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U.S. REFINES GASOLINE IMPORT RULE

Foreign refiners exporting gasoline to the U.S. were fueled by the Environmental Protection Agency's (EPA) final ruling on gasoline imports issued last week, allowing foreign refiners to receive an individual baseline for minimum clean air standards for their exports, rather than meeting a possibly more stringent "average" baseline. The U.S. had been requiring foreign refiners to meet a different standard for conventional gasoline than domestic producers, prompting Venezuela and Brazil to complain to the WTO, which ruled that the U.S. import regulations violated international trade agreements. The EPA rule was finalized just one day shy of the fifteen month deadline for compliance with the WTO ruling.

Under the U.S. Clean Air Act, a U.S. refiner was required to sell gasoline that was as clean or cleaner than the gasoline it produced in 1990, while foreign refiners were required to ship gasoline that was as clean or cleaner than the average for U.S. refiners in 1990. Under the new rule, a foreign refiner may choose to petition the EPA for an individual baseline, based on the quality and quantity of gasoline it sold to the U.S. in 1990.

Domestic refiners are reportedly considering a suit challenging the EPA ruling, arguing that the EPA went beyond its mandate to protect air quality when formulating the rule. U.S. refiners say the EPA also took into consideration Department of Energy comments on the supply of imported gasoline. An industry source stated that "[Domestic refiners are] not pleased that the agency included a possible illegal judgement that allows foreign refiners to choose to import dirtier gasoline."

"U.S. meets deadline in WTO gas case but rule could face suit from refiners," INSIDE U.S. TRADE, August 22, 1997; "U.S. meets terms of gasoline ruling," FINANCIAL TIMES, August 21, 1997; "U.S. sets gasoline import rule to satisfy WTO", REUTERS, August 20, 1997.

U.S. AGAIN URGES DEVELOPING COUNTRIES ON FINANCIAL SERVICES OFFERS

Eager to conclude a WTO agreement on financial services, U.S. Treasury Secretary Robert Rubin said in a letter to WTO Director-General Renato Ruggiero that "[The U.S. has] stated our willingness to work creatively in this negotiation to address the fullest range of legitimate emerging markets' concerns."

Rubin is referring to the hesitance by many developing countries towards opening their financial markets, which they fear would jeopardize their economic stability. The last round of financial services talks ended abruptly in 1995 when the U.S. left the negotiating table disappointed with developing countries' offers.

Rubin also said the U.S. would consider an approach allowing developing countries to phase in liberalization over a limited period of time. "We want to consider with our negotiating partners phased commitments, over agreed timeframes appropriate to a country's circumstances, as well as other measures which we believe can smooth the transition to a more open economic environment," Rubin said.

In the U.S. recently submitted offer on financial services, Deputy Treasury Secretary Lawrence Summers summarized the "four core principles for liberalization" envisaged by his country. First, the right of U.S. companies to establish and operate in other countries "in the form of their choice, including branches," followed by the "crucial" right of maintaining a majority ownership. Also, a WTO agreement on financial services would have to bind, in the view of the U.S., existing levels of market access in key emerging markets and to provide for the right to "participate fully through the market on the basis of substantially full national treatment."

Summers also suggested that developing countries could use two possible mechanisms for phasing in financial liberalization commitments. Countries might adopt a NAFTA-model for implementation, which allows Mexico to cap the amount of capital controlled by foreign-owned financial firms. The cap limits increase annually, and will be phased out completely by January 2000. The U.S. official cautioned that phase-in allowances would only be made in connection to serious liberalization commitments. "They are meant to facilitate such a commitment on the part of governments concerned - not substitute for it," Summers said. The second mechanism for phased-in access may be through linking WTO accession to full liberalization of the financial services sector with a definite end date for the phase-in period. Such an approach was used in Romania's accession bid.

In related news, a senior U.S. trade official visiting South Korea last week encouraged the country to make an "ambitious offer" on financial services liberalization. South Korean officials indicated that their offer would be forthcoming within a month. Facing the December 1997 deadline for financial services offers, the U.S. trade and treasury officials' visit in South Korea this week will be followed by talks in other Asian countries, including Thailand, the Philippines and Indonesia.

"U.S. seeks free financial markets in WTO deal," REUTERS, August 18, 1997; "WTO finance pact good for Seoul, U.S. says," REUTERS, August 19, 1997; "Summers Outlines Possible Transition Measures In WTO Financial Talks," INSIDE U.S. TRADE, August 15, 1997.

EU COLLARS BANGLADESH IN TEXTILE DISPUTE

The EU and Bangladesh are at odds over a reported 7,000 garment export certificates for Bangladeshi exports, which the EU says fraudulently claim that raw materials used in the manufacturing process

originated in Bangladesh. Under the EU Generalised System of Preferences (GSP), Bangladesh among other least developed countries is exempt from import duties on a set amount of textile goods when raw materials and manufacturing were sourced within Bangladesh.

Last year an EU delegation found that raw materials for a number of goods imported by the EU were sourced from outside Bangladesh, resulting in the charge that 7,000 garment export certificates for Bangladeshi product were fraudulent. The EU is planning to reform its GSP rules of origin to allow least developed countries to source raw materials from outside their own borders. The EU will only extend the enhanced GSP privilege to Bangladesh if it first cancels the allegedly fraudulent certificates.

Back duties on the imports could cost Bangladesh US\$100 million, according to its own estimates. The Bangladeshi garment industry is not quite sure how to respond: Paying the back-duties could bankrupt many smaller exporters, while refusing to pay could mean the end to favorable market access.

Meanwhile, the Commission holds importers culpable in the case, saying some importers knew the certificates to be questionable when they accepted them. EU importers fear the Commission will pursue them for the back duties.

They complain, however, that they are victims of Bangladeshi fraud and that the European Commission and Bangladeshi authorities did not do enough to ensure the integrity of the imports. One trade expert commented that "There is very little chance the Bangladeshis will pay the full amount. Some European companies will suffer severe financial hardship unless a compromise can be reached with the Commission." Until the issue is resolved, the EU will continue to allow duty-free imports from Bangladesh for product verifiably originating in Bangladesh, which the EU believes to be a minority of goods.

"EU duties: Blow to garment importers," FINANCIAL TIMES, August 25, 1997; "Bangladesh garment makers 'facing ruin,'" FINANCIAL TIMES, August 21, 1997; "Bangladesh: Europe gets shirt over fraud", FINANCIAL TIMES, August 21, 1997.

CHILEANS DELAY TARIFF CUT

Fears of massive tax increases have delayed the Chilean government's plan to lower import tariffs from 11 percent to 8 percent. The main opposition party within the Chilean government, Renovacion Nacional, worries that the loss of tariff revenues will result in "an avalanche of taxes, [which would raise] close on US\$900 million extra a year and hit the middle classes and the poor," according to the party leader Senator Sebastian Pinera.

The Chilean finance minister Eduardo Aninat had planned to submit a proposal for cutting tariffs within a few weeks, recommending an immediate two point cut, followed by an additional one point cut within six to seven months. The lower duties would mean a loss of US\$420 million in annual revenues, to be offset by increases in the tax on gasoline and the stamp duty on consumer borrowing, and a reduction in tax relief for exporters.

"Delay for Chile tariff cut plans," FINANCIAL TIMES, August 20, 1997.

WTO RULING ON BEEF SUPPORTS U.S.

The World Trade Organization last week made public the dispute resolution body's June 30 final ruling, finding that the EU ban on U.S. beef is an unfair trade barrier. The EU ban was instituted in 1989, prohibiting meat produced with certain hormones from entering the European market. U.S. meat producers estimate the ban cost them US\$250 million a year in lost sales.

The U.S. and Canada brought the complaint against the EU under the WTO Sanitary and Phytosanitary Measures Agreement. The agreement requires food safety measures taken by member countries to be based on scientific evidence; the EU, according to the WTO, has not produced evidence to date to support its ban on these grounds. An EU spokesperson stated last week that "[The EU] is concerned that the report's conclusions limit the rights of governments to determine the level of protection which they deem appropriate for their consumers." The EU intends to appeal the ruling.

In related news, the EU last week brought a complaint against the U.S. at the WTO over U.S. restrictions on poultry imports from the EU. The U.S. instituted a ban on about US\$1 million worth of poultry products on April 1 in retaliation for an EU ban on US\$50 million worth of U.S. poultry imports. The two sides failed to agree on sanitary and phytosanitary measures earlier this year when a so-called veterinary equivalency agreement for meats and dairy products was negotiated; the EU maintains that the U.S. poultry industry practice of using chlorine to kill bacteria in chicken carcasses is not acceptable. Under WTO rules, the U.S. and EU have sixty days to work out a resolution before the matter is taken up by a dispute resolution panel.

"La Organizacion Mundial del Comercio declara ilegal que la UE prohíba importar carne hormonada," EL PAIS, August 20, 1997; "Boeuf aux hormones: la victoire americaine," LE FIGARO, August 20, 1997; "L'OMC approuve l'importation de boeuf americain nourri aux hormones," LA TRIBUNE, August 20, 1997; "Carne agli ormoni, la WTO condanna l'embargo europeo," IL SOLE 24 ORE, August 20, 1997; "WTO legt Veto ein", HANDELSBLATT, August 20, 1997; "WTO Rules EU Can't Ban Treated Beef," WALL STREET JOURNAL, August 19, 1997; "EU complains over US poultry import curbs at WTO," REUTERS, August 21, 1997; "Poultry war heads to WTO", FINANCIAL TIMES, August 21, 1997; "EU Takes Poultry Battle Over U.S. Ban to WTO", WALL STREET JOURNAL, August 21, 1997.

OECD WARNS GERMANY ON NEED FOR REFORMS AS EMU APPROACHES

A report on Germany issued by the Organization for Economic Cooperation and Development (OECD) said Germany struggles to qualify for the European Monetary Union, but still has structural problems aggravated by a slow economic recovery.

The country's budget deficit at 3.25 percent exceeds the maximum 3 percent deficit allowed under the Maastricht Treaty for joining the European single currency, while Germany's 62 percent debt level - caused, the OECD said, in large part by the costs of unification - also surpasses the Maastricht mandated maximum of a 60 percent debt level.

The OECD report said Germany is still within an acceptable range for meeting the Maastricht criteria on both these points, but urged the country to reform its labor market, tax and social security systems in

order to facilitate growth. Germany's economic growth is expected to reach 2.25 percent in 1997, and 2.75 percent in 1998. Economic growth has been fueled by the decline in the German mark, making country's exports cheaper on the world market.

As a reaction to the report, Germany's Economic Minister said last week that "The economic train has speeded up thanks to booming exports, and the long-awaited turnaround in the labor market is on the horizon." According to the OECD, Germany's unemployment is expected to remain high in 1997 at 11.1 percent, and to go slightly down to 10.9 percent in 1998. The OECD urged Germany to refocus its economic policy to concentrate "on the need for a dynamic response to a changing global and European economy and on the overwhelming requirement to create the conditions for employment growth."

Related to the OECD's forecast, also last week, the Institute of the German Economy reported that foreign companies reduced their direct investment in Germany for the first time since World War II. The decline was blamed on high labor costs and corporate taxes. The OECD said in its report that it expects labor costs and corporate taxes to remain high in the near future. In addition, the report said that "The labor market will continue to hold back the growth of private consumption. In this respect, growth will remain unbalanced, with an excessive dependence on exports."

"OECD Cites Need for Reforms As Germany Approaches EMU," WALL STREET JOURNAL EUROPE, August 20, 1997; "L'OCDE appelle Bonn a toujours plus de liberalisme," LA TRIBUNE, August 20, 1997; "Exports Fuel German Economic Strength," INTERNATIONAL HERALD TRIBUNE, August 19, 1997.

EVENTS/RESOURCES

The 5th IFOAM International Conference on Trade in Organic Products: The Future Agenda For Organic Trade. September 24-27, 1997. Oxford, England. For more information, contact IFOAM Organic Trade Conference, Mouse Lane, Steyning, BN44 3DG England. Ph: +44/1903/812/200; Fax: +44/1903/879/052; E-mail: ifoamconf@naturalproducts.co.uk.

Gains from Global Linkages: Trade in Services and Movements of Persons. By Bimal Ghosh. 1997, St Martins Press (Short).

How Nations Grow Rich: The Case for Free Trade. By Melvyn Krauss. 1997, Oxford University Press.

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