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Global trade surges but outlook remains cloudy

Global trade surged in the first quarter of 2024, driven by positive trade dynamics for the United States and developing countries, in particular the large Asian developing economies, according to UN Trade and Development. However, the outlook for 2024 is tempered by potential geopolitical tensions, rising shipping costs, and emerging industrial policies, it warned.

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Global trade resumes growth in 2024, but recovery uneven

Global trade turned positive in the first quarter of 2024, driven by positive trade dynamics for the United States and developing countries. However, the outlook for 2024 is tempered by potential geopolitical issues and industrial policy impacts, according to UN Trade and Development.

by Kanaga Raja

PENANG: Global trade trends turned positive in the first quarter of 2024, with goods trade increasing by around 1 per cent quarter-over-quarter, and services trade growing at approximately 1.5 per cent, according to UN Trade and Development (formerly known as UNCTAD).

In its latest Global Trade Update (July 2024), UN Trade and Development said the surge in global trade, fueled by positive trade dynamics for the United States and developing countries, particularly large Asian developing economies, is expected to add approximately US$250 billion to goods trade and US$100 billion to services trade in the first half of 2024 compared to the second half of 2023.

It said during Q1 2024, trade growth in developing countries and South-South trade outpaced that in developed countries.

According to UN Trade and Development, despite these positive trends, the outlook for 2024 is tempered by potential geopolitical issues and industrial policy impacts.

Geopolitical tensions, rising shipping costs, and emerging industrial policies could reshape global trade patterns, it said.

According to the UNCTAD report, current global trade trends have turned positive, with goods trade increasing by around 1 per cent quarter-over-quarter (QoQ) in Q1 2024, while services trade grew at approximately 1.5 per cent QoQ.

It said the UNCTAD nowcast predicts a stronger positive trend for Q2 2024, projecting an approximate 2 per cent increase for the first half of 2024.

This increase is expected to add around US$250 billion to goods trade and about US$100 billion to services trade in the first half of 2024 compared to the second half of 2023.

If positive trends persist, global trade in 2024 could reach almost US$32 trillion, yet it is unlikely to surpass its record level seen in 2022, said the report.

Prices for traded goods have remained constant in Q1 2024 but are expected to increase in Q2 2024, with trade growing faster in values than in volumes.

Despite this up-tick, the annual change in the price for traded goods is expected to remain negative, it added.

In the first quarter of 2024, global trade continued its modest and gradual increase that began in the second half of 2023.

The upward trend of Q1 2024 has been fueled by positive trade dynamics for the United States and developing countries, particularly the strong export performance of the largest Asian developing economies, said the report.

It said both merchandise and services showed positive quarter-over-quarter global trade growth in Q1 2024, with expectations of further increases in Q2 2024.

This points towards a return to growth in global trade of goods in 2024, while also indicating the conclusion of the robust upward trend in trade in services, said UN Trade and Development.

Overall, it said moderating global inflation and improving economic growth forecasts suggest a reversal of the downward macroeconomic trends that have characterized most of 2023.

Additionally, rising demand for products related to energy transition and artificial intelligence (AI) should contribute to trade growth through 2024, the report suggested.

Furthermore, it said the possibility of interest rate cuts in the United States later in the year and the consequently weaker United States dollar could give global trade a further boost.

However, the global trade outlook for 2024 remains subject to downside risks. Persistent geopolitical tensions, rising shipping costs, and emerging industrial policies could significantly impact global trade, it added.

The report highlighted several key factors influencing global trade in 2024: positive economic growth, but with significant disparities; increase in demand for green energy products and AI-related computers; an increase in subsidies and trade-restrictive measures; strong demand for container shipping, but subsiding for raw materials; lengthening of supply chains; and prospects of interest rate cuts in the United States.

Elaborating further, it said that global forecasts for GDP growth remain at around 3 per cent for 2024, with the short-term outlook being cautiously optimistic.

"However, substantial disparities persist among countries and regions in terms of their anticipated economic outlook for the upcoming year. Such disparities will influence patterns of trade."

Demand in some sectors such as electric vehicles, solar panels, batteries, and high-end semiconductors is expected to further increase in many countries, said UN Trade and Development.

"The trade of these products may continue growing substantially faster than average, although government policies may curb some of these trends."

The prioritization of domestic concerns and the urgency of meeting climate commitments are driving changes in both industrial and trade policies, the report noted.

The utilization of trade-restrictive measures and inward-looking industrial policies are anticipated to negatively impact on the growth of international trade, especially in some strategic sectors, it said.

During the last few months, there has been increasing demand for container shipping, as reflected by the strong increase in the Shanghai Containerized Freight Rate Index.

On the other hand, the Baltic Dry Index has steadied, indicating constant global demand for raw materials.

The report said global trade is being influenced by the response of supply chains to shifts in trade policy and geopolitical tensions.

"Some East Asian and Latin American economies may find opportunities to become more integrated into the supply chains affected by geopolitical concerns."

Despite inflationary pressures persisting longer than anticipated, there is a possibility for the United States to reduce interest rates in 2024, said UN Trade and Development.

Such a move would depreciate the value of the United States dollar, potentially stimulating international trade by increasing both prices and volumes, given the continued dominance of the United States dollar in global trade.

The decline in merchandise trade among major economies in 2023 reversed in Q1 2024, but only for some, said the report.

Specifically, imports increased for Brazil, the Russian Federation, and the United States. On the export side, China and India exhibited very strong quarter-over-quarter export performance.

Exports also grew for the Russian Federation and the United States. In contrast, trade continued to decline for Japan and South Africa.

Noting that service-related data lags one quarter behind merchandise data, the report said annual growth in Q4 2023 suggests the positive trend in service trade may have plateaued, with most economies showing a mix of moderate positive and negative growth rates.

Quarterly growth for the same period reveals a mixed dynamic, with positive import developments for all major economies but pronounced export declines for China, the Republic of Korea, and the Russian Federation, it said.

Highlighting some regional trends, the report said in Q1 2024, developing countries experienced a positive trend in both imports and exports (about 2 per cent increase).

While developed countries saw positive exports (1 per cent increase), their imports remained unchanged QoQ.

South-South trade grew by approximately 2 per cent QoQ, said the report.

On an annual basis, it said that the decline in global trade was primarily due to reduced imports in developed countries paired by lower exports from developing countries, with both flows decreasing by 5 per cent from Q1 2023 to Q1 2024.

South-South trade also fell by a similar magnitude during this period.

Trade trends for Q1 2024 have varied across regions. Most regions experienced positive trade growth during this period.

However, exports from the African and Pacific regions decreased, it added.

Exports also declined in the region comprising South and West Asia, though to a lesser extent.

Additionally, all these regions saw a significant decline in intra-regional trade. In contrast, trade growth was stronger in the East Asian regions and the Americas.

On an annual basis, trade growth remains negative for all regions, except for the region comprising the Russian Federation and Central Asian economies, where trade trends have been volatile, said the report.

Since the latter part of 2022, there has been a noticeable rise in the political proximity of trade.

This indicates that bilateral trade patterns have been favouring trade between countries with similar geopolitical stances (i.e. friend-shoring), it noted.

"This trend stabilized from the second half of 2023. Concurrently, there has been an increasing concentration of global trade to favour major trade relationships, although this trend also began to soften."

Geoeconomic issues continue to play a significant role in shaping key bilateral trade trends.

These factors not only impact trade between the major economies but can also influence their trade dynamics with other trading partners.

Another significant factor impacting bilateral trade is the ongoing reshaping of value chains, said the report.

At the sectoral level, the report said on a quarterly basis, most sectors experienced a rebound in Q1 2024. Most notable exceptions were transport and communication equipment, where trade contracted.

In contrast, quarterly increases were more pronounced for chemicals, pharmaceuticals, textiles, metals and minerals.

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The report said that on an annual basis, global trade remains negative for many sectors, except for machinery, precision instruments, pharmaceuticals, transportation equipment, and road vehicles, the latter experiencing a strong increase in the trade of electric cars, which continued to rise even in Q1 2024, by about 25 per cent.

"The value of trade in the last four quarters was still significantly lower for the energy and apparel sectors."

The report noted that trade in the communication and office equipment sectors continued to slide during Q1 2024.

Industrial policy

Providing some insights into industrial policy and global trade, UN Trade and Development said industrial policies are targeting both traditional and high-growth sectors, leading to significant trade re-allocations and increased supply concentration.

According to the report, heightened geopolitical risks, the need for energy transition toward renewable sources, and significant technological advancements in computing power and artificial intelligence (AI) have led to an increase in government interventions in the economy.

It said many of the interventions in developed and emerging markets have focused on support measures aimed at enhancing the competitiveness of strategic industries, positioning domestic firms as key suppliers of low-carbon products, and bolstering the resilience of supply chains for critical and strategic products.

Policies such as the United States Inflation Reduction Act, the Made in China 2025 initiative, and the European Union's Net Zero Industry Act are largely motivated by strategic considerations related to the rapidly evolving environmental, technological, and geopolitical landscape, said UN Trade and Development.

The policy interventions currently implemented or considered by many governments take the form of industrial policy.

From a trade perspective, industrial policy typically seeks import substitution by providing support to domestic producers, imposing restrictions on trade, and facilitating vertical consolidations.

These types of interventions typically have a negative effect on trade, the report emphasized.

One particularity of the policies being currently implemented is that, besides targeting well-established sectors like steel and aluminum where lobbying for support has historically been active, they are also forward-looking, focusing on sectors expected to experience a rapid increase in demand, both domestically and globally.

Government support in several major economies is now actively targeting industries associated with advanced technologies (such as high-end semiconductors) and renewable energies (such as electric batteries, electric vehicles, and solar panels), said the report.

"Despite the generalized trade downturn, global demand in many of the sectors targeted by industrial policy has increased during 2023."

For instance, the report said detailed product level data from the three major economies suggests that the trade in electric vehicles experienced a remarkable 50 per cent rise.

It said during the last few years, global supply concentration, as measured by the Herfindahl-Hirschman index, has increased in most of the sectors targeted by industrial policy, but to varying degrees.

For instance, between 2022 and 2023, supply concentration rose significantly for batteries and their precursors, whereas it increased to a lesser extent in other sectors targeted by the industrial policies of major economies.

There has also been a varying degree of change in trade re-allocation, indicated by the percentage of global supply shifting across countries, as measured by changes in global market shares, said the report.

"Generally, higher trade re-allocation rates indicate a more competitive market landscape where suppliers are vying for gains in market share."

For example, product level data for three major economies indicates that about 12 per cent of the global supply of solar panels shifted between 2022 and 2023.

Importantly, while global competition appeared to have remained robust for solar panels and electric vehicles, this is not the case for battery value chains, said the report.

In this sector, the increase in supply concentration has been accompanied by low trade re-allocation, suggesting that global supply is becoming increasingly concentrated in the hands of a few major exporters.

Highlighting some possible implications of industrial policy on global trade, the report said industrial policy is likely to increase the concentration of the global supply of strategic products in even fewer economies.

"By providing heavy subsidies to their own industries, developed countries and major emerging economies are expected to enhance their global competitiveness in these sectors."

The report said this will impact not only their domestic markets but also global trade, potentially marginalizing smaller economies from entering these lucrative markets. This may have important implications for developing countries.

A subsidy race could lead to trade fragmentation among major suppliers seeking to gain trade dominance within their major trade relationships, it warned.

It said this will further affect the configuration of global value chains and global market segmentation, including upstream and downstream sectors.

The report said that such an outcome would also increase tensions with the multilateral trading system, as many rules embedded in multilateral and bilateral or regional preferential trade arrangements limit countries' ability to implement discriminatory trade policies or subsidy schemes with significant effects on trade.

UN Trade and Development further said unilateral actions in the form of industrial policies often distort trade.

"Consequently, trading partners may respond with trade restrictions, escalating protectionism and potentially triggering retaliatory actions that undermine the rule-based global trading system."

Weaker international trade rules increase uncertainty in cross-border transactions, add complexity to business strategies, make it challenging to forecast costs and prices, and ultimately raise the costs of expanding into new markets for many firms, especially small and medium enterprises, the report concluded. *(SUNS 10039)*

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Goods trade sees 1% growth in first quarter of 2024, says WTO

The volume of world merchandise trade saw an upturn in the first quarter of 2024, with most regions except Europe contributing positively to the upturn in trade volume, said the World Trade Organization (WTO).

by Kanaga Raja

PENANG: The volume of world merchandise trade saw an upturn in the first quarter of 2024 after remaining flat throughout 2023, according to the World Trade Organization.

In its latest trade statistics posted on its website, the WTO said merchandise trade, as measured by the average of exports and imports, was up 1.0% in the first quarter of 2024 compared to the previous quarter.

Trade in the first quarter was also up 1.4% compared to the same period in 2023, it added.

According to the information posted on the WTO website, most regions contributed positively to the upturn in trade volume, with Europe remaining a notable exception as its exports and imports continued to decline.

The WTO said these are the first quarterly trade volume statistics it released since its most recent trade forecast was issued on 10 April in its Global Trade Outlook and Statistics report.

According to that report, world merchandise trade volume is expected to grow 2.6% in 2024 and 3.3% in 2025 as demand for traded goods rebounds following a contraction in 2023.

Trade volume was down 1.2% last year after recording 3.0% expansion in 2022 despite the outbreak of war in Ukraine, the report said.

It said the lingering effects of high energy prices and inflation weighed especially heavily on demand for trade-intensive manufactured goods, but this should recover gradually over the next two years as inflationary pressures ease and as real household incomes improve.

The Global Trade Outlook report further said the adverse trade environment that prevailed in 2023 is expected to ameliorate somewhat this year and next, providing a boost to goods trade in 2024 and 2025.

However, geopolitical tensions and policy uncertainty could limit the scope of any trade rebound.

While export growth should improve in many economies as external demand for goods picks up, food and energy prices could again be subject to price spikes linked to geopolitical events, it added.

It said choosing an appropriate pace of interest rate cuts will also be challenging for central banks in advanced economies, and any miscalculation could lead to financial volatility later in 2024.

Overall, risks are tilted to the downside, although there is some upside potential if trade in the European Union recovers faster than expected, the report added.

According to the latest statistics posted by the WTO on its website, the 1.0% increase in merchandise trade in the first quarter of 2024 is broadly consistent with these projections.

If the current pace of expansion continues through the end of this year, trade volume for the whole of 2024 will be 2.7% higher than in 2023, it said.

Meanwhile, the US dollar value of world merchandise trade was down 2% year-on-year in the first quarter of 2024, said the WTO.

The fact that trade values were declining while trade volumes were rising indicates that export and import prices were falling during this period, it added. *(SUNS 10039)*

WTO denies DG pressured few African countries on selection process

In a communication to the World Trade Organization's General Council (GC) chair, Chad, the coordinator of the African Group, on 11 July requested the chair to begin the appointment process as soon as possible to select the incumbent Director-General (DG), Ms Ngozi Okonjo-Iweala, for a second term.

by D. Ravi Kanth

GENEVA: Chad, the coordinator of the African Group, on 11 July requested the chair of the World Trade Organization's General Council to "begin the appointment process as soon as possible" to select the incumbent Director-General, Ms Ngozi Okonjo-Iweala, for a second term, despite an alleged violation and circumvention of the relevant WTO rules, said people familiar with the development.

With the support of a few members - Nigeria, Sierra Leone, The Gambia, and Djibouti among others - while seemingly ignoring the lack of consensus within the African Group itself on this issue, Chad went ahead to send a communication to the WTO General Council (GC) chair, Ambassador Petter Olberg of Norway, under alleged pressure from the DG, said people familiar with the development.

Ms Okonjo-Iweala held a one-on-one meeting with the Indian trade minister Mr Piyush Goyal in Zurich on 14 July, apparently to seek his support on various issues, particularly on fisheries subsidies and agriculture.

It remains to be seen whether she broached the issue of her second term during the meeting, said people familiar with the development.

However, India seems to have delivered a strong message against the ongoing developments at the WTO, said people familiar with the meeting.

The communication (WT/GC/W/948) sent by Chad, titled, "Appointment of the Director-General", is listed as the fourth item on the General Council agenda, and is expected to come up for discussion at the meeting on 22 July.

After highlighting the procedures for the DG selection process as spelled out in document WT/L/509, Chad contends that Ms Okonjo-Iweala's term ends in August 2025, with the process for the selection of the DG required to be started in December by the GC chair.

However, it said that it needs to be advanced as it takes place amidst the preparations for the WTO's 14th ministerial conference (MC14) in early 2026.

To allow members "to focus on the preparations for MC14 that will be taking place in Africa (Cameroon)," Chad said that "it is crucial that the process of appointing the Director-General does not overlap with the preparations for MC14."

"For these reasons, the African Group wishes to request the current Director-General, Dr Ngozi Okonjo-Iweala, to make herself available to serve a second term in accordance with Article 12 of the Procedures for the Appointment of Director-General (WT/L/509)," Chad maintained.

Praising the incumbent DG for her leadership during MC12 and MC13 "to conclude several long-standing multilateral agreements," Chad said that she should serve for a second term.

It is an open question whether all the agreements reached at past ministerial conferences have been implemented or the failures of MC13 properly reflected in Chad's communication.

Several trade envoys alleged that the DG played a role in exerting pressure on Chad and a few other African countries to go ahead with their communication while being aware that it has no consensus within the African Group.

It appears somewhat odd that the proposal, without the consent of the DG as well as the African Group, would have been submitted, said people familiar with the communication.

Further, when the DG became aware that the rules set out in the relevant GC decision are allegedly going to be circumvented or amended to prematurely start the selection process, she should have intervened to request the African Group to observe the correct procedures.

It seems highly unprofessional for Ms Okonjo-Iweala to ignore these developments, said a trade envoy who asked not to be quoted.

The trade envoy of The Gambia, one of the few African countries that pushed the proposal, denied any pressure, saying, "we highlighted our reasoning and rationale for the greater good of the WTO."

Ambassador Muhammadou M. O. Kah of The Gambia told the SUNS," Our efforts about the submitted proposal are within the rules of the WTO and was submitted to the competent authority - the WTO GC chair without pressure or prejudice."

He said that his mission "has never been part of any attempt to circumvent any rules and is never been under any pressure from the DG or the Africa Group of Ambassadors to do so."

However, he did not mention whether the proposal had any consensus within the group, though he mentioned that it is the "collective wish."

WTO denies allegations

When asked whether the DG has exerted pressure on Chad and five other countries to go ahead with the proposal and whether she is willing to accept an allegedly blatant violation of the rules in a rules-based organization, the WTO spokesperson flatly denied the allegation.

In a reply sent to the SUNS, the WTO's spokesperson, Mr Ismaila Dieng, said: "These allegations are entirely unfounded and grossly misleading."

"The selection of the Director-General (DG) is exclusively within the jurisdiction of the members, with absolutely no involvement from the DG in this process," Mr Dieng said.

"The Director-General has clearly indicated that she is considering the matter and will advise in due course," the spokesperson said.

"Any insinuation to the contrary is not only baseless but also intentionally misleading," Mr Dieng said, suggesting that "I direct you to the African Group for further context and rationale behind their communication."

According to the WTO's spokesperson, "The African Group, adhering strictly to the established procedures for the Appointment of Directors-General (WT/L/509), has formally requested the inclusion of an agenda item concerning the appointment of the Director-General for the upcoming General Council."

The communication from Chad appears to be an ask for circumventing the rules, and the current GC chair ought to have turned down the communication on grounds that it would be tantamount to circumventing/amending the rules, said a former GC chair, who asked not to be quoted.

The reason offered by Chad to advance the process because it overlaps with MC14 in Cameroon in 2026 is unsustainable, as the selection process for Mr Pascal Lamy of France in 2004 coincided with the Hong Kong ministerial meeting in December 2005, the former GC chair said.

Further, the selection process of Mr Roberto Azevedo of Brazil overlapped with the WTO's ninth ministerial meeting in Bali, Indonesia, in December 2013.

Also, due to the sudden resignation of Mr Azevedo and his early exit, Ms Okonjo-Iweala's term also overlapped with MC12.

However, the current GC chair does not think the African Group's request amounts to a circumvention of the rules.

When asked whether he would entertain such a controversial communication because it amounts to a circumvention of the rules, Ambassador Olberg told the SUNS that "it is a fair ask".

The GC chair said that there is "no circumvention of rules" and that it is for the General Council to decide.

Asked about Norway's stand, which historically stood for respecting the rules since the tenure of former GC chair Ambassador Kare Bryn of Norway in 2000, the GC chair, who is the trade envoy of Norway, said that he cannot comment in his capacity as the current GC chair.

Ambassador Olberg said, "You should contact my deputy ambassador on Norway's stand."

However, the deputy trade envoy of Norway did not respond to calls or messages at the time of writing this article.

Several trade envoys who spoke to the SUNS on the condition of anonymity expressed dismay over the GC chair's comments.

They made the following observations:

"1. The request is not coming from the African Group. It is only a handful of African countries who have made some sort of agreement with some of the majors to pull this off and it is therefore illegitimate. At the GC, it would be advisable to test whether all African countries have given their assent. But experts representing their Ambassadors or Ambassadors themselves have been [allegedly] bullied into keeping quiet to let the submission go to the GC without making a fuss.

2. The rules are clear that the process has to start 9 months before the expiration of the incumbent's term.

3. This has been the rule as well as the practice. Now if it is amended, assuming there is consensus among the membership to do so, would this rule change be applicable to only this selection process or all future selection processes?

4. If it is the former then it is clear that it is being done because of the possibility of a change in Administration in the US. In good Western tradition, an outgoing Administration cannot tie the hands of an incoming Administration.

5. Possibility should be given to other candidates to compete whether from Africa or elsewhere. Some interested persons would only make up their minds on the last day. To bring the starting date forward would defeat the ends of justice.

6. The rules should be respected and any attempt to change them would undermine the credibility of the WTO. If the rules could be bent at will, the current DG may not have been appointed. She could well secure the support of the membership for a second term but the rules should be respected. If she is confident that she is doing a good job, she should not be threatened by a Trump Administration.

7. What outcomes has the DG really achieved? It remains a serious question and if you look beneath the surface of those outcomes and the current state of the WTO, the core issues of the negotiations have been diluted and mandates eroded. She has done nothing for Africa except get on their ticket for appointment and now re-appointment, and dismantle the cohesion of the group, who used to be an independent, outspoken voice on African interests in the WTO. Her only success has been giving visibility to the organization and that too, only cosmetically, but she has successfully strengthened the power of the secretariat at the expense of the members."

It remains to be seen whether the United States will support the African Group's communication or remain silent at the GC meeting, said a trade envoy, who asked not to be quoted. *(SUNS 10046)*

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WTO DG meets India amid questions on chair's draft fisheries text

The World Trade Organization's Director-General, Ms Ngozi Okonjo-Iweala, on 14 July held a bilateral meeting with the Indian trade minister Mr Piyush Goyal in Zurich, where India's support was apparently sought on the issues of fisheries subsidies and agriculture.

by D. Ravi Kanth

Geneva, 15 Jul (D. Ravi Kanth) – The World Trade Organization's Director-General, Ms Ngozi Okonjo-Iweala, on 14 July held a one-on-one meeting with the Indian trade minister Mr Piyush Goyal in Zurich, seeking India's support for concluding the fisheries subsidies negotiations and a decision on the time-frame on agriculture at the General Council meeting (in the third week of July), said people familiar with the development.

The bilateral meeting between the WTO DG and the Indian trade minister lasted for about 45 minutes and it came at a time when the chair of the Doha fisheries subsidies negotiations, Ambassador Einar Gunnarsson of Iceland, seemingly faces a major crisis after India severely criticized his proposed additional provisions addressing fisheries subsidies contributing to overcapacity and overfishing (OC&OF), said people familiar with the development.

On 12 July, the chair seemingly huddled into small groups to overcome the apparent "fiasco" he faced when his draft additional provisions on fisheries subsidies contributing to OC&OF began unravelling, said people familiar with the development.

On 14 July, India posed three challenges against the chair's proposed additional provisions concerning the OC&OF subsidies, criticizing the chair on the inherent asymmetries within the provisions in his draft text, said people familiar with the development.

"Analyzing the Impact of the Chair's Proposed OCOF Disciplines under the Additional Provisions on Fisheries Subsidies on the Sustainability of Global Marine Fish Stocks"; "Communication on Fisheries Subsidies"; and "Implementing Appropriate and Effective Special and Differential Treatment under the Additional Provisions on Fisheries Subsidies".

In a rather surprising move on 11 July, Iceland, the country represented by the chair of the Doha Negotiating Group on Rules overseeing the fisheries subsidies negotiations – Ambassador Einar Gunnarsson – submitted a draft General Council decision (WT/GC/W/943) on "Additional Provisions on Fisheries Subsidies".

The draft GC decision submitted by Iceland sought approval from members on the additional provisions at the upcoming GC meeting on 22 July.

It wants members to decide on the following:

"1. The Protocol amending the WTO Agreement, attached to this Decision (the "Protocol") is hereby adopted and submitted to the Members for acceptance.

2. The Protocol shall hereby be open for acceptance by Members. Members that, at the time of accepting the attached Protocol, have not yet accepted the 2022 Protocol, can accept the attached Protocol only together with the 2022 Protocol.

3. The Protocol shall enter into force in accordance with the provisions of paragraph 3 of Article X of the WTO Agreement."

It seems rather puzzling that Iceland chose to circulate the above proposal even as its trade envoy is the current chair of the Doha Negotiating Group on Rules, which oversees the fisheries subsidies negotiations.

Small-group meetings

It appears that the chair held four small-group meetings on 12 July to address various issues raised by members, said a trade envoy, who asked not to be quoted.

Several countries including India raised serious issues with the draft additional provisions without even convening a formal meeting of the Negotiating Group on Rules.

They asked what was the material basis of the draft additional provisions that seem to be replete with specific carve-outs for the big OC&OF subsidizers with weak and ineffectual sustainability notification and transparency requirements, said people familiar with the proceedings.

As reported in the SUNS, the additional provisions contain easily manoeuvrable notification requirements for the ten big subsidizers like China, the European Union, Japan, Korea, Chinese Taipei and the United States among others in the tier-one sustainability criterion.

Further, the additional provisions give a "free pass" to distant water-fishing nations like the EU and China to continue with their fishing-related subsidies through diluted notification provisions, said people familiar with the development.

The chair's draft additional provisions are expected to come up for discussion at the Doha Trade Negotiations Committee (TNC) meeting on 15 July, said people familiar with the development.

Despite India's three proposals that require a revisit of the proposals for any decision to be made at the upcoming GC meeting, attempts are allegedly being made to go ahead with the draft GC decision, said people familiar with the development.

India's proposals

India's first proposal (WT/GC/W/945) on "Analyzing the Impact of the Chair's Proposed OCOF Disciplines under the Additional Provisions on Fisheries Subsidies on the Sustainability of Global Marine Fish Stocks" showed serious deficiencies/flaws in the chair's draft text on grounds that it goes against the mandate in United Nations Sustainable Development Goal 14.6.

India said: "As mandated by Sustainable Development Goal 14.6, negotiations on the overcapacity and overfishing (OCOF) pillar are guided by the objective of conserving global marine resources by prohibiting certain forms of fisheries subsidies that contribute to

OCOF. Ensuring the sustainability of the global marine ecosystem has, therefore, been the primary driver of the OCOF subsidy negotiations."

India argued that "in order to accomplish its sustainability objective, the OCOF subsidy disciplines must rein in the activities of large-scale industrial fishing fleets involved in deep-sea and distant-water fishing (DWF)", which "historically exploited and depleted the fisheries resources and benefited from substantial government support and subsidies for their extensive operations."

Further, India said "the OCOF disciplines should not curtail the aspirations of smaller players looking to expand their fishing capabilities and develop their fisheries sector."

It noted that the chair's draft text (TN/RL/W/279), "is largely based on a hastily concluded compromise during the closing stages of the 13th Ministerial Conference (MC-13)."

More importantly, according to India, "the draft text could undermine the sustainability goals of the OCOF pillar by failing to effectively discipline states that have historically subsidized their fisheries sector to develop large-scale industrial fishing capabilities."

India said its submission focused "on two aspects of W/279: the two-tiered demonstration requirement under the sustainability clause and the disciplines on distant water fishing nations (DWFNs)."

In conclusion, India stated explicitly in its proposal that "the current draft text proposed by the Chair raises significant concerns about its ability to effectively regulate states that have historically subsidized their fisheries sector, leading to massive industrial fishing capacities."

India stated that "the two-tiered demonstration requirement and the dilution of disciplines on DWFNs present significant loopholes that may perpetuate unsustainable fishing operations, particularly by large-scale industrial fishing nations."

India underscored the need for a careful "review" of "these aspects of the current draft text to ensure that it effectively aligns with the sustainability goals of the OCOF pillar without unfairly burdening developing countries."

The second proposal (WT/GC/W/946) by India deals with specific concerns on disciplines concerning OCOF as contained in the draft additional provisions.

India said that its concerns are two-fold: (i) the two-tiered demonstration requirement and (ii) the dilution of disciplines on distant water fishing (DWF) nations present significant loopholes that may perpetuate unsustainable fishing operations, particularly by large-scale industrial fishing nations that have historically subsidized their fisheries sector leading to its current industrial prowess.

According to India, "the current hybrid approach does not advance the objective of sustainability."

It urged "the membership to consider the affirmative determination approach, as outlined in the overfished pillar."

India argued that "on the subject of levelling the playing field for developing countries and LDCs through the implementation of strong and effective SDT provisions, we must bear in mind that sustainability cuts across environmental, social, and economic dimensions. The loss of one dimension will impair the others."

New Delhi cited three key issues with the chair's draft additional provisions.

They include:

"(i) Stringent conditionalities and notification obligations for SDT towards small-scale and artisanal fishers, which require immediate attention to avoid the dilution of their SDT entitlement:

(ii) the disregard of the sovereign rights of coastal states as outlined under the UNCLOS (United Nations Convention on the Law of the Sea) by not carving out the EEZ from the disciplines; and

(iii) the need to provide a longer transition period in waters managed by RFMO/As (regional fisheries management organizations/arrangements) for developing country Members to effectively adjust to the OCOF subsidy disciplines without jeopardizing their socio-economic development."

It reiterated "the three horizontal issues that need to be addressed in order for the comprehensive disciplines on fisheries subsidies to achieve their sustainability objective."

These horizontal issues include:

(i) the inclusion of non-specific fuel subsidies within the scope of the comprehensive disciplines;

(ii) treating the onward transfer of rights under government-to-government access arrangements (which are entered into by the EU with several neighbouring Mediterranean countries) to operators and vessels as a subsidy under the comprehensive disciplines; and

(iii) excluding from the scope of Article 4 of the AFS (Agreement on Fisheries Subsidies) multi-species fishing and related activities within the EEZ of coastal states by fishermen using non-selective fishing gear."

India regretted the process adopted by the chair, saying that "while members are unable to have an open and constructive dialogue post-MC13, at the same time, there is a motion to adopt the text prematurely, despite the fact that many outstanding issues remain unresolved."

New Delhi cautioned that "such actions carry the risk of perpetuating the ongoing imbalances in the development of the fishing sector – especially as the concerns of developing members have not been adequately addressed."

It called for further "consultations", with "the objective of identifying practical and long-lasting solutions that will guarantee that all members are well equipped to achieve the SDGs in all of its three pillars in a holistic and balanced manner."

India said it is "open to finding the appropriate landing zones. Further, we will remain engaged and constructive towards a final and meaningful outcome before the MC14."

India's third proposal (WT/GC/W/947) focused on "Implementing Appropriate and Effective Special and Differential Treatment under the Additional Provisions on Fisheries Subsidies".

It said that the United Nations Sustainable Development Goal (SDG) 14.6 "sets out the negotiating mandate for the overcapacity and overfishing (OCOF) pillar. It, inter alia, calls for prohibiting certain forms of subsidies contributing to OCOF while also recognizing that appropriate and effective special and differential treatment (SDT) for developing and least developed countries (LDCs) should be an integral part of the negotiations."

India said that "the need to implement appropriate and effective SDT under the OCOF pillar stems from the principle of sustainable development, recognized by the Marrakesh Agreement, that calls for a balance between the environmental, social and economic dimensions of development."

India highlighted "the principle of common but differentiated responsibilities and respective capabilities (CBDR- RC)."

It said: "Applying the CBDR-RC principle to the OCOF subsidy disciplines implies that large industrial fishing nations, who have historically contributed to the depletion of global marine resources – not just in their waters and on the high seas but also in the exclusive economic zone (EEZ) of other countries where they have access arrangements – should shoulder a greater share of the responsibility than states that have not contributed in the same way. Additionally, the CBDR-RC principle stipulates that the resource constraints and capabilities of developing nations must be considered when determining their responsibilities in a sustainability context."

According to India, "several considerations need to be taken into account in order to implement appropriate and effective SDT under the OCOF pillar."

These considerations include "addressing the needs of small-scale and artisanal fishers, whose livelihoods depend on fishing, and the food security concerns of states that rely on fisheries as a source of nutrition," India said.

"It is also important to consider the capacity constraints of developing countries and LDCs to establish and maintain effective fisheries management systems to adhere to the disciplines," India said, suggesting that "it involves the aspiration of developing coastal States to enhance their fishing capacity and engage in large-scale industrial fishing in the future."

Policy space

At the outset, India said "it is important to note that given the harm posed by fishing regarding overfished stocks and illegal, unreported and unregulated (IUU) activities, Members have agreed to a limited SDT in relation to these pillars."

"The SDT for developing countries, including LDCs, in relation to the IUU and overfished pillars, is limited to a two-year transition period up to the EEZ from the date of entry into force of the Agreement on Fisheries Subsidies (AFS)," India said.

As regards the OCOF subsidy disciplines, India said "developing countries demand stronger SDT, given their comparatively less harmful impact on the health of fish stocks."

Questioning the S&DT provisions in the chair's latest draft text (TN/RL/W/279), India argued that "SDT for the OCOF pillar entails an exemption from the obligation to prohibit subsidies contributing to OCOF contained under Article A.1."

In its elaborate proposal explaining the asymmetrical treatment meted out to the developing countries, India emphasized "the necessity of a strong SDT within the OCOF pillar to ensure a balanced approach to sustainable development across environmental, social, and economic dimensions."

It said that the current draft text "stipulates stringent conditionalities and notification obligations for SDT towards small-scale and artisanal fishers, which requires immediate attention to avoid the dilution of their SDT entitlement."

India argued that "it is crucial to exclude the EEZ from the OCOF disciplines to respect the sovereign rights of coastal states as outlined under the UNCLOS."

"In addition, allowing a longer transition period in waters managed by RFMO/As is vital for developing country Members to effectively adjust to the OCOF subsidy disciplines without jeopardizing their socio-economic development," India concluded.

In conclusion, India's three proposals seem to have exposed how agreements are allegedly biased in favour of the main "culprits" who are regarded as being historically responsible for the global depletion of fish stocks. *(SUNS 10046)*

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Doha fisheries chair issues new draft text on fisheries subsidies

The chair of the Doha fisheries subsidies negotiations at the World Trade Organization on 10 July issued a new draft text addressing fisheries subsidies that contribute to overcapacity and overfishing.

by D. Ravi Kanth

GENEVA: The chair of the World Trade Organization's Doha Rules negotiating body on 10 July issued a new draft text addressing fisheries subsidies that contribute to overcapacity and overfishing, which is seemingly biased in favour of the big subsidizers while allowing distant-water fishing nations a "free pass", said people familiar with the text.

The genesis of this latest text appears to be the result of bilateral and small-group meetings with the chair and select members, said people familiar with the discussions.

It seems that the entire WTO membership has not yet had an opportunity to convene in a plenary session in the Rules negotiating body to discuss the text or share their views, said people who preferred not to be identified.

It was originally the intention of the chair, Ambassador Einar Gunnarsson of Iceland, to introduce the text in a Trade Negotiations Committee (TNC) meeting scheduled for 15 July, which is the body overseeing the Doha Development Agenda negotiations, said a trade envoy, who asked not to be quoted.

However, in what appears to be the makings of a "fiasco", the chair, in a seemingly last-minute development, has decided to convene four in-person small-group sessions at the Heads of Delegation (HoD) plus one level on 12 July, the envoy said.

The chair has also announced that he will be submitting the text through the delegation of Iceland, his own delegation, for inclusion in the upcoming July General Council meeting.

"This latest development publicly highlights the procedural anomalies that have plagued the fisheries subsidies negotiations from the start," said a fisheries expert, preferring not to be quoted.

"The latest text is not the product of a true multilateral process but rather the work of a select few members," the expert said, adding that "these members have weakened the disciplines to such an extent that they are now ineffective and fail to meet the objectives of SDG 14.6."

Draft text

The seven-page draft text (TN/RL/W/279) issued on 10 July is based on a two-tier, hybrid approach based on the sustainability criteria.

More importantly, it has highlighted the proposal from the United States on forced labour in fishing activities.

The first-tier sustainability criterion deals with prohibitions on subsidies contributing to overcapacity and overfishing (OC&OF) that do not apply to the big subsidizers provided they demonstrate "that measures are implemented to maintain the stock or stocks in the relevant fishery or fisheries at a biologically sustainable level", as well as several other similarly weakened provisions.

There appear to be several carve-outs provided to the big subsidizers such as China, the European Union, Japan, Korea, Chinese Taipei, and the US among others to continue with their prohibited subsidies.

Effectively, the chair has allowed the ten big subsidizers to maintain the prohibited subsidies as listed in Article A.1 of the new draft text.

Article A.1 of the draft text states:

"No Member shall grant or maintain subsidies to fishing or fishing related activities that contribute to overcapacity or overfishing. For the purposes of this paragraph, subsidies that contribute to overcapacity or overfishing include:

(a) subsidies to construction, acquisition, maintenance, modernisation, renovation, or upgrading of vessels;

(b) subsidies to the purchase or maintenance of machines and equipment for vessels (including fishing gear and engine, fish-processing machinery, fish-finding technology, refrigerators, or machinery for sorting or cleaning fish);

(c) subsidies to the purchase/costs of fuel, ice, or bait;

(d) subsidies to costs of personnel, social charges, or insurance;

(e) income support of vessels or operators or the workers they employ except for such subsidies implemented for subsistence purposes during seasonal closures;

(f) price support of fish caught;

(g) subsidies to at-sea support; and

(h) subsidies covering operating losses of vessels or fishing or fishing related activities."

However, in footnote one, the chair said that "for greater certainty, Article A.1 does not apply to subsidies to the extent they regard stocks that are overfished."

Under Article A.1.1 (a) of the new draft text, the big subsidizers are required to merely file their notifications demonstrating that they are adopting the requisite measures to ensure that fish stocks are maintained at a biologically sustainable level within six months after the agreement comes into force.

Instead of prohibiting subsidies to distant-water fishing, which is economically undermining developing and least developed countries that survive on fishing for their livelihood, the chair has seemingly provided a major carve-out in Article A.2 to two big subsidizers - the EU and China - to continue with their subsidies to distant-water fishing.

Here again, the chair appears to have merely diluted the conditions with weak notification requirements for the two big subsidizers.

Article A.2 states as follows:

"(a) Members shall refrain, to the greatest extent possible, from granting or maintaining subsidies contingent upon, or tied to, actual or anticipated fishing or fishing-related activities in areas beyond the subsidizing Member's jurisdiction (whether solely or as one of several other conditions), unless the requirements in subparagraph (b) are met.

(b) For any subsidy referred to in subparagraph (a), Article A.1 shall apply. Such a subsidy is not inconsistent with Article A.1 if the subsidizing Member also:

(i) makes the demonstration required under Article A.1.1(a) for the relevant subsidy; and

(ii) in addition to the information referred to in Article A.1.1(c), provides information on the conservation and management measures governing the subsidized fishing or fishing related activities such as national legislation or competent RFMO/A(s), and provide the following information for the relevant subsidy:

(1) the amount of the subsidy;

(2) fleet capacity in the fishery for which the subsidy is provided; and

(3) catch data by species or group of species in the fishery for which the subsidy is provided.

(c) The Committee on Fisheries Subsidies shall assess the information provided under Article A.2(b)(ii) in accordance with the cycle of regular notifications under Article 25 of the SCM Agreement and Article 8.1 of the AFS, report on the total aggregate value of such subsidies, identify trends and the impact on small island developing state Members and least-developed country (LDC) Members, and report such findings to the Council for Trade in Goods".

However, the above notification requirements appear to go against the mandate of the negotiations, as set out in the United Nations Sustainable Development Goal 14.6, which was later reinforced in the ministerial outcome of the WTO's 11th ministerial conference (MC11) held in Buenos Aires, Argentina, in December 2017, said people familiar with the negotiations.

That mandate states: "By 2020, prohibit certain forms of fisheries subsidies which contribute to overcapacity and overfishing, eliminate subsidies that contribute to illegal, unreported and unregulated [IUU] fishing and refrain from introducing new such subsidies, recognizing that appropriate and effective special and differential treatment for developing and least developed countries should be an integral part of the World Trade Organization fisheries subsidies negotiation."

The second-tier sustainability requirements, focused on special and differential treatment (S&DT) provisions for developing countries (except those among the top ten OC&OF subsidizers), seem somewhat "relaxed" on the face of it, said a capital-based official, who asked not to be identified.

Yet, as compared to the alleged carve-outs provided to the big subsidizers, there appears to be an asymmetry as regards the conditions attached for availing of S&DT, the official said.

S&DT

In Article B of the draft text, the chair proposed the S&DT provisions that will apply to different categories of members.

Article B of the draft text states:

"B.1 Article A.1 shall not apply to LDC Members. A Member that graduates from the LDC category may grant or maintain the subsidies referred to in Article A.1 to fishing or fishing related activities for a maximum of four years after the date on which the decision of the UN General Assembly to graduate that Member from the "Least Developed Countries" category becomes effective.

B.2 A developing country Member may grant or maintain the subsidies referred to in Article A.1 if its share of the annual global volume of marine capture production does not exceed 0.8 per cent as per the most recent published FAO data as circulated by the WTO Secretariat. A Member remains exempted until its share exceeds this threshold for three consecutive years. It shall be re-included in Article B.2 when its share of the global volume of marine capture production falls back below the threshold for three consecutive years.

B.3 (a) A developing country Member not covered by the special and differential treatment provided for in Article B.1 or Article B.2 may grant or maintain the subsidies referred to in Article A.1 to fishing or fishing related activities within its EEZ, and in the area and for species under the competence of an RFMO/A through which the Member is authorized to engage in such fishing or fishing related activities, for a maximum of 10 years after the entry into force of these Additional Provisions. A developing country Member intending to invoke this provision shall inform the Committee in writing within one year of the date of entry into force of these Additional Provisions.

(b) Subsidies granted or maintained under subparagraph (a) shall be exempt from actions based on Article A.1 and Article 10 of the AFS for a period of two additional years after the end of the period referred to in the first sentence of subparagraph (a).

(c) A developing country Member to which subparagraph (b) applies may request no more than two two-year extensions of the period referred to in that subparagraph through the Committee. The Committee shall take into account the specific circumstances of that Member, and shall give due and sympathetic consideration to developing country Members that demonstrate concrete progress toward implementing Article A.1.

B.4 (a) A developing country Member may grant or maintain the subsidies referred to in Article A.1 for small-scale and artisanal fishing or fishing-related activities that are primarily low income, resource poor or livelihood in nature as operationally defined by that Member.

(b) A developing country Member availing itself of subparagraph (a) shall, in its regular notification under Article 25 of the SCM Agreement and Article 8.1 of the AFS, notify the subsidies provided under this provision and provide its operational definition(s) of the fishing or fishing related activities referred to in subparagraph (a), and promptly inform the Committee of any modifications thereafter.

B.5 Subsidizing developing country Members are encouraged to make a binding commitment not to avail themselves of Article B.1, Article B.2, Article B.3, and Article B.4."

While paragraph B.1 of Article B allows LDCs to provide the so-called prohibited subsidies, it would allow graduated LDCs to continue with the same subsidies for a maximum period of only four years after the date on which the decision of the UN General Assembly "to graduate that Member from the "Least-developed Countries" category becomes effective."

However, the graduated LDC may feel let down, as the treatment on S&DT is not the same as for the big developing country members, said an LDC member who asked not to be quoted.

The draft text also offers a de minimis condition for developing countries like those from the ACP (African, Caribbean, and Pacific) group of countries to provide prohibited subsidies if their share of the annual "global volume of marine capture production does not exceed 0.8 per cent as per the most recent published FAO data as circulated by the WTO Secretariat", as set out in Article B.2

While India had demanded a period of 24 years as the duration of S&DT so that it could develop its nascent fisheries sector, it may now get a maximum period of 12 years, as the ratification of the agreement is expected to take at least two years before it comes into force, said people familiar with the provisions.

In an apparent concession to small-scale and artisanal fishers, the draft text states in Article B.4 (a) that: "A developing country Member may grant or maintain the subsidies referred to in Article A.1 for small scale and artisanal fishing or fishing related activities that are primarily low income, resource-poor or livelihood in nature as operationally defined by that Member."

Further, if the big subsidizers, including distant-water fishing subsidizers, can continue with the prohibited subsidies with inadequate notification requirements, then why can't the same treatment be offered to the big developing countries, said a Geneva-based fisheries negotiator, who asked not to be quoted.

Notification & transparency

The chair has highlighted in Article C.2 (a) (in yellow), a proposal submitted by the US on forced labour.

It states: "any vessels and operators for which the Member has information that reasonably indicates the use of forced labour, along with relevant information to the extent possible;"

According to the chair's explanatory note (TN/RL/W/279/Add.1), the other highlighted issue is in footnote 25, which is the opt-out provision under Article B.5, "which are still the subject of active engagement between Members, and which will require further action before the final conclusion."

As and when deals are being struck, it is expected that China will accept Article B.5, and opt out from S&DT in exchange for the US dropping the forced labour provision, said people familiar with the negotiations.

In contrast, as demanded by India on including the issue of non-specific fuel subsidies in the list of prohibited OC&OF subsidies, the chair merely highlighted the provision in yellow in the notification and transparency requirement in his April draft text.

In TN/RL/W/278, the provision highlighted was as follows: "C.3 Notwithstanding Article 1 of the AFS, and to the extent possible, each Member shall notify to the Committee in writing on an annual basis of its fuel subsidies granted or maintained to fishing or fishing related activities that are not specific within the meaning of Article 2 of the SCM Agreement."

However, the chair has removed that provision on non-specific fuel subsidies in the latest draft text on grounds that there is no support for the proposal, the negotiator said.

"This shows a marked bias in favour of the US, while not granting the same treatment to India," the negotiator said.

The draft text includes language in Article D suggesting that there shall be a review of the operation of the above provisions five years after the agreement comes into force.

It remains to be seen whether the draft text will be accepted at the upcoming TNC meeting on 15 July.

Attempts are allegedly underway to reach an agreement on the additional provisions by end-July so that it could become a major plank for the WTO Director-General, Ms Ngozi Okonjo-Iweala, to burnish her profile in seeking a second term, said people familiar with the development. *(SUNS 10045)*

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WTO retreat fails to bridge positions on decision-making processes

At a one-day retreat at the Hotel Geneva Hilton on 8 July, trade envoys held frank discussions on a raft of issues centering on how to improve the decision-making processes at the World Trade Organization.

by D. Ravi Kanth

GENEVA: Trade envoys on 8 July seemingly expressed mixed views on the issues of transparency, inclusion, and small "green room" meetings, while unable to reach any convergence on the core issue of finding innovative approaches to replace the practice of consensus-based decision-making at the World Trade Organization, said people familiar with the development.

During a one-day retreat at the Hotel Geneva Hilton on 8 July, trade envoys apparently held frank discussions on a raft of issues based on five questions circulated by the chair of the WTO's General Council, Ambassador Petter Olberg of Norway.

The questions, circulated in the restricted document Job/GC/399 on 28 June, centred on how to improve the decision-making processes at the WTO.

As reported in the SUNS, Ambassador Olberg asked members to ponder over five questions for the retreat.

The questions are as follows:

1. "In your view, how can the WTO improve its decision-making processes to ensure inclusive and transparent outcomes? What specific actions can we take to build necessary trust and unlock Members' concerns prior to proposing and taking decisions?;

2. How can the WTO and its Members balance the need for consensus with the urgency to achieve timely and effective results? How can we balance the desire to protect national interests with the need to deliver for the common good? What tools and actions do we have when we are unable to agree?;

3. Given the experiences from past Ministerial Conferences, and the most recent experience in Abu Dhabi, what needs to be improved in Geneva in the run-up to the next Ministerial Conference? What should be the objectives of Ministerial Conferences?;

4. How can the outcomes of past Ministerial Conferences be effectively implemented to ensure continuous progress and accountability within the WTO? Are existing monitoring mechanisms sufficient? How do we assess past commitments in light of changing circumstances?; and

5. How can we translate these suggestions into actionable ideas for change? Are these realistic expectations?"

During the plenary session at the retreat, many trade envoys appear to have broadly echoed their views, supporting the notion of transparency and inclusion in the daily processes at the WTO, said people familiar with the development.

It appears that the US trade envoy Ambassador Maria Pagan did not make any statement during the plenary session, though in the past, it was the US that had called for changing the WTO's negotiating function while encouraging non-mandated plurilateral processes like the controversial Joint Statement Initiatives (JSIs), said people familiar with the US position.

However, it is unclear what the US would have said in the group meeting of more than ten trade envoys, said people familiar with the discussions.

China appears to have pro-actively echoed its responses at the plenary meeting, said people familiar with the development.

Two days before the meeting, China submitted an unofficial room document (RD/GC/31) titled, "Revisiting the Marrakesh Agreement to Improve WTO Decision-Making: A Pareto Improvement Perspective", said people familiar with the development.

The overall mood during the plenary session on issues such as "green room" meetings, transparency, and inclusion seemed positive, said people familiar with the discussions.

During the afternoon session, trade envoys were split into six groups with different coordinators.

The six coordinators were Ambassador Mr. Matthew Wilson (Barbados) for the first group; Ambassador Ms Athaliah Lesiba Molokomme (Botswana) for the second group; Ambassador Ms. Mazlizah PG Mahalee (Brunei Darussalam) for the third group; Ambassador Ms Sofia Boza Martinez (Chile) for the fourth group; Ambassador Mr. Muhammadou Kah (Gambia) for the fifth group; and Ambassador Mr. Simon Manley (United Kingdom) for the sixth group.

Some of the above coordinators seemed to represent specific interests, including supporting a change in the consensus-based decision-making process as set out in Article IX of the Marrakesh Agreement, said people familiar with the development.

Sharp divide

The discussion on consensus-based decision-making appears to be sharply divided, with many members adhering to their earlier positions embracing Article IX of the Marrakesh Agreement, said people familiar with the development.

Paragraph one of Article IX of the Marrakesh Agreement states: "The WTO shall continue the practice of decision-making by consensus followed under GATT 1947. Except as otherwise provided, where a decision cannot be arrived at by consensus, the matter at issue shall be decided by voting. At meetings of the Ministerial Conference and the General Council, each Member of the WTO shall have one vote. Where the European Communities exercise their right to vote, they shall have a number of votes equal to the number of their member States which are Members of the WTO. Decisions of the Ministerial Conference and the General Council shall be taken by a majority of the votes cast, unless otherwise provided in this Agreement or in the relevant Multilateral Trade Agreement."

Significantly, one member at the meeting alluded to the possibility of using the voting option in case of irreconcilable differences and disagreements, but the idea did not get much support, said people who asked not to be identified.

"The discussion on consensus-building is neither here nor there and it is a waste of an effort," said a participant, who asked not to be quoted.

Moves to consider new approaches such as "responsible consensus" or "constructive consensus" or a "Pareto" perspective made little progress during the frank discussions, said people familiar with the discussions.

During the afternoon session, questions were raised on limiting the "green room" meetings to select countries and the utility of small-group meetings that are invariably submerged in opacity, said people familiar with the discussions.

At the retreat, discussions on the issue of the time-frames for implementing the mandated decisions revealed several divergences, said people familiar with the discussions.

Several trade envoys highlighted the issue of the trust deficit plaguing the organization, preventing it from making any headway on reaching timely decisions.

However, members appear to have opposed the constant "shifting of the goal posts" by some members on the mandated issues, with some challenging the sanctity of the mandated decisions under dynamic conditions, said people familiar with the discussions.

On the issue of trust-building, the main concern seemed to be whether it can be addressed without tackling the mandated issues based on ministerial consensus, said people familiar with the discussions.

One trade envoy said that the retreat produced "positive outcomes" while emphasizing that consensus-based decision-making is important, said people familiar with the discussions.

Egypt and the Russian Federation seemingly opposed any change in the practice of consensus-based decision-making.

Egypt also highlighted the importance of concluding the reform of the Dispute Settlement Body based on the two-tier system, said people familiar with the discussions.

During the discussions, members also discussed how decisions are taken in different United Nations bodies, said people familiar with the discussions.

Trade envoys appear to have expressed mixed views on the issue of "political will", with some members underscoring the need for demonstrating political will while others asked that if ministerial decisions are not implemented as per the mandates, how can they show political will, said people familiar with the discussions.

China's room document

Two days before the retreat, China circulated a room document (namely, for discussion only and not an official position) on "Revisiting the Marrakesh Agreement to Improve WTO Decision-Making: A Pareto Improvement Perspective."

China argued that "the inability of the WTO to deliver negotiation outcomes diminishes the relevance of the multilateral trading system."

It underscored the need for "effective decision-making" as sine qua non for WTO reform.

China emphasized that "for the purpose of WTO to function and deliver, the Marrakesh Agreement provides both consensus and voting as options for decision-making, while recognizing consensus is the preferred option unless otherwise stipulated."

According to China's room document, there is a need for an affirmative call for action on matters with broad support.

It said "depending on the matter at issue, different majorities are required, including simple majority, 2/3 and 3/4. The thresholds here indicate that the matter at issue with broad support does matter for the multilateral trading system."

China added that "multilateralism always goes together with diversity including differentiated obligations, implementation and treatment, and also less than full membership."

"History shows that consensus has never been a rigid practice and has provided flexibilities to address members' concerns while ensuring that the multilateral trading system can move forward, and its inclusiveness," it said.

Moreover, according to China, "differentiation among the Membership has been a common tool to forge consensus, such as special and differential treatment provisions in WTO Agreements, critical-mass based trade liberalization binding a substantial subset of Membership with benefits accruing to all."

Further, China suggested that a "multilateral agreement does not mean implementation by the full membership though it is expected."

"Since its establishment, none of the new agreements or amendments entered into force in the WTO has been ratified by the full membership."

Interestingly, China ,which joined the WTO at the fourth ministerial conference in Doha, Qatar, in 2001, said that "Agreements by partial membership are an integral part of multilateral rule-making."

"In the history of the multilateral trading system," China said, "disciplines negotiated by and applied to subsets of members paved the way for reaching the multilateral agreements. The current trade remedy agreements, SPS and TBT agreements, all evolved from the trade remedy codes, SPS and TBT codes, in the Tokyo Round", which were later integrated into the Uruguay Round agreement.

According to China, "the discussions during the May 2024 General Council confirmed once again that consensus is of fundamental importance to members."

However, China said that "in the meantime, members also recognized the end goal and the imperative is for the WTO to deliver."

"No member should be compelled by the majority to accept obligations they don't want," China said.

"In turn, the majority, if they wish to move forward, should not be held back by a few," it argued, adding that "the membership must collectively find creative ways, informed by the text of the WTO Agreement and past practices, to forge consensus and make the WTO deliver."

"Pareto" improvement

In its room document, China listed the main factors undergirding the Pareto decision-making framework.

It said, "Pareto Improvement in Rule-Making essentially means rule-making among a substantial subset but less than full membership, which could make at least part of the membership better off without making anyone else worse off."

Arguing the need for Pareto improvement, China said that "allowing a substantial part of WTO membership to proceed with rule-making that is open, transparent in process, beneficial for the participants, and does not harm the interests of non-participants would benefit the multilateral trading system and in the end, benefit all."

Lastly, it said, "For an agreement

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of Pareto Improvement nature that enjoys support of a substantial majority of the membership, for example, over the 2/3 or 3/4 thresholds as provided for in the voting procedures, Members should exercise restraint in blocking the consensus."

On the procedures to facilitate consensus when a decision with very broad support is blocked, China called for the following:

- Enhanced Transparency: Clear and convincing reasons should be provided when blocking consensus.
- Obligatory Engagement: Members should actively engage, with a view to finding solutions.
- Mediation by an Appointed Third Party: Where there is an overwhelming majority in favour of a matter, a special consultative process should be set up to help bridge gaps and propose necessary solutions.

In a rules-based, member-driven organization like the WTO, what happens if an agreement is systemically and procedurally flawed, said a former General Council chairperson, who asked not to be quoted.

China also offered "possible solutions to address the concerns of the dissenting members" by suggesting the following:

- "Differentiated Levels of Commitments. For example, carefully-calibrated arrangements catered to members with different level of development and capacity, including special and differential treatment;
- Other Common Treaty-Making Tools. Such as provision of the options to opt-out or make a reservation."

It is not clear whether trade envoys discussed the Chinese non-paper at the retreat, said people familiar with the discussions.

The General Council chair is expected to issue either a report or some main bullet points on the discussions that took place at the retreat in the coming days, said people who preferred not to be identified.

In short, the rather costly one-day retreat, apparently incurring an expense of a minimum of CHF 50,000 (more than US$50,000), seemed like the proverbial idiom "making a mountain out of a molehill," said people at the end of the retreat. *(SUNS 10043)*

Mixed trends in trade-facilitating and trade-restricting measures

According to a trade monitoring report issued by the World Trade Organization (WTO) on 8 July, WTO members introduced more trade-facilitating than trade-restricting measures on goods during the period between mid-October 2023 and mid-May 2024.

by D. Ravi Kanth

GENEVA: A World Trade Organization trade monitoring report on 8 July claimed that its members continue to deploy more trade-facilitating measures than trade-restricting measures on goods during the period between mid-October 2023 and mid-May 2024.

Even though the trend appears to be bucking the plethora of import restrictions imposed by the United States on high-tech Chinese goods, the report says that the trade covered by import restrictions in force was estimated at USD2,272 billion, constituting 9.7% of the total trade.

According to the report, during the review period, WTO members introduced more trade-facilitating (169) than trade-restricting (99) measures on goods.

Even though the report says that most of the measures were on the import side, it argues that the introduction of new export restrictions declined significantly during the review period.

Further, reversing a trend observed between 2021 and 2023, new import restrictions outpaced the number of new export restrictions.

It says the overall trade coverage of the trade-facilitating measures, on both the import and export side, was estimated at USD1,219.0 billion, up from USD977.2 billion in the last report.

The trade coverage of other trade and trade-related measures on the import and export side – covering those that are neither trade-facilitating nor trade remedies – was estimated at USD433.6 billion, up from USD337.1 billion in the last annual report.

The average number of trade remedy initiations increased during the review period (24.6) after years of a declining trend.

Significantly, almost 90% of the investigations recorded were initiated by G20 economies.

Also, anti-dumping continued to be the most frequent trade remedy action, accounting for 70.3% of all initiations and 93.9% of all terminations, said the report.

According to the report, the trade coverage of all trade remedy investigations initiated during the review period was USD56.1 billion (up from USD24.6 billion in the last annual report), and that of terminations was valued at USD2.5 billion (down from USD15.5 billion in the last report).

In the arena of trade in services, the report says that most new measures introduced by WTO members were trade-facilitating, either liberalizing or moving towards an improved regulatory framework.

Even though the WTO members failed to agree on the extension of the MC12 Ministerial Decision on the TRIPS Agreement to cover COVID-19 diagnostics and therapeutics, the report says that WTO members also continued to fine-tune their intellectual property regimes.

It notes that the implementation of new COVID-19 trade-related measures on goods, services, intellectual property, as well as government support measures related to COVID-19 by WTO Members continued to decline.

The stockpile of import restrictions in force has grown steadily since 2009, both in value terms and as a percentage of world imports.

So far in 2024, the trade covered by import restrictions in force was estimated at USD2,272 billion, representing 9.7% of total world imports.

The review period revealed significant new activity in terms of economic support measures, said the report.

The provision of subsidies as part of industrial policy is increasing rapidly, especially in areas related to or referencing renewable and non-renewable energy sources, climate change, and national security, it added.

Commenting on the findings, WTO Director-General Ms Ngozi Okonjo-Iweala said:

"This Trade Monitoring Update underscores the resilience of world trade despite the challenging geopolitical environment.

"Even in a context of rising protectionist pressures and signs of economic fragmentation, there are governments around the world still taking meaningful steps to liberalize and facilitate trade.

"This attests to the benefits of trade for people's purchasing power, business competitiveness and price stability.

"At the same time, a series of import-restricting measures announced too recently to be captured in the update looks set to affect a significant amount of world trade.

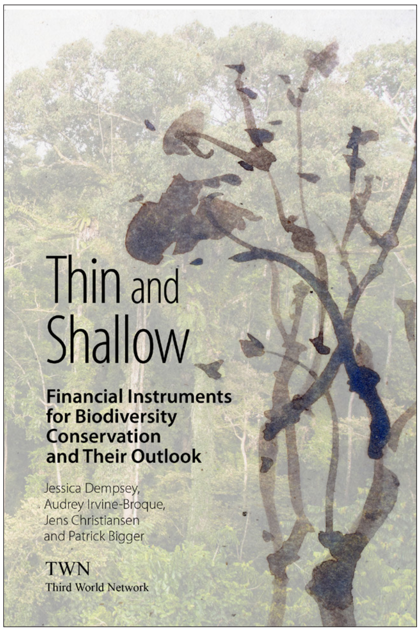
"I am encouraged to see efforts by members to use the WTO and other venues to find solutions to their differences. This is far better than tit-for-tat retaliation that leaves everyone worse off." *(SUNS 10042)*

Thin and Shallow: Financial Instruments for Biodiversity Conservation and Their Outlook

Jessica Dempsey
Audrey Irvine-Broque
Jens Christiansen
Patrick Bigger

This paper examines the track record of private financial mechanisms aimed at funding conservation of biological diversity. It finds that, due to lack of rigorous and consistent benchmarks and monitoring, these investments may not necessarily safeguard biodiversity and could even, in some cases, have adverse impacts. Further, despite decades of attempts to draw private capital to biodiversity protection, the quantum of finance remains limited, especially in the highly biodiverse countries of the Global South where it is most needed.

Written for a research project established by a group of central banks and financial supervisors, this paper cautions these authorities from deploying resources towards promoting such biodiversity-focused private financial instruments. Instead, the supervisory bodies are urged to step up policy coordination to address drivers of biodiversity loss in the financial system.



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Third World ECONOMICS No. 796-797, 1-30 June 2024

Global food import bill to exceed $2 trillion this year, says FAO

The global food import bill is again projected to rise to a new record high, exceeding $2 trillion in 2024, according to the UN Food and Agriculture Organization (FAO).

by Kanaga Raja

PENANG: The global food import bill (FIB) is projected to rise by 2.5 percent to exceed USD2 trillion in 2024, a new record high, according to a preliminary estimate by the UN Food and Agriculture Organization (FAO).

In its latest Food Outlook report, the FAO said its projections are driven by relatively favourable macroeconomic conditions, including steady global economic growth, and lower food commodity prices.

According to the report, FAO's latest estimates indicate that the global food import bill reached nearly USD2 trillion in 2023, representing a slight up-tick of 0.4 percent, or USD8.6 billion, over its 2022 level and marking a record high.

The increase mostly stemmed from higher import bills for fruits and vegetables, sugar and beverages, which more than offset declines in the import bills of animal and vegetable oils, fats, cereals and fishery products, it said.

In particular, import expenditures on sugar and fruits and vegetables increased by 12.7 percent and 6.5 percent, respectively, largely driven by a surge in their international quotations.

On the other hand, FAO said the import bill of animal and vegetable oils and fats fell by 12.2 percent as a result of a substantial drop in their world prices.

The year-on-year growth of the FIB represented a significant deceleration compared to the 11.0 percent increase registered in 2022 and the 18.0 percent rise in 2021, said the report.

It said the slowdown mainly reflects declines in the import bills for cereals and cereal preparations, animal and vegetable oils and fats, followed by fishery products and meat, against significant increases in 2022.

The FIB growth in 2023 was lower across all food groups, with fruits and vegetables being the main exception, said FAO.

It said among country income groups, high-income countries (HICs) represented over half of the global FIB in 2023, with a 62 percent share, followed by upper-middle-income countries (UMICs), with a 25 percent share.

FAO said HICs and UMICs drove the global increase in the FIB in 2023 and more than offset the year-on-year contractions in lower-middle-income countries (LMICs) and low-income countries (LICs), which were helped by lower international cereal prices.

Overall, it said HICs and UMICs import a wide range of food products, while staple foods dominate the imports of LMICs and LICs.

In addition, the share of imported higher-value foods in the total FIB generally drops with lower income levels, it noted.

The report said that in 2023, fruits and vegetables, meat, fishery products, coffee, tea, cocoa and spices, and beverages together accounted for 61 percent, 43.0 percent, 30.0 percent and 21.0 percent of the total FIBs of HICs, UMICs, LMICs and LICs, respectively.

Looking ahead to 2024, based on a preliminary analysis, FAO said that the FIB is projected to rise by about 2.5 percent and exceed USD2 trillion.

"The projections are driven mostly by relatively favourable macroeconomic conditions, including a steady global economic growth, and lower food commodity prices."

According to the World Economic Outlook of the International Monetary Fund (IMF), global economic growth in 2024 is projected to remain steady at 3.2 percent.

The April 2024 edition of the World Bank's Commodity Markets Outlook predicts that the prices of energy and agricultural commodities – including food products – will decline from 2023.

"The combination of these factors should sustain incomes and stimulate food import demand across the world, which, according to FAO's estimates, could make the global FIB grow by more than USD50 billion in 2024."

However, the projections can be impacted by several risk factors, such as an escalation of geopolitical tensions, climate-related shocks hitting agricultural production, economic setbacks, supply chain disruptions such as the recent surge in maritime transportation costs, and the use of trade restrictions, said the report. *(SUNS 10036)*

US Fed-induced world stagnation deepens debt distress

*Jomo Kwame Sundaram** has argued that multilateral financial institutions have been urging developing countries to borrow commercially, with the consequence being that borrowers are now stuck in debt traps with little prospect of escape.

KUALA LUMPUR: For some time, most multilateral financial institutions have urged developing countries to borrow commercially, but not from China.

Now, borrowers are stuck in debt traps with little prospect of escape.

The last decade and a half has seen protracted worldwide stagnation, with some economies and people faring much worse than others.

The 2008 global financial crisis and Great Recession have recently been worsened by the COVID-19 pandemic, US Federal Reserve Bank-led interest rate hikes and escalating geopolitical economic warfare.

Following Reagan-inspired tax cuts, ostensibly to induce more private investments, budget deficits have loomed larger. Instead of enabling rapid recovery, greater fiscal austerity is now demanded, as in the 1980s.

After fiscal expansion averted the worst in 2009, unconventional monetary policies, mainly "quantitative easing" (QE), took over.

The European Central Bank (ECB) followed the US Fed's QE lead for over a decade.

QE's lower interest rates encouraged more borrowing as more credit became available and affordable.

With rich nations offering less concessional finance, developing countries had little choice but to turn to markets for loans.

Spending counter-cyclically in a downturn requires government borrowing, which QE made more accessible and cheaper.

The resulting borrowing surge has since returned to haunt these economies since 2022-23, when interest rates spiked.

Pushing debt

World Bank slogans, such as "from billions to trillions", urged developing country governments to borrow more on market terms to meet their funding needs for the SDGs, climate and the pandemic.

With capital accounts open, many private investors have long sought "safety" abroad. But when lucrative direct investment opportunities beckoned, e.g., in India, some "capital flight" returned as foreign investments, typically privileged and protected by host governments and international treaties.

Easier credit availability on almost concessional terms, thanks to QE, enabled more, often innovative, financialization.

Blended finance and other such innovations promised to "de-risk" private investments, especially from abroad.

Despite less bank borrowing than in the 1970s, indebtedness increased with more market-based debt.

However, such indebtedness did not grow the real economy much despite much private technological innovation.

The US Fed started raising interest rates from early 2022, blaming inflation on the tight labour market.

As interest rates rose sharply, debt became more burdensome.

Thus, government borrowing worldwide became more constrained when more was needed.

Raising interest rates has dampened demand, including private and government spending for investment and consumption.

But recent economic contractions have been mainly due to supply-side disruptions.

The second Cold War, the COVID-19 pandemic, and geo-political economic aggression have disrupted supply lines and logistics.

Raising interest rates dampens demand but does not address supply-side disruptions. Inappropriate policies have not helped, as such anti-inflationary measures have cut jobs, incomes, spending and demand worldwide.

Following the 2008 global financial crisis, successive US presidents have successfully maintained full employment.

All central banks are committed to ensuring financial stability, but the US Fed also has an almost unique second mandate to maintain full employment.

Developing countries now face many more constraints on what they can do. Most are heavily indebted with little policy space for manoeuvre.

With more financing from markets, the pro-cyclical bias is more pronounced.

Vulnerable developing countries believe they have little choice but to surrender to the market.

Poverty in the poorest countries has not declined for almost a decade, while food security has not improved for even longer.

Worse, geopolitics has put much pressure on the Global South to spend more on the military.

But most recent food price increases were due to speculation and "artificial" rather than real shortages.

Poor worst off

The likelihood of distress increases with debt burdens. Debt stress has grown tremendously in the last two years, especially for developing countries heavily borrowing in major Western currencies.

Although the apparent reasons for central banks raising interest rates are rarely cited anymore, interest rates have not fallen, and funds have not flowed back to developing countries.

For at least a decade, the US has increasingly warned developing countries against borrowing from China despite its low interest rates compared to most other credit sources except Japan.

Consequently, China's lending to developing countries, particularly in Sub-Saharan Africa, has fallen since 2016.

By 2022, poorer countries had borrowed much more from commercial sources.

But such private capital has since fled to the US and other Western markets offering high returns with more security.

Capital flight from developing countries, especially the poorest, followed as much less money went to the poorest developing countries via markets.

With fewer funding options, the poorest countries have been the most vulnerable.

Negotiating with varied private creditors in markets, rather than via intergovernmental arrangements, has proved much more difficult.

With much more private market funding, such financiers will not take instructions from governments unless compelled to do so.

Hence, little on the horizon offers any real hope of significant debt relief, let alone strong recovery and improved prospects for sustainable development in the Global South. *(IPS)*

[* **Jomo Kwame Sundaram**, a former economics professor, was United Nations Assistant Secretary-General for Economic Development, and received the Wassily Leontief Prize for Advancing the Frontiers of Economic Thought in 2007.]

Debt-for-nature swaps – no miracle cure

*Alexander Kozul-Wright** questions the hype surrounding debt-for-nature swaps, which have been touted as an exciting solution to both the debt and biodiversity crises. Highlighting a number of concerns, he argues that simply put, debt-for-nature swaps are no panacea.

Long considered a development finance niche, debt-for-nature swaps re-entered the mainstream financial consciousness during the COVID-19 pandemic as lockdowns cratered economic activity and forced countries to take on new debt, while simultaneously reducing the revenues available to pay it back.[1]

The concept of debt-for-nature swaps was first introduced in 1984 by Thomas Lovejoy, vice president of the World Wildlife Fund. Broadly speaking, such instruments allow countries to swap their existing debt with new debt at lower interest rates and/or longer maturities, with some of the difference in proceeds being purportedly allocated to biodiversity projects.

Typically, a third-party organization (a private entity in most cases) purchases international sovereign debt at the prevailing market price, which is usually discounted due to negative market sentiment, on behalf of a targeted government. Funds used to purchase the existing debt will be raised through new issuance. In exchange, the debtor country commits to investing a portion of the savings made from its original debt repayments into biodiversity projects – such as forest and marine protection.

Since their inception, debt-for-nature swaps have been applied in over 30 countries, and from 1987 to 2015, the total value of debt restructured under such agreements was $2.6 billion, of which $1.2 billion was used to fund development or nature-related projects.[2]

The Nature Conservancy, a US-based non-governmental organization (NGO) that has been involved in many recent swaps, has made its own calculations that one-third of the $2.2 trillion worth of emerging market sovereign debt globally, or as much as $800 billion of distressed debt, is potentially "ripe" for swapping.[3]

Cheerleaders of debt-for-nature-swaps suggest that these instruments represent an opportunity for international investors and climate change and biodiversity campaigners to coalesce around shared interests, offering up non-public sources of funding to address the climate and nature crises.

Additionally, they claim that such swaps could help developing countries that are in debt distress, a situation that is increasingly urgent. Global public domestic and external debt was $92 trillion in 2022, with nearly a third of low- and middle-income countries at high risk of debt distress.[4,5] Half of humanity live in countries that spend more on servicing their debt than on education or health, let alone biodiversity protection.

However, while debt-for-nature swaps are touted as an exciting new or renewed solution for both the debt and biodiversity crises in developing countries, there is more than meets the eye:

1) The fundamental problem of unsustainable debt is not addressed – evidence shows that the overall impact on country debt sustainability is limited.[6] It may also be argued that viewing debt distress as an “opportunity” for conservation is unethical.
2) Debt-for-nature swaps could distract policymakers from meaningful solutions to the biodiversity crisis. An increasing focus on such swaps distracts advanced-economy governments from the need to fulfill official development assistance (ODA) and biodiversity financing obligations, and to step up greater grant financing for the Global South.
3) Transparent consultation processes in national parliaments and among local civil society groups are typically lacking in the decision-making process on debt-for-nature swaps.
4) Debt-for-nature swaps free up resources for low-income governments on terms defined by private sector creditors, entrenching a system of financialized economic development. What’s more, swaps entail “blended finance” – the strategic use of aid funding to de-risk private sector investment in developing countries. This opens up the question: whose interests are debt swaps really serving?

Who’s making use of debt-for-nature swaps?

Many of the world’s most indebted countries also happen to be biodiversity-rich. To date, most nations which have participated in debt-for-nature swaps are low-income countries with large biodiversity financing needs, and are typically undergoing a debt restructuring. Such countries that are facing a potential default situation are therefore persuaded to swap their sovereign natural assets in return for some debt relief.

In May 2023, Ecuador struck the largest debt-for-nature swap of its kind, refinancing $1.6 billion of commercial debt (with support from Credit Suisse) at a discount in exchange for a revenue stream for conservation projects. As part of the deal, an Ecuadorian government special purpose vehicle (SPV) sold a new marine conservation bond which was designed to funnel $12 million a year into conservation of the Galapagos Islands.[7,8]

In August 2023, Gabon signed off on a $500 million deal which lowered the interest rate on its debt and gave it a longer repayment schedule.[9] Cheaper financing was secured on the back of a public guarantee, a clear example of blended finance, made by the International Development Finance Corporation (DFC), the US government’s development finance institution which provides loans and other financial services to developing countries. In exchange, the African nation promised to spend at least $125 million to widen a marine reserve and strengthen fishing regulations, which will putatively help protect endangered humpback dolphins.

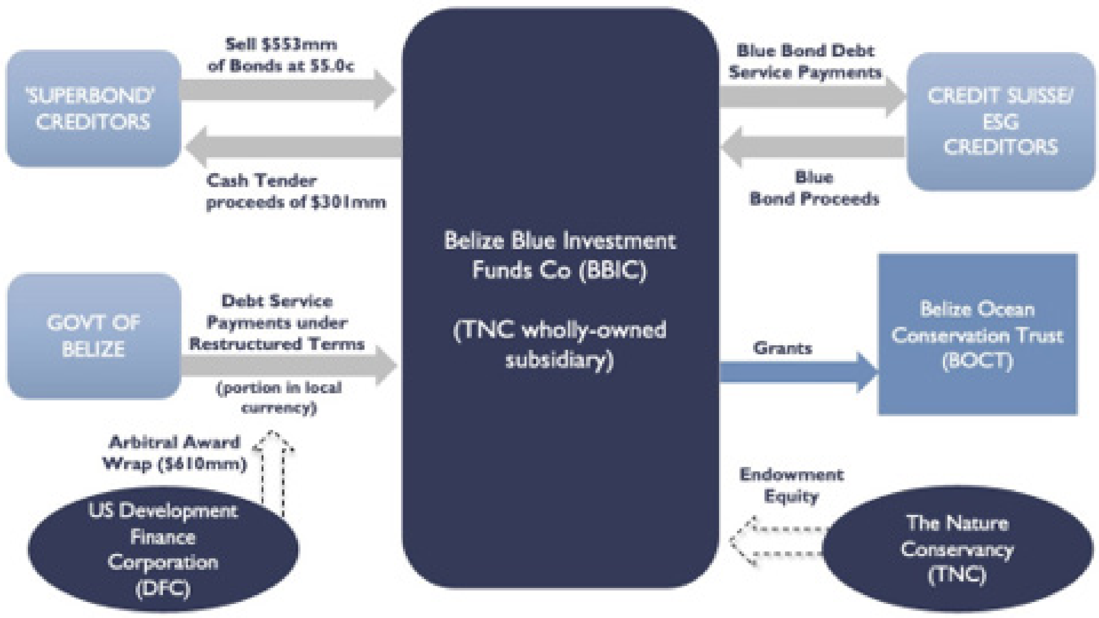
Size of the market

According to Bloomberg, the market for debt-for-nature swaps is approximately $800 billion. For context, the sums being discussed are a fraction of the $125 trillion that the United

The Belize example

A step-by-step process of Belize's debt-for-nature swap is illustrated below, highlighting the complexity of such arrangements.

- In 2021, Belize signed a debt-for-climate swap with The Nature Conservancy (TNC)
- A TNC subsidiary lent funds to Belize to buy back a $553 million "superbond" – the government's entire stock of external commercial debt, equivalent to 30% of GDP – at a discounted price of 55 cents per dollar
- The new debt instrument was partially guaranteed by the US International Development Finance Corporation (DFC)
- Savings were channelled into a $23.4 million endowment fund for marine conservation projects
- Overall, the debt-for-nature swap had minor impacts on the serviceability of Belize's debt, and diverted a modest stream of finance for marine conservation. It overpromised and underdelivered; according to the London School of Economics, it resulted in "higher transaction costs, less conservation-for-your-buck".



Source: Third World Network

Nations estimates must be spent globally to reach net-zero emissions by 2050 and avert the worst consequences of climate change.[10]

In any event, the potential amounts involved are beginning to prompt competition between banks, as the demand for green investment increases. Goldman Sachs, HSBC, Citigroup, BNP Paribas, Standard Chartered and Barclays have all signalled that they are exploring similar transactions. Financial counterparties can charge high fees for facilitating debt-for-nature swaps (see more below).

Who are the developed-country actors?

Just a few years ago, Credit Suisse was the only commercial bank arranging debt-for-nature swaps, bringing in private investors to help sovereign refinancing tied to nature conservation commitments. Last year, Bank of America became the second global lender to join the market when it completed a deal for Gabon.

As mentioned above, debt-for-nature swaps are a form of blended finance, where private investors are persuaded to enter risky investments with guarantees and other de-risking tools provided by development finance institutions such as the DFC, which has provided a number of insurance mechanisms to countries undertaking such swaps. Elsewhere, The Nature Conservancy is often involved in facilitating debt-for-nature swaps.

Critique of debt-for-nature swaps

Debt-for-nature swaps have come under criticism from various angles:

1. *Questionable environmental impacts*

- The overall environmental impact from these arrangements has been questioned because governments are given years to show conservation progress and are often not required to impose strict limits on human activity in their jurisdictions as part of debt-for-nature swaps.

- In a note circulated to clients last January,[11] Barclays Bank questioned the green credentials of debt-for-nature swaps – often sold as ESG (environmental, social and governance) investments – because only a small fraction of the deal size ends up with conservation. The labelling of the bond issued (to buy back the old debt) as "sustainable" or "green" is thus raising major associations with greenwashing.[12]
- In Belize (see box), for instance, while only $84 million of the $553 million went to actual marine conservation,[13] up to $86 million was allocated to intermediaries and service providers such as reinsurers, advisers and credit providers (all of whom hired large numbers of agents charging high advisory fees to the government).

2. *Limited (or even negative) impact on debt*

- The history of debt swaps shows that the overall impact on debt levels has been rather limited. Essers et al. (2021) argue that "traditionally, swaps have been piecemeal operations with a negligible effect on overall debt burdens (involving millions rather than billions of US dollars)".[14]
- Over the past three decades, debt swaps have led to roughly $8.4 billion of debt treated,[15] which is only 0.11% of total debt payments by low- and middle-income countries during the same period. As such, debt swaps cannot be seen as a way to restore debt sustainability.
- At the regional level, Sub-Saharan Africa's external debt amounted to $702.4 billion in 2020; according to a report of the African Development Bank published in October 2022,[16] debt treated through debt swaps amounted to less than $320 million in the entire continent.
- Debt swaps carry risks of negative impacts on a country's perceived creditworthiness.[17] The fiscal space gained through a swap becomes larger when the discount/interest rate reduction is higher; at the same time, the risk of negative creditworthiness perception increases. This would potentially have negative consequences on the country's future access to public and private finance.

3. *Distraction from the real need to address the debt crisis and provide financial resources*

- Debt-for-nature swaps should not be substituting for comprehensive debt restructuring (where needed), including debt cancellation. The developing-country G77 grouping recently stated that,[18] while debt-for-nature swaps can help to address the Sustainable Development Goals financing gap, "debt swaps cannot replace broader debt treatments in unsustainable debt situations".
- An increasing focus on debt-for-nature swaps can give the impression that the biodiversity financing gap is being adjusted through this mechanism, detracting attention away from the need to fulfil the existing ODA and biodiversity finance commitments, and to step up both unconditional grants and highly concessional finance to all countries in the Global South.

4. *Complex and burdensome process*

- Debt-for-nature swaps are complex instruments, time-consuming and burdensome to implement.[19] In the case of Seychelles, for instance, it took five years to close the deal. The complexity of the process also induces high transaction costs, particularly in relation to the amount of debt involved. The balance is skewed, with a disproportionately high amount of guarantee required when compared with the fiscal space created on the one hand and the amount that goes into sustainable projects on the other hand.

5. *Conditionalities*

- Debt swaps will not happen if the debtor country does not agree to invest freed-up resources in the area or project to be approved by the creditor. This entails a risk that they will be used by creditors to impose their own interests and priorities over those of the borrowing country.

6. *Lack of participation and untransparent governance*

- While debt swaps have occasionally incorporated the participation of citizens, civil society or other local entities, this is rarely the case.
- There is often little to no public information about the precise role of large conservation NGOs in debt-swap arrangements. Moreover, consultation and participation of national parliaments is typically non-existent in the initial stages of these processes.
- Linked to the above, management of debt-for-nature swap projects (or protected areas) is often overseen by a collection of foreign advisors and organizations, leaving little agency to the country in question.

Some reflections

For countries without access to grants or concessional financing, debt-for-nature swaps may play a role in mobilizing extra resources for biodiversity or climate projects. However, with their high transaction costs, complex governance structure and use of conditionality, debt swaps are a less efficient form of fiscal support than grants or concessional finance.

On this point, it should be recalled that developed countries have not yet met their 2009 pledge of mobilizing $100 billion a year to meet the climate needs of developing countries. For context, an average of $892 billion per year was invested in fossil fuels over 2019–2020, while global fossil fuel subsidies amounted to $450 billion over the same period. Similarly, there is concern that targets for financial resources to developing countries for the implementation of the Kunming-Montreal Global Biodiversity Framework will not be met.[20]

Ultimately, debt-for-nature swaps are part of an ideological approach to financing environmental action that assumes that public resources are nearly exhausted, and that any remaining public funds should be used to leverage private involvement to achieve public priorities.

Instead, we should focus on, among others, addressing sovereign debt distress in developing countries in an equitable manner. Equally important is the creation of an international tax convention capable of a fair redistribution of wealth (from rich to poor countries) to support investment in nature and climate objectives.[21] This reform is essential for addressing the scarcity of public finance in the Global South, where the levels of comparative biodiversity remain the greatest.

In this vein, countries in the North should recognize their historical responsibility in perpetuating economic models which keep low-income countries tied to debt dependency. Current economic and political systems are built on inequality, extraction and biodiversity loss.[22] Moreover, policy autonomy in developing countries is subordinated by financial conditions imposed on them by financiers in wealthy countries. The time is ripe for reorienting financial practices to stave off ecological crisis.

Simply put, debt-for-nature swaps are no panacea.

Alexander Kozul-Wright *is a senior researcher with the Third World Network. The above was first published as a TWN Briefing Paper and can be accessed at: https://www.twn.my/title2/briefing_papers/twn/Debt%20swaps%20TWNBP%20Jun%202024%20KozulWright.pdf*

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