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EU/U.S. TRADE WAR OVER MEAT

EU and U.S. officials will meet again this week in an effort to avoid a trade war over meat imports. The decision to meet again after negotiators departed frustrated from veterinary talks at the end of March, is a welcome sign that an all out trade war could be avoided after a week of dramatic threats and counter-threats by both sides. After failing to meet an April 1 deadline for a veterinary equivalency agreement, the EU announced on April 1 that it was implementing new standards to tighten its controls on U.S. meat shipments, which could halt up to \$100 million worth of U.S. poultry and dairy exports. The U.S. quickly retaliated by requiring that all EU meat and poultry plants meet U.S. inspection standards by April 15, effectively blocking all meat and poultry exports from the EU--worth \$300 million to EU exporters. The senior EU negotiator Lars Hoelgaard said that the U.S. retaliatory action was "totally out of proportion," to the EU measure, considering the large difference in the value of goods involved, and that the measures are not consistent with U.S. obligations under the WTO.

The two sides have been trying to reach an agreement on veterinary equivalence for three years, under which the EU and U.S. would find that each other's sanitation and processing procedures provide equivalent levels of food safety. The agreement is required by the Uruguay Round agreement. Three or four issues present the most difficulty in reaching an agreement: The decontamination and chilling of poultry carcasses, the EU demand that wooden pallets not be used in slaughterhouses over fear of contaminating meat, and the need to incise a sample of pig hearts in order to determine the health of the animal. The latter point presents the biggest challenge to the agreement. The EU has been flexible on this issue- initially demanding that all hearts of slaughtered pigs be incised, and now settling for a 10% sample. The U.S. considers the incise step unnecessary, and is considering a WTO challenge to the issue even if an agreement is reached. Paul Drazek, senior trade advisor to U.S. Secretary of Agriculture Dan Glickman, stated that the EU and U.S. had agreed on a protocol over a year ago showing the incision of pig hearts to be scientifically unnecessary as a health measure. "Clearly, we view that as an issue that we may end up having to go to WTO," Drazek said. The EU has said that other elements of the trade dispute could be brought to the WTO as well.

"U.S.-EU Vet Talks To Resume Next Week In Bid To Avoid Trade Conflict," INSIDE U.S. TRADE, April 4, 1997; "U.S., EU Planning Last Ditch Try to Avert Meat Trade War;" "EU Meat Negotiator Heads Home, Blasts U.S. Action," REUTER, April 2, 1997; "Meaty Issues: US Set To Block EU Food Exports After Talks Fail," FINANCIAL TIMES, April 2, 1997.

EU GENETIC ENGINEERING LABEL PROPOSAL CAUSES CONCERN FOR U.S.

U.S. officials warned the EU last week that a pending proposal requiring mandatory labeling of genetically modified organisms (GMOs) in feed and seed imports could set a bad precedent for U.S.-EU trade in agriculture. EU Agriculture Commissioner Franz Fischler has not yet decided if he will introduce the proposal, but envisions it to be a complementary proposal to the recently passed novel foods directive. The novel foods directive deals with the labeling of imports of genetically altered processed and unprocessed foods. While the novel foods directive will not affect most U.S.-processed exports to the EU, the U.S. is afraid that GMO labeling of animal feed and seed could lead to more proposals with damaging effects for U.S. agricultural exporters to the EU. One U.S. official stated "If this labeling proposal goes through, next could be a proposal to label beef from cows that ate genetically altered material. It's a bad precedent for trade." The official went on to say that EU actions around GMOs is merely a political cover for EU officials overcompensating for the perceived mishandling of the "mad-cow" crisis. The official said that there is "no scientific argument" for the labeling of animal feed and seeds.

In a related story, Italy joined Luxembourg and Austria in defying the European Commission's December decision to approve the use of genetically modified corn seed patented by Ciba Geigy, the Swiss multinational. The three countries have asked the Commission to re-examine their decision. Commission officials say they are waiting for the countries to present preliminary scientific evidence to support a re-opening of a scientific inquiry by the Commission. Meanwhile, EU Environment Commissioner Ritt Bjerregaard, a known opponent to the Commission's December corn seed decision, pushed through additional labeling requirements for GMOs via amendments to an existing environmental safety directive. The proposal, awaiting EU Regulatory approval, would require products containing GMOs to carry that information on their packaging. Because the proposal only affects products that could have an impact on the environment, the threat to U.S. agricultural exports is minimal. However, knowledgeable sources say EU External Affairs Commissioner Leon Brittan is concerned that U.S. and other trading partners will view the rule as a trade barrier.

"U.S. Says EU Genetic-Labeling Proposal Sets Bad Trade Precedent," INSIDE U.S. TRADE, April 4, 1997; "Berne Donne Son Feu Vert Au Soja Genetiquement Modifie," JOURNAL DE GENEVE, March 26, 1997; "Italy Joins Two Other EU Members in Defying Ruling On Engineered Corn Seed," INTERNATIONAL ENVIRONMENTAL REPORTER (BNA), March 19, 1997.

BANGLADESH ADDRESSES ROLE IN GLOBAL ECONOMY

Bangladesh, worried about its place in increasingly liberalized and competitive world of free trade, is aggressively pursuing reform in trade, industry, banking and related fields. Looking to be a successful player in the global economy in order to pull itself up out of poverty, the developing country is concerned that as many opportunities that the world of free trade presents, there are a few pitfalls which pose serious risk to its success. Non-tariff barriers in the EU and the U.S.- who combined account for 76 per cent of Bangladesh exports, are a source of concern to Bangladesh government and business leaders. The EU and U.S. markets are the most active in pursuing child labor and environment

restrictions, with standards that Bangladesh officials see as perhaps unfair and impractical, given the country's resources. Bangladeshi food exporters, facing new restrictions in the frozen food industry under Hazard Analysis and Critical Control regulations, complain not so much about their implementation, but the speed with which they are expected to comply. "It is very difficult for a country like Bangladesh to implement all these new regulations by 1998," Akmal Hossain, Director-General of the Bangladesh Export Promotion Board says. Their leather industry must deal with the European ban on certain chemicals used in that industry, and shrimp exports are further threatened by sea turtle conservation measures required by the U.S. "We've told them there are no turtles in the Bangladeshi waters," Mr. Hossain says, "With these kinds of barriers, the advantages and opportunities created by free trade cannot be realized by countries like ours."

Despite these challenges, Bangladesh is working hard to change its institutions—and its image—in order to attract much needed foreign investment. "Many foreign investors are conditioned by the media's focus on Bangladesh as the perennial victim of natural calamities," says a Dhaka businessman. A campaign of reforms, deregulation and liberalization has been conducted over the past few years in an effort to globalize the economy. Next up is institutional and social reforms—key to securing foreign investment. The democratization of Bangladesh's political process, slowing population growth and rising literacy levels are ambitious projects being aggressively undertaken by the country. The Awami League took control in last year's elections and the new government has said that "no stones will be left unturned" as it works to make Bangladesh an attractive home for investment. New investment incentives have been established, including no restriction on foreign ownership in investments, full repatriation of profits and capital gains, an extended tax holiday, and legal protection of foreign investments against nationalization and expropriation.

"Liberating The Economy For Free Trade," INTERNATIONAL HERALD TRIBUNE, March 26, 1997.

MINISTERS CALL FOR FOREST CONVENTION

Environment ministers and government representatives from 19 countries have called for a global convention on forest protection. At informal talks in Dresden March 20-23, government officials agreed to lobby for a forest conservation action plan when the United Nations General assembly meets in June. German Environment Minister Angela Merkel said in a statement that "We agreed that a worldwide regulatory framework is needed to ensure that wooded areas are protected in both the developed and developing countries." Developing countries like Brazil, which rely heavily on the export of tropical lumber, are expected to attack an action plan for controlling deforestation and reforestation operations. The U.S., where many forested areas are privately owned, is expected to have difficulty with an action plan as well. The plan is necessary, the group says, to review commitments made at the Rio Earth Summit in 1992 and to ensure equal protection for woodlands in both developing and developed countries.

"Environment Ministers From 19 Countries Call For International Forest Convention," INTERNATIONAL ENVIRONMENT REPORT (BNA), April 2, 1997.

U.S. DROPS QUOTA ON COSTA RICAN UNDERWEAR

The Clinton Administration allowed a quota restraint on imports of underwear from Costa Rica to expire on March 27, and according to a U.S. trade official, has no plans to reinstate the quota. U.S. officials had previously announced at a March 20 meeting of the World Trade Organization's Dispute Settlement

Body that it would remove the quota at the end of April. After further consideration, the U.S. decided that it "will not reinstate" the quota after its March 27 expiration. The trade official added that the decision brings the U.S. "in full compliance" with a report by the WTO Appellate Body which the DSB adopted last month. That report found that U.S. restrictions on Costa Rican underwear violated WTO rules because the U.S. could not prove its industry was being injured by those imports.

"U.S. Drops Quota on Underwear From Costa Rica, Resolving WTO Case," INSIDE U.S. TRADE, March 28, 1997.

NEW WIPO HEAD ELECTED

Kamil Idris of Sudan was elected as the next director general of the World Intellectual Property Organization on March 19. Mr. Idris, at present a deputy director of the organization, was favored for the post by the "Group of 77" developing countries. He will replace Arpad Bogsch of the United States, who has held the post since 1974 and is retiring at the end of the year.

"Kamil Idris of Sudan Chosen to Head World Intellectual Property Organization," INTERNATIONAL TRADE REPORTER, April 2, 1997.

EVENTS/RESOURCES

UNEP--Third International Roundtable Meeting on Finance and the Environment: May 22-23, New York, N.Y., USA. Focus on "The Environment and Financial Performance." Contact Deborah Vorhies, Environment and Trade Unit, UNEP, Palais des Nations, 1211 Geneva 10, Switzerland; Phone: +41/ 22/ 979/9288; Fax: +41/22/796/ 9240; E-mail: vorhiesd@unep.ch.

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BRIDGES is published by the International Centre for Trade and Sustainable Development and edited by the Institute for Agriculture and Trade Policy. We encourage the reproduction of BRIDGES. Comments and suggestions are welcome and should be directed to: Ricardo Melendez-Ortiz, Executive Director, ICTSD, Geneva Executive Center, 13 chemin des Anemones, 1219 Chatelaine, Geneva, Switzerland; email: ictsd@iprolink.ch; voice: (41-22) 979-9492; fax: (41-22) 979-9093.