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OPINION IN LEAD

Lima COP paves rocky road to Paris

The delegates from over 190 countries met in Lima on December for the 20th Conference of the Parties (COP20) to the United Nations Framework Convention on Climate Change (UNFCCC). This global gathering has delivered the "Lima Call for Climate Action (LCCA)", which is seen as a building block for a global climate regime to be put in place at the end of this decade.

The negotiators and diplomats have been trying hard to build a legally binding accord for emission reduction since COP15 held in Denmark in 2009. The idea was to target the developed countries that are the main culprits for greenhouse gas (GHG) emissions. However, the failure of the Kyoto Protocol as early as in 1997 has already showed that it is nearly impossible to bind countries—developed and developing alike—with strict global treaties.

Against this backdrop, COP17 held in Durban in 2011 agreed to define a new legally binding global agreement for combating climate change. Such agreement is expected to be finalized during the COP21 to be held in 2015, and would function from 2020. COP20 was the deadline to provide a draft negotiating text for COP21 due to take place in December 2015 in Paris. The LCCA has been successful to come up with a 34-page annex which provides "elements for a draft negotiating text", which is the formal negotiating basis for the 2015 Paris Agreement. COP20 has also provided guidelines on the information countries are supposed to include in their intended nationally determined contributions (INDCs) decided in COP19 in 2013. The NIDCs can be seen as the voluntary emission reduction commitment of the countries.

However, some developing countries view this addition of "national circumstances" as a dilution of the guiding principles of common but differentiated responsibility (CBDR) and equity of UNFCC formulated back in 1992. It is no longer mandatory for developed countries to take a lead in addressing climate change in accordance with the level of development and historical contribution to the problem. The new proposal leaves room for the developed countries to cite any national circumstance like the recession, to justify their action or inaction with respect to climate change. Meanwhile, monitoring and verification of reported emissions reductions in the INDCs is also missing.

Nevertheless, in the run-up to Paris 2015, major countries will most likely provide the suggested information. It is imperative for the UNFCCC to act as the depository and manager of common tools—including the monitoring, reporting and verification (MRV) of emissions reductions and actions—to provide the information necessary for building trust among the signatories.

Additionally, it is important that the second commitment period of the Kyoto Protocol (KP-CP2) and the Copenhagen-Cancun voluntary targets also get due attention. While the KP-CP2 binds developed countries to reduce their overall emissions of GHGs by at least 18 percent below 1990 levels in the commitment period of 2013 to 2020, the Copenhagen-Cancun voluntary targets first proposed in COP15 in Denmark and then agreed in COP16 in Cancun in 2010 calls the Parties—especially developing countries—for setting voluntary emission intensity and reduction targets for 2020. Though the Durban Platform—the framework for the negotiation process of a new agreement—does keep track of KP-CP2 and the voluntary targets, it did not advance significantly since Durban other than the decision to enact KP-CP2 between 2013 and 2020. Moreover, Lima was expected to deliver precisions on accounting rules for KP-CP2, which has now been pushed back to 2015.

As regards, the South Asian countries also urged developed nations in Lima to fulfil their promise of emission cuts during KP-CP2 adhering to the basic principles of the UNFCCC and its Kyoto Protocol. In a joint statement made on behalf of the South Asian Association for Regional Cooperation (SAARC), the group also highlighted topics such as the SAARC Agreement on Rapid Response to Natural Disasters, SAARC Convention on Cooperation on Environment and Thimphu Statement on Climate Change, including threats posed by climate change to some SAARC nations, covered by the declaration of the 18th SAARC Summit recently held in Kathmandu.

On the issue of climate finance, Lima mainly focussed on the implementation of the Green Climate Fund (GCF) and focused on setting investment guidelines and completing initial capitalization. The issue of Copenhagen-Cancun commitment of developed countries to mobilize US$100 billion per year by 2020 for developing countries also surfaced strongly in Lima. Finally, LCCA has quoted climate finance as a central topic of the future agreement; however no consensus was reached on whether countries should include it their INDCs.

Climate finance is of paramount importance to developing countries, especially for the least-developed countries (LDCs). The amount of climate finance channelled to the LDCs remains important for the preparation of the INDCs itself. On the contrary, COP20 failed to make any announcement to the LDC Fund despite demands from the LDCs to provide at least US$2 billion to support their adaptation actions. COP19 held in 2012 had agreed that at least US$30 billion would be generated during 2013-15, but the progress so far has been dismal and there is no sign of progress towards meeting the target in the stipulated period. The LDC Fund has already asked for at least US$2 billion to meet the most urgent adaptation needs of the LDCs.

Conveniently, Lima only addressed broadly on the soft issues by delivering the LCCA, leaving the contentious issues to be addressed next year in Paris. The weak consensus and the divide between the Parties were clearly visible. Importantly, no concrete road-maps give time and space to work out and prepare for more ambitious agreement next year. Lima COP paves rocky road to Paris, and the new climate deal in Paris remains still elusive.

ANALYSIS

Economic Outlook: what to expect in 2015?

The world steps into 2015 beset with uncertainty about whether the New Year will bring vigorous economic recovery or a return to a global recession. Revitalized by the strengthening of the United States (US) economy and the recent fall in oil prices, the global economy has been gathering momentum. According to the United Nations World Economic Situation and Prospects 2015 (WESP), the global economy is expected to grow at 3.1 percent in 2015 and 3.3 percent in 2016, compared to an estimated growth of 2.6 percent in 2014.

With continued positive economic data from the US, the Federal Reserve is expected to increase interest rates, which has been locked at zero to 0.25 percent since the end of December 2008. However, it is questionable whether the US economy can thrive without near zero interest rate, which many believe is inflating an asset bubble. As the world’s second largest economy, speculations and economic hiccups in the US could have significant repercussions for the global economy.

Meanwhile, greater consumer spending and increased business investment due to the big drop in oil prices is expected to fuel global growth in 2015. But while sliding oil prices could provide much needed stimulus to many advanced and emerging economics alike, oil dependent economies like Russia and Iran could face significant credit stress and go into a deep economic freeze in 2015. Unfortunately, sluggish Chinese economy in 2015 will only compound the fall in oil prices. Efforts of the Chinese government to mop up excess credit have already begun affecting the performance of the world's largest economy which is expected to slow down in the coming year. A dip below 7 percent growth in 2015 could spell disaster for the global economy struggling to continue on a path to economic recovery. Moreover, the country is also in the brink of deflation; the price of goods leaving China has been falling and the trend is likely to continue. The slowdown of the Chinese economy will decrease exports to China; meanwhile the deflationary trend could flood global market with cheap Chinese goods. Though decreasing oil prices, along with cheaper goods from China will drive down inflation and further fuel economic growth in the US, it could also have devastating impact in the Eurozone where countries are already threatened by dangerous deflationary spiral. Overall, the Euro zone is grinding to a halt and is the major threat to global economic growth with high employment and widespread deflation.

While the global economy continues precariously on route to recovery, economic growth in South Asia (Islamic Republic of Iran also included in the WESP) is set to gradually pick up from an estimated 4.9 percent in 2014 to 5.4 percent in 2015. While the recovery will be largely led by India, other economies are also projected to see stronger growth fuelled by the international decline in oil prices, which has already eased inflation across the region. Considering that the decline will likely continue in 2015, several countries, notably India can make progress in implementing economic policy reforms, thus providing support to business and consumer confidence. Moreover, the fall in oil prices will also help contain current account deficits in a number of South Asian countries. There are however, significant downside risks for the region due to the continuing fragility of the global economy and country-specific weakness, including political instability. The region could see rise in exports due to the recovery in the US—South Asia's principle export destination. While India continues to benefit from the "Modi dividend", with the bullish economy supported by expectations from the newly elected government of Prime Minister Narendra Modi, India along with all other South Asian countries are highly vulnerable to the effects of monetary tightening in the US and the stagnation in the Eurozone.

Considering the low potential growth in advanced and emerging economies in 2015, it will be important for South Asian countries to look towards the regional market. Though the much anticipated 18th SAARC Summit in late November fell far short of expectations, Narendra Modi's "neighbourhood first" foreign policy will be pivotal in ensuring sustainable regional economic growth in the future. In his seven months in office, Modi has already inked a hydro-electric deal with Bhutan, announced a credit assistance programme of US$1 billion to Nepal and pledged to fund regional infrastructure. But with China's increasing influence in the region as evident in the recent SAARC Summit where many South Asian countries including Nepal, Pakistan and Sri Lanka reportedly supported full membership of China in SAARC, India is set to focus on "diplomacy for development" in 2015 and pursue it with renewed vigour. But against the backdrop of persistent political tension between India and Pakistan, efforts to improve regional connectivity and facilitate intra-regional trade will largely be ineffective. Nonetheless, if the two connectivity agreements on road and railways are signed in 2015, it could breathe life back into the SAARC and pave the way for all South Asian countries to exploit the dynamic regional market and grow collectively as a region in the years to come. Until that is a reality, South Asian countries will continue to depend on countries outside the region and should thus keep close watch on the economic landscape of the global market.

NEWS

Big imports from Nepal, Sri Lanka pull down areca nut prices

Mounting imports have pulled down areca nut prices prompting growers to appeal to the Indian government to increase import tariff further. About a year ago, India had raised the tariff to INR 110 per kg from INR 75 to help local growers by increasing the cost of imports.

"Imports are coming through Nepal and Sri Lanka, while the production in the country has been good. We have sent a proposal to the government to increase the tariff to INR 170 per kg," said Suresh Bhandary, managing director of Central Areca nut and Cocoa Marketing & Processing Co-operative Ltd., a cooperative of growers. According to him, the cost of cultivation for a farmer has reached INR 170 per kg. The price of white variety areca nut has dropped 25 percent to INR 225 per kg while that for the red variety, which shot up to INR 800 per kg, has come down to INR 265-280.

The red variety is used in chewing tobaccos (*gutka*), which is banned in most states. Fresh arrivals of the white variety are being sold at INR 150 to 160 per kg, which is not remunerative for the farmers.

"The prices of areca nuts go up as they get older. Unless a grower gets INR 200 per kg, it is not profitable," said Srinivasa Achar, president of the All India Areca Growers Association.

Production in the country in 2013-14 totalled 6,22,260 tonne, a marginal fall from previous year, while imports at 80,419 tonne showed a 17 percent fall year-on-year, show data from the Directorate of Areca nut and Spices Development. This year, imports are expected to be more even though production is expected to be stable.

Karnataka is the largest producer of areca nut, followed by Kerala and Assam. Production has been stagnant around 6.2-6.3 hundred thousand tonnes for some years now. The fluctuating prices have discouraged farmers from cultivating the crop more. Areca nut acreage in Kerala has shrunk by more than 2 percent in the past two years. But Achar said the drop in acreage in some states was made up by addition in other states, keeping the production stable.

Source: http://articles.economictimes.indiatimes.com, 25.12.2014.

China and Sri Lanka ink Free Trade Agreement MoU

China and Sri Lanka have signed a memorandum of understanding (MoU) and agreed to establish a joint working group on trade to study the feasibility of a China-Sri Lanka Free Trade Agreement (FTA) and measures to enhance Sri Lankan exports to China, the Sri Lankan Information Department announced on December 25th.

According to the government, a joint feasibility study on the proposed FTA was completed in March 2014 and concluded that the building of an FTA will bring benefits to both countries.

Although Sri Lanka's exports to China have increased from US$ 28.39 million in 2005 to US$ 121.63 million in 2013, trade balance remains significantly in favour of China. Bilateral trade reached US$ 3.62 billion in 2013.

Some of Sri Lanka's main export items to China include coir fibre, garments, tea, rubber and precious stones.

Sri Lanka hopes the FTA will help the country gain easier access to the Chinese market and gradually reduce its trade deficit towards the world's largest economy.

Source: http://www.colombopage.com, 25.12.2014.

Plan made to form SAARC energy regulatory authority

The national energy regulators of SAARC countries have agreed to form a Regional Energy Regulatory Authority to adopt a plan of action, which will include the removal of regulatory barriers to the cross-border trade of electricity among SAARC states. The decision was taken in a two-day meeting among the SAARC energy regulators that ended on 22 December 2014.

According to Bangladesh Energy Regulatory Commission (BERC) chairman A.R. Khan, the plan of action is intended to facilitate the creation and effective operationalisation of a common electricity market in the South Asian region. "We need a trans-border electricity grid line so that we can exchange or trade power," A.R. Khan added.

According to the plan, national energy regulatory authorities would communicate with each other in electronic format through the designated focal points for sharing knowledge, expertise and experiences, along with legal documents on energy regulation as well as on specific regulatory issues. Member states were also encouraged to harmonise their regulatory frameworks relating to cross-border electricity trade. The SAARC energy regulators have also agreed that the national regulations, codes and standards relating to electricity grids would be exchanged among member states in electronic format.

The SAARC Secretariat, upon receipt from member states, will convey the information to the SAARC Energy Centre to prepare a compendium and a comparison chart of national regulations, codes and standards as well as national tariff determination principles and relevant procedures by December 2015. The compendium and the comparison chart will then be circulated among member states in electronic format through the SAARC Secretariat. The document will also be made available in the websites of the SAARC Secretariat and the SAARC Energy Centre.

Under the plan, elements of regulatory issues relating to cross-border electricity trade or exchange may be deliberated in subsequent meetings with a view to harmonising the elements.

Source: http://www.dhakatribune.com, 23.12.2014.

India to implement mandatory certification for agro exports to Bhutan

Aiming to bring in standardisation in India's agro exports to Bhutan, the Export Inspection Council of India (EIC) is making it mandatory for traders and suppliers of all agro products to obtain EIC certification for the exports to the Himalayan country, an official said Friday. The obligatory certification will be in place within the next three months.

“We have signed an agreement with Bhutan last year and all (agro) products going to Bhutan will be certified by EIC and they will accept it,” EIC director S.K. Saxena told reporters on the sidelines of a national seminar organised by All India Food Processors Association.

According to Saxena, Bhutan had asked India to monitor the agro exporters and hence, the EIC has come up with the mandatory certification process.

“Earlier what used to happen was that after the product went to Bhutan, they used to take a sample (of the product) and send to international market for testing. Now we have an agreement—we will certify it and Bhutan will accept it,” Saxena added.

During Prime Minister Narendra Modi’s visit to Bhutan in June, Foreign Secretary Sujatha Singh has said Bhutan would be one of the most important strategic partners, signalling an increased set of trade activities with the Himalayan country.

Source: http://www.business-standard.com, 12.12.2014.

India to review farm support by mid-January

New Delhi plans to quantify all subsidies and farm support falling under the World Trade Organizations’ (WTO) Agreement on Agriculture by January 2015, according to a letter from the Prime Minister’s office to other senior officials.

The news follows an agreement reached on 1 January 2015 at the WTO, which clarified that a prior commitment not to challenge developing country public food stockholding schemes under the trade body’s farm subsidy rules would not expire in 2017. The deal also reaffirmed that countries benefitting from this “peace clause” would share data and information on their agricultural subsidies. Meanwhile, WTO members will ramp up efforts to negotiate a “permanent solution” to developing countries’ concerns in this area, with a new target date of end-2015 for such an outcome.

As part of a move spearheaded by India, developing countries in the G-33 coalition have complained that price inflation over the last two decades has eroded their ability under WTO rules to buy food at government-set prices as part of public stockholding schemes.

Quantifying farm support is “a first step in understanding the extent of support that this sector needs,” an official in the Prime Minister’s office reportedly told other senior policymakers in the letter. The letter adds that the review should “study the existing support measures for agriculture, examine the possibilities that are there under the Agreement on Agriculture for promoting agriculture, classify all the ongoing support activities in the context of the various permissible and regulated activities under the WTO, and suggest possible changes and improvements that may be needed in future.”

The government’s decision to review farm support spending could presage a move to update farm subsidy notifications at the global trade body, in order to help clear a multi-year backlog in subsidy data. In September, New Delhi reported farm support for a seven-year period up to 2010-11, although more recent data is still missing. The September report indicated that trade-distorting support fell consistently below WTO ceilings for the seven-year period up to 2010-11. However, the government has warned that plans to expand subsidies to poor consumers under its new Food Security Act could mean that ceilings on farm support for rice might be breached if the food continues to be procured at administered prices.

The official figures presented in September revealed that just below US$14 billion of government spending was allocated for public stockholding for food security purposes—more than doubling support levels seven years previously.

The US has been among those repeatedly emphasising that countries should ensure their farm subsidy notifications to the WTO are up to date, to improve transparency and compliance.

Source: http://www.ictsd.org, 04.12.2014.

Second Sino-Nepal trade route opens

In a major boost for bilateral trade between Nepal and China, a new cross-border trading route has come into operation. With China officially opening the Gyirong Port on the Rasuwagadhi border, the second land route has opened for bilateral trade; for long, the Tatopani border was the sole trade transit with China.

China had briefly opened the route in August when the Tatopani border was shut due to landslides along Araniko Highway. Subsequently, China closed the route citing the lack of infrastructure on its side.

The development is in line with the northern neighbour's commitment to support Nepal in upgrading six dry ports at major customs points, including Rasuwagadhi. China had agreed to strengthen Pular-Yari, Jilong-Rasuwa, Zangmu-Kodari, and Riwu-Olangchug gola border crossings, among others under the agreement "Management of Ports on the China-Nepal Border" during then Chinese Premier Wen Jiabao's visit to Nepal in January 2012.

Traders can now use the checkpoint without any obstruction and the Chinese authority will provide visas and one-day pass to traders at the checkpoint. Meanwhile, Nepali authorities from the newly established immigration office in Rasuwagadhi have started providing on-arrival visas to Chinese visitors as well as the entry to tourists from third countries. The office also provides passes to Nepalese citizens to visit up to Kyirong.

The Chinese government had also agreed to construct an ICD in the area. With the construction of the Inland Container Depot (ICD) in Rasuwagadhi, the route will help increase trade between the two countries. During the bilateral talks held in Kathmandu in November 2014, the Chinese side agreed to construct the infrastructure including a quarantine facility, warehouse, customs office, inspection and security, bank, restaurant and medical facility in the border area. According to the Ministry of Commerce and Supplies, the Chinese side had agreed to construct all the facilities except the parking yard.

Jib Raj Koirala, Joint Secretary at the Commerce Ministry of Nepal, said they were holding talks with the Chinese side to develop roadway along Galchhi-Dhunche-Rasuwagadhi to make the most of the new link. "If the infrastructure is developed, it could be a more convenient route for trade with China than the existing Tatopani route," he said.

Source: www.ekantipur.com, 02.12.2014.

Activities

Public private dialogue on enhancing export competitiveness of honey

SAWTEE, in collaboration with the German Cooperation for Development (GIZ), organized a public private dialogue (PPD) on enhancing export competitiveness of honey on 23 December 2014. The objective of the event was to identify and address export-related barriers facing the Nepali beekeeping sector. The dialogue discussed various barriers prevalent in the sector and came up a comprehensive action plan to address them.

Dr. Posh Raj Pandey, Chairman, SAWTEE made a presentation of a research study on Nepali honey sector carried out by SAWTEE with support from the GIZ. The presentation highlighted that the Nepali honey export has been declining steadily and that the dearth in quantity of production and lack of quality assurance mechanism have been the primary reasons behind this fall in export. Dr. Peter Ritcher, Chief Technical Advisor, GIZ, Trade Promotion Programme (TPP) mentioned that GIZ is working with the Ministry of Commerce and Supplies (MoCS) in supporting select products included in the Nepal Trade Integration Strategy (NTIS). He added that the areas of support included overcoming supply side constraints, strengthening value chains and developing capacity of the MoCS to address trade-related barriers in some of the NTIS products. He also mentioned that GIZ is planning to extend support in some additional sectors, including some service sectors, in a near future.

Similarly, Dr. Chiranjibi Nepal, Economic Advisor to the Prime Minister emphasized on the need for coherent market driven economic policies for development of Nepal. He also stressed on the need for standardization in the honey sector for improving its trade performance and assured the forum to extend necessary support to formulate a comprehensive beekeeping policy to govern the sector. Mr. Toya Narayan Gyawali, Joint Secretary, MoCS remarked that the study report to be published by SAWTEE will prove to be an important document of reference for the Government with regard to honey sector.

The programme was attended by more than 40 participants representing the government, private sector and media. The participants also came up with presentable action plan for tackling issues related to quality infrastructure, policy barriers and trade promotion barriers in the sector. The action plan has been submitted to the Nepal Business Forum to take necessary actions for the betterment of the beekeeping sector in Nepal.

High-level dialogue on "Post-2015 Development Agenda and 18th SAARC Summit: Nepal's perspectives"

SAWTEE organized a High-level dialogue on "Post-2015 Development Agenda and 18th SAARC Summit: Nepal's perspectives" in Kathmandu on 14 December 2014. The dialogue was organized on the backdrop of the recent SAARC Summit and the upcoming Ministerial Meeting of the Asia-Pacific LDCs on graduation. The objective of the programme was to discuss the importance of post-2015 development agenda, its possible inter-linkages and complementarities with the issues identified in the SAARC Summit and possible challenges for implementation in Nepal. The programme was attended by 60 participants representing high-level policy experts, government officials, diplomats, private sector and the media.

Mr. Deependra Bahadur Kshetry, Former Vice Chairman of the National Planning Commission pointed out that despite successes in some areas, Nepal has failed to meet many targets under the Millennium Development Goals (MDGs). Meanwhile, Dr. Dinesh Bhattarai, Foreign Affairs Advisor to the Prime Minister of Nepal, reminded the participants about the poor implementation mechanism among the LDCs and highlighted the importance of prioritizing among various goals to achieve credible results.

Prof. Dr. Govind Raj Pokhrel, Vice Chairman of the National Planning Commission of Nepal mentioned that continuing with the unfinished tasks of the MDGs was an important component of the Sustainable Development Goals (SDGs) along with the three key areas of focus viz. economic, social and environmental dimensions of development. He also stated the need for prioritization among the goals marking some as necessary and some as aspirational.

Mr. Gyan Chandra Acharya, Under-Secretary General and High Representative for the LDCs, Landlocked Least Developed Countries (LLDCs), and Small Islands Developing States (SIDs), United Nations, gave a keynote to address the dialogue. He urged the LDCs to be more proactive in formulating the multilateral development programmes so their needs can be better reflected in the agenda. He reminded the audience of the importance of keeping people, justice, equity and basic services at the centre of the development process for people to lead "lives with dignity".

Hon. Mr. Mahendra Bahadur Pandey, Minister for Foreign Affairs, Government of Nepal mentioned that the 18th SAARC Summit has been successful in deepening the cooperation between the SAARC countries. He mentioned that the regional cooperation in trade, investment, energy, and connectivity will be crucial in transforming the economics of the region and highlighted that the SAARC Motor Vehicles Agreement and Railway Agreement, which have come out of the most recent summit will be crucial in this process.

Closing the session, Dr. Posh Raj Pandey, Executive Chairman, SAWTEE and the chair of the dialogue emphasized the need for including issues related to full and meaningful employment, and gender equality in the upcoming SDGs. More importantly, he pointed out that the importance of technology has been underestimated in the dialogue (including the dialogue on formulation of SDGs).

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