Trade, Climate Change and Development Monitor

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OPINION IN LEAD

Making and keeping commitments a must to break climate deadlock

Conclusion of a historic climate deal between the United States (US) and China last November to pursue ambitious greenhouse gas (GHG) emission reductions, followed by the global consensus reached in Lima in December to fight global warming by setting-up voluntary emission reduction commitment at national levels has built a sense of optimism about the progress of climate change negotiations which has for long been in a deadlock. Against this backdrop, US President Barack Obama's recent three-day state visit to India was shrouded in expectations that the visit to the world's third largest carbon emitter would succeed in producing something similar to scale back emissions and avert climate change impacts. Regrettably, the recent US-China climate deal failed to persuade India's Prime Minister Narendra Modi in making any firm commitments to significantly reduce carbon emissions. This is a major set-back in preparations for a global climate deal to be signed in Paris later this year.

Under the US-China climate deal, China—the world's biggest emitter of GHGs—has for the first time agreed to cap its emissions by 2030. Likewise, the US has pledged to cut its carbon emissions by 26-28 percent by 2025 compared with 2005 levels. But it has now become apparent that the US-China climate deal alone will not be able to bridge existing divide between developing and developed countries regarding the responsibility for cutting GHG emissions.

India, along with many developing and least developed countries, have for long taken the stance that the developed world should bear the responsibility for reducing GHG emissions since they are chiefly responsible for the climate crisis that we face today. Unable to resolve this divide during the UN climate talks in Lima, countries had nonetheless agreed to publically state their action plans to prevent the global temperature from rising by more than 2 degree Celsius by March 2015. Meanwhile, India has argued that the country needs emission space for a few more decades in addition to technical and financial support from developed countries to build green industrial capacities for India is home to more than 300 million people who do not have access to electricity and is way behind China and other developing countries in per capita emission.

Considering India's perspective, the US has now pledged to invest in India's ambitious plan to increase its solar energy capacity to 100 gigawatts by 2022. Though India did not sign a climate deal with the US, the bilateral process has begun with both countries having agreed to cooperate to deliver a successful agreement in Paris on climate action. During the climate change conference in Paris, 196 nations are expected to meet and tentatively agree a course of action to respond to climate change. Additionally, India and the US have also agreed to expand policy dialogues and technical work on clean energy and low GHG emissions technologies. Specifically, US has agreed to cooperate with India on adaptation measures, research and development, technology innovation and the adoption of clean energy technologies that will help India transition into a low-carbon economy.

If things go well, India's plan to transition to green energy technologies could enable India to reduce its GHG emissions or at least avoid what otherwise would have been emitted by burning fossil-fuels. But unfortunately, India has decided to double its coal production to one billion tonnes annually within the next five years in order to meet its growing energy demand. Despite the validity of India's argument about the need for emission space to ensure energy security, considering the reality of climate change and the vulnerabilities of developing countries, particularly South Asian countries to climate extremes, it is imperative that leaders of carbon-intensive economies like China and India make concert commitments to reduce carbon emissions. But while China has finally agreed to cap it emission for the first time since climate change negotiations, India's refusal to make any firm emission reduction commitments means that the upcoming Paris conference will be held with looming uncertainty about whether the conference will be able to finally break the climate change deadline and deliver the much awaited global agreement on climate change. Considering the gravity of the consequences of global climate inaction, the developed and developing world should end the blame game and work collectively to address climate change impacts at the earliest.

ANALYSIS

Global economy: Prospects for South Asia

The total global gross domestic product (GDP) rose by 2.6 percent in 2014. It will grow even more: by an estimated 3.0 percent this year and 3.3 percent in 2016, according to the World Bank Group's Global Economic Prospects (GEP) report published in January. The factors such as the gradual economic recovery in high-income countries, low oil prices, and receding domestic headwinds in developing countries are behind this optimistic forecasting. Similarly, developing countries grew by 4.4 percent in 2014 and are expected to edge up to 4.8 percent in 2015, strengthening to 5.3 and 5.4 percent in 2016 and 2017, respectively.

Growth in South Asia rose to an estimated 5.5 percent in 2014 from a 10-year low of 4.9 percent in 2013. The upturn was driven by India, the region's largest economy, which emerged from two years of modest growth. Regional growth is projected to rise to 6.8 percent by 2017.

At the domestic level in South Asia, the implementation of reforms and deregulation in India is expected to strengthen, and help raise growth to 7 percent by 2016 through increased flow of foreign direct investments. Any slackening in the reform momentum could result in a more modest or slower pace of recovery. Meanwhile the region's smallest economies will be lifted by strengthening growth in India, which provides official financing flows to Afghanistan, Bhutan, and Maldives, remittances to Bangladesh and Nepal, and tourism to Maldives and Nepal.

In Pakistan, growth is expected to decelerate this year as a result of simmering political tensions. As these subside, the economy should begin to recover. However the pace of this recovery should remain slow on account of persistent energy shortages and a troubled security situation. In Bangladesh, growth will be supported by continued robust remittances and recovery in private consumption demand if political stability is sustained in 2015. In Sri Lanka, growth in the near term will be buoyed by higher investment and government spending, while continued strong remittance inflows should support private demand.

Growth in Bhutan is expected to accelerate as a new hydropower project goes into production and, in both Bhutan and Nepal, the construction of hydropower projects—as part of recent investment agreements with India—will support a positive outlook. In Afghanistan, stronger growth is conditional upon an easing of political uncertainties and stability following the withdrawal of international forces from the country.

Export momentum for the region is expected to build in line with strengthening global import demand in high-income countries, particularly in the US and the Euro Area—the two largest markets for South Asian exports. In Pakistan, preferential market access by the European Union (EU) could boost export performance unless continued energy supply shortages hamper exporting companies. In Bangladesh, exports are projected to improve after transition to better enforcement of factory safety standards and working conditions. However, wage pressures in the absence of productivity gains could erode its competitiveness. Meanwhile, given the high obstacles to trading across borders, trade facilitation reforms in the region could significantly boost integration into global trade.

In South Asia, supply-side bottlenecks continue to hold back growth, particularly in Sri Lanka and Bangladesh where economies are operating at close to capacity. With power generation unlikely to keep pace with growing demand in the region, shortages are expected to persist in the near term, including in Bangladesh, India, Nepal, and Pakistan. In India, stagnating coal production has already resulted in repeated shortages in supplies to power plants. However, soft oil prices will also raise real incomes and support consumption and help ease current account pressures across the region of energy importers.

Risks are mainly domestic in nature and mainly include political tensions and slowing reform momentum that fails to address banking sector weakness, energy bottlenecks and weak business environments. Improved growth prospects for South Asia are predicated on the implementation of structural reforms to ease supply side constraints, which are substantial, and put government finances on a sustainable footing. Disappointments could weaken confidence, depress investment, trigger a reappraisal of growth prospects and reversal of investor sentiment, and—in Pakistan—derail financing under the International Monetary Fund (IMF) supported programme. On the upside, faster implementation of reforms in India and elsewhere than assumed in the baseline scenario would improve the outlook.

Among external risks, slower growth in the Euro Area, an important trading partner for South Asia, would affect the region's exports. India's openness to global financial markets leaves it exposed to sustained increases in financial market volatility, which could be triggered by a reappraisal of growth prospects or by geopolitical risks. However, risks on this front have receded considerably with the narrowing of India's current account balances since 2013. Tensions in Ukraine or conflict in the Middle East could sharply raise global energy prices, which could be a major set-back to the region that is a heavy energy importer, and where governments offer generous fuel subsidies which could widen current account and fiscal deficits and push up inflation.

On the positive side, regional growth might increase if global energy prices continue to decline further than projected. This would raise real household incomes and encourage consumption spending, and ease fiscal and current account pressures. The positive effects of this would, however, be tempered by softer migrant remittances from high income oil-exporting countries. Finally, there remains the potential for stronger than expected growth in the US, where the recovery is looking increasingly healthy, and in the Euro Area, granted that the recently announced monetary measures successfully support growth.

(Adapted from the World Bank Group's ***2015 Global Economic Prospects, January 2015: Having Fiscal Space and Using It)***

NEWS

India offers to unload Afghan trucks at Attari

The Indian Ministry of External Affairs (MEA) on 21 January offered to allow Afghan trucks unload goods at the integrated check post in Attari for exports from Afghanistan, thereby giving Afghanistan access to the Indian market.

MEA's official spokesperson Syed Akbaruddin said: "India provides duty free access to the Indian market for Afghanistan's export products under the Agreement of South Asia Free Trade Area (SAFTA). To give a fillip to Afghanistan's exports to India and to reduce the transaction costs for Afghani exporters, India offers to allow Afghan trucks (carrying their export products) to directly unload at its integrated check post in Attari."

As of now, the Afghan trucks-laden with goods can come up to Wagha (Pakistan's border), but not to Attari (India's border). There is a stretch in-between the two borders and transporting goods due to the lack of the "last mile connectivity" is a major challenge. With this move, India has given the opportunity to Pakistan to allow these trucks to come up to the Attari check post.

The Indian embassy in Afghanistan in a statement said: "We have seen reports in the media about ongoing negotiations on better implementation of Afghan-Pakistan Transit and Trade Agreement (APTTA) and its extension and the fact that Afghan trucks are not being allowed to come up to Integrated Check Post, Attari in India quoting Article 21 (b) of the Protocol I of APTTA, 2010."

"Such a restriction would severely curtail Afghanistan's access to the Indian market. It may be mentioned that India provides duty free access to the Indian market for all Afghanistan's export products under SAFTA. In view of this and to give a fillip to Afghanistan's exports to India and to reduce the transaction costs for Afghan exporters, Government of India offers to allow Afghan trucks (carrying their export products) to directly unload at its Integrated Check Post in Attari. We hope that this offer will overcome the limitation currently being faced by Afghanistan and also contribute to greater regional integration which is an objective pursued by all members of South Asian Association for Regional Cooperation (SAARC)."

Earlier that week, Afghanistan had warned it will stop trucks carrying cargo from Pakistan from entering its territory from January 20 if Islamabad does not permit Afghan trucks to go up to the Wagha land border crossing with India.

Source: http://indianexpress.com, 22.01.2015.

India to facilitate cross-border power trading with SAARC Nations

To facilitate an integrated power grid for SAARC members, New Delhi will soon approve cross-border trading on the Indian Energy Exchange (IEX). The move will initially enable short-term buying and selling of power with Bangladesh, Bhutan and Nepal. Transactions with other SAARC members will be carried out when these countries have grid connectivity with India.

In a petition, IEX has sought consent and directions for cross-border trading of 120 MW with Bhutan and 50 MW each with Bangladesh and Nepal. The petition said the key regulations governing the power market—the Indian Electricity Grid Code, open access regulations and power market regulations—didn’t have provisions barring such transactions by power exchanges.

Officials say following the petition, the Central Electricity Regulatory Commission has asked the Central Electricity Authority, the Ministry of Power and the Power System Operation Corporation for their consent in the matter. Once approved, cross-border power trading will be commenced.

At an annual SAARC Energy Ministers’ meeting last year, the Centre had arrived at a consensus over an inter-country grid connecting members of the SAARC bloc. As of now, the India-Bhutan, India-Nepal and India-Bangladesh grids are interconnected and cross-border trade is already taking place. Meanwhile, an India-Sri-Lanka asynchronous interconnection is being finalised, an India-Pakistan grid is also being considered.

Source: http://www.business-standard.com, 20.01.2015.

EU lifts ban on import of Indian mangoes

The European Union on 20 January decided to lift a ban on the import of mangoes from India after it made significant improvements in plant health controls and certification system, clearing the way for them to return to the 28-member bloc by March. However, the prohibition on the import of vegetables from India will be reviewed at later stage after collecting more evidence, the EU said in a statement. A European Commission committee meeting in Brussels voted to lift the ban on mangoes on 20 January.

“A proposal by the Commission to lift the import ban of mango fruits from India was today endorsed by Member State experts meeting at the relevant Regulatory Committee concerned with Plant Health. An audit carried out by the Commission's Food and Veterinary Office in India in September 2014 showed significant improvements in the phytosanitary export certification system," the statement said.

The EU's "temporary ban" came into force on 1 May 2014 and was to remain effective until December 2015 after authorities in Brussels found consignments infested with fruit flies that they feared could damage European salad crops. After Tuesday's vote, the EU said, "India has also provided assurances that appropriate measures are now available to ensure that the exports of mango fruits are free from quarantine pest, like the fruit flies not known to occur in the Union. The measures will allow the import of mango fruits before the start of the next import season in March 2015," the statement said.

The legislation now needs to be formally adopted and published by the European Commission. This will take around a month, but the positive vote by the Committee gives certainty to Indian exporters and importers in the United Kingdom (UK) about the position for the forthcoming mango season. The EU accounts for more than 50 percent of total exports of fruits and vegetables from India. The UK is the main destination, followed by the Netherlands, Germany and Belgium.

Welcoming the decision, British High Commissioner in India James Bevan said: "This is great news for the UK-India and EU-India trade relationship and especially for Indian exporters and UK consumers. The British Government worked hard to have the ban lifted. This includes sending an expert to provide technical training, prior to the EU inspection in September," Bevan said.

The import into the EU territory of certain fruit and vegetables, mango, bitter gourd, eggplant and snake gourd from India was prohibited last April due to a high number of consignments intercepted at arrival in the EU infested with quarantine pests, mainly insects, not known to occur in the Union which may establish and threaten the European productions, the EU said.

Source: http://ibnlive.in.com, 20.01.2015.

India to get access again to transport rice

Bangladesh will allow India to use its territory to supply 25,000 tonnes of rice from Kolkata to Tripura, both Indian territories, on humanitarian grounds. The decision was taken at a high level meeting of the shipping ministry and is now awaiting the approval of Prime Minister Sheikh Hasina. Once the prime minister gives the green light, the decision will be conveyed to the neighbouring country.

The arrangement is akin to the one that allowed India to take 10,000 tonnes of rice in July last year to its north-eastern state of Tripura through Bangladesh. The move came after India last year wrote to Bangladesh requesting the use of its territory to supply 35,000 tonnes of rice to Tripura. The latest transit arrangement would allow India to transport the remaining 25,000 tonnes of rice.

Under the existing shipping protocol, India pays an annual fee to Bangladesh and the transit facility would be covered by the fee, said an official of the National Board of Revenue.

The rice will be carried by waterways from Kolkata in India to Ashuganj river port in Bangladesh by Bangladeshi ships. From there, it will reach Agartala through Brahmanbaria and Akhaura land ports in Bangladeshi covered vans. The official said, by carrying the rice, the owners of Bangladeshi ships and covered vans will get another outlet to make money. However, part of the road from Ashuganj to Akhaura is in bad shape and is not fit enough for heavy covered vans. Around BDT 1,700bn is required for the repair of the road and the government will request India to finance its reconstruction, a shipping ministry official said.

Earlier, during the last tenure of the present government, permission was given to transport heavy equipment for Palatana power plant in India through the Bangladesh territory.

Source: http://www.thedailystar.net*, 19.01.2015.*

Pakistani farmers oppose duty-free imports from India

Farmers are up in arms again; this time against increasing duty-free imports of agricultural commodities from India. Pakistan had opened the Wagha border for the import of 137 items way back in March 2012. This has now become a problem for domestic farmers.

Last year, vegetables and other small items worth PKR 26bn were imported. This year, the first six months' bill is PKR 16bn. Pakistani farmers think that Indian farmers are being facilitated at their cost, and have got together to resist the process. In a press conference, various farmers' associations in Pakistan have demanded the withdrawal of the statutory notification, which allowed duty-free import of 137 items through Wagha border.

The main concerns of farmers are: firstly, they demand a level playing field for Pakistani and Indian farmers. Secondly, they think that statutory regulatory orders (SRO) on duty-free imports was tantamount to informally granting India the status of Most Favoured Nation (MFN) which implicitly grants India transit trade facility, which Pakistan has been vowing to resist. Local farmers claim that Indian agricultural subsidy is well over US$100bn, while all farm inputs in Pakistan are taxed heavily. This creates uneven playing field. Successive governments in Pakistan have also resisted pressure from diplomatic and international financial institutions (IFI) to completely open the borders.

The government opened borders in particular circumstances to facilitate a few items, which were in short supply in those days and were seeing local prices skyrocketing. Since crop harvesting is almost a quarterly phenomenon, sticking to one policy through statutory orders hardly makes sense.

The farmers maintain that India had long been asking for transit trade facility, which Pakistan has been denying. Now Pakistan needs to look into whether the Wagha border facility, which was meant to keep prices of perishable items down in Pakistan, is being used to trade beyond Pakistani market. It may not be Indian traders but Pakistanis might be acting as the transit facilitator or Afghans might be purchasing from Pakistani market and taking the vegetables home and beyond.

If farmers are collectively raising voice on this point, it merits investigation—how much is coming in, how much is consumed here and how much is going out, if any. Such investigations are also necessary because pest would also be traded along with these perishables. The quarantine facilities on Pakistani side are almost non-existent at Wagha border. All these commodities are moving through the borders almost unchecked. Farmers from the border areas of Shakarghar, have been complaining pest attack on wheat crop for the last few years.

Source: http://www.dawn.com, 12.01.2015.

Commerce Ministry of Nepal starts talks on LoEs

The Ministry of Commerce and Supply (MoCS), Government of Nepal has started consultations on the letter of exchange (LoE) on Nepal-India trade and transit after receiving remarks from India. The LoEs are related to the use of Vishakhapatnam port and Fulbari-Banglabandha route by Nepal, bulk cargo through Biratnagar and Bhairahawa, extension of the railway service and allowing Indian traders to use Nepal as a transit route to deliver goods from one part of India to another.

A ministry source said Indian authority has agreed to allow Nepal to transport goods from the Vishakhapatnam port to Birgunj-based Inland Clearance Depot (ICD). Currently, Nepal has been allowed to use Kolkata port only. On the LoE on bulk cargo, India has asked the Nepal government to specify the products that will be imported through Kolkata/Haldia-Jogbani-Biratnagar and Kolkata/Haldia-Nautanwa/Sunauli-Bhairahawa trade routes; this is despite that the LoE forwarded to India earlier, had sought the entry of bulk cargo covering all types of products, including clinker and cement, through the new routes.

India is currently providing the bulk cargo facility only through the Birgunj dry port. Under the railway service agreement, India has mentioned allowing only closed wagon containers, but Nepal has also sought open wagon containers. Additionally, India has sought some amendments to Nepal’s proposal on allowing Indian traders to use Nepali land as transit route.

MoCS Joint Secretary Jib Raj Koirala said the government would review the Indian side's remarks on the LoEs and forward them to the Indian government after holding consultations with stakeholders.

Source: http://www.ekantipur.com, 11.01.2015.

Pakistan pushes climate change back up political agenda

Pakistan has reinstated its ministry for climate change, suggesting the government plans to pay more attention to the issue as countries prepare a new international deal to curb global warming. In 2013, when the same government came to power, it downgraded the ministry to a division, removing its ability to make high-level decisions. Upcoming climate change conference due to take place in December this year in Paris where governments are expected to seal a new agreement to tackle climate change was a key motivation for the upgrade.

According to Qamar-uz-Zaman Chaudhry, advisor to the United Nations Development Programme in Pakistan and author of the country's climate change policy, the climate change division had performed poorly without a minister at its helm for several months. Pakistan has not even started thinking about what to include in the offer each country is expected to put forward in advance of the Paris climate talks, including plans to curb planet-warming emissions and adapt to climate shifts, he added.

The musical chairs the government has played with climate change began in 2011 when the federal Ministry of Environment was devolved to the provincial authorities. Despite fears they would be unable to deal with the complex environmental problems facing Pakistan—such as changing monsoon patterns, melting glaciers, seasonal flooding, rising sea levels and desertification—the devolution went ahead.

Responsibility for climate change was handed to the Ministry of Planning, and in October 2011, four new ministries were set up to absorb the departments leftover from the devolution, including the Ministry of National Disaster Management, which was renamed the Ministry of Climate Change in April 2012.

Subsequently, Pakistan finalised its National Climate Change Policy (NCCP) in 2012 and the climate change ministry then crafted an action plan, including measures to adapt to climate change in the water sector, agriculture and mountain regions, as well as efforts to lower emissions from energy production and deforestation. But when the ministry was downgraded by the new government in 2013, the NCCP was put on the backburner, as the division lacked leadership with the power to make decisions.

Source: http://in.reuters.com, 21.01.2015.

Activities

PPD on enhancing export competitiveness of Nepali silver jewellery

SAWTEE organized a public-private dialogue (PPD) on "Enhancing export competitiveness of Nepali silver jewellery" in collaboration with German Cooperation for Development and MoCS on 14 January 2015. The PPD aimed at identifying export related barriers in the silver jewellery sector, and preparing an action plan to address them with a view of submitting them to the Nepal Business Forum (NBF). About 50 participants representing policy makers, private sector representatives, researchers and media came up with an action plan to improve the sector. The action plan focuses on improving policies to enhance the production and export of Nepali silver jewellery in international markets.

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