



INTERNATIONAL CENTRE FOR
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DEVELOPMENT

BRIDGES

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RUGGIERO SEEKS TRUCE IN BANANA WAR

As BRIDGES Weekly Trade News Digest went to press, U.S. and EU negotiators were to decide on a last-ditch proposal put forward by WTO Director General Renato Ruggiero to stop the EU-U.S. banana dispute from escalating into a damaging trade war between the two trade powers.

Mr. Ruggiero's plan would require the U.S. to postpone its proposed request for WTO authorisation of its retaliatory sanctions regime until after a WTO dispute settlement panel determines whether the revised EU banana import regime complies with the spirit of a 1997 WTO ruling. (That decision is expected by March, although WTO rules give the panel 90 days to decide, ie until April.) The second part of Mr. Ruggiero's plan requires the EU to agree to a parallel panel to decide on the size of the U.S. retaliatory regime.

It was unclear at press time whether either side could muster the political will to agree to the proposal. The Clinton Administration is under heavy pressure from Congress and U.S.-based Chiquita Brands to impose the retaliatory regime no later than March 3. The EU has thus far refused to accept WTO arbitration on sanctions, arguing that the retaliatory measures violate Article 23 of the DSU, which prevents members from unilaterally deciding whether a violation of WTO rules has occurred. However, the EU was reportedly willing to consider Mr. Ruggiero's proposal as a way to end the conflict.

Earlier in the week the U.S. rejected as "eleventh hour desperation tactics" an EU request to the WTO General Council to answer two questions on the dispute. In an effort to block the expected U.S. request for approval of its retaliatory regime when the DSB meets January 25, the EU asked



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the General Council to rule 1) whether the U.S. has the ability under the WTO to request retaliation at this juncture in the dispute; and 2) whether the proper interpretation of WTO rules is that the

window of time members have to act under Article 22 (dealing with imposition of retaliatory measures) should begin after a ruling from a panel on Article 21.5 (dealing with the determination of compliance with a ruling). The EU said that its request for General Council clarification should be addressed before the DSB takes up the U.S. request for authorisation of its retaliatory regime.

In this dispute which tests the limits of WTO rules, the EU request is another first. WTO rules allow for such a request, although the right had not been exercised before. The General Council must oblige the EU request, although it is not officially scheduled to meet until mid-February. A three-quarters majority of WTO members are required to decide on the interpretation of WTO rules. Also last week, Japan, India, Indonesia, South Korea and six central European states said they would side with the EU and reject an U.S. request (should it still be made January 25) for WTO authorisation of its retaliatory regime.

"EU and U.S. close to truce in trade war," FINANCIAL TIMES, January 23, 1999; "EU seeks to head off U.S. retaliation request in banana fight," INSIDE US TRADE, January 22, 1999; "Brussels seeks to block U.S. banana export sanctions," FINANCIAL TIMES, January 22, 1999; "EU takes banana row to WTO Council," REUTERS, January 22, 1999.

EU MOVES CLOSER TO CAP REFORM

The EU last week moved closer to approving reforms to its Common Agriculture Policy (CAP) before WTO talks on agriculture begin later this year. Germany, Spain and France softened opposition to the proposed reform package. France last week agreed to a "degressive payments" scheme to reduce direct payments paid to agricultural producers. Germany also signalled a policy shift toward CAP reform, determined to conclude a reform deal by March.

Failure to pass CAP reform could force the EU to take a defensive position against WTO agricultural exporting members (led by the Cairns Group) expected to press hard for EU concessions in upcoming WTO talks on agriculture. EU Trade Commissioner Sir Leon Brittan has warned that so-called blue-box subsidies (WTO-compliant direct payments to farmers only partially coupled with farm production) could come under attack from the U.S. and the Cairns Group in agriculture talks. Sir Leon stressed that to protect these subsidies, the EU must make concessions in other areas via CAP reform. Sir Leon argued that CAP reform would result in lower EU intervention prices for agricultural goods, and subsequently to lower EU export subsidies.

Sir Leon noted that the U.S. may be less keen to press for reductions in blue box subsidies in WTO agriculture talks given the effects of the Asian financial crises on U.S. agriculture exports, forcing the U.S. to provide billions of dollars in market loss payments to farmers. Sir Leon questioned whether the U.S. would be willing, when the time comes, to fully expose U.S. farmers to world market forces.

Sir Leon noted that CAP reform was crucial to keeping EU agricultural exports competitive on the world market. "[The current CAP] is clearly at odds with the fact that the EU is not just the biggest importer of agricultural products in the world, but also its second largest exporter. Such an approach therefore is wholly negative and short sighted."

"Brittan calls for CAP reform before WTO negotiations begin," INSIDE US TRADE, January 8, 1999; "Hopes raised for EU farm reform deal on time," REUTERS, January 18, 1999; "Agenda 2000: la France entre dans la danse," LE FIGARO, January 20, 1999.

CLINTON SUPPORTS MILLENNIUM ROUND

U.S. President Bill Clinton last week called for a new round of multilateral trade negotiations and for measures geared toward "institution-building" at the WTO. The Clinton Administration favours a global trade round to last about three years, shorter than previous trade rounds such as the Uruguay Round that took seven years to complete. The U.S. would call for the launch of a new round when it hosts the Third WTO Ministerial in November-December this year.

The EU and Japan have already called for a Millennium Round of trade talks. The U.S. risked being politically embarrassed at the Third Ministerial, playing host to trade ministers but not supporting a global trade round.

Included on the U.S. Millennium Round agenda are agriculture (talks for which are already scheduled to begin late this year), elimination of discriminatory trade barriers against genetically modified food products, trade in services, further work on protection of intellectual property, a permanent ban on electronic commerce duties, and government procurement.

Further, the Clinton Administration said it would require that the talks ensure that labour and environmental standards are protected and that the WTO is more open and accountable. "We must ensure that ordinary citizens in all countries actually benefit from trade, trade that promotes the dignity of work, the rights of workers, the protection of the environment," Mr. Clinton said.

The Clinton Administration faces a major domestic hurdle to its Millennium Round agenda in that the president has been unable to win renewal of so called fast track negotiating authority. Fast track is critical to U.S. credibility at the negotiating table since trading partners are reluctant to negotiate with the U.S. if hard work can become unravelled in the Congress.

Democrats will not pass fast track without labour and environment linkage and Republicans vigorously oppose such linkage. Democrats have proposed a moderated version of fast track in which Congress would have the right to "check in" on trade negotiations, although such an approach could meet opposition from U.S. trading partners. The Clinton Administration, meanwhile, said that Millennium Round agenda could be achieved with or without fast track.

The Clinton Administration also announced that it would push for "institution building" at the WTO. Institution-building priorities include technical assistance to least developed countries; customs reform; trade and environment collaboration; better collaboration with the International Labour Organisation; and co-operation between the International Monetary Fund, World Bank, and WTO to improve world financial systems. U.S. Trade Representative Charlene Barshefsky noted also that the U.S. would focus on reforming the Dispute Settlement Understanding (DSU) in ways that promote compliance, noting that the current banana dispute highlights the need for such reform.

"Clinton Calls for New Global Trade Round Including Intellectual Property, Procurement," INTERNATIONAL TRADE REPORTER, January 20, 1999; "Back on the fast track," FINANCIAL TIMES, January 21, 1999; "Clinton seeks consensus on freer trade," JOURNAL OF COMMERCE, January 21, 1999; "Barshefsky indicates support for three-year WTO talks," INSIDE US TRADE, January 22, 1999.

U.S. WARNS ON GMO TRADE UNDER BIOSAFETY ACCORD

As negotiators ready for the final round of biosafety accord negotiations, scheduled for Feb. 14-23 in Cartagena, Colombia, the U.S. warned that the accord should not interfere with trade in genetically modified organisms.

As part of the Convention on Biological Diversity (CBD) adopted at UNCED in 1992, it was agreed in 1995 that an international protocol on biosafety was needed to complement the CBD, to ensure the safe transfer, handling, use and disposal of living modified organisms (LMOs, often referred to as genetically modified organisms, or GMOs). At present there are no binding international agreements addressing situations where LMOs cross national borders. (See BRIDGES Weekly Trade News Digest, Vol. 2, No 33, August 31, 1998.)

The U.S. wants to narrow the scope of the protocol to include only GMOs that would be planted in the environment, and object to proposals made by a number of African and other developing countries to control imports on fruits, vegetables and even processed foods which contain GMOs. The U.S. argues that these products would be consumed directly by animals or humans and thus pose no risk to other (e.g. plant) species in the importer's environment. Ethiopia and other African countries also support labelling of products containing GMOs, a proposal with some support from the EU, but which is opposed by agricultural exporting nations including the U.S., Canada, Australia, Argentina and Chile.

Even if the labelling and import restriction provisions are included in the biosafety protocol, the Clinton Administration has said that the protocol cannot supersede countries' WTO obligations, and is reportedly pushing for language to this effect to be included in the protocol. U.S. and international environmental groups last month said in a letter to U.S. Vice President Al Gore that to include such language would undermine multilateral environmental policy. The groups urged instead that, since the WTO has admitted that it is not an expert on environmental matters, "the prudent recourse for the WTO would be to request the advice of the Protocol as to how to resolve a complaint related to the Protocol," rather than proceeding within the vacuum of WTO dispute settlement rules.

"Whether Biosafety Protocol will Cover GMO Products or Organisms Is Key Issue," INTERNATIONAL TRADE REPORTER, January 13, 1999; "Environmental letter on Biosafety Protocol," INSTITUTE FOR AGRICULTURE AND TRADE POLICY, December 21, 1999; "U.S. fights to reduce impact of Biosafety Protocol on GMO trade," INSIDE US TRADE, January 8, 1999.

EU, MEXICO MEET TO NEGOTIATE FREE TRADE ACCORD

Trade officials from the EU and Mexico met last week in Brussels for the second round of talks toward achieving a bilateral trade accord. The EU is Mexico's second largest trading partner after the U.S., and is eager to gain a stronger foothold in the US\$185 billion Mexican market. The free trade agreement would help diversify Mexico's trade base, at present dominated by trade with the U.S. The agreement would give the EU trade-parity with the U.S. and Canada and Latin American countries, in Mexico.

Last week's talks got off to an auspicious start amid Mexico's announcement that it would impose emergency trade measures to close the gap on a budget shortfall of US\$500 million, brought on by collapsed prices for Mexican oil exports.

Talks between the two sides began in November 1998 with the goal of concluding an agreement with two years. The two sides will meet next at the end of February.

"EU, Mexico to continue negotiations aimed at creating free-trade accord," WALL STREET JOURNAL, January 18, 1999; "New import duties may weigh on EU-Mexico trade talks," DOW JONES NEWSWIRE, January 19, 1999; "Tariff hike clouds start of EU-Mexico trade talks," REUTERS, January 19, 1999.

INDIA HEAL THYSELF WITH REGULATION OF MEDICINAL PLANTS

India - home to more than 7,500 species of medicinal plants, is a leading supplier (along with China and Brazil) to the booming global market for medicinal plants, estimated to be worth US\$60 billion annual. However, while the plants may provide a cure for what ails humans and animals, booming trade in medicinal plants could bring serious ills to the environment which fosters them.

"Not less than 75 percent of medicinal plant collection is from the wild and this inevitably leads to the destruction of biodiversity and genetic stocks," according to an Indian trade official. According to a study by the Exin Bank of India, medicinal plant collection leads to the deforestation of 165,000 hectares (about 425,000 acres) every year. At present nearly 100 medicinal plant species in India face extinction.

To maintain its position as a leading supplier of medicinal plants, observers note that India must adopt regulatory policies to encourage the sustainable commercial-scale cultivation of medicinal plants, lest 25 percent of its entire plant species become extinct within 50 years. At the same time, indigenous cultures must be protected as they play a significant role in the identification of new medicinal plants. Financial and technical support from foreign companies will also help promote sustainable commercial cultivation.

"India sees its opportunity as medicine returns to roots," FINANICAL TIMES, January 20, 1999.

IN BRIEF

Worldwatch Institute last week released its millennium-edition STATE OF THE WORLD report, predicting an environmentally-based economic decline in the next century unless resources are shifted to foster a sustainable economic model in which energy, water, land, and materials are used much more efficiently. Deforestation, falling water tables, and accelerating climate change could undermine economies in the 21st Century, as energy and protein needs are expected to double to accommodate the world's population. "New century to be marked by growing threats, opportunities," WORLDWATCH INSTITUTE PRESS RELEASE, January 19, 1999.

Venezuelan President-elect Hugo Chavez strongly reiterated last month that he wants to negotiate his country's entry into South America's Mercosur trade bloc, but also stressed that such a move wouldn't affect his country's relations with the Andean Community. Brazil has been one of the

principal promoters of Venezuela's eventual inclusion in Mercosur."Venezuela's Chavez reiterates he wants talks with Mercosur," DOW JONES, December 19, 1998.

UNCTAD and the International Chamber of Commerce (ICC) last week announced an initiative to boost investment in six of the world's least developed countries. The project aims to provide information on investment opportunities in the participating countries (Bangladesh, Ethiopia, Madagascar, Mali, Mozambique and Uganda) and to build capacity in the countries' government agencies to address investment issues. The initiative will also identify best-practices and optimal conditions for a favourable investment climate. "Business works with UNCTAD to boost investment in Africa," UNCTAD PRESS RELEASE, January 19, 1999.

Brazil's currency devaluation earlier this month could strain relations within the Mercosur trade block (comprising Brazil, Argentina, Uruguay and Paraguay). Economists warn of temporary trade barriers being erected within the block to protect against cheap Brazilian exports. Argentine and Brazilian officials were scheduled to meet January 25 to try and diffuse tensions over the devaluation's effects on Argentina's economy. "Brazil's falling currency strains relations with Argentina, others within Mercosur," JOURNAL OF COMMERCE, January 21, 1999.

China slashed import tariffs on 1 January, on forestry products to as little as zero, and reduced tariffs on toys and certain garments in an effort to promote price stability in furniture and paper products. Prices on furniture and paper products surged recently amid a shortage of these goods, brought on after China last August closed logging operations located around the country's biggest rivers to stop environmental degradation blamed for devastating floods. "China slashes import tariffs on timber, toys, garments," AGENCE FRANCE-PRESSE, January 15, 1999.

WTO IN BRIEF

The U.S. this week is expected to raise objections to safeguard provisions outlined in the patent regime India put forward last month to comply with a 1998 WTO ruling (see BRIDGES Weekly Trade News Digest Vol. 3, No 1-2, January 18, 1999). The U.S. objects to India's requirement of compulsory licensing, which the U.S. argues is only allowed when a product patent regime is in place, not for a process patent regime such as the one India put forward. Compulsory licensing would allow India to give companies licence to produce an otherwise patented good if it is necessary to protect public health and nutrition. "U.S. objects to EMR provisions," ECONOMIC TIMES (India), January 15, 1999.

In response to global economic turmoil and a proposed new round of WTO negotiations, the WTO is looking for ways to accelerate its accession process. The EU is reported to favour a so-called "accession round" of intensive accession negotiations. WTO Director General Renato Ruggiero has proposed extending provisional status to countries, affording them the benefits of WTO membership while they remain formally outside the WTO system. Currently 30 countries have membership applications pending. "Global economy: WTO seeks to speed up accession process," ECONOMIST INTELLIGENCE UNIT, January 19, 1999.

EVENTS & RESOURCES**• EVENTS****WTO Meetings**

5 February 1999: Council for Trade in Goods. For information contact Nuch Nazeer, WTO, tel: (41-22) 739-5393.

8-10 February 1999: Textiles Monitoring Body. For information contact Luis Ople, WTO, tel: (41-22) 739-5374.

9 February 1999: Council for Trade in Services. For information contact Nuch Nazeer, WTO, as above.

10-12 February 1999: Committee on Regional Trade Agreements. For information contact Hans-Peter Werner, WTO, (41-22) 739-5286.

16 February 1999: General Council. For information contact Nuch Nazeer, WTO, as above.

16-17 February 1999: Council for TRIPs. For information contact Nuch Nazeer, WTO, as above.

18-19 February 1999: Committee on Trade and Environment. For information contact Hans-Peter Werner, WTO, as above.

Other Meetings

28 January 1999, London: CATHOLIC INSTITUTE FOR INTERNATIONAL RELATIONS (CIIR) CONFERENCE ON THE EUROPEAN AGREEMENT ON AGRICULTURE AND TRADE. Participants include WTO, FAO and EU among others. For more information contact Sabrina Varma, tel: (44-171) 354-0883.

28-29 January 1999, The Hague, Netherlands: CONFERENCE ON FOREIGN DIRECT INVESTMENT AND THE ENVIRONMENT, organised by the OECD's Centre for Cooperation with Non-Members and the Environment Policy Committee as part of the Emerging Market Economy Forum. For information contact the CCNM at 2 rue André-Pascal, 75775 Paris Cedex 16, France, tel: (33- 1) 45-24-83-60, fax: (33-1) 45-24-91-77.

5-7 February 1999, Brussels: CONFERENCE ON THE SOCIAL, GENDER AND ENVIRONMENT ASSESSMENTS OF THE WTO NEGOTIATIONS. The International Coalition of Development Action (ICDA), World Wide Fund for Nature (WWF-International), Oxfam UK, and Greenpeace are jointly hosting this meeting. For information contact ICDA at 115 Rue Stévin, B-1040 Bruxelles BELGIUM, fax: (32-2) 230-0348, e-mail: icda@skynet.be web: <http://www.icda.be>

22-26 February 1999, New York: MEETINGS OF COMMISSION ON SUSTAINABLE DEVELOPMENT AD HOC INTERSESSIONAL WORKING GROUP. The Ad hoc Working Group on matters related to Consumption and Production Patterns, including recommendations for sustainable consumption for inclusion in the UN Guidelines for Consumer Protection (ECOSOC resolution 1997/53) and Tourism. For information contact Zehra Aydin-Sipos, Division for

Sustainable Development, tel: (1-212) 963-8811, fax: (1-212) 963- 1267, e-mail: aydin@un.org, web: <http://www.un.org/esa/sustdev/>

- **RESOURCES**

MIGA INFORMATION DISCLOSURE POLICY DRAFT. After two years of internal deliberation, the World Bank's Multilateral Investment Guarantee Agency (MIGA) has released a draft of its new information disclosure policy and its environmental and social policies and procedures. Released via MIGA's web site (<http://www.miga.org/welcome.htm>) in December 1998, the policies are publicly available in draft form for a 45-day public comment period. A Friends of the Earth/Bank Information Center analysis of the draft is also available by contacting Friends of the Earth by e-mail at foe@foe.org All comments and letters should be sent by 5 February 1999 to: MIGA Policy Development Group, 1818 H Street, NW Washington, DC 20433 USA, or fax: (1-202) 522-2630.

FOREIGN POLICY IN FOCUS: WTO AND DEVELOPING COUNTRIES (Vol. 3, No. 37). This paper has been released by Foreign Policy In Focus, a joint project of the Interhemispheric Resource Center and the Institute for Policy Studies. Written by Aileen Kwa, Focus on the Global South, Bangkok; edited by Martha Honey (IPS) and Tom Barry (IRC). Key points include: the WTO agenda and implementation of the WTO agreements; the position of the least developed countries (LDCs) in the multilateral trade system; and sources of inequality in the WTO. For more information or to order a copy contact Erik Leaver, In Focus Communications Director, at Box 4506, Albuquerque, NM 87196, tel: (1- 505) 842-8288, e-mail: leaver@swcp.com, web: www.foreignpolicy-infocus.org

WTO TRADE POLICY REVIEW OF ARGENTINA is now available on the WTO website. The review is headed: "Argentina realises gains from economic reforms but could gain even more from multilateral liberalisation." To download go to <http://www.wto.org/wto/reviews/tp.htm>

"THE POLITICAL ECONOMY OF A BILATERAL INVESTMENT TREATY," (by Keneth J. Vadevelde), American Journal of International Law, (Vol. 92, No.4, December 1998). To order, call (in U.S.) 1-800-917-7377. Can also be ordered online from www.Amazon.com, or from Foundation Press at steve.errick@westgroup.com

NEW ICTSD PUBLICATIONS/NEW ICTSD EMAILS

Over the last year, ICTSD has launched several new publications and resources. For copies of these, please contact ICTSD at the address below.

PUENTES entre el comercio y el desarrollo sostenible is the Latin American version of BRIDGES Between Trade and Sustainable Development (ICTSD's Monthly publication). PUENTES is published five times a year, in collaboration with the Fundación Futuro Latinoamericano, in Quito, Ecuador.

PASSERELLES entre le commerce et le développement durable is the French-language version of BRIDGES Between Trade and Sustainable Development. PASSERELLES is published five times a year in collaboration with ENDA-tiers monde, in Dakar, Senegal.

RECOMMENDED READINGS: Together with IUCN-The World Conservation Union, ICTSD has prepared lists of ten top readings in each of ten subject areas related to trade and sustainable

development. Each list contains summaries of books, articles and other resources, which together, contain a thorough and varied introduction to the issues. Subject areas covered include: Trade and Multilateral Environmental Agreements, Intellectual Property Rights, Eco-labelling and certification, and TBTs and PPMs.

CD-ROM ON TRADE AND THE ENVIRONMENT: Together with Cultura Ecologica (Mexico), ICTSD has produced a CD-ROM containing the main WTO Agreements, multilateral environmental agreements that contain trade provisions, and regional trade agreements relating to the Americas. The documents are organised in a user-friendly fashion and include a Web address at which the original text and related information can be found.

Please also note that all ICTSD staff email addresses are now harmonised. Addresses are in the form of first initial (or initials, if applicable) and last name, followed by the ictsd.ch domain <lastname@ictsd.ch>. The central ICTSD email address is now: <ictsd@ictsd.ch> Please update your address books accordingly.

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