



Bridges Weekly Trade News Digest

Weekly trade news from a sustainable development perspective

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LEAD STORIES

Incoming EU Ag Commissioner Fields
Questions on CAP, Doha 1

OTHER NEWS

Rough Start for China-ASEAN FTA..... 3

IN BRIEF

Native Group Launches Legal Action over EU
Seal Ban..... 4

World Bank Ranks Countries on Ease of Trading
..... 5

WTO IN BRIEF

US, EU Ramp up Cases against Philippines
Liquor Tariffs..... 6

EVENTS & RESOURCES

Events..... 7

Resources 8

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LEAD STORIES

Incoming EU Ag Commissioner Fields Questions on CAP, Doha

In a hearing on 15 January, Dacian Ciolos, the EU Agriculture Commissioner-designate, outlined his agenda on agriculture trade and subsidy reform in front of the European Parliament.

The only agronomist on EU President José Manuel Barroso's slate of Commissioners, Ciolos made strong statements in support of greater spending under the EU's Common Agricultural Policy (CAP) and stronger protections to shield European farmers from volatile prices.

Many considered the 40-year-old Romanian's assent to the post an impossibility. The importance of agricultural employment in Romania -- a recent addition to the European bloc -- coupled with the country's interests in increasing subsidy spending led some analysts to view his candidacy as an unlikely event. But Ciolos secured the nomination, no doubt aided by his recent experience as his country's minister of agriculture.

A reformer?

In a written response to questions from Members of the European Parliament (MEPs), Ciolos emphasised the need to continue with the ongoing reform of the CAP. An essential element of the CAP reform process has been to make the subsidies less costly to European taxpayers. New subsidy rules have also been aimed at bringing the support measures into compliance with WTO rules.

Addressing a variety of constituencies, Ciolos's statements, written and otherwise, acknowledge the need for reform but do not commit him to reducing spending. The Romanian says he would

need significant funds to "tackle the new challenges."

Ciolos has laid out a reform agenda that would encourage sustainable agriculture in the EU, increase investment in rural areas, and align agricultural production with market needs while providing farmers with a safety net.

On Friday, Ciolos made it clear that he thinks that the CAP could use greater EU funding, and vowed to fight to secure it. "If it was just up to me, I think we would probably get a lot more money" for the CAP, the commissioner designate said in response to a question.

But just how much of an influence the new commissioner will have is a matter of debate. According to Valentin Zahrt of the European Centre for International Political Economy (ECIPE), the "commissioner will play smaller role than in the past" in implementing subsidy reforms. He added that the "strong forces at play" elsewhere in European politics would limit the new commissioner's ability to make changes to the reform proposals that have already been put forward for the EU's next budgetary cycle, which begins in 2013.

A European trade official in Geneva told Bridges that since the "commissioner leaves national interest at the door," in making the move to Brussels, worries about a Romanian threatening the reform process were overblown - even if EU "member states have more ambitious ideas about what [reform] means."

Doha Round

Responding to an MEP's question on the WTO's Doha Round of world trade talks, Ciolos told the European Parliament that the EU "cannot go further" in its offers. He added that he would be tough on trade negotiations and that Europe should not engage in trade agreements "to the detriment of our agriculture."

Ciolos further argued that "a global [trade] agreement is needed," but that the EU should "wait for our partners' proposals."

Geneva-based WTO delegates are eager to see movement from any of the key players in the Doha Round, which seems to be stuck in neutral more than eight years after its launch.

Zahrt of ECIPE told Bridges that officials in Brussels will "carry out domestic reforms without worrying about Geneva," where the WTO is headquartered. Such an attitude would no doubt do little to mollify those who want to see more progress in the Doha talks.

Perhaps acknowledging those fears, in his written statement to the European Parliament, Ciolos said that he intended to "continue working hard in order to conclude a balanced agreement on the 'arrangements' for agriculture under the Doha Development Agenda."

Confirmation

Ciolos and his fellow nominees for the new European Commission were to be confirmed by a vote in the European Parliament on 26 January, but it now appears as though the recent withdrawal of the Bulgarian nominee for the will cause that date to be pushed back.

Rumiana Jeleva, who had been nominated to the post of Humanitarian Aid Commissioner, withdrew her candidacy after questions arose regarding her qualifications for the job, as well as her financial interests. Bulgaria quickly put forward another nominee, Kristalina Georgieva, a World Bank official, who has already won wide support.

"The new Bulgarian is better than the old," said one commentator on agriculture politics in Brussels.

The parliamentary vote on the entire new commission is now expected to come on 9 February. MEPs will vote on the full slate of commissioners, and all 26 will be approved or rejected with a single vote. Observers of politics in Brussels do not expect the vote to be held up.

A trade official in Geneva noted that the rise of Ciolos, "shows what being bright, able, and at the right place at the right time can do." Other trade officials who spoke to Bridges lacked strong views

on Ciolos, a relative novice to European politics. Due to protocol, little about the new commissioner's views on controversial topics – beyond what he has said in his public statements – is likely to emerge before he is confirmed.

ICTSD reporting.

OTHER NEWS

Rough Start for China-ASEAN FTA

On the first day of this month, the world's third-largest free trade area – between China and the ten-member Association of Southeast Asian Nations – came into being. But the new tariff-free zone has gotten off to a bumpy start.

Trade between China and the ten-member ASEAN bloc has mushroomed over the past ten years, shooting up at an average rate of more than 26 percent each year between 2003 and 2008. China recently became the region's third most important trading partner, after Japan and the EU.

The new pact, which was finalised in 2004, is meant to build on that momentum, especially as markets in Europe and the US have cooled recently. Officials hope that the deal will bring cheaper manufactured goods into ASEAN while providing China with easier access to ASEAN's raw materials exports.

But critics argue that some ASEAN producers will be suffocated by the flood of cheap Chinese imports ushered in by the drop in tariffs. Some analysts predict that losses for industries in ASEAN countries like Indonesia and Thailand will be upwards of US\$ 3 billion per year.

The day the deal took effect, tariffs immediately dropped to zero on about 90 percent of all goods traded between China and six ASEAN countries – Brunei, Indonesia, Malaysia, the Philippines, Singapore and Thailand. As a result, the average tariff on ASEAN goods imported into China has fallen from 9.8 percent to 0.1 percent, while the average tariff on Chinese goods imported into ASEAN countries now stands at 0.6 percent, down from 12.8.

The four other ASEAN members – Burma, Cambodia, Laos and Vietnam – will have an additional five years to reduce their tariffs.

The new China-ASEAN trade area is the largest in the world in terms of the number of people – 1.9 billion – who live inside it. The total volume of trade in the China-ASEAN zone is roughly US\$ 4.3 trillion annually, making it the third-largest such area in the world after the European Union and NAFTA.

ASEAN has been on a tear recently when it comes to negotiating free trade deals. In addition to the pact with China, the bloc has also inked trade agreements with Australia, New Zealand and Japan. A separate deal with India also took effect at the beginning of this year. Talks toward a regional deal with the EU were begun in 2007 but were put on hold last March after nearly two years of little progress. Instead, Brussels has now begun negotiating bilateral agreements with each ASEAN country.

Indonesian exporters up in arms

While many government officials are hailing the landmark deal, some ASEAN producers are convinced that freer trade with China will do them more harm than good. Exporters in Indonesia, ASEAN's largest economy, appear particularly concerned.

Thousands of workers staged a rally in the Indonesian city of Bandung earlier this month to protest the deal and call for a delay in its implementation.

"These sectors aren't ready to compete with imported Chinese products. If the government implements free trade now, these industries are surely going to die," Indonesian lawmaker Airlangga Hartarto told Agence-France Presse.

According to analysis from the Ikatan Sarjana Ekonomi Indonesia, an Indonesian research group, the new trade deal could lead to total losses of US\$ 3.8 billion per year for seven Indonesian industries – petrochemicals, textiles, leather products, electronics, ceramics, foods and beverages, and steel and iron products.

The Indonesian government reacted, although only at the eleventh hour, by asking for an additional two years of tariff protections for 228 products.

"The letter of notification on negotiations to discuss modifications to the 228 tariff items was submitted on December 31," Trade Ministry official Gusmardi Bustami said, according to a report by AFP.

Indonesian trade minister Mari Pangestu has insisted that the country will honour its trade commitments, but she has also stressed that consultations were ongoing.

"An informal communication process has been conducted to get a win-win solution," the minister told reporters this week.

Ramming through any alterations to the deal could be a tall order, as all ten ASEAN members would have to agree to the new terms, as would China. Meanwhile, Indonesian exporters are already coming face to face with the Chinese competition.

"What the government and the business sector have failed to do, I think, is to come up with the necessary strategy to contain these short-term potential losses," says Alexander Chandra, head of the Southeast Asia programme of the Trade Knowledge Network, a development research group.

The pact was finalised in 2004 – in fact, Jakarta first signed on in 2002 – but the Indonesian government did not begin warning domestic industries of the potential negative effects of the agreement until August of last year, Chandra says. Even then, businesses did not have enough information to make requests for specific changes to the deal.

Surin Pitsuwan, Secretary-General of ASEAN, acknowledged that governments may have to act to help domestic firms compete with cheaper imports, but added that such support "should be short-term and does not remove the incentive to innovate and cut costs."

In a statement, the ASEAN Secretariat noted that the trade deal includes provisions for safeguard actions in the face of serious injury to domestic industries and that countries have been allowed to retain tariffs on certain 'sensitive' goods.

ICTSD reporting; "ASEAN-China open free trade area," AFP, 29 December 2009; "Indonesia wants China pact revised," THE WALL STREET JOURNAL, 13 January 2010; "Mari Rebuffs Free Trade Agreement Criticism," THE JAKARTA GLOBE, 18 January 2010.

IN BRIEF

Native Group Launches Legal Action over EU Seal Ban

A coalition of native groups in Canada and Greenland is taking the EU to court over its controversial ban on seal product imports. The Inuit groups say the ban is not based on accurate information regarding conservation or animal welfare.

The coalition's lawyer, Hendrik Viaene, says the documents were filed on 11 January at the Luxembourg-based European General Court, which deals largely with complaints about EU regulations.

While the EU ban has an exemption for "traditional hunting by indigenous communities which contribute to their subsistence," the coalition says Inuit communities will still be affected. The seal products trade ban – which came into effect in September 2009 – has already led to a sharp drop in market prices. Aboriginal groups say this contraction has reduced opportunities in a part of the world already compromised by economic hardship. "Our communities depend on any economic initiative that is available to us," said Mary Simon, president of the Canadian Inuit group.

Simon has been outspoken on the trade ban, arguing that it reflects a European lack of cultural understanding for aboriginal groups in the Far North. "It is bitterly ironic that the EU, which

seems entirely at home with promoting massive levels of agri-business and the raising and slaughtering of animals in highly industrialised conditions, seeks to preach some kind of selective elevated morality to Inuit,” Simon said. “At best, this is cultural bias.”

Meanwhile, Inuit groups in Greenland say they do not want their way of life compromised by bureaucrats in Brussels. “They want to decide what kind of traditional hunting we do and who should be allowed to eat seal meat,” said Aqqaluk Lynge, president of Inuit Circumpolar Council in Greenland, adding that EU officials wanted the Inuit to live as they did 300 years ago.

The basis for the ban has been the subject of controversy and will be scrutinised when WTO consultations between Canada and the EU get underway. The EU will support its reason for the ban under Article XX of the 1947 General Agreement on Tariffs and Trades (GATT), which provided the possible exceptions that allow a state to impede trade.

While an obvious exception to WTO rules regarding trade in animal products pertains to conservation measures, seal populations are not in danger and are, in fact, on the rise. This leaves Brussels with the rarely invoked “protection of public morals” GATT exception. The most recent use of the public morals clause was used by China in an attempt to gain control over the distribution of imported audiovisual material.

ICTSD Reporting; “Inuit take European Union to court over ban on imports of seal products,” THE CANADIAN PRESS, 15 January 2010; “Seal hunters face battle with EU over trade,” TIMES ONLINE, 18 January 2010.

World Bank Ranks Countries on Ease of Trading

Germany is now the best country in the world at handling the movement of goods across borders, according to a new study from the World Bank, while conflict-ridden Somalia ranks last.

Those findings come from the Logistics Performance Index (LPI), the World Bank’s second such report, which was released on 15 January in Berlin. The LPI measures the ease of shipping and trade logistics on a national basis, providing a way for countries to evaluate their own performance in trade logistics as well as identify areas for future improvement.

The LPI is based on a 2009 global survey of nearly one thousand international logistics operators, mainly freight forwarders and express carriers, who provided feedback on the ease of importing and exporting in the countries where they operate. They rated quality of infrastructure, efficiency of clearance processes, logistics competence, timeliness, and cost, among other characteristics. This information was then combined with quantitative logistics chain performance data from each country to generate the LPI rankings for 155 nations.

The report ranked Germany in the lead and Somalia in last place. The top four countries have been reshuffled since the first report in 2007, when Singapore was the leader, but the countries themselves have all remained in the top four slots: Germany and Singapore, as well as Sweden and the Netherlands, in that order. Somalia’s fall in the rankings was substantial, from 127th to 155th, due to its heavily disrupted infrastructure.

The top LPI scores all went to high-income economies, whereas the low scores are dominated by low-income nations. However, a country’s income is not a perfect predictor of its ability to manage the logistics of trade. Some of the other characteristics that could lower a country’s LPI ranking include capacity constraints, landlocked status, quality of public sector institutions, and unpredictability of the supply chain, the study found.

The report stresses the importance of efficient, ‘friendly’ logistics to trade and growth in a country.

“Countries with better logistics performance can grow faster, become more competitive and increase their level of investment,” said Bernard Hoekman, World Bank Trade Department Director. “Our research shows that increasing

logistics performance in low-income countries to the middle-income average could boost trade by around 15 per cent and benefit all firms and consumers through lower prices and better quality services.”

Many of the countries that have jumped in the rankings are developing nations that introduced reforms based on the 2007 LPI report findings. These countries are encouraged to implement comprehensive reforms rather than address each issue of their trade logistics separately, because as the report points out, “a trade supply chain is only as strong as its weakest link.”

Developing countries that improve their trade logistics systems stand to make significant gains, Bank officials say.

“If developing countries want to come out of the crisis in a stronger and more competitive position, they need to invest in better trade logistics,” said Octavio Canuto, World Bank Vice President for Poverty Reduction and Economic Management.

ICTSD reporting.

WTO IN BRIEF

US, EU Ramp up Cases against Philippines Liquor Tariffs

Taking the first step in the WTO’s dispute settlement process, the United States requested formal consultations with the Philippines on Monday, alleging violations of national treatment in the Philippines’ tax scheme on distilled spirits.

“The Philippines continues to tax distilled spirits from the United States at much higher rates than distilled spirits produced in the Philippines,” US Trade Representative Ron Kirk said in a statement.

The central issue is the permissibility of Section 141 of the Philippines Internal Revenue Code, a specific tax on alcohol and tobacco products. The US alleges that the tax section and implementing regulations violate Article III.2 of the General

Agreement on Tariffs and Trade (GATT), which, among other things, forbids parties from subjecting other member nations’ products to taxes or other internal charges in excess of those applied to domestic products.

The US joined a similar consultation regarding Section 141 between the Philippines and the European Union last year. In December, the EU requested that a WTO panel hear that dispute, as the consultations in Manila last October did not lead to a “satisfactory resolution of the matter.” Brussels renewed that request this week.

In 2009, the Philippines implemented Section 141 to tax distilled spirits produced from the “sap of nipa, coconut, cassava, camote, or buri palm or from the juice of, syrup or sugar of the cane” at 13.59 pesos (US\$.29) per proof litre, while all other distilled spirits carried taxes of between 146.97 and 587.87 pesos (US\$ 3.01-12.78) per proof litre. The EU also alleges that the Philippines’ tax regulations refer to categories as ‘local distilled spirits’ and ‘imported distilled spirits’.

The US is one of the world’s largest exporters of spirits, the USTR website announced, its distilled spirits exports averaging more than US\$ 1 billion per year from 2006 to 2008. But the US has had little success in the Philippines, where its spirits account for only 5 percent of consumption.

“These exorbitant taxes have made it nearly impossible for US spirits exporters to break into the US\$ 3 billion Philippines spirits market,” said Peter Cressy, president of the Distilled Spirits Council, a US national trade organisation.

Manila responds

Representatives of the private sector in the Philippines cite a different reason for US difficulty in establishing a foothold in their domestic market.

“If, indeed, American brands are having difficulty penetrating the Philippine market, perhaps it is because US exporters have not put in the required effort to develop and build their brands here,” said Olivia Limpe-Aw, president of The Distilled

Spirits Association of the Philippines, Inc., in an e-mail, Business World reported.

Manila counters the EU and US claims by arguing that the spirits receiving favourable tax rates are not comparable to the spirits that are imported.

“EU or United States products are in an altogether different market from those targeted by local brands,” Philippine Ambassador Manuel Teehankee said, as reported by Business World. Last summer, Ambassador Teehankee also said that the local products are “in a different price range” and that the law provides “assistance to indigenous communities using low-cost products.” But Manila thinks that the parties can find a solution.

“The Philippines continues to believe that this matter can be resolved to the mutual satisfaction of the Philippines, and the United States as well as the European Union if all parties remain open and balance all affected parties interests,” Ambassador Teehankee said.

If consultations fail, Washington may take the same path as Brussels and request a panel to determine if the Philippines is violating its WTO obligations.

ICTSD reporting; “EU set to Formally seek WTO Intervention in Liquor Tax Row,” BUSINESS WORLD, 17 January 2010.

AGENDA FOR US SMALL- AND MEDIUM-SIZED ENTERPRISES. United States Trade Representative Ron Kirk will host this conference at the Peterson Institute for International Economics on Thursday, January 21, 2010 beginning at 9:00 a.m. Featured participants will be Administrator Karen G. Mills of the US Small Business Administration, Deputy Secretary of Commerce Dennis Hightower, and Deputy US Trade Representative Miriam Sapiro. The event will be open to the public, with small- and medium-sized business leaders, congressional offices, and other stakeholders invited to participate. For more information, please see <http://www.ustr.gov/SMEconference>

25 January, Paris, France. 2ND INTERNATIONAL ECONOMIC FORUM ON LATIN AMERICA AND THE CARIBBEAN. This event will be organised by the OECD’s Development Centre, the Inter-American Development Bank and the French Ministry of Economy, Industry and Employment. For more information, please email Dev.Americas@oecd.org

27-31 January, Davos, Switzerland. WORLD ECONOMIC FORUM ANNUAL MEETING. In response to new priorities, the organising theme for the 40th World Economic Forum Annual Meeting in 2010 is a call to action, “Improve the State of the World: Rethink, Redesign and Rebuild.” Driving the rethink at the 40th Annual Meeting will be the Network of Global Agenda Councils comprised of over 1,000 experts active in over 70 Councils created to advance solutions to the most critical challenges facing the world. For more information, please see <http://www.weforum.org/en/events/AnnualMeeting2010/index.htm>

EVENTS & RESOURCES

Events

Coming up this week

21 January, Washington, DC, US. JOBS ON MAIN STREET, CUSTOMERS AROUND THE WORLD: A POSITIVE TRADE

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.

22 January: Trade Policy Review Body

25+27 January: Trade Policy Review Body – Malaysia

26 January: Working Party on the Accession of Yemen

Other upcoming events

5-7 February, New Delhi, India. DELHI SUSTAINABLE DEVELOPMENT SUMMIT (DSDS 2010): BEYOND COPENHAGEN: NEW PATHWAYS TO SUSTAINABLE DEVELOPMENT. This global forum will be one of the first major gatherings of leaders from various regions of the world after the Copenhagen Conference of the Parties in December 2009. DSDS 2010 will focus on the formulation and delineation of strategies to move the sustainable development agenda forward. Major themes include accelerating socio-economic development as a key to adaptation, role of technology, building institutions for effective climate governance, and financing opportunities post Copenhagen. For more information, contact the Summit Secretariat: tel: +91-11-2468-2100; fax: +91-11-2468-2144; email: dsds@teri.res.in; internet: <http://dsds.teriin.org/2010/index.php>

1 February, 2010. New York City, United States. MULTI-STAKEHOLDER DIALOGUE ON IMPLEMENTING SUSTAINABLE DEVELOPMENT. The multi-stakeholder dialogue is an innovation established by the Commission on Sustainable Development (CSD) Secretariat to ensure a more effective and coordinated implementation of the global policy on sustainable development. This first multi-stakeholder dialogue will focus on the decisions of the CSD-17 and its implementation by all interested stakeholders making sure that implementation is done in a harmonised and systematic way. More information is available here http://www.un.org/esa/dsd/csd/csd_csd17_followup.shtml

18-19 February, Paris, France. 9TH OECD GLOBAL FORUM ON COMPETITION. This meeting will focus on state aids and subsidies and collusion and corruption in public procurement. Participants will also discuss a peer review of competition law and policy in Brazil. The GFC provides an opportunity for policy dialogue between OECD member countries and non-members. The discussion benefits from the input of the Competition Committee, whose work has already generated substantial results in many countries, such as the voluntary adoption of 'best practices', substantial analytical convergence, the establishment of strong networks of enforcement authorities, and enhanced co-operation in international merger reviews, cartel investigations and other cases. For more information, please see http://www.oecd.org/pages/0,3417,en_40382599_40393118_1_1_1_1_1_1,00.html

18 March, London, UK. GLOBAL FINANCIAL SERVICES: THE IMPACT OF REGULATION ON COMPETITIVENESS. As the global financial crisis shows early signs of receding, this is a key moment to ask what will be the likely future shape and structure of financial services firms. If moves to regulate the industry more tightly are successful, what impact will this have on financial firms' ability to do business? At this event sponsored by Chatham House, policymakers and financial services industry leaders from the major economies will discuss the role, structure and regulation of the financial services industry, and which forums, mechanisms and institutions will be effective in restoring confidence in its activities. For more information, please see <http://www.chathamhouse.org.uk/gfs/>.

Resources

TRADE AND POVERTY REDUCTION IN THE ASIA-PACIFIC REGION: CASE STUDIES AND LESSONS FROM LOW-INCOME COMMUNITIES. Andrew L. Stoler, Jim Redden, and Lee Ann Jackson, eds. The World Trade Organization, 2009. This book explores the complex relationship between international trade and poverty reduction through

a combination of research papers and contemporary case studies. Written mainly by developing-country authors in consultation with local businesses and communities, the case studies contribute to our understanding of the ways in which low-income communities are dealing with trade as a practical challenge, especially in the Asia-Pacific region where approximately two-thirds of the world's poor live. While making it clear that there is no 'one size fits all' formula, the research and stories highlight a number of necessary preconditions, such as political commitment and cooperation at all levels, if trade is to successfully reduce poverty. For more information, please see http://www.wto.org/english/res_e/publications_e/trade_poverty_e.htm

NON-TARIFF MEASURES IN EU-US TRADE AND INVESTMENT – AN ECONOMIC ANALYSIS. The European Commission, December 2009. This study concludes that tackling existing non-tariff measures (NTMs) for trade and investment between the EU and the US would bring substantial economic benefits on both sides. Regulation of economic activities for a variety of public policy purposes is an essential feature of both the EU and the US economies. Reducing unnecessary differences in these regulations makes good sense from both the economic and regulatory view-point and would substantially bolster the transatlantic market-place. The study strengthens the case for enhanced efforts to reduce regulatory trade costs and demonstrates the significant transatlantic benefits it could generate – to companies, consumers and ultimately to the overall economic welfare in both economies. The report is available at <http://trade.ec.europa.eu/doclib/html/145613.htm>

HOW DO EXCHANGE RATES AFFECT IMPORT PRICES? RECENT ECONOMIC LITERATURE AND DATA ANALYSIS. By Cathy L. Jabara, US International Trade Commission, October 2009. An important issue for US trade and domestic pricing is the extent to which exchange rate changes affect the prices of imported goods. In theory, a change in the value of the dollar should raise or lower the cost of foreign goods, thereby reducing or increasing US demand for imports. However, numerous

economic studies have shown that when the dollar fluctuates against foreign currencies, US import prices tend to show much less change. This paper reviews some of the recent economic literature, such as pricing-to-market, currency invoicing, and cross-border production, which explains why US import prices tend to show little change. The publication is available here http://www.usitc.gov/publications/332/working_papers/ID-21_revised.pdf