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LEAD STORIES

DIVIDE OVER 'EXCHANGE RATE' STYMIES PROGRESS IN DOHA ROUND TALKS

For any commercial exchange to work out, buyers and sellers need to be able to agree on a price. Without overlap between what a carpet salesman is willing to accept and what a wily customer deems to be a fair bargain, there will be no deal.

This also holds true for the long-running Doha Round of global trade talks. WTO Members currently differ deeply on what constitutes a reasonable 'exchange rate' between the price they are willing to pay on farm subsidies, agricultural tariffs, or manufacturing duties, and the concessions they want in return from their trading partners.

The exchange rate is significant in political as much as commercial terms: apart from seeking expanded access for their competitive industries, governments are loath to be perceived as selling out vulnerable sectors while other countries get off easier. It is far from clear whether they will be able to strike a compromise.

The divisions have been brought into sharp relief by Members' reactions to draft deals released earlier this month on agriculture and industrial goods trade by the chairs of the respective negotiating committees. The drafts, released on 8 February, included various potential parameters that would help determine Members' future tariff and subsidy levels.

Many governments say the two draft agreements 'lack balance', but for diametrically opposed reasons. Officials from the EU and Switzerland complain that they are being asked to do too much to open their heavily protected farm sectors to more foreign competition, while developing countries are being let off easily on industrial tariff reduction.

Argentina, Brazil, and India argue the precise opposite: that the industrial tariff cuts demanded of developing

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countries are disproportionate to the modest farm reforms required of the industrialised world.

"Right now you cannot see any intersection" between the principal players' respective views on the exchange rate, one trade diplomat told Bridges this week. "Our hope lies in movement that will produce convergence. We don't see it right now, but we hope to."

Movement of any kind was in short supply during informal consultations last week on both agriculture and non-agricultural market access.

Ag: little movement

New Zealand Ambassador Crawford Falconer, who chairs the agriculture talks, told a 22 February meeting of the negotiating committee that delegates had failed to move beyond their established positions. As a result, he was not in a position to revise his 8 February text.

Trade negotiators in Geneva echoed Falconer's assessment. There had been "no advance at all" said one delegate familiar with the discussions.

In particular, the import-sensitive EU and the G-10 alliance that includes Japan, Switzerland and Norway were vigorously opposed to a provision in the 8 February agriculture text that would require all developing countries to cut farm tariffs by an average of at least 54 percent, even if the tiered reduction formula would require lower reductions. Exporters and the G-20 bloc of developing countries, on the other hand, expressed support for the idea. Falconer claimed that the measure would not greatly affect countries' tariff levels, and suggested that opposition was political rather than 'mathematical'.

The agriculture chair reminded delegates that a revised text was necessary "in order to meet the kind of timeframe people are talking about and to make it manageable for ministers."

Falconer's latest text still contains different figures and options currently in square brackets, indicating lack of consensus on several dozen issues in the talks. Many of these must be resolved if trade ministers are to be presented with a limited number of issues to improve their chances of success if and when they meet to strike a framework deal on agriculture and industrial goods trade this spring. A 'modalities' deal would include formulae and figures that will determine how countries cut tariffs and subsidies, as well as exceptions to these cuts.

The unofficial timeframe Members have been working on since late January calls for a 'mini-ministerial' to try to reach a modalities deal 'around Easter', which falls on 23 March this year. Delegates have privately conceded that this is overly ambitious, and that April is more realistic. The EU last week acknowledged this in the negotiating committee, when it called for modalities on agriculture and NAMA by the end of April.

NAMA at standstill

As for NAMA, Chair Ambassador Don Stephenson (Canada) also said that little had changed in Members' positions since he tabled his draft text, or indeed even in the months before that.

Unlike agriculture concessions, industrial goods liberalisation depends on a handful of numbers: the formula 'coefficients' that will determine future tariff ceilings for industrialised and developing countries, and the 'flexibility' figures that will determine how many products the latter will be able to shield from liberalisation.

Stephenson's text suggested that given the utter deadlock in the talks, Members might try to pursue consensus by exploring ways to trade off higher coefficients against lower flexibilities and vice versa, since countries might be willing to consider lower coefficients if they have more latitude to shield sensitive sectors from steep tariff cuts (see BRIDGES Weekly, 13 February 2008, <http://www.ictsd.org/weekly/08-02-13/story2.htm>). However, several countries, including the EU and the US, have complained that this would increase uncertainty in the negotiation.

At the 20-21 February meeting of the NAMA negotiating committee, Argentina and Brazil complained that the NAMA text demanded liberalisation far out of proportion to the reforms provided for in the agriculture text. Switzerland said that the agriculture price was high, and that the NAMA one should be correspondingly so. "The more you push us in agriculture, the more we'll push you in NAMA," it said.

Argentina said that the gaps between the two texts made it impossible to start the 'horizontal' process of cross-sectoral tradeoffs that would ultimately culminate in a ministerial modalities deal.

Despite the differences, the same source who said that there was no overlap on the exchange rate right now said that a horizontal process starting in the second half of March was "not impossible," following revised agriculture and NAMA texts in the second week of the month.

US Trade Representative Susan Schwab told a Chicago audience last week that "a lot of [trade ministers] are reserving chunks of time on our calendars for late March, early April." She stressed, however, that "there's more work that needs to be done," reports Reuters.

In the meantime, Falconer has said that he is planning to continue 'room E' consultations with officials from some 37 representative delegations, possibly until 3 March, when he will pause to allow Members to reflect and consult amongst each other. He will then decide how to proceed.

NAMA Chair Stephenson, for his part, said that Members' widely shared discomfort might be salutary for the negotiations. "You have to change this text," he said. "You need to change something and nobody changes anything when he is comfortable."

ICTSD reporting; "Top US trade rep sounds upbeat note on Doha talks," REUTERS, 21 February 2008.

Unlike the other states that declined to sign EPAs, Nigeria engages in significant volumes of trade with Europe, and has neighbours - Ghana, Cote d'Ivoire, and Cameroon - that did sign deals guaranteeing that their own exports would face lower tariffs in the EU market.

The EU said it would have no choice but to impose tariffs on countries like Nigeria, or it would be open to litigation at the WTO (presumably from non-ACP Latin American nations irritated that others were getting preferences beyond an end-2007 deadline set by the WTO). Critics argued that Brussels was exaggerating: WTO cases can take years, and a framework to conclude an accord within a fixed future timeframe might well have been deemed sufficient to satisfy the global trade arbiter's unclear and untested rules for bilateral free trade agreements.

It was relatively easy for Nigeria not to sign an EPA last year given that oil - by far its greatest export - never wants for takers.

The cocoa trade, however, is not a sellers' market, despite rising prices: if cocoa from Ghana is less expensive, European chocolate makers will buy it instead of the Nigerian equivalent.

Thus, the Cocoa Processors Association of Nigeria, or COPAN, announced in mid-January that their survival was under serious threat.

"The fact is that 90 per cent of Nigerian processed cocoa and raw cocoa go to the European market," Felix Oladunjoye, COPAN's national secretary, told Ghana's Daily Guide newspaper last month. "Before the end of March 2008, not less than \$5m would have been lost by processors." He said that cocoa processors had already lost nearly \$2 million since the beginning of the year.

For several years the EU has had standard import tariffs of 4.2 percent to 6.4 percent on cocoa butter, cocoa liquor and cocoa cake. Under the trade preference scheme, Nigerian cocoa did not face these duties. Now it does, while cocoa from Ghana and Cote d'Ivoire does not. According to COPAN, this represents losses of close to \$6 per tonne for Nigerian cocoa processors. Extended to the total average export capacity of nearly 60,000 tonnes per week, this would mean \$360,000 in losses every week, potentially crippling the industry. For products such as cocoa butter, Oladunjoye said Nigerian processors received only \$5,840 per tonne while their competitors in countries with EPAs were getting \$6,100, reports the Vanguard, a Nigerian daily.

OTHER NEWS

WITHOUT EPA, NIGERIAN COCOA PROCESSORS LOSE MILLIONS AS EU IMPOSES TARIFFS

Two months after losing preferential access to EU markets, Nigerian cocoa processors and producers face millions of dollars in losses, as the effects of poor infrastructure and high operating costs are compounded by higher tariffs and competition from neighbouring countries that retained duty-free access to Europe.

Brussels slapped tariffs on cocoa products and other exports from Nigeria at the beginning of this year, staying true to its warnings after the West African country decided not to sign an economic partnership agreement with the EU by the end of 2007. All but a few of the 30-odd relatively richer members of the African, Caribbean, and Pacific group of countries, faced with the loss of the same trade preferences, signed EPAs with the EU late last year, thus preserving market access. Least-developed countries retained wide-ranging duty-free access under the EU's 'Everything but Arms' initiative.

Oladunjoye blamed the losses on the Nigerian government's refusal to enter an EPA with the EU, since such a deal would have shielded Nigerian cocoa exporters from tariffs and kept them on equal footing with their competitors in neighbouring countries.

COPAN has appealed to the Nigerian government to soften the blow of its refusal to sign an EPA by restoring Export Expansion Grants (EEG) to cocoa processors. These grants are an export promotion incentive that offsets 30 per cent of production costs incurred by exporters due to poor infrastructure.

Oladunjoye called on the government to restore these grants dating back to 2005-06 in order "to forestall the collapse of the industry." Rising diesel costs are putting further pressure the slim margins of cocoa processors in the country.

The EPAs, designed to replace unilateral preferences with two-way liberalisation between the EU and some of the world's poorest countries, have met with much criticism. Civil society groups and development campaigners have warned that prematurely opening up markets to a flood of EU imports could destroy fledgling industries, undermining their prospects for growth. Free traders worried that consumers in ACP countries would end up buying goods from the EU rather than cheaper ones produced elsewhere but kept out by high tariffs. Brazil has warned that the agreements might even hurt South-South trade (see BRIDGES Weekly, 20 February 2008, <http://www.ictsd.org/weekly/08-02-20/story3.htm>).

Instead of leading to economic integration within the Economic Community of West African States (ECOWAS) and trade liberalisation between the bloc as a whole and the EU, the EPA negotiations saw the West African group splinter just before the end-2007 deadline. Ghana and Cote d'Ivoire scrambled to sign individual deals to protect their market access, while Nigeria did not. And although Nigerian oil exports continue unimpeded (by tariffs, at least), smaller, non-extractive industries are facing the squeeze.

ICTSD reporting; "EU Clamps Down on Nigerian Cocoa," DAILY GUIDE, 24 January 2008; "Nigeria Unpaid N14bn Grant Threatens Cocoa Industry," DAILY TRUST, 29 November 2007; "EPA: Cocoa processors may lose \$5m, says COPAN," VANGUARD, 22 January 2008.

IN BRIEF

CHINA, NEW ZEALAND TO INK FREE TRADE AGREEMENT IN APRIL

China and New Zealand appear set to sign a free trade agreement (FTA). Although negotiations are not yet complete, both governments reported this week that they have begun preparations for a signing ceremony in April.

Talks over technical requirements and translations of the agreement-the last outstanding issues-should be completed in the coming weeks, according to the Associated Press. The countries began FTA negotiations in July 2004.

New Zealand will be the first developed country to sign a comprehensive trade agreement with China.

The proposed agreement provides for free trade in goods and services, and includes protections for bilateral investment flows. The deal is also likely to include provisions on both education and labour supply, among other issues.

Two way trade between the countries is currently estimated at NZD 4.8 billion (\$3.9 billion), with Chinese exports accounting for 80 percent of that total. New Zealand Trade Minister Phil Goff predicted that the deal "will boost New Zealand's exports of goods and services to China by up to 400 million New Zealand dollars (\$326 million) a year," reports AP.

"This FTA has been negotiated with the overriding objective of opening up economic opportunities for New Zealand business in China and to boost commercial ties with our now third largest trading partner," Goff said.

The AP report also cited New Zealand Prime Minister Helen Clark saying that the deal would mean big things for New Zealand farm products. According to the Prime Minister, the most important aspect of the agreement is the elimination of tariffs in New Zealand exports, which will allow for more access to the Chinese market. "China has very open access to our market now. The key breakthrough in this agreement with China will be us getting some reciprocity because we do face quite significant tariffs on key exports," she told reporters.

After details of the agreement are completed, it will have to be ratified by both the Chinese and the New Zealand Legislatures.

The signing ceremony is tentatively planned for 6-9 April in Beijing.

ICTSD reporting; "NZ, China Free Trade Deal in April" ASSOCIATED PRESS, 26 February 2008; "New Zealand to sign Free Trade Agreement with China in April" ECONOMIC TIMES, 26 February 2008.

WTO IN BRIEF

WTO APPROVES AID FOR TRADE ROADMAP

Director General Pascal Lamy received the go-ahead for his 2008 Aid for Trade roadmap from members of the WTO Committee for Trade and Development (CTD) during a 25 February session of the group. Mr Lamy welcomed the approval, saying that this year's reviews will be "more focused, technical and results-oriented."

The Director General's Aid for Trade roadmap will provide comprehensive reviews and analysis of the results of Aid for Trade programmes on national and sub-regional levels in Africa, Latin America and the Caribbean, and Asia and the surrounding Pacific.

Aid for Trade was established in December 2005 to help developing countries overcome capacity and infrastructure constraints that limit their gains from multilateral trading systems. Through the initiative, developing countries are provided technical assistance for trade and support for the development of production capacity and trade-related infrastructure.

The recently approved roadmap includes three stated objectives: to increase developing countries ownership of Aid for Trade; to shift the focus from making plans operative, toward monitoring implementation; and to launch a work programme that will identify performance indicators and improve self evaluations.

Identifying methods for measuring the impact of Aid for Trade is the most important concern of this year's programme said the Director General in his presentation of the plan. This could be achieved, according to Lamy, via potential partnerships with the OECD and the World Bank, among others. The Director General said that by the end of the year he would like to bring together all partners to create a basket of indicators that could serve as a guide for measuring impact for countries participating in the programme.

Each of the reviews taking place will be structured into three parts: assessing plans, determining priorities, and agreeing on how plans and priorities should be implemented. Lamy stressed that the WTO should not lead these efforts, but should rather let donors, development banks, and the countries themselves come to their own conclusions. The WTO "should remain an advocate, a catalyst, and a facilitator" throughout the review process, said the Director General.

ICTSD Reporting; "Lamy's 2008 Aid for Trade Roadmap gets green light" WTO, 25 February 2008.

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: 28 February - 5 March

28-29 February, Maseru, Lesotho. LEAST DEVELOPED COUNTRIES MINISTERIAL CONFERENCE 2008. The purpose of the Conference is to review progress made in the WTO Doha Development Round of negotiations since the LDC Trade Ministers meeting of 2005 held in Livingstone, Zambia and followed by the Hong Kong Ministerial Conference in December 2005. The Conference will also assess and address the revised texts on Agriculture and Non-Agricultural Market Access (NAMA) as well as any progress made in other areas so far. The objective will be to revise and consolidate LDC's positions on relevant issues as a basis for continuing consultations. For more information, please refer to http://www ldcgroups.org/ldc_general.php.

3-4 March, London, UK. HIGH VISIBILITY? AIRLINE EMISSIONS IN THE 21st CENTURY. The proliferation of air travel is having a significant effect on the volume of airline emissions. European Commission studies estimate that the aviation industry accounts for 4 percent of annual greenhouse gas emissions. The increase in airline travel can be attributed to a number of different factors, such as the burgeoning low-cost airline industry and the rise of passengers in the next two years, with the rise in wealth of developing countries, such as India and China. This conference, organized by the Chatham House will seek to address the steps which need to be taken by policymakers, the

aviation industry and the investment community to address this fundamental issue. For more information, please refer to <http://www.chathamhouse.org.uk/events/conferences/vi-ew/-id/112/>.

3-7 March, Geneva, Switzerland: WIPO COMMITTEE ON DEVELOPMENT AND INTELLECTUAL PROPERTY (CDIP), FIRST SESSION. This session, organised by the World Intellectual Property Organisation, will set the rules for future meetings of the CDIP, consider work programmes for currently adopted proposals, and discuss future projects. For more information, please refer to http://www.wipo.int/meetings/en/details.jsp?meeting_id=15082.

3-14 March, Worldwide; E-COURSE: TRADE FINANCE TOOLS FOR EXPORT DEVELOPMENT. This online course, organised by the World Bank, will help provide a better understanding of trade financing instruments (e.g. Documentary letter of credits, CounterTrade, Factoring, Pre-Shipping and Post-Shipping Financing, Buyers and Suppliers' credits) as well as hands-on practical exercises on Export Credit Insurance (to protect exporters and mitigate the financial impact of risks on the exporter) and Export Credit Guarantees (to protect export financing banks from losses that may occur from providing funds to exporters). For more information, please contact Salomon Samen, Ssamem@worldbank.org, 202-458-1283.

4-6 March, Washington, DC, United States of America. WASHINGTON INTERNATIONAL RENEWABLE ENERGY CONFERENCE (WIREC) 2008. The US government will host WIREC 2008 at the Washington Convention Center. The WIREC 2008 event will aim to advance goals on energy security, climate change, air quality, and sustainable development, including agriculture and rural development. It will also seek to demonstrate global leadership in renewable energy research, policy development, technology innovation, commercialization and development, and to foster industry and government collaboration. WIREC 2008 will include five related events, including a ministerial meeting, legislators meeting, side events, business conference, and trade show exhibition. For more information contact: American Council on Renewable Energy; tel: +1-202-393-0001; Internet: <http://www.wirec2008.org/>

WTO Events

An updated list of forthcoming WTO meetings is posted at: http://www.wto.org/meets_public/meets_e.pdf. 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.

28 February: WORKING PARTY ON THE ACCESSION OF MONTENEGRO

4 March: COMMITTEE ON TRADE AND DEVELOPMENT

Other Upcoming Events

12-13 February, Washington DC, United States of America; SPRING MEETINGS OF THE INTERNATIONAL MONETARY FUND AND THE WORLD BANK. Each Spring, the IMF's International Monetary and Finance Committee and the joint World Bank-IMF Development Committee come together in Washington to discuss progress on the work of the Fund and the Bank. For more information, please refer to the meeting web site at <http://www.imf.org/external/spring/2008/index.htm>.

RESOURCES

AID FOR TRADE AND DEVELOPMENT. Edited by Dominique Njinkeu and Hugo Cameron. Cambridge University Press, December 2008. Following in the wake of the World Trade Organization's engagement with Aid for Trade, this book brings together a range of perspectives around this emerging issue. The collection of articles in this volume presents many of the ideas elaborated through research conducted by International Lawyers and Economists Against Poverty (ILEAP) since 2005 and is intended to provide a basis for further study. Since many of the contributions on aid for trade to date have come from the North, the book looks to deepen the debate by forwarding voices and experiences from the South. The book traces the evolution of Aid for Trade from its beginnings and examines the global architecture, modalities, and costs associated with its implementation. Drawing on lessons from national and regional experiences, this book further explores ways in which Aid for Trade can both move forward and become a real tool for poverty reduction in beneficiary countries. For more information, please refer to <http://www.cambridge.org/us/catalogue/catalogue.asp?isbn=9780521889513>.

CURRENCY UNDERVALUATION AND SOVEREIGN WEALTH FUNDS: A NEW ROLE FOR THE WORLD TRADE ORGANISATION. By Aaditya Mattoo and

Arvind Subramanian. Peterson Institute, 2008. Two aspects of global imbalances-undervalued exchange rates and sovereign wealth funds (SWFs)-require a multilateral response. For reasons of inadequate leverage and eroding legitimacy, the International Monetary Fund (IMF) has not been effective in dealing with undervalued exchange rates. Mattoo and Subramanian propose new rules in the World Trade Organization (WTO) to discipline cases of significant undervaluation that are clearly attributable to government action. The rationale for WTO involvement is that there are large trade consequences of undervalued exchange rates, which act as both import tariffs and export subsidies, and that the WTO's enforcement mechanism is credible and effective. The WTO would not be involved in exchange rate management, and the authors' proposals do not entail the WTO displacing the IMF. Rather, they would harness the comparative advantage of the two institutions, with the IMF providing the essential technical expertise in WTO enforcement. On SWFs, there is a bargain to be struck between countries with SWFs, which want secure and liberal access for their capital, and capital-importing countries that have concerns about the objectives and operations of SWFs. The WTO is the natural place to strike this bargain. Its services agreement, the General Agreement on Trade in Services, already covers investments by SWFs, and other agreements offer a precedent for designing disciplines for SWFs. Placing the two issues on the trade negotiating agenda may help reenergize the Doha Round of trade negotiations by rekindling serious private-sector interest in the WTO system, the absence of which has immobilized and ultimately derailed the round. The paper is available online at <http://petersoninstitute.org/publications/interstitial.cfm?ResearchID=871>

INVENTORIES, LUMPY TRADE, AND LARGE DEVALUATIONS. By George Alessandria, Joseph Kaboski, and Virgilio Midrigan. National Bureau of Economic Research, February 2008. Fixed transaction costs and delivery lags are important costs of international trade. These costs lead firms to import infrequently and hold substantially larger inventories of imported goods than domestic goods. Using multiple sources of data, the paper documents these facts and shows that a parsimoniously parameterized model economy with importers facing an (S, s)-type inventory management problem successfully accounts for these features of the data. Moreover, the model can account for import and import price dynamics in the aftermath of large devaluations. In particular, desired inventory adjustment in response to a sudden, large increase in the relative price of imported goods creates a short-term trade implosion, an immediate, temporary drop in the value and number of distinct varieties imported, as well as a slow increase in the retail price of imported

goods. This study of six current account reversals following large devaluation episodes in the last decade provides strong support for the model's predictions. For more information, please refer to <http://www.nber.org/papers/w13790>.

EXTERNAL TARIFF LIBERALISATION IN CARICOM: A COMMODITY-LEVEL ANALYSIS: By Azim M. Sadikov. IMF, 2008. This paper estimates the impact of the tariff liberalization in the four largest CARICOM countries (Barbados, Guyana, Jamaica, and Trinidad and Tobago) on their trade flows. It traces changes in the product-line imports from CARICOM and non-CARICOM countries against time and commodity-level variation in external tariffs. The author finds that in each country the reduction of the external tariff, which eroded preferences enjoyed by member imports, increased the ratio of imports from non-member countries to imports from member countries. In Trinidad and Tobago, the higher ratio was largely the result of non-member imports crowding out member imports. In the three other countries, the ratio increased mainly because of higher non-member imports; there is little evidence that tariff reductions had an impact on member imports. Findings suggest that in Trinidad and Tobago liberalization of the external tariff reversed some of the trade diversion effects of CARICOM. The paper is available online at <http://www.imf.org/external/pubs/cat/longres.cfm?sk=21616.0>.

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