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LEAD STORIES

AG CHAIR DESCRIBES 'CENTRE OF GRAVITY' FOR REALISTIC DOHA DEAL

The chair of the deadlocked Doha Round talks on cutting farm tariffs and subsidies on 30 April issued a paper outlining parameters for a plausible deal on several issues in the negotiations, in an effort to goad WTO Members into reconsidering their bargaining positions.

Using blunt language rarely heard in trade negotiations, Ambassador Crawford Falconer (New Zealand) emphasised that countries and Member groups would have to give up long-held views to make an accord possible. For instance, he said that the US would have to slash its farm subsidies more deeply than it has offered to, but that the steeper reductions sought by the G-20 were a "real stretch," too. As for the EU, Japan, and the G-33 bloc of developing countries, all would have to settle for fewer flexibilities to shield products from tariff cuts.

In the 28-page "challenge" paper aimed at "sharpening [Members'] appetite for decision," Falconer set out his personal assessment of where the "basic centre of gravity" might lie for a potential accord. He described it as a "hard-nosed view of what I think is within the realm of the possible," rather than what "is fair or right or even where the majority is." He also provided some novel ideas of his own for how to break the deadlock.

He urged Members, if dissatisfied, to provide him with "actual rationales for why things suggested or proposed in [the] document will not work and, more to the point, what might work better." Although he is New Zealand's ambassador to the WTO, Falconer's role as mediator of the farm trade talks is a neutral one.

Initial reactions to the paper have been cautious, which Geneva-based sources take to mean that Members want to cooperate with the initiative. One delegate said that it was a good sign that countries "were not loading up the cannons" in response. Nevertheless, press reports hint at grumbling in Tokyo and New Delhi.

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Delegations have sent the paper to their respective capitals for further examination. Negotiators praised the chair's political courage in attempting to provoke a more honest debate about their bottom lines, at the risk of arousing different Members' wrath.

With countries now seeking to conclude the negotiations around the end of this year – which would likely necessitate a framework agreement on subsidy and tariff cuts before the WTO's August holiday – Falconer warned that “if we do not get serious momentum over the next few weeks... we will either fail or we will put this whole exercise in the freezer for some considerable time until a better generation than us can thaw it out.”

Falconer will circulate a paper dealing with remaining issues in the talks next week. He will use Members' responses to both documents to put together a new draft text for a potential agreement.

For months, the EU, the US, and India have been at the forefront of a circular argument about what is necessary to break out of the impasse in the Doha Round agriculture talks: Brussels and New Delhi say that the US needs to lower the ceiling on its trade-distorting farm subsidies substantially beyond its current offer; Washington counters that it won't do so until the EU, India, and other developing countries agree to expand access to their agricultural markets. A series of meetings together with Brazil has yielded only incremental progress thus far, despite a shared commitment to finalise a deal by the end of 2007 (see BRIDGES Weekly, 18 April 2007, <http://www.ictsd.org/weekly/07-04-18/story1.htm>). Senior officials from the four are meeting in London this week, mainly to discuss agriculture.

In his paper, Falconer addressed each aspect of the circular argument, pointing to where he thought Members needed to go.

US subsidies below \$19bn, above 'low teens'

Falconer said that it was “frankly inconceivable” that other Members would agree to the US' current proposal to drop its ceiling limit on overall trade-distorting support by some 53 percent to USD 22 billion – still well above the USD 19 billion that it actually spends (with spending expected to drop as high prices continue). On the other hand, he said that a cap in the low teens would be “a real stretch” in negotiating terms. The neighbourhood of an agreement would be “certainly below 19 [billion USD] and somewhere above the very low teens,” Falconer opined. The G-20's proposal would slash the cap on trade-distorting US farm payments by 75 percent to about USD 12 billion. A cut of roughly 68

percent would be necessary to bring this limit near USD 15 billion.

As for the EU, it would have to envision a “cut above 70 percent,” with a reduction “in the vicinity of 75-80 percent” still conceivable, depending on the outcome of other aspects of the negotiations. Japan should be able to match the cuts undertaken by the US “comfortably,” Falconer said.

Depending on their existing commitments, developing countries would either be exempt from cuts or be allowed to make lower reductions to their more modest subsidies over longer time periods.

According to the chair's ‘working hypothesis’, the US would cut the most heavily trade-distorting ‘amber box’ subsidies by 60 percent cut; the EU would do so by 70 percent. For the other two components of overall trade-distorting support in developed countries, Falconer suggested that the cap on ‘de minimis’ spending could be cut by at least 50 percent (from the current 5 percent of the value of production), and that on ‘blue box’ payments reduced from 5 to 2.5 percent of production. He proposed compromises for reconciling the 1995-2000 base period that most Members prefer for making these calculations and the 1999-2001 period the US wants because its spending levels were much higher.

Falconer explored various options for limiting subsidy spending on specific commodities, or for preventing payments from being concentrated on a handful of products, as some countries have demanded. However, before anything could be decided, Falconer said that Members would have to determine whether such limits were a “non-starter.” “Is there a genuine willingness to take a ceiling limit one way or the other or not?”

In response to an appeal from West African cotton producers suffering from the effects of heavy US subsidies, WTO Members have already agreed that cotton payments should be reduced “more ambitiously” than others. Falconer said that cotton subsidy cuts should be ambitious “in relation to the general formula.” He said that the “rough zone” was between the 53 percent cut to overall trade-domestic support proposed by the US and a West African proposal that would cut cotton subsidies by over 80 percent even if the standard cut is relatively modest.

Tariff cuts “squarely between” US and EU

A deal on slashing farm tariffs will lie “squarely between the US and the EU positions,” Falconer said. Washington's proposal amounts to an average cut of about 66 percent by developed countries. Brussels originally offered 39 percent, but has subsequently hinted that it could cut tariffs in a way that the average

would approach 50 percent, although it has never formally explained how it proposes to do this.

"It is a reasonable presumption that neither of those positions will in the end actually prevail," he wrote. "The centre of gravity is actually somewhere inside those parameters or not at all." The G-20 bloc of developing countries, which includes competitive exporters such as Brazil and Argentina as well as defensive China and India, has proposed an average cut of about 54 percent for developed countries.

An scenario that would deliver an overall cut above 50 percent is nonetheless "still in play," Falconer said.

Developing countries would cut tariffs by two-thirds as much as developed countries.

Falconer assumed that the structure of the tariff reduction formula would be based on the G-20's proposal. Under this, developed countries would classify their tariff lines into four bands, with duties on the most heavily-protected products in the highest band – above 75 percent – to be cut most steeply.

"The most crucial issue from which everything else will follow is what the cut would be in the top band," Falconer said. Here, the range is between the EU's preferred 60 percent and the 85 percent cut sought by the US. "I am only too well aware that the Members concerned are utterly adamant that they will never move from their positions on this," he noted. "Well, I can't help but observe – and this requires no special insight – that this will eventually happen... one will have to move up and the other will have to move down or we will simply not have a deal."

Once the figure for the reduction in the top band is settled, the cuts for lower bands will follow, Falconer suggested. He acknowledged that this would not happen in isolation: some Members' would only agree to a relatively high cut for the top band if they know the extent to which they will be able to shield 'sensitive products' from the full force of tariff cuts. Furthermore, some sort of arrangement would have to be made to account for countries with a particularly high proportion of tariff lines in the top band, which would stand to be disproportionately affected by the formula. One option might be to let them designate an extra number of sensitive products.

Sensitive products: 1-5 percent

With regard to the number of 'sensitive products', on which developed and developing countries will be allowed to make gentler tariff cuts in exchange for creating new import quotas – Falconer suggests that the 'centre of gravity' is "higher than 1 percent certainly

but not above 5 percent." The US, G-20, and Cairns Group of farm exporters had been pushing for 1 percent. At the opposite end of the spectrum, the G-10 group of countries with highly-protected farm sectors wanted 15 percent. The EU, for its part, had proposed 8 percent.

Falconer speculated that tariff cuts on sensitive products would be somewhere between one- to two-thirds of the standard reduction. He foresaw "an emerging consensus" that greater deviations from the formula should be compensated for by higher quota increases. He considered several different approaches for calculating the size of tariff rate quota (TRQ) expansion, to try to strike a balance between the priorities of would-be exporters and reluctant importers. One such approach would allow countries to make smaller increases to TRQs for a sensitive product if significant amounts were already entering their markets at the over-quota duty rate.

Number of special products: 5-8 percent

As for the 'special products' that developing countries alone will be allowed to shield from the full force of tariff reduction on the grounds of food security, livelihood security, and rural development needs, Falconer said that Members were "a long way apart on existing positions" (see related story, this issue). He said that even though other areas in the talks were "objectively far more important," the issue of special products had the potential to sink the Doha Round.

The chair said that he did not think that the G-33 bloc's demand for "at least 20 percent" of agricultural tariff lines to be eligible for special product status was tenable. Nor, however, were demands for this to be limited to as few as "three or four" tariff lines – the US had formally sought five, insufficient to cover milk and cream.

Although Falconer recognised that "strictly speaking there is no connection in numerical terms" between sensitive and special products, he said he sensed that the number of special products would have to be higher. Given the 1 to 5 percent range he envisioned for the number of sensitive products, he thought that 5 to 8 percent of tariff lines might be the corresponding figures for special products. There had been some informal suggestions that developing countries might be rewarded with an additional entitlement of special products for not designating sensitive products, the chair noted.

Members were "perfectly entitled" to disagree with his assessment, Falconer stressed, though he said he would want an explanation for how an agreement different from those broad parameters could be

reached. He said that “discernible movement on numbers” was necessary within months, if not weeks. “If even this does not start to get people moving then we at least have to be honest with ourselves: either we are NOT in fact going to ever negotiate a specific number for specials (because, in effect ANY number is either “too high” for one side of the debate or “too low” for the other side of the debate, which is in fact exactly the situation we are in right now), or we are never going to have an agreement on this at all.”

More controversially, the chair argued that the mandate on special products implies that all should be subject to some degree of tariff reduction – he suggests “somewhere around 10-20 percent.” In contrast, G-33 countries have argued for exempting half of all special products from tariff cuts altogether.

A “radical thought”

The ongoing difficulties at striking an agreement within the framework of the tiered tariff reduction formula accompanied with various flexibilities to shield products from liberalisation led Falconer to conclude his paper with a “radical thought”: developing countries could jettison the formula and its bands of different tariff cuts, forget special product flexibilities, and instead “just go for a straight overall average cut” along with a minimum specified reduction on each tariff line. This would allow countries to make only the minimum cut on their more sensitive products, and make steeper reductions on other commodities in order to reach the average.

Falconer said that “most developing countries could probably reasonably manage” this “simple and straightforward” approach. And the methodology was hardly new to WTO negotiations, since both developed and developing countries used it in the Uruguay Round. At that time, developed countries made an average cut of 36 percent with a minimum reduction of 15 percent; for developing countries the figures were 24 percent and 10 percent, respectively. Falconer said that this Uruguay Round formulation – presumably the former -- didn’t seem “like a bad candidate to actually use this time for developing” countries.

Incidentally, the G-20’s initial position on market access (WT/MIN(03)/W/6), tabled at the Cancun Ministerial Conference in September 2003, called for developing countries to make an overall average reduction along with a minimum cut. However, that proposal also special product flexibilities in addition to this.

Falconer’s paper addressed several other issues in the negotiations. These included ideas for compromise in the export competition talks. He noted that the delay in concluding the Round could complicate the 2013 deadline for ending agricultural export subsidies.

Positing the start of 2009 as a possible date for the entry into force of a Doha agreement, he suggested that countries could frontload export subsidy cuts by eliminating half of them by the end of 2010, and phase out the remaining 50 percent over the next three years. A decision on food aid was within reach, he said, although a shift to cash-only assistance in non-emergency situations was not likely to happen. Also unlikely to win support, Falconer noted, was eliminating the monetisation of food aid. However, he said that appropriate disciplines could minimise commercial displacement.

Initial reactions

The sharpest reaction to Falconer’s text came from Japanese Agriculture Minister Katsutoshi Matsuoka, who told journalists in Geneva that a 5 percent limit on the number of sensitive products was unacceptably low. Kyodo News reports that Japan’s agriculture ministry has said that this would require Tokyo to substantially cut tariffs on over half of its most heavily protected tariff lines, which currently cover rice, wheat, sugar, and dairy products.

According to the Economic Times, an Indian daily, commerce ministry officials in New Delhi have complained about the notion of restricting the number of special products to 5 to 8 percent of tariff lines. They also suggested that Falconer ought to have pressured the US to make even deeper cuts to its trade-distorting subsidies.

In preliminary reactions to the text, Geneva-based negotiators praised the risks the chair had taken in making provocative statements in the paper. One lauded him for having “the courage to say some things we the Members refrain from saying.” However, two delegates noted that the language on special products was unlikely to find favour among all developing countries. One suggested that the paper seemed somewhat less sensitive to developing countries’ political constraints than to those of developed countries.

The agriculture negotiating committee is set to meet on 7 May. Falconer’s revised draft agreement text is expected by late May or early June.

The paper is available online at: http://www.wto.org/english/tratop_e/agric_e/chair_texts_07_e.htm

ICTSD reporting; “Japan Cannot Accept 5% Limit To No. Of ‘Sensitive’ Products: Matsuoka,” KYODO NEWS, 30 April 2007; “WTO draft paper harvests discontent in Delhi fields,” ECONOMIC TIMES, 2 May 2007.

SERVICES CLUSTER FINISHES WITH NEW FOCUS ON 'BREAKTHROUGH SECTORS'

The first formal cluster of services meetings held at the WTO since the Doha Round talks were suspended last July concluded on 27 April after two weeks of intensive plurilateral and bilateral negotiations. Although many developing countries remain reluctant to further open their markets to foreign services providers until there is more progress in the talks on agriculture and industrial tariffs, some major 'demandeur' Members such as the EU and the US have identified key 'breakthrough' sectors in which they are especially eager to see new liberalisation.

Most of the plurilateral market access negotiations – based on the collective requests for liberalisation submitted by groups of demandeurs in specific services sectors in February last year – took place in the first week. The second week was taken up primarily by bilateral negotiations, based on both these collective requests and the country-specific requests that individual Members had tabled previously.

Plurilaterals more specific than in past

Sources say the plurilateral negotiations were more focused than in the past, benefiting from more thorough preparation by the requesting Members. Each of these sector-specific negotiations was coordinated by one sponsor of the collective request, and each had a structured agenda unlike the more free-wheeling discussions in previous plurilateral discussions.

The targeted countries were each specifically asked whether they were going to meet the liberalisation commitments set out in the collective request, and, if not, why they were unable to do so. They were also asked whether they were prepared to formally bind the level of liberalisation actually applied in practice in each sector and, again, why not, if they were unable to do so. A delegate noted that the demandeurs appeared better-informed about the regulatory and other policies in place in the requested countries and are actively using this information as leverage for seeking qualitatively improved offers of commitments from trading partners.

In the past, it had proved easier for countries facing requests to take a defensive approach when they wanted to, by asking the different sponsors a series of technical questions about precisely what they were seeking (see BRIDGES Weekly, 12 April 2006, <http://www.ictsd.org/weekly/06-04-12/story1.htm>).

Bilaterals: EU, US identify 'breakthrough' sectors

The bilateral negotiations were even more focused as major demandeurs targeted the WTO Members where their export interests are most critical. Among these are Brazil, India, China and the four big markets within the Association of Southeast Asian Nations (ASEAN) – Indonesia, Malaysia, the Philippines and Thailand.

The US, for instance, had bilateral meetings with the so-called ASEAN 4 at the level of both technical officials and ambassadors. These meetings focused on the 'breakthrough' sectors for the US -- energy, telecommunications, financial, distribution, audio-visual, postal and express delivery services, and computer-related services. These 'breakthrough' sectors are those in which the US private sector is interested in significant concessions, absent which would discourage them from trying to prod the US Congress to extend the Bush administration's fast-track authority to sign off on a Doha deal. The authority is set to expire on 30 June.

On the other hand, the EU identified financial, telecommunications, computer-related services, maritime transport, distribution, postal and courier, construction, environment and legal services as its 'breakthrough' sectors.

The idea of 'breakthrough' sectors has likewise prompted Mexican Ambassador Fernando de Mateo, chair of the services negotiating body, to adopt a sectoral approach in his continuing series of 'enchilada talks' with a group of ambassadors from about two dozen selected WTO Members. This, however, has prompted debate among the smaller circle of demandeurs, the so-called 'Really Good Friends of Services', over precisely what the 'breakthrough' sectors should be, and how to set the order in which they ought to be discussed.

Sources say that the lineup of issues for the 'enchilada talks' scheduled for next week tentatively includes maritime transport, logistics, computer-related services and Mode 4 (the temporary movement of workers). This set of prioritised sectors apparently does not sit well with the US, which opposes liberalising its maritime transport sector because of long-standing legislation -- the 1920 Jones Act -- which prohibits foreign-made ships from supplying maritime transport services in its national waters and as well as waters within 200 miles of its shoreline. The Jones Act has benefited from a much-criticised exemption from market access liberalisation, which only the US has been able to enjoy, under the General Agreement on Tariff and Trade.

The US has likewise gotten cold feet on the liberalisation of logistics services, which it had advocated previously, due to controversy over the sale of US ports to a Dubai-based company. In early 2006, the US Congress invoked national security concerns to

enact legislation to impede the sale of port management businesses in six major US ports to Dubai Ports World, a state-owned company based in the United Arab Emirates. Since the controversy, the US has curbed its participation in the so-called 'Friends of Logistics Services'. It also declined to join the collective request on logistics services.

Developing countries want progress on Ag, NAMA

In the meantime, many developing countries remained reluctant to agree to substantive commitments, as well as to set new timelines for submitting revised offers of liberalisation, absent greater clarity on the possible outcome of the negotiations on agriculture and non-agricultural market access (NAMA).

At the Special Session of the Council for Trade in Services held at the end of the two-week cluster on 27 April, Brazil referred to certain demandeurs as falling into a 'take-and-take' mentality, rather than the 'give-and-take' approach more appropriate to a mutually beneficial conclusion to the Doha Round. It likewise proposed that in the event that new timelines are set for tabling revised offers, this should parallel the sequence provided in the Hong Kong Declaration, which set the target date for the submission of new, revised offers three months after the putative date for agreement on modalities in the agriculture and NAMA negotiations.

Uganda, on behalf of the African Group, expressed dissatisfaction with the work done thus far on operationalising the Modalities for the Special Treatment of Least-Developed Countries. The African Group asked for 'meaningful' services trade opportunities in the context of supply of services where LDCs had real supply capacity, such as in Mode 4. As one way of operationalising these Modalities, many LDCs are asking trading partners to allocate specific Mode 4 quotas exclusively in favour of LDCs. They are also requesting other WTO Members to relax their entry and work permit requirements for workers from LDCs, as a form of special and differential treatment.

De Mateo concluded the discussion in the CTS-SS by scheduling a meeting of the CTS-SS at the end of May or beginning of June, to be followed by another services cluster to be held either in the last two weeks of June or first two weeks of July.

ICTSD reporting.

HEATED DEBATE OVER PAKISTAN'S ATTEMPT AT COMPROMISE ON 'SPECIAL' FARM PRODUCTS

WTO Members have kicked off a new attempt to try to bridge their differences in the faltering Doha Round trade talks and conclude a deal by the end of the year (see related article, this issue). Last week's meeting of the agriculture negotiating committee only served to underline how difficult it will be for them to succeed, even after five and a half years of negotiations.

The 25 April meeting focused on one of the most contentious issues in the farm trade talks: the 'special products' that developing countries will be allowed to shield from the full force of tariff cuts due to food and livelihood security and rural development concerns.

Delegates engaged in heated debate over Pakistan's most recent attempt at compromise between the poor countries anxious to maintain protection for some farm products and the agriculture exporting countries that have opposed their demands for fear of diminished commercial opportunities. Although Pakistan had circulated the paper to Members earlier in the month – to immediate condemnation from some countries – this was negotiators' first chance to discuss it in detail (see BRIDGES Weekly, 18 April 2007, <http://www.ictsd.org/weekly/07-04-18/story5.htm>). Chair Ambassador Crawford Falconer (New Zealand) said that the exchanges led him to conclude that none of the options currently being talked about would garner consensus.

Two delegates saw a silver lining amidst the disagreement: at least countries were discussing new ideas, even if some of them were not widely welcomed.

Gaps wide, bridging difficult

The number and treatment of special products remains undetermined, as do the indicators that are supposed to guide their selection. The debate has divided otherwise-allied developing countries, pitting G-33 members China, India, and Indonesia against competitive exporters like Thailand and Argentina.

Members' bargaining positions vary dramatically: the G-33 group of developing countries wants to be able to designate "at least 20 percent" of all agricultural tariff lines as special, with half excluded from tariff cuts and the rest facing reductions no higher than 10 percent. Critics complain that this could cover over 90 percent of some countries' farm imports. At the opposite end of the spectrum is a US proposal to limit the number of special products to five tariff lines, which would be

insufficient to cover fresh and powdered milk and cream.

In an attempt to address the concerns of developing country exporters pointing to the importance of market access to their farmers, Pakistan's proposal notably set out several 'negative indicators' for excluding commodities from eligibility for special product status. These were principally based on whether developing countries account for over 80 percent of total world exports or a country's imports of a particular product. This would put palm oil, for instance, beyond the reach of special product designation.

Pakistani Ambassador Manzoor Ahmad said that the paper also sought to provide new fodder for multilateral negotiations on the issue.

G-33 harshly critical

Pakistan belongs to the G-33, but is also part of the offensively-oriented Cairns Group of farm exporters.

Nevertheless, the rest of the G-33 was harshly critical of the proposal at the committee meeting, echoing their initial reactions upon seeing it. They described it as impractical, imbalanced, and against the negotiating mandate that Members had already agreed to.

Speaking on behalf of the group, Indonesia said that the notion of thresholds for excluding products from special product status would allow trade considerations to trump the only agreed criteria, i.e., food security, livelihood security, and rural development. It also said that the specific indicators suggested by Pakistan responded "primarily to the commercial concerns of a few exporting countries." Indonesia said that Pakistan's suggested indicators seemed to be "arbitrarily chosen" from the group's longer list of criteria linked to food and livelihood security and rural development.

The G-33 has long argued that other countries' market access priorities should not come ahead of their own developmental needs, arguing that farmers producing for export even in developing countries are in a situation less dire than subsistence farmers.

Indonesia criticised Pakistan for seeking to cut tariffs on special products by two-thirds of the proportion that would otherwise have been required, arguing that "a product is special because of food security, livelihood security, and rural development and not because of the tariff level." For the same reason, it said that special products should not be capped, even at a level higher than that for other commodities. It added that a trade-off between the number of special products and the permitted extent of deviation from the overall tariff reduction formula would penalize countries with many

subsistence farmers, and thus risk contributing to increased poverty.

In response to Pakistan's proposal to deny special product eligibility to products that are not carved out of a country's bilateral or regional trade agreements, the G-33 argued that bilateral accords could not be compared to a multilateral one. The group also said that there was "no economic justification" for making special products ineligible for the special safeguard mechanism – a new tool intended to help developing countries protect farmers from import surges by temporarily raising tariffs beyond bound ceiling levels.

Many delegations expressed similar criticism, including the group of African, Caribbean, and Pacific (ACP) countries, which includes over 50 WTO Members, though many also belong to the G-33.

Other countries more supportive

Despite the criticism from the G-33, several Members intervened to praise Pakistan, expressing support for its endeavour to seek compromise, if not for its precise proposals.

Notably, Brazil, a major agricultural exporter and leader of the G-20 bloc, said that Pakistan's attempts to bridge the gaps on indicators and treatment were justified by the mandate. It has thus far been relatively inconspicuous in the negotiations on special products, seemingly preferring instead to work quietly towards a compromise.

Brazil expressed support for 'negative indicators' of the sort put forward by Pakistan, noting that the G-33's indicators could cover virtually all of its agricultural production – even nutritionally-important chicken, in spite of the country's status as the world's largest poultry exporter. Costa Rica made a comparable point.

Thailand, which has in the past called for products to be excluded from designation as special if developing countries account for at least half of world exports, thanked Pakistan for taking its concerns into account (see BRIDGES Weekly, 3 May 2006, <http://www.ictsd.org/weekly/06-05-03/story1.htm>).

"There exist poor farmers in exporting countries whose livelihood security depends on the exportation of farm produce," it said, with support from Uruguay.

Although the US has long demanded strong limitations on special product flexibilities – and linked this to its ability to offer greater farm subsidy cuts -- sources report that it did not enter the debate during the meeting. One negotiator told Bridges that the US' silence was more helpful than a reiteration of its past demands would have been.

Falconer: positions need to change soon

In his concluding remarks to the committee meeting on 25 April, Falconer said that countries would need to alter their bargaining stance very soon if they are to finalise a deal by the end of the year, which is widely thought to require agreement on a framework for subsidy and tariff cuts by July. The chair expressed hope that Pakistan's paper would serve to encourage other Members to come forward with new ideas.

Five days later, Falconer circulated a paper to delegations in which he attempted to outline the "basic centre of gravity" for a deal in the agriculture talks. The rift on special products was particularly wide, he noted, warning that the issue had the potential to sink the negotiations. Acknowledging that he was "guessing perhaps even more here" than in other areas, Falconer speculated that a possible accord could allow 5 to 8 percent of farm products to be designated as special, with tariff cuts to be between 10 and 20 percent. The indicators would also have to be made more easily verifiable, he suggested.

The chair also put forward a "radical thought": instead of continuing to grapple with flexibilities, he suggested that developing countries could simply dispense with the current 'tiered formula' approach (in which higher tariffs are subject to steeper cuts) in favour of making an overall average reduction, along with a minimum cut on each tariff line. This, the approach used by all Members during the Uruguay Round, would mean that developing countries would be able to pick and choose among all of their products, making the minimum cut to the more sensitive ones and higher reductions elsewhere in order to reach the average requirement.

The agriculture committee is scheduled to meet next on 7 May.

ICTSD reporting.

OTHER STORIES

**BRAZIL CALLS WTO RULING IN
RETREADED TYRES DISPUTE
'FAVOURABLE'**

Brasilia has expressed satisfaction with the ruling of a WTO dispute panel in the EU's high-profile complaint against its import limitations on 'retreaded tyres'. It claims that the decision was largely favourable to its environmental and health-related arguments for the

restrictions. Brussels is studying the details of the ruling and will decide whether or not to appeal.

The report, released to the two parties on 23 April, will remain confidential until mid-June. Both sides have been reticent about the specifics of the panel's reasoning.

'Retreaded tyres' are old tyres that have been reprocessed for a second and final use. At issue in the case are a series of trade restrictions imposed by Brazil on retreaded tyres. The EU claimed that Brasilia's policy of allowing imports of retreaded tyres from its Mercosur trade bloc -- while banning them from the rest of the world -- violated WTO rules.

Not disputing that the restrictions appeared inconsistent with its obligations under the General Agreement on Tariffs and Trade (GATT), Brazil sought to justify them on environmental, fire hazard, and health grounds. It contended that the shorter lifespan of retreaded tyres linked them more heavily than imported new ones to pollution and other adverse effects caused by all waste tyres, which become breeding grounds for mosquitoes that spread malaria and dengue fever. Therefore, it argued that the measures should be exempt from sanction under GATT Article XX, which describes the circumstances under which Members may deviate from their WTO obligations -- for instance, restricting trade to safeguard exhaustible natural resources and public health.

However, the introductory paragraph, or 'chapeau', of Article XX specifies that such deviations are permitted so long as they "are not applied in a manner which would constitute a means of arbitrary or unjustifiable discrimination... or a disguised restriction on international trade."

This is why Brazil's continued imports of retreaded tyres from Mercosur countries -- while those from elsewhere are banned -- potentially becomes problematic. Brasilia pointed to a Mercosur arbitration panel decision that compelled it to exclude Argentina, Paraguay, and Uruguay from the import restrictions on such tyres. It has argued that obeying this decision was necessary to comply with its international obligations and domestic laws, and thus justified under the exemptions set out in Article XX(d).

Brazil insists that it is simply not equipped to deal with the far greater amount of additional waste that would be generated if EU retreaded tyre imports were allowed (see BRIDGES Weekly, 14 March 2007, <http://www.ictsd.org/weekly/07-03-14/story2.htm>).

In a press release issued in response to the panel report, the Brazilian foreign ministry described it as

“amply favourable” to its arguments. The ministry “recognised with great satisfaction the sensibility of the panel with regard to the environmental and health challenges faced by the country.”

Sources close to the proceedings said that the panel appeared to have ruled against the way in which Brazil was applying the restrictions, while affirming its need – and therefore right – to block trade in retreaded tyres to pursue health and environmental goals. This would in turn suggest that minor changes to the policy could make the import limits WTO-compliant.

These sources claim that the panel agreed that Brasilia’s import restrictions did indeed meet the ‘necessity test’ of GATT Article XX(b) and (g) requiring measures to respectively be ‘necessary to protect human, animal or plant life or health’ or for the ‘conservation of exhaustible natural resources’. However, the panel also found that the measures were applied in an arbitrary fashion, and thus did not qualify as an exemption under the chapeau.

Brazil’s foreign ministry said that “as expected, the panel maintained the findings of the interim report,” which had been circulated to both sides in mid-March. At that time, Roberto Azevedo, a senior official in the ministry, said that the panel had affirmed that some ‘adjustments’ to the restrictions on retreaded tyre imports would ultimately suffice to allow Brazil to maintain the ban.

The devil will lie in the details: if the panel has in fact accepted that the import restrictions, in principle, are in conformity with Article XX, it may have made it possible for Brazil to modify their application to ensure that they fully qualify as exemptions.

Once the report is made public in mid-June, the EU and Brazil will have 60 days to file for an appeal.

ICTSD reporting; “Relatório final sobre a proibição da importação de pneus reformados foi rígido com a OMC,” BRASIL FATOR, 25 April 2007.

WTO IN BRIEF

WTO MEMBERS CONTINUE TO REFINE, CLARIFY PROPOSALS ON TRADE FACILITATION

The Doha Round talks on trade facilitation are slowly moving towards the development of a future WTO agreement on reducing red tape and other obstacles to the transit and customs clearance of goods. A 30 April – 1 May informal meeting of the trade facilitation negotiating group saw increasingly detailed work. Chair Ambassador Eduardo Sperisen-Yurt (Guatemala) called on Members to pick up the pace so they can quickly proceed to discussing draft text for a future agreement.

Many delegates called for the preparation of ‘fourth-generation’ texts – proposals refined yet again to incorporate comments made in recent sessions of the negotiating group (see BRIDGES Weekly, 21 March 2007, <http://www.ictsd.org/weekly/07-03-21/story3.htm>).

Sources report that the US commented that Members seemed to be in legal drafting mode. A developing country trade delegate cautioned that while it would not be unfair to regard refining earlier texts as ‘legal drafting’, the current negotiations were focused more on process and strategy rather than on substance.

Technical assistance was an important subject of discussion. Most developing countries want an upfront commitment that they will be provided the technical assistance and capacity building they need to implement new commitments, said one delegate. The official added that developing countries also want a clearer understanding of the type and extent of actual assistance that would be forthcoming, and how this would be distributed among various Members. In contrast, most if not all developed countries want implementation-related aid to be determined bilaterally between the donors and recipients.

In any case, said one source, developing countries have placed a high priority on meaningful technical assistance language as an integral part of any text. The trade facilitation mandate is unique in that Members will not be required to implement commitments unless they receive the technical assistance necessary to do so.

Transitional periods for implementation also need to be resolved: the trick will be to create implementation timetables that vary according to the realities of each Member without creating a multi-tier regime.

The next formal meeting of the negotiating group is expected to take place in early June. Sperisen-Yurt will continue to consult with delegations in the interim.

ICTSD reporting.

EVENTS & RESOURCES

EVENTS

For a more comprehensive list of events in trade and sustainable development, please refer to ICTSD's web calendar at: <http://www.ictsd.org/cal/index.htm>. If you would like to submit an event, please email events@ictsd.ch.

Coming Up: 3-9 May

4 May, New York, US. HYDROGEN FUEL CELLS AND ALTERNATIVES IN THE ENERGY AND TRANSPORT SECTORS: POLICY ISSUES FOR DEVELOPING COUNTRIES. Recent advances in the application of hydrogen fuel cells in transportation and energy sectors have attracted attention and increased funding for research and development of this promising solution to oil dependency in transportation. Developing countries have previously been unprepared to deal with and apply new technologies, leading to 'knowledge gaps'. As a side event to the UN Conference on Sustainable Development in New York organized by UN University, this session aims to contribute to building capacity on hydrogen and fuel cells and to the development of roadmaps for a portfolio of choices for the use of sustainable energy sources within the energy and transport sector in developing countries. internet: http://www.merit.unu.edu/hfc/docs/200705_CSD.pdf

7-10 May, Milan, Italy. EUROPEAN WIND ENERGY CONFERENCE AND EXHIBITION. This event will connect important players from the wind and electricity sectors in order to facilitate new and profitable business relationships and identify the actions required to re-shape the European energy mix and the role it plays. Organized by the European Wind Energy Association (EWEA), the conference will analyse and debate topics like creating stable political frameworks, upgrading the existing power infrastructure to incorporate wind energy, taking steps to continue cost reductions, increasing offshore wind production and intensifying research, innovation, and technological progress in the wind sector. Internet: <http://www.ewec2007.info/>

WTO Events

An updated list of forthcoming WTO meetings is posted at:

http://www.wto.org/english/news_e/events_e/events_e.htm. Please bear in mind that dates and times of WTO meetings are often changed, and that the WTO does not always announce the important informal meetings of the different bodies. Unless otherwise indicated, all WTO meetings are held at the WTO, Centre William Rappard, rue de Lausanne 154, 1211 Geneva, Switzerland, and are open to WTO Members and accredited observers only.

3-4 May: COMMITTEE ON TRADE AND ENVIRONMENT-SPECIAL SESSION

3 May: WORKING PARTY ON THE ACCESSION OF LEBANON

3 May: COMMITTEE ON BALANCE-OF-PAYMENTS RESTRICTIONS

7-11 May: NAMA WEEK

7-8 May: GENEVA WEEK (FOR NON-RESIDENT MEMBERS AND OBSERVERS)

7, 9 May: TRADE POLICY REVIEW BODY- COSTA RICA

8 May: COMMITTEE ON CUSTOMS VALUATION

9-10 May: GENERAL COUNCIL

Other Upcoming Events

12 May, International. WORLD FAIR TRADE DAY. Fair trade and the campaign for justice in trade will be celebrated internationally today through seminars, concerts, fashion shows, and more organized by members of IFAT, the global network of fair trade organizations. The theme of this year's events is 'Kids Need Fair Trade.' internet: <http://www.wftday.org/english/index.htm>

14-15 May, Paris, France. INNOVATION, GROWTH, AND EQUITY. This multi-stakeholder summit will bring together business, labour, civil society, and government leaders to discuss the hottest issues on the international agenda in conjunction with the annual Organisation for Economic Co-operation and Development (OECD) Ministerial Summit. Areas to be explored include trade policy, economy, energy, and innovation. A special spotlight will be given to Spain at the summit as the chair of this year's OECD ministerial summit. internet: http://www.oecd.org/site/0,2865,en_21571361_375783_80_1_1_1_1_1,00.html

RESOURCES

SHOULD THE GREEN BOX BE MODIFIED? By David Blandford and Timothy Josling. International Food and Agriculture Trade Policy Council. March 2007. In this IPC Discussion Paper, David Blandford and Timothy Josling raise important questions around the WTO's Green Box category. With agriculture dominating the current Doha Round negotiations, the authors bring forth timely and salient questions about the influence that the possible consequences can have on the developing world. The paper also proposes ways the current negotiations can be manipulated to most effectively meet the needs of both rich and poor countries. Available online:
http://www.agritrade.org/Publications/green_box.html.

A FAIR FARM BILL FOR RENEWABLE ENERGY. Institute for Agriculture and Trade Policy. April 2007. IATP's report analyses the most pressing issues, questions, and challenges surrounding the increase in farm-based renewable energy production. The report comprehensively examines such critical matters as the transition periods for sustainable energies; ensuring benefits are equally distributed among urban and rural farmers; and looking at how biofuel production will impact global markets. Policy solutions that support a sustainable biofuels system in the 2007 Farm Bill are also proposed within the report. Available online:
<http://www.iatp.org/iatp/publications.cfm?showall=false>.

GATS DISPUTE SETTLEMENT CASES: PRACTICAL IMPLICATIONS FOR DEVELOPING COUNTRIES. South Centre. March 2007. Produced by the South Centre, this analytical note examines the recent WTO dispute settlement report rulings and their implications for the current negotiations, particularly as related to the interpretation of various GATS articles and concepts. Through this paper, the South Centre hopes to inform developing countries of the types of considerations to be taken into account when formulating initial or subsequent offers, scheduling commitments, or negotiating disciplines for rules and domestic regulation.

Back issues of *BRIDGES Weekly Trade News Digest*® can be accessed at: <http://www.ictsd.org/weekly/archive.htm>.

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