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WEEK OF DEVELOPMENTS IN TEXTILE TRADE FOR US MARKET

The U.S. last week approved an agreement with the European Union allowing European textile imports to bear "Made in Europe" labels despite being manufactured with raw materials from non-EU countries. The deal was reached in response to an EU complaint at the WTO. The U.S. introduced rules of origin legislation in July 1996 requiring labels on textile products to indicate the country where the fabric was spun as the country of origin. This was disastrous news for Italian and French apparel makers, as in the case of scarves for example, where high-ticket Italian silk scarves would be required to bear a "Made in China" label, thus decreasing its value to the consumer.

Under the agreement, the U.S. will change its rules of origin as part of world-wide customs talks to be concluded by 1998, or by introducing domestic legislation. An immediate exemption to the rules will be granted while permanent action is pending. However, should a customs agreement fail to be reached by July 20, 1998, the Clinton Administration has warned that it will go to Congress to propose reverting back to the July 1996 rules. The agreement does not include tailored items such as shirts and ties.

In parallel textile-related stories, bilateral U.S. textile agreements between Laos, Taiwan and Oman will expire at the end of this year, and U.S. negotiators are gearing up for negotiations with these trading partners. None of the three countries are members of the WTO, and so are not part of the WTO Agreement on Textiles and Clothing signed in 1994 by over 100 countries. The U.S. Trade Representative's office stated that dates had not yet been set for negotiations.

Taiwan is one of the largest textile and apparel suppliers to the U.S. and the largest textile and apparel exporter of the three countries; last year's textile exports to the U.S. amounted to \$2.7 billion. In 1996, Oman's textile exports to the U.S. totalled \$116.1 million, down from \$130.8 million in 1995. Laos experienced a sharp increase in textile exports to the U.S. in 1996, shipping \$15.2 million worth, up from \$9.4 million in 1995. Trade observers anticipate none of the bilateral negotiations to be contentious.

The U.S. concluded a four-year bilateral agreement on textiles with China in January, dropping quotas on about 20 categories of silk apparel products—including dresses, underwear and neckwear, by the end of 1997, and will be negotiating bilateral textile agreements with Bulgaria and Romania at the end of 1998, when current agreements with those countries expire.

"U.S. and EU sew up row over silk labels," WALL STREET JOURNAL, August 8, 1997; "U.S. accepts EU's 'made in Europe' label," FINANCIAL TIMES, August 8, 1997; "Bilateral textile pacts will expire this year," JOURNAL OF COMMERCE, July 29, 1997.

INDIGENOUS GROUPS PROMPT RE-NEGOTIATION OF ECUADOREAN-US AGREEMENT ON IPRS

In response to pressure by indigenous organizations, the Ecuadorean government announced last week that it would revise its patent and intellectual property agreement with the United States. Signed in 1993, the treaty is currently up to renewal.

Coica -the umbrella organization of the Amazon basin's indigenous people- rejected the agreement, citing pillage of cultural and biological resources from their territory. These include ayahuasca, an endemic liana of great significance to Amazonian populations patented by a scientist in the United States prior to the IPR agreement. The sample for obtaining the patent was taken from a garden in a village in the jungle. Valerio Grefa, Coica's Secretary General, called re-negotiation of the agreement "an issue of sovereignty, recognition and self- determination for our people and our resources." According to Grefa, Coica and other indigenous organisations, environmentalists and the public want "the ancestral knowledge of indigenous people to be recognised as a contribution to human progress."

Antonio Cobo, Under-Secretary of Industry from the Ministry of Foreign Trade, said the revision would be limited to aspects related to the protection of biodiversity, and predicted that the U.S. would not oppose it.

Washington has raised the possibility of applying trade sanctions to the Andean nation as of September if the intellectual property rights agreement is not renewed by then.

"Ecuador-US: Controversial patent agreement up for revision," IPS, August 7, 1997.

U.S. FEARS CHINA'S, JAPAN'S TRADE DYNAMISM

The U.S. last week warned China that if it did not open its markets, the U.S. would not support its entry into the WTO. U.S. Trade Representative, Charlene Barshefsky, said China had made piecemeal progress in its bid for WTO membership, but to date had failed to make a comprehensive offer, "which was disappointing," according to Ms. Barshefsky. She said that China needed to make a "very, very good" market access offer before the U.S. would support its membership.

Ms. Barshefsky also warned Japan last week that the U.S. was displeased with its current account surplus, and that Japan should not "export its way out of their current economic situation." Weak consumer spending has taken its toll on the Japanese economy, and has curbed consumers' appetites for American cars. Japanese consumer spending declined in part due to a large increase in sales tax

earlier this year. Japanese officials say the account surplus may remain high for the short term but would decline in the long run, asking the U.S. for "understanding" around its current situation.

One trade expert observed that if the account surplus numbers become worse, "and we fear they may, that creates an environment in which trade and market access problems [could become] serious irritants between our two countries and trade problems are more likely to explode."

"U.S. Warning for Japan and China," INTERNATIONAL HERALD TRIBUNE, August 7, 1997.

EU RETHINKS POSITION ON TALLOW IN DEFERENCE OF PHARMACEUTICALS

The EU last week voted to ban risk materials including cattle remains deemed at risk of carrying bovine spongiform encephalopathy or "mad cow disease" being used for any purpose in the EU. This includes tallow, animal fat used in 80 percent of all pharmaceutical products, cosmetics, and other products including paint, lubricants, tyres, and packaging. The ban poses a serious threat to manufacturers of products using tallow, which is usually made by boiling an entire cattle carcass. Until tallow suppliers change their slaughterhouse practices to meet EU guidelines, manufacturing plants face temporary shutdowns while alternate tallow sources are sought.

The EU is reportedly considering a derogation - or temporary exemption, to the ban amid concern that it could harm EU pharmaceutical companies and U.S., Canadian and New Zealand tallow exporters. The U.S. says the ban will preclude \$100 million of tallow exports from reaching the EU. EU countries have, however, demanded that EU trade partners be held to the same rules as EU countries, thus limiting the European Commission's ability to maneuver on the ban. One third of EU tallow supplies come from non-EU countries. The U.S. has threatened to bring a complaint over the ban to the World Trade Organization.

"Mad cow row refuses to die down," FINANCIAL TIMES, August 7, 1997; "EU chews on exemptions from strict meat rules," WALL STREET JOURNAL, August 8, 1997, "U.S presses for change on tallow exports", FINANCIAL TIMES, August 8, 1997.

JAPAN'S PIVOTAL ROLE FOR CLIMATE CHANGE AGREEMENT

As the December date draws near for the third conference of parties (COP-III) to the U.N. Framework Convention on Climate Change (UNFCCC) to be held in Kyoto, Japan, environmental groups warn that divisions within Japan's government over cutting emissions could threaten any world wide pact on cutting global warming. Japan's Ministry for Trade and Industry (MITI) and the Environmental Agency are reportedly at odds on the issue, and may push for a modest target for emissions reductions to be included in the Kyoto protocol. Drafting a strong protocol at Kyoto is important to the credibility of UNFCCC as the mechanism charged with protecting the atmosphere.

The World Wide Fund for Nature (WWF) criticized Japan's apparent lack of commitment to making the Kyoto ministerial as productive as possible. "There is a fatal flaw in the Japanese government's meager ambition for a Kyoto protocol containing a weak target, or no target, which would then be reviewed at a later date," a WWF spokesman said. "And it would not encourage the developing countries to become

involved in later efforts." The WWF also criticized Japan for concentrating too much on criticizing the EU's position without offering any of its own proposals.

The EU is the first of the industrialized powers to offer an emissions reduction proposal that contained specific numeric reduction targets. The U.S., Canada and Japan have not yet proposed specific targets. President Clinton last week did say that he would like to see "realistic but binding limits to emissions of greenhouse gasses." AOSIS, a grouping of small islands developing countries most likely to have the greatest effect on global warming, has proposed a 20 percent cut in CO2 emissions below 1990 levels by 2005.

In other efforts to combat fuel emissions, three organizations have devised a novel plan for fighting climate change. "Carbon sequestration" calls for up to two million trees per year to be planted in high emissions areas to absorb carbon, with the cost passed along on consumer's energy bills. The groups-- The Carbon Storage Trust, Future Forests and the International Federation for Carbon Sequestration, say research shows that consumers are willing to pay a surcharge on their monthly bill for a "Climate Friendly Warranty."

"Environment: NGOs lash Japan at Bonn climate change talks," IPS, August 6, 1997; "Divergences des pays industrialises sur l'effet de serre," LA TRIBUNE, August 7, 1997; "Right climate for change," FINANCIAL TIMES, August 6, 1997.

KENYA'S AND VIETNAM'S TRADE UNDER FOREIGN EXCHANGE PRESSURE

In late July, the International Monetary Fund suspended flows to Kenya over concerns about the government's failure to retrieve funds from the country's biggest financial scandal, as well as issues over the management of Kenya's energy sector. The IMF also expressed concern over President Daniel arap Moi's decision to remove the country's top customs official and said Kenya will receive no aid until it addresses governance issues. The Kenyan shilling has suffered an 18 percent drop, and nervous foreign investors passed over the central bank's latest \$20 million treasury bill offer. Further, a general strike has been looming, although Kenya's labor minister last week declared any general strike illegal.

The Kenyan government last week indicated it was ready to talk with the Fund about reinstating the suspended aid. Finance Minister Musalia Mudavadi said in a statement that Nairobi was "considering initiating discussions" with the IMF, but a Fund spokesman said that while the IMF was prepared to offer policy advice, any formal talks would come only after Kenya addressed government corruption issues.

The IMF last week warned Vietnam that it needed a "new generation" of comprehensive reforms if it was to avoid damage to its long-term growth potential. Corruption, red tape and high overhead costs have caused foreign investors to take a less favorable view of Vietnam. An IMF spokesperson commented that "It is not appropriate to support failing enterprises by propping up their finances. Instead, means should be found to restructure [them] or organize their orderly closure."

Answering to the IMF's warning, Vietnam estimated that its trade deficit would fall to \$3.3bn by the end of this year from a record \$4bn in 1996, while the exports were forecast to climb 28 percent to \$9.2bn, with imports growing 14 percent to \$12.7bn. In the first seven months of this year, based on a combination of sweeping import bans and a modest rise in exports, particularly of textiles, Vietnam cut its trade gap by 37 percent, compared to the same period last year.

Vietnam's official announcement reflects concern that the country needs to be seen to be tackling its trade deficit more aggressively.

'Nairobi ready to reopen talks with IMF;' "IMF urges new Vietnam reform," FINANCIAL TIMES, August 8, 1997, "Trade deficit to fall", FINANCIAL TIMES, August 11, 1997.

DATE SET FOR FAST TRACK; POSSIBLE COMPROMISE ON LABOR-ENVIRONMENT LINKAGE

The Clinton Administration is reportedly targeting September 8 for the unveiling of its fast-track proposal. Administration officials have advised the President to present his proposal that day during a scheduled speech on foreign trade, just after Congress resumes following the summer break. Fast-track negotiating authority would allow the Clinton Administration to negotiate trade agreements, such as the upcoming Free Trade Area of the Americas, without subjecting the agreements to amendment before being voted on by Congress. This kind of authority is deemed critical to the Administration by its trading partners, who will not negotiate agreements subject to change by the Congress.

U.S. Trade Representative Charlene Barshefsky last week indicated the Administration is considering a compromise solution to trade and labor linkage in its fast-track proposal. The Administration is at odds with the Republican congress over the linkage issue, with the Republicans opposing any linkage between trade and labor or the environment. However, House Ways and Means Committee trade subcommittee chairman Phil Crane (R-Illinois) has reportedly proposed to the Administration that "directly trade-related" environment and labor provisions could be included in a fast-track proposal.

Informed sources say that the "directly trade-related" would most likely only include linkage "directly related to imports and exports and therefore our ability to trade." Linkage would not be allowed to preclude a countries comparative advantage via lower labor costs. Also last week, two Democratic congressmen called for food safety provisions to be included in any new fast-track bill.

"September 8 is 'Fast Track' Day," WASHINGTON TRADE DAILY, August 6, 1997; "Barshefsky hints at solution to fast track labor-environment fight," INSIDE U.S. TRADE, August 8, 1997.

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