development Goals, whose purpose is to 'leave no one behind'."

Commodities challenge

In his opening statement at the expert meeting on 21 April, Joakim Reiter, Deputy Secretary-General of UNCTAD, said commodity markets are anything but predictable, and on top of this, the main challenge for many countries is the downward trend in commodity prices since 2011.

"These downward trends can have important implications on the development efforts of many countries. And it is therefore important to find answers to one question: how can our policy responses address these challenges and foster inclusive growth?" he said.

He went on to highlight three messages. First, commodity prices are low, and there should be no assumption that this will change anytime soon. This poses challenges for developing countries that are dependent on commodities, he said,

adding that macroeconomic imbalances are symptoms of this: widening fiscal deficits, eroding currencies and looming sovereign risk.

He said where governments inadequately anticipated the reversal of economic fortunes after a decade-long boom and did not build the necessary firewalls, these symptoms are increasingly acute.

The second message is that developing countries "must not let a serious crisis go to waste". For years, many commodity-dependent developing countries lost out on the opportunity to harness the commodity boom. Most of them did not succeed in accelerating structural transformation and building productive capacities. "But the current market conditions should be seen as an opportunity to make decisions that have been avoided for too long."

The third message is that there is a broad consensus, or at least convergence, on the reforms needed in commodity-dependent developing countries, but a consensus in theory is not the same as a consensus in practice.

With shrinking revenues from commodities, governments will have to make hard choices about budget priorities, said Reiter.

The list of requirements is long: They need to diversify away from commodities, promote productivity growth and private sector development and cut trade cost. They need to become leaner and more efficient in their administration while protecting social spending. They need to borrow more responsibly and better manage the volatility of markets.

And they need to adopt the right accompanying policies to realize trade's potential for sustainable development, he said.

Market developments

The UNCTAD secretariat Note reviews recent developments in key commodity markets and examines the factors that contributed to fluctuations in

commodity prices in 2015.

"Broadly speaking, commodity markets suffered a continuing price slump throughout most of 2015 caused primarily by the following factors: oversupply; slowing demand, especially for minerals and metals, in China and other emerging economies; faltering economic recovery in advanced economies such as Japan and the European Union; and a strong United States dollar."

The UNCTAD non-oil nominal commodity price index averaged 194 points in October 2015 from nearly 219 points in January 2015, a decline of 25 points in only 10 months.

According to the paper, since the peak observed in February 2011, there has been a general decline in non-oil commodity prices. Price indices for food; agricultural raw materials; and minerals, ores and metals that make up the index have followed the same pattern since 2011.

During 2015, the prices of most commodities fell, UNCTAD said, citing, for example, the price of wheat (hard red winter No. 2) which fell from \$261 in January 2015 to \$218 in October 2015. A similar trend could be observed for maize and rice. Prices for beverages such as robusta coffee followed the same pattern. Raw materials, especially tropical timber, also experienced declining prices.

By contrast, cotton experienced a moderate price recovery from January-October 2015, while the prices of cocoa and tea remained elevated over the same period, compared with those of the previous year.

The UNCTAD all-food price index also declined from 222 points in January 2015 to 198 points in October 2015, with the prices for individual food and agricultural products experiencing a downturn as a result of high supply and large stocks accumulating over the years.

"A possible upward price risk in 2016 is El Nino, which could cause abrupt changes in the weather, bearing negative consequences on global agricultural production. However, in the short term, the most likely price scenario for food and agricultural commodities remains a downward trend or stability amid comfortable levels of stocks," said the UNCTAD paper.

It noted that the markets for minerals, ores and metals also exhibited a trend of declining prices, extending into 2015.

"This was based on a number of factors such as growth deceleration in China

and emerging economies; the fragile economic recovery in developed economies such as Japan and the European Union; high production capacity resulting from large investments made during the last decade-long commodity boom; a strong United States dollar and low-cost mining, partly supported by low energy prices."

The UNCTAD paper noted that structural economic changes occurring in China, as it moved from investment-led growth to a consumption-driven economy, combined with the country's objective to achieve a less polluting economic model, have put products such as iron ores and steel under downward pressure.

Fossil fuel markets, including crude oil, coal and natural gas, continued to record low prices in 2015 because of excess supplies, which helped build large inventories amid weakening demand growth.

The slump in crude oil prices that ran from mid-2014 to early 2015 continued. Between June 2014 and January 2015, the price per barrel for Brent and West Texas Intermediate crude fell respectively from \$112 and \$105 to \$48 and \$47.

The price slumps were driven primarily by excess supply resulting from strong production from members and non-members of the Organization of Petroleum Exporting Countries (OPEC), as well as a considerable increase in shale oil output, especially in the United States, in a context of slow demand growth.

"Moreover, the accumulation of record short positions by financial speculators is likely to have exacerbated the downward trend and substantially added to volatility of oil prices."

Thereafter, the downward trend in crude oil prices reversed from February until mid-2015. However, continuing strong supply and high levels of stocks amid lacklustre demand growth contributed to reversing the price trends from their peaks in mid-2015. In October 2015, Brent and West Texas Intermediate averaged \$48 and \$46 per barrel, respectively.

"Strong oil supply is being underpinned by high production from OPEC and non-OPEC member countries, even at low prices, as oil exporters primarily seek ways to preserve market shares," said the paper.

"It is expected that oil prices will remain sensitive to market developments. At the time of writing, IEA [International Energy Agency] had projected that global demand growth would slow down in 2016 to 1.2 million barrels

per day from 1.8 million barrels per day in 2015. According to its supply projections, 2015 was expected to be the second consecutive year of declining investments in oil production capacity, a trend that is expected to continue in 2016."

According to UNCTAD, this situation could force higher-cost oil producers in countries such as Brazil, Canada and the Russian Federation to leave the market. The resulting potential decline in global oil output should be offset by supply growth in some OPEC countries such as the Islamic Republic of Iran and Iraq.

"In the short to medium term, oil prices are not expected to record any significant rebounds if current market conditions persist – that is to say, if excess supply is boosted by the market share strategy from top oil-producing countries and is coupled with weak demand growth. For example, the *World Energy Outlook 2015* forecasts oil prices to remain at about \$50-\$60 per barrel until 2020."

Renewable energy has continued its growth but its share in the global energy mix remains low, said the paper.

It noted that China's energy needs, coupled with its objective to achieve a less polluting economic model, have been driving the country's renewable energy production and consumption, while in India, energy demand, led by expectations of strong economic growth, has sustained the development of renewables such as solar and wind energy systems.

UNCTAD said that if cheap fossil fuel prices persist, the situation could be a challenge for the development of renewables due to their competitiveness as sources of energy.

This issue persists at a time when world leaders have reached an ambitious agreement for environmentally sustainable growth during the twenty-first session of the Conference of the Parties to the United Nations Framework Convention on Climate Change held in Paris from 30 November to 11 December 2015.

Policy issues

The UNCTAD paper said food and agricultural commodity prices have been experiencing a downward trend for several years now, and that these developments are detrimental to producers, especially small-scale farmers, who are the backbone of agricultural food and non-food production in developing countries.

"The small scale of their activities makes them vulnerable to depressed prices, which erode their economic viability."

To mitigate the negative effects of low prices on these farmers, the paper recommends that commodity-dependent developing countries implement measures that would enable them to reduce production costs so that they remain competitive in agricultural commodity markets.

In particular, they need access to low-cost productive assets, such as land; agricultural inputs, such as fertilizers and seeds; and affordable credit. Moreover, assistance should be extended to small farmers to ensure that they have the necessary skills and ability to benefit from market participation.

Commodity-dependent developing countries are advised to devote more policy attention and resources to the agricultural sector, said UNCTAD. Achieving such objectives will also require particular attention this year, considering the threats linked to El Nino. According to the UN Food and Agriculture Organization (FAO), 25% of all damage caused during natural disasters such as El Nino is in the agricultural sector. El Nino will exacerbate the frequency and impact of floods, heavy rains and droughts from the end of 2015 to early 2016 and is expected to cause more damage to agricultural production than in 1997-98.

In extractive industries, low prices of almost all commodities, from minerals and metals to fossil fuels, have divergent implications for commodity-dependent developing countries, depending on whether they are net importers or net exporters of these commodities.

For example, the dramatic drop in crude oil prices since mid-2014 has benefited net oil importers, such as Ethiopia, India, Kenya and South Africa, by lowering their import bills.

Conversely, commodity-dependent developing countries have been seriously affected by the sharp decline in other commodity prices. This effect has manifested itself in the form of macroeconomic impacts, including worsening fiscal deficits, currency depreciations and increasing sovereign risk.

In Algeria and Saudi Arabia, high fiscal break-even oil prices of \$129.8 per barrel and \$111.3 per barrel, respectively, in 2014, relative to low oil prices, have forced these countries to cut spending or draw down their reserves to cover shortfalls in government revenues.

"The pressure of declining commodity markets on commodity-dependent developing countries calls for strong and effective policy actions. The current situation should provide an opportunity for deeper reflection on policy orientation in

which these countries could reduce their dependence on a limited number of commodities."

UNCTAD said lessons could be learnt from examples of countries that have successfully diversified their economies.

"For example, Malaysia has successfully diversified its economy both vertically and into non-primary-commodity-driven sectors. The country has effectively moved away from its historical dependence on agriculture and mining products to processing of crops such as palm oil and rubber and to manufacturing of electrical and electronic products."

Malaysia has also prioritized the implementation of its industrial policy focused on an export-led manufacturing sector. As a result, since the early 2000s, manufactured goods have represented on average about 80% of the country's exports.

"This is even more crucial at a time when the international community is debating on how to attain the Sustainable Development Goals, which underscore the imperative of achieving inclusive and sustainable economic growth and development."

Short- and long-term strategies

In the short and medium terms, improvement in resource allocation, privileging investment in productive sectors rather than consumption, could be a relevant response to the current drop in commodity revenues. Furthermore, being more cautious or less optimistic with respect to the outlook of commodity prices when preparing budgets would help prevent situations where countries need to deal with deep budget deficits when commodity prices suddenly decline.

"The need to adopt long-term strategies that would help commodity-dependent developing countries build and strengthen their resilience to commodities price swings cannot be over-emphasized," said the paper.

For example, investing in the development of their productive capacities and/or saving in good times to be able to ride out the bad times when the prices decline, would make sense.

Furthermore, vulnerable commodity-dependent developing countries may need access to international safety-net programmes provided by international financial institutions and donors through various instruments such as emergency grant funding and loans.

(continued on page 15)

The Importance of International Trade Reform in Making Agriculture Truly Sustainable

Lim Li Ching and Martin Khor

Reforms of the international trade regime require a significant reduction or removal of harmful subsidies currently provided mainly by developed countries, while at the same time allowing special treatment and safeguard mechanisms for developing countries in order to promote their smallholder farmers' livelihoods. Such reforms, coupled with policies in support of sustainable small-scale agriculture in developing countries, would improve local production for enhancing food security.

There is also a need for regulatory measures aimed at reorganizing the prevailing market structure of the agricultural value chain, which is dominated by a few multinational corporations and marginalizes smallholder farmers and sustainable production systems. Policies that increase the choices of smallholders to sell their products on local or global markets at a decent price would complement efforts to rectify the imbalances.

In addition, a shift to more sustainable and ecological agricultural practices would benefit smallholder farmers by increasing productivity while strengthening their resilience to shocks, such as climate change, and reducing the adverse impacts of conventional agricultural practices on the environment and health. The trade policy framework should therefore support such a shift.

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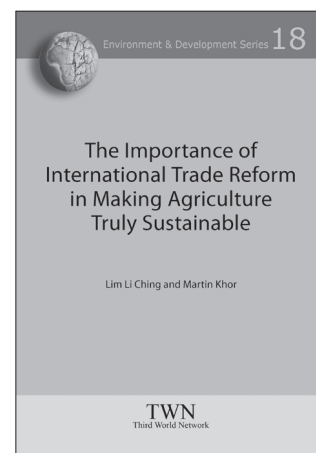
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Flows to offshore financial hubs remain sizeable

An UNCTAD report which tracks investment flows to offshore financial hubs has underlined the need for coherence between international tax and investment policies to deal with tax dodging and facilitate cross-border productive investment.

by Kanaga Raja

GENEVA: Investment flows to offshore financial hubs, including to offshore financial centres (OFCs) and special purpose entities (SPEs), while registering a decline, nevertheless remain significant, the UN Conference on Trade and Development (UNCTAD) has said.

In its latest Global Investment Trends Monitor (No. 23, 3 May 2016), UNCTAD also said that the volatility of investment flows through these hubs rose significantly in 2015.

It found that financial flows through SPEs surged in volume during 2015, and the magnitude of quarterly flows through SPEs, in terms of absolute value, rose sharply compared with 2014, reaching the levels registered in 2012-13.

UNCTAD however said that pronounced volatility, with flows swinging from large-scale net investment to net divestment, tempered the annual result, which dipped to \$221 billion.

"Investment flows to offshore financial centres continued to retreat from its recent high of \$132 billion in 2013, but remained roughly in line with the flows of previous years."

Investment to these jurisdictions, which hit an estimated \$72 billion in 2015, had risen in recent years with the growing flows from multinational enterprises (MNEs) located in developing and transition economies, sometimes in the form of investment round-tripping.

"The proportion of investment income booked in low tax, often offshore, jurisdictions is high – and possibly growing. The disconnect between the locations of income generation and productive investment results in substantial fiscal losses, and is therefore a key concern for policymakers," said UNCTAD.

According to the UNCTAD report, offshore financial hubs offer low tax rates or beneficial fiscal treatment of cross-border financial transactions, extensive bilateral investment and double taxation treaty networks, and access to international financial markets, which make them attractive to companies large and

small.

"Flows through these hubs are frequently associated with intra-firm financial operations – including the raising of capital in international markets – as well as holding activities, including of intangible assets such as brands and patents."

Flows to SPEs and OFCs

According to UNCTAD, investment flows to SPEs, which represent the majority of offshore investment flows, registered significant volatility in 2015. Financial flows through SPEs nonetheless surged in volume during much of the year.

"Pronounced volatility, with flows swinging from large-scale net investment during the first quarter to a huge net divestment during the last quarter, tempered the annual 2015 results."

The primary recipient of SPE-related investment flows in 2015 was Luxembourg. Flows to SPEs located in Luxembourg were associated with funds financing investments in the United States. This was especially apparent in the first quarter of the year, when SPE inflows rose to \$129 billion. SPE outflows in the same quarter reached \$155 billion, which in turn was reflected in data from the United States, where inward foreign direct investment (FDI) from Luxembourg topped \$153 billion (77% of total inflows). "After surging for three quarters, more than tripling their 2014 levels for the same period, SPE inflows turned negative in the last three months of the year, recording a net divestment of roughly \$115 billion, as SPEs in the country paid down intra-company loans to the tune of \$207 billion."

According to the report, after registering a sharp decline in 2014, SPE-related inflows in the Netherlands initially showed signs of a rebound in 2015, rising from \$2 billion in the first quarter to \$148 billion in the third quarter (their highest quarterly level since 2007 Q3). As in Luxembourg, these flows retreated

sharply in the fourth quarter, with a net divestment of equity capital and reinvested earnings of roughly \$200 billion.

UNCTAD said that an analysis of the geographical breakdown of total investment flows suggests that this trend was driven by investors from Luxembourg and the United Kingdom.

Reflecting the pass-through nature of these flows, outward investment flows by SPEs also tumbled in the fourth quarter, led by dramatic declines in overall investments targeting Luxembourg and the United Kingdom.

"The tight interrelation between SPE flows in Luxembourg and the Netherlands highlights the existence of dense and complex networks of these entities in both countries, with capital flowing rapidly among them in response to financing needs and tax planning considerations."

The report noted that recent policy changes may be responsible for the most recent decline in investment flows to SPEs.

The Netherlands, for instance, adopted new substance requirements for group financing and licensing companies; these requirements also allowed for the automatic exchange of information about entities with little or no substance in the country with tax treaty partners and other EU countries.

In Luxembourg, the authorities enacted a number of changes in their tax framework, including greater substance requirements, a revision of transfer pricing rules, and a reform of the process and substance of tax rulings.

"Due to the volatile nature of offshore financial flows, the actual impact of these policy changes will become clearer over the next few years," said UNCTAD.

Investment flows to Caribbean offshore financial centres continued to decline from their 2013 record levels, when a single large cross-border M&A caused them to surge markedly. Compared with that year, inflows in these economies were down 42% to an estimated average of \$75 billion in 2014-15.

Nevertheless, said UNCTAD, this is in line with their 2008-12 period average of \$75 billion, due to the high level of flows to two major OFCs.

The report said that while MNEs from developed economies, in particular from the United States, traditionally dominated flows to these jurisdictions, in recent years rising investment flows from developing and transition economies have played an important role.

Between 2010 and 2014, Hong Kong-China, the Russian Federation, China and Brazil accounted for 65% of investment flows to the largest Caribbean financial centres, the British Virgin Islands and the Cayman Islands.

Disconnect

UNCTAD said that a key concern for policymakers globally is the potential for a substantial disconnect between productive investments and income generation by MNEs, with implications for sustainable development in their economies. "The significant share of MNEs' total FDI income booked in low tax, often offshore, jurisdictions remain therefore problematic."

It said that ratios of income attributed to foreign affiliates of outward investing countries to the gross domestic product (GDP) of the economy where those affiliates are resident reveal profits that are out of line with economic fundamentals.

For example, MNEs from a sample of 26 developed countries registered more profits in Bermuda (\$43.7 billion) than in China (\$36.4 billion) in 2014. Unsurprisingly, the share of their profits relative to the size of Bermuda's economy is an impressive 779.4% of GDP, compared to less than 1% of GDP in a number of countries.

Elevated FDI-income-to-GDP ratios can also be observed in other countries. For example, the FDI income of foreign affiliates (as reported by their home countries) in the Netherlands, Luxembourg, Ireland and Singapore relative to their GDPs all exceed the weighted world average by a substantial margin.

According to UNCTAD, high FDI-income-to-GDP ratios reflect the emergence of holding companies as major aggregators of MNEs' foreign profits. In the case of Bermuda, the outsized profits of foreign affiliates in the country largely reflect income attributed to investors from the United States.

Taking a longer-term view, data from the United States highlights a significant shift in the sources of overall FDI income since the global economic and financial crisis. Prior to the crisis, most FDI income was generated from entities other than holding companies, the latter accounting for an average 40% of total quarterly income between 2003 and 2008. In the aftermath of the crisis, however, the share of FDI income attributed to holding companies has steadily risen to a quarterly average of 52% in 2015.

"The growing importance of holding companies is due to a number of fac-

tors, including the greater reliance on regional centres to coordinate activities in host countries, but their frequent location in jurisdictions with low tax rates or favourable fiscal regimes suggests that tax motivations play a key role," said UNCTAD.

The six countries that each accounted for 5% or more of the United States' outward FDI stock in holding companies in 2014 – Bermuda, Ireland, Luxembourg, the Netherlands, the United Kingdom, United Kingdom Islands (Caribbean) – generated an average 40% of FDI outward income between 2005 and 2008. In 2015, said UNCTAD, this share had risen to a quarterly average of 59%, an increase of nearly 20 percentage points in the span of less than a decade.

Need for policy coordination

The UNCTAD report said efforts to stem offshore financial flows have been underway at both the national and international levels.

Revelations that firms large and small have been using offshore financial centres and jurisdictions to evade or avoid taxes have provided additional impetus to policy reforms in these areas. More efforts are indeed necessary, and the persistence of investment flows routed through offshore finance centres, as well as the level of profits booked in these jurisdictions, highlight the pressing need to create greater coherence among tax and investment policies at the

global level.

"A lack of coordination between these two crucial policy areas will limit positive spillovers from one to the other, limiting potential gains in tax compliance as well as productive investment," said UNCTAD.

The international investment and tax policy regimes are closely interrelated, it noted, adding that both have the same ultimate objective: promoting and facilitating cross-border investment. They have a similar architecture, made up of a "spaghetti bowl" of mostly bilateral agreements. The two systems face similar challenges, such as strengthening their sustainable development dimension and maintaining their legitimacy. They interact, with potential consequences in both directions; and both are the object of reform efforts.

"These reforms must maintain the effectiveness of both policy regimes to sustain confidence in, and support for, both. The policy imperative is to continue facilitating cross-border productive investment and taking action against tax avoidance to support domestic resource mobilization for the pursuit of sustainable development."

UNCTAD said ensuring that international tax and investment policies are mutually reinforcing is fundamental to building and maintaining an enabling environment for investment, maximizing the chances of securing financing for development targets, and supporting the integration of developing countries in the global economy. (SUNS8236) □

(continued from page 13)

"In the long term, the need for policies, including economic and fiscal diversification to reduce countries' exposure to the cyclicity of commodity markets, cannot be overstated."

Diversification strategies, such as vertical diversification and non-commodity-led growth, could strengthen the resilience of commodity-dependent developing countries to shocks by enabling them to derive their revenues from various sources.

The paper said that these strategies can also help reduce their exposure to the negative effects of unfavourable secular terms of trade (Prebisch-Singer hypothesis).

The paper cautioned that if prices of fossil fuels continue to fall or remain depressed for a long period, the situa-

tion could threaten the development of renewable energy; this might in turn compromise the achievement of the Sustainable Development Goals.

For example, in late 2015, IEA suggested that crude oil prices hovering around \$50 a barrel until the end of the current decade would hold back the development of electric cars and biofuels production that are contributing to efforts aiming to curb carbon emissions. It estimated that about \$800 billion of efficiency improvements in cars, trucks and airplanes would be lost under these circumstances.

"These alarming prospects for renewables mean that supportive policies, including access to finance, improved technologies, a stronger legal environment and subsidies, would need to continue supporting the development of the renewable energy sector," said UNCTAD. (SUNS8230) □

A look at illicit financial flows

Illicit capital outflows from developing countries hurt government revenues and society at large.

by Jomo Kwame Sundaram

International capital flows are now more than 60 times the value of trade flows.

The Bank for International Settlements (BIS) is now of the view that large international financial transactions do not facilitate trade, and that excessive financial "elasticity" was the cause of recent financial crises.

Illicit financial flows involve financial movements from one country to another, especially when funds are illegally earned, transferred and/or utilized. Some examples include:

- a cartel using trade-based money laundering techniques to mix legal money, say from the sale of used cars, with illegal money, e.g., from drug sales;
- an importer using trade mis-invoicing to evade customs duties, VAT or income taxes;
- a corrupt public official or family members using an anonymous shell company to transfer dirty money to bank accounts elsewhere;
- an illegal trafficker carrying cash across the border and depositing it in a foreign bank; or
- a terrorist financier wiring money to an operative abroad.

Global Financial Integrity (GFI) estimated that in 2013, \$1.1 trillion left developing countries in illicit financial outflows. Its methodology is considered to be quite conservative, as it does not pick up movements of bulk cash, mis-pricing of services, or most money laundering.

Beyond the direct economic impact of such massive haemorrhage, illicit financial flows hurt government revenues and society at large. They also facilitate transnational organized crime, foster corruption, undermine governance and decrease tax revenues.

Where does the money flow to?

Most illicit financial outflows from developing countries ultimately end up in banks in countries like the US and the UK, as well as in tax havens like Switzerland, the Cayman Islands or Singapore.

GFI estimates that about 45% of il-

licit flows end up in offshore financial centres and 55% in developed countries. University of California, Berkeley professor Gabriel Zucman has estimated that 6-8% of global wealth is offshore, mostly not reported to tax authorities.

GFI's December 2015 report found that developing and emerging economies had lost \$7.8 trillion in illicit financial flows over the 10-year period of 2004-13, with illicit outflows increasing by an average of 6.5% yearly.

Over the decade, an average of 83.4% of illicit financial outflows were due to fraudulent trade mis-invoicing, involving intentional mis-reporting by transnational companies of the value, quantity or composition of goods on customs declaration forms and invoices, usually for tax evasion.

Illicit capital outflows often involve tax evasion, crime, corruption and other illicit activities.

How low can you go?

In the 1960s, there was a popular dance called the "limbo rock", with the winner leaning back as much as possible to get under the bar.

Many of today's financial centres are involved in a similar game to attract customers by offering low tax rates and banking secrecy. This has, in turn, forced many governments to lower direct taxes not only on income but also on wealth.

From the early 1980s, this was sought to be justified by US President Ronald Reagan's embrace of the "Laffer curve" which claimed higher savings, investments and growth with less taxes.

With the decline of government revenue from direct taxes, especially income tax, many governments were forced to cut spending, often by reducing public services, raising user fees and privatizing state-owned enterprises.

Beyond a point, there was little room left for further cuts, and governments had to raise revenue. This typically came from indirect taxes, especially on consumption, as trade taxes were discouraged to promote trade liberalization.

Many countries have since adopted value-added taxation (VAT), long promoted in recent decades by the International Monetary Fund (IMF) and others as the superior form of taxation: after all, once the system is in place, raising rates is relatively easy.

A progressive tax system would seek to ensure that those with more ability to do so, pay proportionately more tax than those with less ability to do so. Instead, tax systems have become increasingly regressive, with the growing middle class bearing the main burden of taxes.

Meanwhile, tax competition among developing countries has not only reduced tax revenue but also made direct taxation less progressive, while the growth of VAT has made the overall impact of taxation more regressive as the rich pay proportionately less tax with all the loopholes available to them, both nationally and abroad.

Overall tax incidence in many developing countries has not only long been regressive but has also become more regressive over time, especially since the 1980s.

Although there are many reasons for income inequality, hidden untaxed wealth has undoubtedly also increased wealth and income inequality at the national and international levels. (IPS) □

Jomo Kwame Sundaram was United Nations Assistant Secretary-General for Economic Development, and received the Wassily Leontief Prize for Advancing the Frontiers of Economic Thought in 2007.

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Third World Network/
Red del Tercer Mundo,
Av 18 De Julio 2095/301
Montevideo 11200, Uruguay
Fax (5982) 419222
Email: redtm@chasque.apc.org