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WTO MEMBERS DISCUSS POSSIBLE FUTURE NEGOTIATIONS ON INVESTMENT, COMPETITION, GOVERNMENT PROCUREMENT

The fourth intersessional meeting of the General Council's Special Session entrusted with preparing the Third WTO Ministerial Meeting met again last week and presented their views on whether investment, competition policy, government procurement and trade facilitation should be included in a future round of multilateral trade negotiations. This series of Ministerial preparatory meetings in the context of the Special Session of the General Council takes place separately from the usual meetings of the General Council which deal with current WTO work.

At last week's meeting, WTO Members discussed possible future work arising from the work programme initiated at the First WTO Ministerial (at Singapore). The possibility of bringing "new issues" (including environment and labour) into the next round of trade negotiations will be discussed at the next informal meeting of the General Council Special Session, scheduled for 2 February.

Last week's meeting showed that there is considerable divergence of views between Members as to whether issues recognised by the First WTO Ministerial as needing further study - namely the relationship between trade and investment, interaction between trade and competition policy, transparency in government procurement, and trade facilitation - should be included in the new round of trade negotiations.

Some countries' positions are already well-known. The EU and Japan, for instance, have publicly stated that they would like a "comprehensive round of trade talks," which would include investment, competition policy and government procurement as well as other issues. At last week's

meeting the Swiss delegation said that "it is urgent and imperative to put multilateral rules into place on investment."

Many developing countries disagreed. Malaysia, speaking on behalf of ASEAN, said on 27 January that "there have been no convincing arguments on the need for global rules in either investment or competition policy[.]" but that the issues should continue to be studied in the WTO Working Groups on the Relationship Between Trade and Investment and the Working Group on the Interaction Between Trade and Competition Policy.

India was not convinced that "a possible discipline on investment belonged to the subject-matter of the WTO," but wanted the "educative process" in the Working Group on Trade and Investment to continue. On competition policy, India said that improving the implementation of existing WTO provisions could go a long way towards creating a more competitive environment, and that it is premature to talk of a multilateral framework on the subject. Regarding government procurement, India felt that sufficient progress in the work programme had to be made before conclusions can be drawn about the need for a multilateral discipline in this sphere.

In general developing countries, such as the African group and ASEAN, wanted the exploratory analytical work on the four subjects to be continued.

"Japan decides on broad-based approach for trade talks" KYODO NEWS INTERNATIONAL, January 26, 1999; ICTSD Internal Files.

U.S. TO HOLD OFF ON BANANA SANCTIONS - FOR NOW

The EU and U.S. late last week agreed to an interim compromise in its dispute over bananas, averting for the time being a transatlantic trade war. The EU agreed late Friday to request WTO arbitration over the amount of the proposed U.S. retaliatory sanctions regime against the EU, putting U.S. plans for retaliation into suspension until after arbitration is complete. The two sides have yet to agree however on a time table for concluding arbitration. The U.S. argues that arbitration should be complete in 30 days (March 1). The EU holds that arbitration could not possibly be concluded until after the panel decides whether the EU has or not complied with the 1997 WTO Appellate Body decision against its banana import regime, decision due on 12 April). In either case, the last-minute compromise effectively buys the two sides time to try and resolve the issue and head off a trade war.

The compromise came at the end of yet another week of unprecedented procedural manoeuvring at the WTO. On January 25, St. Lucia and Dominica, two small banana-exporting countries whose economies are threatened by the dispute, blocked the agenda of the scheduled Dispute Settlement Body (DSB) meeting. The countries argued that the DSB should not be allowed to address (as per the agenda) the U.S. request for retaliation against the EU before the panel on EU compliance had finished its work. (See BRIDGES Weekly Trade News Digest Vol. 3, No 3, January 25, 1999). The move was the first time any member had blocked a DSB agenda, leading some members to worry it would set a dangerous procedural precedent if allowed to stand. St. Lucia and Dominica later allowed the agenda to go forward January 28, but St. Lucia repeatedly protested the consideration of the U.S. retaliation request. St. Lucia and Dominica also vehemently denied U.S. speculation that the EU had pressured them into blocking the January 25 agenda.

India, Brazil, Japan, Switzerland, Canada, Egypt, and Indonesia - while taking no formal position on the dispute's substance, spoke out forcefully against DSB consideration of the U.S. retaliation request until the panel on EU compliance issued a ruling. These members noted concern over the long-term institutional implications of considering the request: the members said the "unilateralism" with which the U.S. was proceeding undermined the WTO foundation of decision by consensus. "We would urge the disputing parties not to try to take advantage of any drafting ambiguities in the DSU to seek to assert their rights in a manner prejudicial to the rights of other Members and inimical to the continued stability of the WTO," Canada said.

India's Ambassador to the WTO Srinivasan Narayanan urged the EU and U.S. "to go beyond legalities and take a broader political view," of their dispute with respect to the WTO system. "The US and EC will take care of themselves and their interests. We are worried about India's rights and the precedent that would be created for everyone."

Earlier in the week Italy's Foreign Minister Lamberto Dini broke ranks with the EU party line on bananas, calling the EU banana import regime "a very strong distortion of trade." He called on the EU to revise its regime to reduce the level of protection extended to African, Caribbean and Pacific producers. Italy's Foreign Ministry said Italy was wary that its exports could be badly hurt by the U.S. sanctions regime.

"Bananas: US postpones EU sanctions," FINANCIAL TIMES, February 1, 1999; "Hopes raised for end to WTO blockage over bananas," THE HERALD (St. Vincent - Grenadines), January 29, 1999; "Trade: WTO mired in the banana quicksand," SUNS, January 29, 1999; "WTO members avert procedural crisis on bananas; will meet again today," INSIDE US TRADE, January 29, 1999; "US envoy sees 'rays of hope' in banana talks," JOURNAL OF COMMERCE, January 29, 1999; "Banane: les sanctions américaines se rapprochent" LE FIGARO, January 27, 1999; "US-EC raise stakes in Banana war," IPS, January 25, 1999; "WTO skidding on banana peel," IPS, January 28, 1999; "Caribbean bands together in banana dispute," REUTERS, January 27, 1999; "Banana feud at the WTO turns into fight against unilateralism," AGENCE FRANCE-PRESSE, January 28, 1999; "EU: Italians urge retreat in banana dispute," FINANCIAL TIMES, January 27, 1999.

EU-U.S. MARINATING IN WTO BEEF DISPUTE

Readers may think EU-U.S. trade battles are solely concerned with bananas, but another, even beefier battle is ripening - over hormone treated beef.

The WTO Appellate Body in February 1998 ruled that the EU ban on beef treated with growth hormones was not based on adequate scientific evidence and so violates international trade rules. The EU has until May 1999 to lift the ban or provide scientific justification for it. (See BRIDGES Weekly Trade News Digest Vol. 2, No. 21, June 8, 1998).

U.S. Secretary of Agriculture Dan Glickman last week voiced concern that the EU has thus far shown "no visible signs of taking even the first steps to come into compliance," with the WTO ruling. Mr. Glickman said the battle over beef could be even bigger than bananas. "[The] U.S. and Europe has [sic] too much to lose by going to an augmented trade conflict. The beef issue would risk a very serious trade problem," Mr. Glickman said last week. U.S. farmers estimate that the ban costs them US\$250 million annually in lost export revenue.

The U.S. in December said it would impose retaliatory sanctions against the EU if it fails to comply with a WTO ruling against the EU ban on hormone-treated beef imports by the May 13, 1999 WTO-mandated deadline. The EU has said it needs more time (beyond the May 13 date) in order to conduct additional risk-assessment studies which the EU holds would justify the ban. The EU points out that the 1998 ruling did not require the EU to lift the ban, but was notice that the EU must provide an adequate risk assessment on how hormone-treated beef affects human health. The EU has so far proceeded down this path, ignoring U.S. calls to lift the ban while it performs its risk assessment. The U.S. argues that the EU is worried less about protecting its consumers than with protecting the EU beef industry.

Meanwhile, Mr. Glickman warned that EU intransigence on the beef issue coupled with the banana dispute threatens the legitimacy of the WTO. "Both these cases raise a fundamental question: are we going to live by the rules-based system that we agreed to under the Uruguay Round, and which today is the foundation of our world trading system?" Mr. Glickman said last week. Mr. Glickman and other U.S. trade officials have also said the two disputes could undermine U.S.-EU co-operation at WTO talks on agriculture scheduled to start later this year.

"Glickman rejects criticism of U.S. farm aid as trade protection," *INSIDE US TRADE*, January 29, 1999; "UE/Etats Unis: Peter Scher a précisé à l'Europe les positions américaines sur la viande aux hormones et sur les prochaines négociations à l'OMC sur l'agriculture," *BULLETIN QUOTIDIEN EUROPE*, January 27, 1999; "Glickman warns EU on beef trade," *REUTERS*, January 23, 1999; "US beef with Europe could mean trade war," *JOURNAL OF COMMERCE*, January 27, 1999.

EAST AFRICA MOVES TOWARD INTEGRATION

Leaders from Kenya, Tanzania and Uganda met late last month in Arusha, Tanzania where they agreed to a treaty establishing a regional economic community from July 1, 1999. The East African Community (EAC) is intended to help boost foreign investment in the region. The agreement would abolish internal tariffs on nearly all goods except a list of agreed products (not yet established), which would carry tariffs not to exceed 10 percent. The countries agreed to try and reduce respective budget deficits to under five percent of gross domestic product (GDP); to attain single-digit inflation by 2000; and to build foreign currency reserves equal to six months imports. Free movement of people, capital and services would be established as part of the common market. Eventually, harmonisation of economic policy would be in place with a common regional currency envisaged for five to 10 years out.

Kenya is the largest economy in the grouping with an annual GDP of US\$9.2 billion. Uganda's annual GDP is US\$6.1 billion and Tanzania's is US\$5.8 billion. A previous attempt at East African integration failed in 1977 as Kenya's industrialised economy dominated the region and benefited disproportionately from free trade between members. The protective tariffs allowed for under the new treaty are intended to balance Kenya's economic advantage. Sceptics note that efforts to balance foreign investment between EAC members may serve to deter potential investors.

Emmanuel Lule, deputy governor of Uganda's central bank last week warned that the EAC must have sustained political backing at the highest level if it is to succeed. "Events in other regional groupings have demonstrated the criticality of political will in the success of regional initiatives. The three East African countries have therefore got to "lock-in" convergence criteria and limit powers of national authorities to vary it," Mr. Lule said.

East African Co-operation, predecessor to the new EAC, was launched in 1994 and has already spawned a common flag, currency convertibility within member countries and agreements on double taxation, road and inland water transport as well as digital telecommunications. Rwanda and Burundi have been invited to join the grouping.

"East African summit opens with free-trade area seen as irreversible," AGENCE FRANCE-PRESSE, January 22, 1999; "East African trade bloc to drop internal tariffs," REUTERS, January 27, 1999; "Uganda: bank chief warns on monetary plans," FINANCIAL TIMES, January 29, 1999.

MERCOSUR TRADE TENSIONS RISE AS REAL FALLS

Bilateral talks held last week to assuage difficulties between Brazil and Argentina yielded little progress. Brazil's currency devaluation earlier this month has strained relations within the Mercosur trade block (comprising Brazil, Argentina, Uruguay and Paraguay), most especially between Brazil and Argentina. Brazil is Argentina's main trading partner, absorbing more than 35 percent of its exports.

Argentina is wary of an influx of cheap Brazilian imports, especially in the automotive, steel and processed food sectors. Argentina last week proposed that Brazil drop its export subsidies on exports to Mercosur countries, arguing that in 1998 Brazil spent more than US\$1 billion on subsidies, aggravating its budget deficit which in turn contributed to Brazil's decision to devalue its currency. Brazil agreed to review its export programs. Argentina has refrained from imposing sanctions against Brazilian imports despite pressure from Argentine businesses.

Brazil rejected a proposal by Argentine President Carlos Menem that the trade block adopt the dollar as the Mercosur currency to avoid exchange rate volatility. The two sides will meet again next month.

"Brazil braces for economic strife amid hopes market will calm down," JOURNAL OF COMMERCE, January 26, 1999; "Brazil, Argentina stall, no results from trade talks," JOURNAL OF COMMERCE, January 27, 1999; "La Argentina presentará hoy sus reclamos al Brasil" LA NACION LINE, January 25, 1999; "Brazil's ills pressure Latin trading bloc" WALL STREET JOURNAL EUROPE, January 26, 1999.

ACCESSION UPDATE: CHINA-U.S. READY FOR SPRING SHOWDOWN

An U.S. trade official January 20 said it would take "enormous political will" by both China and the U.S. to make China's accession to the WTO in 1999 a reality. Robert Cassidy, chief U.S. negotiator for China's accession to the WTO said agriculture, telecommunications, and financial services remain the major sticking points for the U.S. in accession talks. A Chinese official speaking at the same event noted that the distribution, insurance, and telecommunications sectors remain the most sensitive areas for China to liberalise. Xiao-Dong Hong said that China "needs to develop its own industries and protect its infant sectors, while introducing foreign competition."

The U.S. and China have reportedly dropped the issue of whether China will enter the WTO as a developing or developed country (which would dictate the terms of accession e.g. phaseouts of

tariffs). The two sides would instead consider China's market sector by sector and address liberalisation schedules that way.

U.S. Trade Representative Charlene Barshefsky warned that the scheduled visit of Chinese Premier Zhu Rongji to the U.S. in the spring is "perhaps the last opportunity" for the U.S. and China to resolve their differences. Mr. Cassidy noted earlier that the proposed Millennium Round of trade talks could change the accession landscape for China if its accession is not completed this year. "If China doesn't accede to the WTO this year, before the next WTO negotiations commence, then the price of membership is going to increase. ... The reality is that if China does not accede this year then China will have no influence over the course of the negotiations." Mr. Cassidy said.

Critics charge the U.S. warnings on China are all so much posturing, calling the idea of the WTO as a truly global forum "comical" without China, noting further that keeping an economy the size of China's outside the WTO system would threaten the relevance of the WTO over time.

"Barshefsky says spring meeting crucial to quick China WTO entry," *INSIDE US TRADE*, January 29, 1999; "U.S. Seeks Agriculture Quotas From China After Failure of Pilot Meat Import Program," "Negotiators Say China's WTO Talks Stall Over Distribution, Insurance, Telecom," *INTERNATIONAL TRADE REPORTER*, January 27, 1999; "China still keen on WTO admission" *REUTERS*, January 29, 1999; "Article tackles 'grim reality' of economic globalisation," *TA KUNG PAO* (Hong Kong), January 25, 1999.

IN BRIEF

Negotiations continue between Cambodia and Taiwan over the return to Taiwan of nearly 3,000 tonnes of industrial waste delivered to Cambodia in early December. The waste was found to have high mercury content after 3 people died in the village where the waste was dumped. Environmental groups have called Cambodia the most vulnerable of Southeast Asian countries for waste dumping, due to its coastal location and because it has no ban in place on hazardous waste imports nor is it a party to the Basel Convention. "Toxic waste trade sails on" *IPS*, January 29, 1999.

The EU and Mexico reported last week that they made "notable progress" in the second round of bilateral trade talks held January 18-22 in Brussels. The EU is reportedly pushing for tariff-free trade in industrial goods between the two by 2003 - the same year Mexico is scheduled to drop industrial good tariffs with the U.S. and Canada under NAFTA. Mexico prefers a 10-year phase out with the EU. "EU, Mexico Claim Progress Made In Second Round of Free-Trade Talks," *INTERNATIONAL TRADE REPORTER*, January 27, 1999.

More than 400 delegates from at least 100 countries met in Nairobi last week for the second round of talks to negotiate an international convention to phase-out Persistent Organic Pollutants. The Convention is due to be ready for adoption by the year 2000. "UN Negotiates Global Treaty on Dangerous Chemicals," *IPS*, January 27, 1999.

Hindered access to pharmaceuticals and higher medicine costs are expected to be the first side effects from a revised Indian patent regime drafted to comply with a 1998 WTO ruling.(See *BRIDGES Weekly Trade News Digest* Vol. 3, No. 1-2, January 18, 1999.) Indians currently enjoy the lowest prices for medicine in the world, but a new patent ordinance could affect price and

availability. Concern is greatest for India's poor, who even at current low prices can barely afford vital medicines. "Indians brace for massive hike in drug prices," IPS, January 25, 1999.

WTO IN BRIEF

The U.S. last week announced that the Third WTO Ministerial meeting would be held in Seattle, Washington November 30 through December 3, 1999. San Diego, Denver, Honolulu, Detroit, Dallas, and Seattle all vied to host the event. Previous Ministerials were held in Singapore (1996) and Geneva (1998). "Seattle will host WTO talks" The Seattle Times, January 26, 1999; "Seattle to host WTO minister meet in 1999" KYODO NEWS INTERNATIONAL, January 25 1999.

EVENTS & RESOURCES

- **EVENTS**

For a more complete list of events in coming months, please refer to ICTSD's web calendar at: <http://www.ictsd.org/html/calendar.htm#event>

WTO Meetings

18-19 February 1999: Committee on Trade and Environment. For information contact Hans-Peter Werner, WTO, tel: (41-22) 739-5286.

22 February 1999: Committee on Rules of Origin. For information contact Luis Ople, WTO, tel: (41-22) 739-5374.

24 February 1999: Dispute Settlement Body. For information contact Nuch Nazeer, WTO, tel: (41-22) 739-5393.

25-26 February 1999: Special Session of the General Council for the Third Ministerial Conference. For information contact Nuch Nazeer, WTO, as above.

Other Meetings

28 January-28 February 1999: WTO FORUM ON LOW-INCOME DEVELOPING COUNTRIES IN THE GATT/WTO FRAMEWORK. If you wish to register and participate in this on-line event please write to tessa.jurin@wto.org For background information on the issue-area, and to enter the forum, go to <http://www.wto.org/forums/forum.htm>

1-2 February 1999, Geneva, Switzerland: ICTSD DIALOGUE ON TRADE POLICY AND SUSTAINABILITY: THE REGIONAL APPROACHES. The first in an annual series in which policy-makers and civil society representatives exchange information on the sustainability objectives and performance of regional integration schemes. For information contact Miguel Jimenez-Pont, tel: (41-22) 979-9478, fax: (41-22) 979-9093, e-mail: mjimenez@ictsd.ch, web: <http://www.ictsd.org>

4 February 1999, HIGH-LEVEL SYMPOSIUM ON TRADE AND ENVIRONMENT -

PREPARATIONS AND EXPECTED OUTCOME. This café & croissants event will take place at 10 a.m. at Geneva Executive Centre, 13 ch. des Anémones, 1219 Châtelaine, Geneva. Ambassador Chak Mun See of Singapore, Chair of the WTO Committee on Trade and Environment will present the topic and an interactive discussion will follow. For information, contact ICTSD at (41 22) 917 8492, email: ictsd@ictsd.ch

4 February 1999, HIGH-LEVEL SYMPOSIUM ON TRADE AND DEVELOPMENT - PREPARATIONS AND EXPECTED OUTCOME. This café & croissants event, attended by representatives of WTO Members, will take place at 14.30 at Geneva Executive Centre, 13 ch. des Anémones, 1219 Châtelaine, Geneva. For information, contact ICTSD at (41 22) 917 8492, email: ictsd@ictsd.ch

18 February 1999, Brussels: INVITATION FOR NGOS TO MEET WITH WTO DIRECTOR GENERAL RUGGIERO ON WTO AND CIVIL SOCIETY: "The New Multilateral Trade Negotiations--The European Union and its Developing Country Partners: An Agenda for Action". For information contact Alain Frank, WTO Director External Relations, tel: (41-22) 739-5152, fax: 739-5777. Reply requested by 3 February 1999.

23 February 1999, Brussels: INVITATION FOR NGOs TO MEET WITH EC ON "WTO NEW ROUND ISSUES": Tariffs, Trade Facilitation and Competition. The invitation has been sent by H. Jouanjean (Chief of WTO directorate). Reply requested by 8 February to (e-mail) helen.beckman@dg1.cec.be, tel: (32-2) 299-1081, fax: 299-0900.

1-3 March 1999, Toronto, Canada: CANADA'S NRTEE WORKSHOP ON EMISSIONS TRADING AND CLIMATE CHANGE. Canada's National Round Table on the Environment and the Economy (NRTEE) is holding this international workshop entitled "Domestic Greenhouse Gas Emissions Trading Programs, A Comparison of Progress Around the World". For information contact Elizabeth Atkinson, Senior Policy Advisor, NRTEE, 344 Slater Street, Suite 200, Ottawa, Ontario K1R 7Y3, fax: (1-613) 992-7385, e-mail: atkinson@nrtee-trnee.ca, web: <http://www.nrtee-trnee.ca>

• RESOURCES

NEW WEBSITE ON GREENHOUSE GAS EMISSIONS SCENARIOS: SPECIAL REPORT ON EMISSION SCENARIOS OPEN PROCESS (SRES OP). Set up by the Intergovernmental Panel on Climate Change Working Group III, this website enables researchers in the area of climate change to submit their new greenhouse gas emissions scenarios or any comments to the IPCC SRES writing team. It also can be used as a window on the current work of the IPCC SRES writing team. The website is at <http://sres.ciesin.org/>

CONSUMPTION IN A SUSTAINABLE WORLD. A final report from the international expert meeting on sustainable consumption in Kabelvåg, Norway, 2-4 June 1998. This report is intended to give rise to a chain of initiatives in consumption. Giving examples of action implying both environmental and economic gains, the report underlines that more efficient and sustainable patterns of consumption will benefit both rich and poor. For information contact Anne Solgaard, The Ministry of Environment, Norway, Myntgt. 2, PO Box 8013 Dep, N-0030 Oslo, Norway, tel: (47) 22 24-60 17, fax: 22 24-95 60.

NOAH'S NEW CHALLENGE: SAVING AFRICA'S MEDICINAL RESOURCES: 'SEARCHING FOR A CURE: CONSERVATION OF MEDICINAL WILDLIFE RESOURCES IN EAST AND SOUTHERN AFRICA'. This study identifies 102 medicinal plant species and 29 medicinal animal species as priorities for conservation and management action. The study finds traditional medicine critical to health care in the southern Africa region where western medicine is largely unavailable to much of the population. For a copy of the study contact Nina Marshall at Traffic East/Southern Africa-Kenya, tel: (254-2) 506-839, or visit the website: <http://www.traffic.org/africa/index.html>

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