

Weekly Trade News Digest

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QUANTITATIVE RESTRICTIONS CAUSE TROUBLE FOR INDIA

The United States and European Union are reported likely to submit a formal complaint against India over what they see to be a failure to remove quantitative restrictions on imports in a rapid enough manner. Notably, however, tariffs have been reduced to the level which was agreed upon by India during the Uruguay Round negotiations. Observers say the U.S. in particular is wary of granting any concessions to India on the phase-out period issue for fear that China will seek the same treatment in its bid for WTO membership. Andrew Stoler, U.S. Trade representative to the WTO said "There would be a problem if India got a long phase-out period and later China came to us and said that it wanted the same terms as India."

India utilizes the WTO's Article XVIII, which allows developing countries with balance of payments problems to maintain quantitative import curbs. A January IMF report showed India with a healthy balance of payments and foreign exchange reserves of \$23 billion - evidence, developed countries say, that India can withstand a more rapid introduction of foreign goods than it is proposing. Both the EU and U.S. argue that India failed to prepare itself for the removal of quantitative restrictions. According to Mr. Stoler, "India seems to be asleep at the wheel. It has not moved to introduce safeguards legislation which it could have used in case there was a India, meanwhile, is divided on the issue within its own government. The Agricultural Ministry is opposed to any lifting of quantitative restrictions, whereas the Finance Ministry argues for all restrictions removed within a year. Because most of the import restrictions left to be removed are on agricultural goods, the voice of the powerful agrarian poor in India's politics is heard clearly on this issue, and India's coalition government can ill afford to ignore their concern over cheaper foreign agricultural imports. Observers inside India blame the Indian media for leading developed nations to believe that India was prepared to be much more flexible on the phase-out issue than it actually is, giving developed nations the opportunity to ask for a much shorter phase-out period than was realistic for India to consider.

U.S. and EU trade officials say they have almost no option but to bring the matter to the WTO Dispute Settlement Body and to ask for an investigating panel to be appointed. The Balance of Payment Committee is due to issue a report to the WTO General Council by mid-July, explaining that no agreement could be reached on the matter. Because the WTO is effectively shutdown in August, a formal complaint to the Dispute Settlement Body is not expected to come until September.

"U.S. inflexibility wrecks deal at WTO on Indian imports," THE HINDU, July 3, 1997; "U.S., EU likely to complain against India at the WTO," THE HINDU, July 5, 1997; "India's import control compromise not enough to resolve WTO dispute," INTERNATIONAL TRADE REPORTER (BNA), July 9, 1997.

INCREASED ROLE FOR LABOR, ENVIRONMENT RULES IN MAI

Meeting in Paris June 31- July 3, members of the Organization for Economic Cooperation and Development (OECD) showed renewed interest in addressing labor and environment issues within the Multilateral Agreement on Investment (MAI). The U.S., France, Britain and the European Commission expressed interest in including labor and environment provisions beyond what is already included in the latest version of the MAI. The new proposals will most likely be distributed to OECD members later this month with debate set for the October OECD session. Many environmental organizations worry that the proposals will not be sufficiently binding or enforceable.

The inter-relation of trade and environment was a topic of discussion at another June OECD event. Experts speaking at the OECD/Asian Development Bank "International Forum on Asian Perspectives" said the economic boom in Asia over the past 30 years has been accompanied by a significant deterioration in the region's environment. Asian Development Bank Director and Chief Economist Vishvanath V. Desai said OECD industrialized countries would have the opportunity to promote trade and investment while playing a part in the solution to the environmental challenges facing Asia by making environment-related infrastructure investments. He also said that protecting the environment is a key element if developing countries in Asia hope "to successfully participate as responsible members of the integrated world free market economy." For him, trade liberalization must be a two-way street if developed countries want to take advantage of Asian environmental markets. He cited non-tariff barriers to trade - such as eco-labeling and national environmental regulations on packaging - as cause for concern for developing countries. "The suspicion that environmental protection is being used as an excuse by rich, industrialized countries to discriminate against developing country exports runs deep in the latter, and the OECD should be sensitive to such concerns," Desai said.

"Trade, Environment linked again as a way to counter economic boom's downside," INTERNATIONAL TRADE REPORTER;

"OECD members leaning in favor of labor, environment rule in MAI," INSIDE U.S. TRADE, July 11, 1997.

EU LOOKS TO DROP FARM SUPPORTS

According to a draft of the proposal, the Commission, which is preparing for the expansion of the EU, maintains that "in view of the challenges [of enlargement] ... the Commission considers it indispensable to proceed with further reforms of the CAP [Common Agricultural Policy]." The cuts are necessary to bring EU farm prices in line with world price levels. It was reported in April that the EU faces a beef and grain surplus crisis if its price support program is not overhauled (See BRIDGES Vol. 1, No. 13).

Agenda 2000 calls for grain support prices, the minimum price guaranteed to farmers for their crop, to be cut by 20% from 2000 forward. Beef support prices would be cut by nearly one-third between 2000-2005. Dairy prices would be cut by 10%. Farmers would be compensated with direct aid for some portion of the support price cut. However, grain farmers would be compensated for only half the fall in support prices: Commission figures show that grain farmers have been over-compensated since 1992, the last time support prices were cut. Direct aid to individuals would be capped to prevent large landowners from getting rich off government aid.

Farm leaders have called the proposal "unacceptable for European agriculture." The EU's leading farm lobby, COPA, said that it would "take its responsibility to save agriculture from this aggression."

"Brussels to call for cuts in farm support prices," FINANCIAL TIMES, July 8, 1997;
"FOCUS-EU says CAP reform needed before enlargement," REUTERS, July 8, 1997;
"EU farmers attack shake-up plan," FINANCIAL TIMES, July 10, 1997.

NAFTA'S ECONOMIC SUCCESS

The Clinton Administration is expected to release its report this week on the economic effects of North American Free Trade Agreement (NAFTA). The U.S. trade representative office says NAFTA has created 311,000 jobs via increased exports to Mexico. The AFL-CIO maintains that NAFTA has indeed taken away 420,000 net jobs - blaming a \$30 billion negative U.S. change in the trade balances with Mexico and Canada. But talking about jobs misses the point, say pro-NAFTA observers. "[NAFTA] was really a matter of foreign policy, of encouraging Mexico to continue the trajectory [toward a free-market economy] it was on," said Frederick Mayer, head of the Duke University Center for North American Studies. Proponents say NAFTA has achieved its end thus far, witnessed by Mexico's ability to stick to its reform program.

The economic effects of NAFTA are somewhat less consequential than the political effects. "The aftermath of the politics of NAFTA," said Mr. Mayer, "has frozen American trade initiatives. "NAFTA opponents have extended their argument beyond NAFTA to encompass broader concerns about free trade in general. They point to labor and environment issues that receive very little attention in NAFTA and provisions that are included are difficult to enforce. The upcoming debate on "fast-track" is likely to focus on including stronger trade and labor linkage in any future trade agreements.

In other regional news, Chile gave final approval on a free trade agreement with Canada and announced that it plans to conclude a free trade agreement with Mexico by November.

Analysts say Haiti's economic situation could jeopardize CARICOM's goals of creating a single currency and reaching a common market in 2 years.

"The NAFTA effect," THE ECONOMIST, July 5, 1997;

"Jobs issue hides NAFTA's real intent, analysts say," LOS ANGELES TIMES, July 9, 1997;

"Economic NAFTA thoughts," U.S. NEWS AND WORLD REPORT, July 7, 1997;

"Chile sees free trade deal with Mexico," REUTERS, July 3, 1997;

"Haiti becomes Caricom member," FINANCIAL TIMES, July 7, 1997.

JAPAN SURPLUS RAISES CONCERNS

Japan's Finance Ministry announced last week that its account surplus in May more than doubled from the same period a year ago. The surplus of approximate \$8 billion raises the concerns of Japan's major trading partners. At last month's G-8 summit in Denver the U.S. and EU warned Japanese Prime Minister Ryutaro Hashimoto that an economic war could ensue should the trade surplus explode. Analysts say that the trade surplus has peaked and that smaller increases are expected for the end of the year. The Japan Ministry of Finance says the surge is due in part to advanced buying in anticipation of an April consumption tax increase from three to five per cent. Further, the weaker yen has made Japan more competitive in overseas markets. Trading partners are urging Japan to step up efforts to boost its domestic economy, rather than relying on exports to reverse its economic problems.

"Rise in Japan surplus sparks fears," FINANCIAL TIMES, July 10, 1997;

"Japan's trade surplus keeps surging," REUTERS, July 7, 1997.

CHILE SALMON PRODUCERS LOOK TO SWIM WITH U.S.

Chilean salmon producers are reported eager to reach a settlement in a trade dispute with U.S. salmon producers over dumping allegations. U.S. salmon producers complained to the International Trade Commission that Chilean producers were dumping fresh Atlantic salmon into the U.S. market. Chilean salmon currently enjoys a no-tariff situation - U.S. producers are calling for tariffs of up to 40 per cent.

In 1991 the U.S. accused Norwegian salmon producers of dumping into the U.S., resulting in the U.S. levying high tariffs on Norwegian salmon and basically closing the door on fresh salmon imports from Norway. Chile hopes to avoid a similar situation by possibly limiting future growth of its salmon exports to the U.S. or negotiating the lowest tariff possible.

In related news, the U.S. and Canada have resumed talks on divying up the Pacific salmon catch. Talks broke down after Canada charged that U.S. negotiators were attempting to forge a deal without the proper authority to set salmon catch limits.

"Chile salmon raisers mull talks in U.S. trade spat," REUTERS, July 8, 1997;

"Salmon war talks resume," FINANCIAL TIMES, June 20, 1997.

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