



Bridges Weekly Trade News Digest

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LEAD STORIES

WTO, OECD, UNCTAD Urge G-20 to Cooperate on Macroeconomic Imbalances

Tensions over exchange rates, macroeconomic imbalances and unemployment are symptoms of “intensifying protectionist pressures” that will challenge the world’s leading economies, the WTO, the United Nations Conference on Trade and Development, and the Organization for Economic Cooperation and Development warned last week. They urged the upcoming summit of leaders from the Group of 20 industrialised and developing nations to cooperate on addressing macroeconomic imbalances, since doing so would bolster support for open trade and investment.

“Increased vigilance” will be necessary in the coming months for countries to resist the temptation to restrict trade and investment flows in an attempt to address these pressures, the international organisations said in a joint summary of reports prepared for the upcoming G-20 leaders’ summit in Seoul on 11-12 November. Other risks identified include the danger of a steady accumulation of trade and investment-distorting measures, and the need to wind down such measures in a non-discriminatory fashion.

The three organisations praised G-20 countries for their “considerable restraint in terms of restricting flows of trade and investment,” but warned them against complacency. One useful signal of commitment to maintaining open trade and investment flows, they said, would be for G-20 governments to “inject a sense of urgency towards concluding the Doha Round.” In Seoul, “G-20 leaders should send a clear political signal that they are ready to walk the last mile of the Doha Round negotiations,” they said.

Ever since the G-20's pledge at its first leaders' summit in November 2008 to refrain from protectionism -- a pledge that was literally broken within days -- UNCTAD and the OECD have been reporting regularly to G-20 leaders on investment policies; the WTO has been doing the same on trade. Their findings have been more positive than the unpromising start may have suggested: although G-20 countries have introduced a variety of measures that restrict or distort trade and investment, their overall scope has been limited, particularly compared to what had been feared.

However, such measures, once introduced, have historically proven difficult to phase out, a point made by both the OECD-UNCTAD report on investment, and the WTO report on trade.

The WTO report uncharacteristically addressed currency policy. "Higher risks for the world economy are being generated by turbulences in currency markets and by government decisions that some may perceive as a deliberate pursuit of an exchange-rate-induced comparative advantage," it noted. "The underlying causes of this dangerous cocktail of large trade imbalances, persistent high levels of unemployment and disorderly movements in currencies are macroeconomic in nature." It argued that restricting trade "cannot correct those imbalances, but it may easily provoke retaliation which would seriously threaten jobs and growth worldwide."

The rest of the content of the report mirrored earlier ones. It noted that the slow rate of removal of old measures was part of the reason that the accumulation of restrictive measures was becoming a cause for concern. G-20 trade restrictions introduced since October 2008 have grown to cover 1.8 per cent of G-20 imports and 1.4 per cent of total world imports, and only 15 percent of the trade restrictive measures introduced have been removed thus far (the bulk of the removed restrictions pertained to trade remedies; other measures remain in place, for the most part). Sectors most affected by restrictive measures between May and October 2010 include electrical machinery, mineral fuels and oils, and machinery and mechanical appliances.

That said, world trade has recovered far more strongly than output from the sharp declines

during the worst of the crisis. World trade volumes in July 2010 were roughly equal to those in July 2008, only slightly lower than the pre-crisis peak reached in April of that year. The WTO estimates that world merchandise exports will grow by 13.5 percent in 2010 (faster in developing countries), after dropping by more than 12 percent the year before.

As in its previous reports, the WTO provides a detailed description and categorisation of policies governments took to liberalise or restrict trade flows over the period. For instance, Argentina introduced a temporary export ban on ferrous scrap, but got rid of anti-dumping duties on some imports from Brazil. South Africa reduced tariffs on glass ampoules. The report also detailed general economic stimulus policies, such as various temporary industrial aid schemes in EU member states.

The OECD-UNCTAD report, covering the same time period, found that emergency measures, notably for the financial sector, continue to account for the bulk of investment-related policies covered. Although some support schemes have begun to be wound down, "some G-20 members continue to hold assets and liabilities left as a legacy of emergency measures." The report highlighted that "risks of protectionism may arise" as governments move to dismantle and unwind measures they had taken as part of their emergency responses to the crisis. "There are also grounds for concern that support policies are becoming an entrenched feature of the policy landscape in some countries."

The OECD and UNCTAD added to the chorus urging G-20 leaders to cooperate effectively on addressing macroeconomic imbalances. The persistence of such imbalances, they warned, posed risks to international investment, since some countries have started to adopt capital controls to shield their economies from volatile capital inflows. "Such policies will, if they become entrenched, lead to fragmentation of international capital markets along national lines and may be difficult to dismantle once in place."

Macroeconomic imbalances and currency policy are set to feature high on the agenda at the G-20 leaders' summit in Seoul. Germany and China

have lashed out against a proposal by US Treasury Secretary Timothy Geithner calling for numerical limits on current account surpluses and deficits (see Bridges Weekly, 27 October 2010). Along with Brazil, they have also been critical of the US's ultra-loose monetary policy, accusing a new round of 'quantitative easing' of being tantamount to currency manipulation (it pushed the value of the dollar down) and causing risky distortions in the international economy.

US central bankers have defended their policy as necessary to avoid deflation. The Obama administration has repeatedly argued that the US, with its trade and budgetary deficits, cannot be the world's importer of last resort, and that countries with large current account surpluses, like China and Germany ought to step up and boost their own domestic demand.

A report on the Wall Street Journal's website quoted Geithner, en route to Seoul, as expressing confidence that the summit would reach an agreement on curbing trade imbalances. The same newspaper quoted German Chancellor Angela Merkel, speaking just before her departure for the summit, as saying that Germany would not agree to limits on countries' current account balances.

ICTSD reporting; "Merkel: Germany Won't Support Current-Account Limits," WALL STREET JOURNAL, 10 November 2010; "U.S. Expects Leaders to Agree to Curb Trade Imbalances, Says Geithner," WALL STREET JOURNAL, 10 November 2010.

US Elects More Pro-Trade Lawmakers, But Will It Make for a More Pro-Trade Congress?

The United States Congress elected last week will include more influential lawmakers inclined to look favourably upon open trade and negotiated trade agreements than its predecessor. This much is clear based on incoming members' views and voting records. Despite record low levels of public support for trade agreements, pro-trade Republicans were elected even in Pennsylvania, Ohio, and Illinois, states well known for skittishness about trade. Whether this shift will

translate into Congressional support for new initiatives on trade by the Obama administration, let alone pro-development trade policies, remains to be seen.

Most policy analysts agree that trade is one of a handful of issues on which there is potential for cooperation between the new Republican House majority and President Barack Obama's Democratic Party. Realising that potential will hinge heavily on two factors: whether the Republican leadership chooses to pursue a policy of selective cooperation or all-out opposition to the administration as it gears up for the 2012 elections, and how the White House negotiates a line between its Democratic base and the Republican House majority.

Room for cooperation?

In principle, cooperation should be relatively straightforward on three pending free trade agreements (FTAs) with South Korea, Panama, and Colombia. Those accords, which were negotiated by a Republican administration and altered to reflect some Democratic priorities after the party won congressional elections in 2006, have been stuck in Congress since 2007.

Compromise on other issues, such as the struggling Doha Round of negotiations at the WTO, the Trans-Pacific Partnership talks, and 'trade promotion authority' for the White House, may prove more difficult. A significant measure of bipartisan agreement does exist on one subject at the heart of trade policy: subsidising farms. But this will hardly endear Washington to many of its trading partners.

Sean Spicer, a spokesperson for the US trade representative's office under the George W. Bush administration, believes that Republicans in the new Congress would "absolutely" vote for the three pending FTAs. "The House will easily pass them and the Senate may be the place where the White House agrees to support them in return for a vote on another issue they are concerned about."

The Obama administration would like to secure Congressional approval for the deals, reckons Ed Gresser, a trade expert at the Democratic

Leadership Council, a centrist Democratic Party think tank in Washington. But it needs to find a way to do so "consistent with campaign promises and avoiding a divide in the [Democratic] party."

US-Korea FTA as barometer

The Korea agreement is likely to provide the first test of how the three FTAs will be addressed. Opposition from Congressional Democrats has prevented the deal from being put to a vote since talks were concluded in 2007. In the run-up to this weekend's G-20 summit in Seoul, Obama has been pushing to reach understandings with the South Korean government on automotive and beef trade – the two main irritants in the trade talks. In trying to rally domestic support for an accord, he has pointed to the fact that Canada and the EU have been negotiating FTAs with Korea as well. (At time of writing, US and Korean officials were reportedly close to wrapping up an agreement in time a meeting between Obama and his Korean counterpart, Lee Myung Bak, on Thursday.) An accord would pave the way for a Congressional vote, likely in the first half of next year.

Winning approval for the Korea agreement would require the White House to secure support from both parties. Several Democratic lawmakers, and some Republican ones, are sure to oppose any trade agreement. There will be Republicans who will not vote for anything that the administration supports. US labour unions, a key constituency for the Democratic Party, are generally opposed to the deal, as are automakers Ford and Chrysler, who argue that it is trade and regulatory barriers, not consumer choice, that are responsible for the fact that the number of US-made cars sold in Korea is only a fraction of the quantity that go in the opposite direction.

If the Obama administration manages to secure passage for the Korea FTA, the Panama and Colombia agreements, which are less significant in commercial terms, would likely follow soon after, according to Kim Elliott, a senior fellow at the Center for Global Development in Washington.

Tea Party effects uncertain

Working in favour of approval is the fact that the likely incoming Republican House leaders, including Speaker John Boehner (Ohio) and Majority Leader Eric Cantor (Virginia) have a record of voting in favour of lowering trade barriers. So too do the likely chairs of the Ways and Means Committee, David Camp (Michigan), and Trade subcommittee, Kevin Brady (Texas). The incoming Republican leadership "is going to be looking for opportunities to promote trade," Daniel Griswold, a trade expert at the libertarian Cato Institute told Bridges.

On the other hand, the loss of several moderates in marginal seats may have left the Democratic contingent in the House with a higher proportion of trade-sceptics. And it is too soon to tell if Republicans affiliated with the grassroots anti-government Tea Party movement, which has a strong isolationist streak, will act in a coordinated fashion on trade issues, and if so, what stance they may take. A recent poll by the Pew Research Centre shows that Tea Party supporters are more critical of trade agreements than other Republicans.

Compromise will be politically difficult

Beyond the three pending FTAs, obstacles to bipartisanship on trade loom even larger.

Griswold anticipates that the incoming Congress will not show much more or less enthusiasm than its predecessor for an aggressive outcome in the Doha Round.

If the lack of enthusiasm is similar, the politics are worse. "The weight of precedent and the mood of the times appear to point more in the direction of conflict than cooperation, and the prospects for significant advances in the next two years may be even less propitious than they were in the last two," says Craig VanGrasstek, an expert on the political economy of US trade policy. "If recent history is any guide, the chances that trade policy will be subject to posturing and paralysis are higher than the prospects for meaningful, bipartisan cooperation in this area. Cooperation would require that the Republicans reverse a now well-developed habit of opposition."

Irrespective of the Tea Partiers' views on trade, their presence in Congress, and the threat that they would seek to unseat Republican incumbents in primary campaigns ahead of the 2012 elections, would be a disincentive to lawmakers on either side of the aisle who might otherwise be open to bipartisan deal-making, he suggested.

It is not as though there is no precedent for bipartisan cooperation on trade. The party controlling the White House has not controlled one or both houses of Congress for much of the past sixty years, a period that has covered the evolution of the international trade architecture.

But a repeat of the May 2007 compromise under which the Bush administration and the Democratic House leadership agreed on explicit parameters for cooperation on trade (mostly modifying ongoing FTA talks to include some environmental and labour standards, along with softened drug patent rules) would not be simple, opined Kim Elliott, from the Center for Global Development. Obama would need to find a way to "put his stamp" on such an agreement, and the Republicans would need to agree. "There's a pretty narrow space. Will they find it? I'm not sure," she said.

A Republican Congress in the second half of the 1990s refused to grant former president Bill Clinton 'trade promotion authority' (TPA), the mandate needed for a presidential administration to submit trade agreements to Congress or a yes-or-no vote without the possibility of amendments. Trade promotion authority is a necessary step to ensure that negotiated compromises would not be selectively picked apart by US lawmakers.

Asked about whether the new House might grant the Obama administration TPA, the Cato Institute's Griswold noted that it would only become an issue if there were a breakthrough in the Doha Round or Trans-Pacific Partnership talks in 2011.

Technically speaking, the White House doesn't need TPA to negotiate; it only needs it when sending trade deals to Congress. But for the first several years of the Doha Round negotiations, US officials did much to cultivate the idea that the mid-2007 expiry of the Bush administration's TPA

mandate was an informal deadline for concluding a multilateral trade deal. This policy was a mistake, says Ed Gresser. But the impression has stuck, and many Geneva-based trade negotiators look anxiously to Congress for signs of the US's seriousness about the WTO negotiations – to the continuing irritation of US trade officials.

The result has been a "circular and self-fulfilling prophecy," according to VanGrasstek. "If there is no TPA there is no progress in Geneva; if there is no progress in Geneva there is no TPA. We've been on that circle for a few years to it's a safe bet that we stay there for some time, but at some point – maybe in these next two years, maybe later – we will have to try something else."

White House officials have suggested that they want to make a push in the Doha Round talks in 2011, Kim Elliott said. However, it remains unclear whether there is any overlap between Washington's demands for greater market access in fast-growing developing countries like Brazil, China, and India, and what those countries are willing to agree to.

As for narrower trade initiatives, she thinks that the Generalised System of Preferences and a trade preference scheme for Andean countries are likely to get extended, though not reformed to enhance their likely developmental benefits. The fate of a proposal to grant duty- and quota-free access to exports from all least-developed countries, is also cloudy, barring any "action forcing events" such as a clear signal from the G-20.

On farm subsidies, "Republicans aren't all that different from Democrats," said Griswold, suggesting that both parties in Congress would be reluctant to pursue dramatic reform to farm support.

That said, pressure to reduce farm subsidies may come from efforts to reduce the budget deficit. With the Republican Party having ruled out cuts to defence spending, pensions and health benefits for the elderly, all other types of federal spending will face scrutiny. Bob Stallman, the head of the American Farm Bureau, warned last week that cash strapped governments were likely to put the squeeze on some types of farm payments

(particularly the 'direct payments' that are deemed by the WTO not to distort trade).

ICTSD reporting; "U.S., Korea close to finalizing free-trade deal," MARKETWATCH, 10 November 2010; "Green Fields: Subsidies face squeeze, Farm Bureau chief says," DES MOINES REGISTER, 7 November 2010.

French Ecology Ministry Enrages Farmers with Proposal for Sweeping Subsidy Reform

Days after calling for a dramatic reorientation of European farm subsidies towards environmental protection, the French ministry for ecology and sustainable development has taken the controversial proposal off its website, following a firestorm of protest from the country's farm lobby.

Environmentalists and others, however, have praised the ideas in document. They want it to be reinstated online, and are seeking the launch of an inter-ministerial consultation process on the subject.

The 20-page proposal, entitled "Pour une politique agricole durable en 2013" ("For a sustainable agriculture policy in 2013") was published by the French Ministry for Ecology, Energy, Sustainable Development and the Sea in late October. However, the news portal Euractiv.fr reported that the text was no longer available online on 4 November, two days after a farm group voiced objections.

The document was released in the midst of debate over the appropriate aims and policies for the EU's Common Agricultural Policy (CAP) in the seven-year post-2013 budgetary cycle. France has traditionally played a central role in shaping European farm policy.

The ecology ministry's text argues that a strong CAP could be justified only insofar as it would contribute to the implementation of sustainable agriculture at the European level. It argues that the CAP must achieve three goals: fairness, by providing a decent income to farm workers;

coherence, by compensating producers for environmental services that they provide, and limiting ecological damage; and dynamism, by supporting a transition towards ecologically productive agriculture.

The ministry proposes abolishing the existing two-pillar structure for farm payments, and replacing this with a series of separate policy instruments that would achieve these three goals. Income payments – determined by farm workers rather than by the number of hectares – would guarantee a minimal income. Environmental payments, linked to compliance with standards, would be covered by a second category of support. A third category, based on contracts, would help farmers move toward more ecological methods of production.

Unlike other contributions to the debate so far, the ministry's document does not shy away from suggesting a budget for the proposed plans: income payments could cost 3 billion euros, says the document, to be supported by additional national level financing; 4 billion euros would cover the cost of environmental payments; and 2 billion euros would cover the cost of transition towards more environmentally-beneficial farming, to be co-financed by various actors. Another 1 billion euros would be available to cover other costs such as market intervention.

The new proposals should not adversely affect the EU's trading partners, the document argues. "Greater global food demand essentially requires developing agriculture in countries where population is growing quickly, by a carefully thought through intensification of production in these countries", it suggests. "The European Union does not intend to feed the world, and is aware that seeking to do so would have a disruptive effect on agriculture in other countries".

The French farmer group FNSEA (Federation Nationale des Syndicats d'Exploitants Agricoles) issued a press statement ironically pointing out that the minister for ecology and sustainable development "has not yet brought agriculture into his portfolio", and criticising what they saw as "a clear case of institutional misconduct". They claimed that farm representatives had not been

consulted before the document was published, and called on Jean-Louis Borloo, the minister in charge of the department concerned, to “play fair, not alone”.

According to Euractiv.fr, the French agriculture ministry was keen to downplay the significance of the environment ministry's proposals: unnamed associates of the agriculture minister, Bruno Le Maire, were reported as saying that the document “doesn't count”, and represents “only the views of its authors”.

However, the document was described as a “useful and legitimate contribution to the debate” by the environmentalist network France Nature Environnement, which issued a statement welcoming its proposals. The communication also “denounced” the removal of the document from the ministry's website in the wake of the FNSEA statement, “deeply regretting that this hinders the communication of a document that is needed to inform the public”.

The reform group CAP 2013, which brings together environmentalists, development agencies and some farm groups, also broadly welcomed the ecology ministry's contribution, noting in a statement that its proposals on better targeting of direct payments and supporting a transition towards more ecological agricultural production were “innovative and brave”.

“I think that it does a lot of good to the French debate, by bringing in new actors,” Samuel Féret, the group's coordinator, told Bridges.

ICTSD reporting; Euractiv.fr, 5 Nov 2010; FNSEA communiqué de presse, 2 Nov 2010; France Nature Environnement press release, 5 Nov 2010; PAC 2013 press release, 29 Oct 2010.

OTHER NEWS

As FTAs Proliferate, Suggestions that the ‘Spaghetti Bowl’ May Not Be So Bad After All

That the number of bilateral and regional free trade agreements around the world has grown dramatically in recent years is well known. The trend has continued, involving countries irrespective of size or geographical dispersion.

Negotiations have been proposed, or are underway, between large economies (the EU and Japan), across North-South lines (China and Switzerland), countries that only established full diplomatic relations less than twenty years ago (India and Israel), and states that are far apart (Korea and Peru). In Asia alone, estimates peg the number of FTAs being worked on at 80. Some 47 are already in effect – up from only three in 2000.

The proliferation of bilateral and regional trade agreements has spawned a lively debate. While some laud the agreements for promoting trade, particularly at a time when multilateral liberalisation efforts are languishing, others have questioned their real benefits for business and expressed concerns about their ramifications for rules-based trade. The critics worry that a “spaghetti bowl” of overlapping FTAs (often dubbed a “noodle bowl” in the Asian context), actually harms trade by increasing transaction costs for businesses through variable tariffs, complicated rules of origin, and assorted bureaucratic requirements.

The most scathing analysis has come from Jagdish Bhagwati, the Columbia University economics professor and prominent free trade advocate, who has likened FTAs to “termites” eating away at the world trading system. Bhagwati argues that what he calls “preferential trade agreements” undermine the international trade architecture's core principle of non-discrimination. They lead to costly trade diversion, make it harder for international business to operate efficiently, and provide powerful countries with an opportunity to extract unjustifiable concessions from weaker trading partners on issues such as trade and labour standards and intellectual property protection.

Not necessarily, says Ganesha Wignaraja, principal economist at the Asian Development Bank's (ADB's) Office of Regional Integration, who has been leading extensive surveys of how businesses in Southeast Asia use and perceive FTAs.

“The stumbling block versus building block [debate] is largely outdated,” especially where Asia is concerned, Wignaraja told Bridges in an interview. That debate, he said, started with a focus on concerns that were “largely theoretical,” shaped primarily by experiences in North America and Europe. Circumstances have changed over the past decade, particularly with the development of production networks across East Asia. Businesses in East Asia by and large consider FTAs to be useful and are demonstrating an “increasing pattern of use,” he said. Some 28 to 29 percent of firms surveyed were using FTAs, and about half intended to do so, Wignaraja added, acknowledging that the percentage would likely be lower in the poorer Southeast Asian countries.

An ADB report on surveys conducted in Southeast Asia in 2007 and 2008 found “that business in the region tend to view FTAs as a benefit rather than a burden, and that they use them to expand trade to a far greater degree than had been previously thought.” While rules of origin (ROOs) “may add some administrative and transaction costs... the large majority of exporters do not view [them] as a significant hindrance to business.”

Notably, the ADB found that “larger firms in Asia have somewhat more negative perceptions of multiple ROOs than do [small and medium enterprises].” It attributed this to the fact that large firms tend to export to more than one market, while SMEs (which comprised a third of the survey sample), may not. On average, some 24 percent of businesses surveyed found a “burden imposed by multiple ROOs,” ranging from 6.3 percent in China, to 37.5 percent in Singapore.

The ADB concluded countries and businesses in Southeast Asia have used FTAs to build and expand production networks, decrease input costs, and open new markets.

Wignaraja foresees the eventual development of a “hub” of harmonised regional trade agreements in East Asia, centred on the Association of Southeast Asian Nations with “spokes” ultimately extending to Europe and the United States. The first step towards this was already in place, in the shape of ASEAN’s separate trade agreements with China, Japan, and Korea. The “missing piece” now is to

deepen and harmonise these separate “ASEAN+1” accords into a single regional “ASEAN+3” deal.

“Within a decade,” Wignaraja expects to see moves towards an “ASEAN+6” agreement encompassing Australia, New Zealand, and even India (which has been relatively slower to liberalise, and would have to overcome significant political obstacles for such an accord). The ADB economist expressed confidence that business support for trade integration would prevail over political and diplomatic tensions.

But Wignaraja cautioned that not everything is rosy with respect to FTAs. A significant motivating factor in countries’ desire to pursue FTAs has been the long deadlock in the multilateral Doha Round negotiations, he believes. Moreover, the use of existing FTAs still left much to be desired: the ADB report acknowledged that “[t]he majority of East Asian firms do not currently use FTA preferences.” Forty-five percent of responding firms in China lacked information on FTA preferences; the figure was 34 percent in South Korea, and 70 percent in the Philippines.

The ADB believes that low utilisation rates properly informing businesses about FTAs, their advantages and requirements. In addition to building capacity to understand FTAs in both government and the private sector, Wignaraja said that countries currently pursuing trade deals could take the best agreements and use them as a template. (This would also smooth the path towards harmonisation.)

Some major factors will continue to drive regional agreements in Asia, Wignaraja noted. One, “nobody [in Southeast Asia] is unilaterally liberalising” anymore, so negotiated liberalisation is the only path to market-opening. In addition, sluggish economic growth in the US and the EU meant that fast-growing developing countries in Asia would need to find “sources of growth within.” Doing so, he observed, would help contribute to the rebalancing of the world economy.

Wignaraja argued that after harmonising multiple bilateral agreements on a regional basis, countries

will eventually need to “multilateralise regionalism.”

ICTSD Reporting; “Free Trade Agreements in East Asia: A Way Toward Trade Liberalization?” The Asian Development Bank, June 2010.

Republican Victory Dims Prospects for Climate Action at Federal Level in US

The Democratic Party’s big losses in last week’s congressional vote in the US have all but snuffed out prospects for meaningful nation-wide legislation to curb greenhouse gas emissions over the next two years.

Most Republicans have fiercely opposed past climate change initiatives by Congressional Democrats and President Barack Obama’s administration. With the balance of power in the House of Representatives shifting decisively to the Republicans as of January, legislation would need considerable support from both parties to pass.

The election comes as countries gear up for a UN climate summit in Cancun, Mexico at the end of the month. But with most countries insisting that a clear commitment from the US government about tackling greenhouse gas emissions is crucial to reaching a global climate pact, hopes for such a deal have been scuppered for now.

US benchmark on climate remains key

“The election in the US was a setback for everyone who would like to see an ambitious climate-change agreement and a nationwide cap-and-trade system in the United States,” Norwegian Prime Minister Jens Stoltenberg, who co-chairs a high-level UN climate financing group, told Reuters in an interview last Friday. “On the other hand we cannot give up our efforts to try to reach an agreement on how to reduce emissions of greenhouse gases.”

Equivalent to some 5.8 billion metric tonnes of carbon dioxide, the US’s carbon emissions account for a hair below twenty percent of the world total, with per capita emissions well above

the global average. The country’s ability to slash emissions is central to the effectiveness of global efforts to try to arrest climate change. Climate impacts resulting from the increase in atmospheric greenhouse gas concentrations are already impacting livelihoods around the world, particularly in the poorest countries.

After their experience with the Kyoto Protocol, which the US signed but failed to ratify in Congress, US climate negotiators insist that they will not agree to anything that lawmakers will not approve. Climate officials from other countries had hoped for the passage of a US law that would set the framework for the emissions reduction commitments it could make as part of an international agreement. Underlining the extent to which the climate talks are as much about economics as about the environment, many countries have been waiting to see the US position on climate change before clarifying their own emissions reduction efforts, fearing diminished industrial competitiveness or simply having to make a greater effort than the world’s largest economy.

Obama to focus on “bite sized” approach to climate

Although the House passed legislation for a national cap-and-trade scheme last year, the Senate has not done so. Earlier this year, Republican opposition, and the loss of their filibuster-proof majority following the death of Massachusetts Senator Edward Kennedy, forced Senate Democrats to put cap-and-trade on hold indefinitely. With last week’s election loss, the US administration is now grasping for a new approach.

“Cap-and-trade was just one way of skinning the cat. It was a means, not an end,” Obama said at a White House news conference following the election. “I’m going to be looking for other means to address this problem.”

In a recent interview with the National Journal, the president indicated that these means may have to be a “bite-sized” approach to energy policy. These may not cut emissions on the scale necessary, yet could be the only way to move the country forward politically. Economic growth is at

the top of the US agenda, and trumps, in many cases, proposals for carbon reduction.

Obama says he will be focus on initiatives that are good for the economy and promise to reduce the US's dependency on fossil fuels.

Low expectations for Cancun

Unlike last year's gathering of parties to the UN Framework Convention on Climate Change in Copenhagen, there is no expectation that the upcoming meeting in Cancun will result in consensus on a legally binding deal. Yet one critical question countries will have to agree on is what to do once the initial phase of the Kyoto Protocol ends in 2012, since there is no agreement on a next phase or on a new, broader deal.

Many, including key emitters such as China, believe the global deal will have to wait until next year's climate summit South Africa. But with the Obama administration hamstrung on the issue at least until the next elections in 2012, that meeting may run into many of the same of the same obstacles.

Still, some feel that Washington's commitments to the non-binding Copenhagen Accord reached last December have begun some positive momentum in the US in terms of emission reduction.

"It's discouraging, but at the same time we're taking a five or 10 year view," British economist and climate change expert Nicholas Stern said following the election. "The US has indicated its position in the Copenhagen Accord, and I see no reason why it will backtrack from the accord."

Some cause for optimism

Although the election results mean that prospects for national-level cap-and-trade legislation are virtually nil, they do not rule out action to curb emissions at the state and regional levels.

Voters in California came out strongly in favour of state-level efforts to cut emissions, rejecting Proposition 23, a ballot initiative that would have effectively suspended the implementation of Governor Arnold Schwarzenegger's aggressive Global Warming Solutions Act - also known as

AB 32 - which aims to reduce the state's emissions levels to 1990 levels by 2020.

Accompanying state-level policies such as AB 32 are some regional cooperation initiatives aimed at reducing greenhouse gas emissions. These include the Western Climate Initiative, which aspires to introducing a cap-and-trade scheme across several US states and Canadian provinces, as well as the Regional Greenhouse Gas Initiative (RGGI) - a cap-and-trade program covering electricity generation in 10 northeastern and mid-Atlantic states. These efforts suggest that there may be opportunities for the US to reduce overall carbon emissions even in absence of a national regime.

Another source of potential carbon constraints in the US comes from the federal Environmental Protection Agency, which is set next year to regulate greenhouse gases, following a Supreme Court ruling that it could treat the heat-trapping gases as pollutants. However, some influential Republicans have vowed to oppose any such efforts.

One potential driver of climate policy action in the US has nothing to do with the environment: the country's budget deficit. If it proves difficult for lawmakers to bring spending in line with revenue, a carbon tax may cease to be politically untouchable.

ICTSD reporting; "Obama Moves Away From 'Cap and Trade,' Seeks New Tools," REUTERS, 4 November 2010; "Obama's climate pessimism dims U.N., G20 outlook," REUTERS 4 November, 2010; "Clinton Facing Heat on Oil Sands Pipeline," THE NEW YORK TIMES, 1 November 2010; "Defeat Of Prop. 23 Preserves California's Climate-Change Law," SOLAR INDUSTRY, 4 November 2010; "U.S. vote was "setback" for climate action: Norway," REUTERS, 5 November 2010; "Republican wants to keep global warming committee," ASSOCIATED PRESS, 8 November 2010; "A Carbon Tax Emerges Among the Ideas to Reduce the Federal Deficit," NEW YORK TIMES/CLIMATEWIRE, 9 November 2010.

IN BRIEF**Uncertainty over Supply of Rare Earths from China**

Recent suggestions that China may slash its exports of rare earth metals has many importing countries looking for new sources and questioning whether the trade restrictions would be WTO compliant.

Rare earth elements such as scandium, yttrium, and cerium are crucial for the production of many everyday technological products as well as green technologies in fast-growing sectors such as hybrid cars, solar panels, and windmills.

Over the past two months, reports that China had cut off rare earth exports to Japan, the US, and the EU caused prices to spike. Reports in Chinese state-run news outlets claiming that Beijing wanted to slash 2011 export quotas by almost a third did little to yield importers' anxieties.

Although China currently produces some 97 percent of the worldwide supply of rare earths, they are not as rare as the name would suggest. Significant deposits are present in the US, Canada, Australia, and Brazil. China only developed its near-monopoly on rare earth production in the 1990s, when it was able to undercut prices elsewhere, in part due to cheap labour and weaker environmental standards. This had the effect of making China bear the bulk of the environmental burden of producing rare earths. To extract rare earths, miners use sulphates, ammonia, and other chemicals, which can enter the soil and pollute the surrounding water supply. At least one major US rare earth mine was shut down for causing environmental contamination.

The price spikes – as high as 700 percent in some cases – have encouraged investment to reopen old mines in other countries, although it will be some years before they become productive.

Chinese officials announced Friday that the country will continue production at current levels in 2011. However, Commerce Minister Chen Deming called for other countries to share in the

environmental burden of mining the metals, and in finding greener ways to extract the minerals. Chen has cited environmental grounds to justify tighter trade controls on rare earths.

Critics elsewhere have dismissed China's environmental arguments, accusing Beijing of simply flexing its growing economic muscle and curbing exports to lower costs for domestic producers.

The US, the EU, and Japan have urged China to clarify its rare earth export policies. Germany, where industry groups have stressed that access to raw materials is crucial to their very existence, has called upon Washington and Brussels to take the case to the WTO.

WTO rules generally prohibit export restrictions (GATT Article XI) on non-agricultural products, but permit export taxes. However, as part of the commitments it undertook in order to join the WTO, China pledged to abolish export taxes on all but 84 tariff lines. These exceptions include "live eels fry" and various metals and ores such as lead, zinc, tin, tungsten, and tantalum – but not rare earths (listed in Annex 6 of WT/L/432). The general exceptions set out in GATT Article XX do all WTO members to introduce export restrictions in order to protect exhaustible natural resources – so long as they also rein in domestic consumption.

In review of China's trade policies, the WTO secretariat noted a gap between China's between domestic prices and world prices for some inputs, noting that that amounted to implicit assistance to domestic industry.

The US and EU have expressed plans to discuss Chinese rare earth export policy with Chinese officials at the upcoming G-20 summit this weekend in Seoul.

ICTSD reporting; "China says to maintain rare earth exports in 2011," REUTERS, 5 November 2010; "China to reduce rare earth export quotas," CHINA DAILY, 19 October 2010. "EU, US Grapple With Crunch In Rare Earth Supplies," REUTERS, 27 October 2010. "After China's Rare Earth Embargo, a New Calculus," NEW YORK TIMES, 29 October 2010. "Rare-earth limits not

aimed at foreign market,” GLOBAL TIMES, 24 October 2010. “China Says No Significant Cut for Rare Earth Quotas,” REUTERS, 1 November 2010.

EU to Focus on Bilateral Deals, Doha, and Beyond

The European Commission on Tuesday set out a blueprint for an EU trade strategy that would help boost growth and job creation in Europe.

The paper does not represent a significant departure from the EU’s four-year-old ‘global Europe’ strategy, which called for free trade agreements (FTAs) with some key trading partners, cooperation to reduce non-tariff barriers with others, efforts to open up public procurement and investment markets, and the enforcement of existing trade commitments, including through the use of trade remedies.

Instead, the Commission focuses on how lowering trade barriers could help the Europe recover from the global economic downturn, looking at potential contributions to increased growth, purchasing power, and employment. The report is intended to highlight trade’s role in the EU’s growth strategy for the upcoming decade, dubbed Europe 2020.

"Trade is working for Europe's economic recovery by ensuring growth and jobs", said EU Trade Commissioner Karel De Gucht. "A renewed trade strategy will open markets and connect Europe to the main sources and regions of global growth. My aim is to ensure that European business gets a fair deal and that our rights are respected so that all of us can enjoy the benefits of trade."

The Commission says that concluding agreements in the Doha Round negotiations and the ongoing bilateral FTA talks with major trading partners such as India and Mercosur would boost the EU’s GDP by more than 1 percent per year. For other, “strategic,” partners, such as the US, China, Russia, and Japan, it stops short of calling for full-fledged FTAs, but instead calls for joint action to tackle non-tariff barriers. industries. The report

estimates that removing only half the non-tariff barriers from trade with the US would boost the EU’s GDP by 0.5 percent. Russia and China are singled out for a cautious approach on the grounds that both countries pursue policies based on “state capitalism.”

While the paper stresses that the multilateral talks are the Commissions’ top negotiating priority, it adds that a “Doha agreement will not give answers to the newer questions that global trade rules ought to take care of,” and pledges to set up a “group of eminent people” to “start reflecting on the next steps after Doha.”

In addition, the Commission wants to seek expanded access to public procurement markets in other countries, as well as pursue comprehensive investment provisions with some trading partners. It insists that it would ensure that intellectual property rights are protected in third countries and also at the EU’s borders (an observation that may be disquieting to countries concerned about the seizure in European ports of generic drug shipments en route from one developing country to another, on the grounds of suspected intellectual property violations).

On energy trade, the Commission says that it will pursue free transit and a diversified supply base for the EU. On resource trade, it calls for disciplines and a monitoring mechanism on the use of export restrictions.

Also figuring in the strategy is a heightened focus on impact assessments, including on the potential domestic social impacts of new trade initiatives.

The report promises two development-related announcements in 2011: a reform of the EU’s “general system of preferences” (GSP) scheme, and a communication on trade and development that will set out views on issues such as special and differential treatment for developing countries and how trade can help countries hit by natural disasters.

ICTSD reporting.

EVENTS & RESOURCES

Events

Coming up this week

11 – 13 November, Seoul, South Korea. G20 SUMMIT. The Group of 20 summit will be taking place in Seoul, South Korea. The summit will continue to look at and discuss the effects of the global financial crisis, and what can be done to speed the recovery. Other major issues may also be examined. For more information, please refer to the G20 South Korea website at <http://www.g20.org/index.aspx>

11 – 15 November, Mengzi, China. FIRST WORLD CONFERENCE ON TERRACED LANDSCAPES. The government of Honghe Prefecture is hosting this gathering to promote better understanding of terraced landscapes worldwide, and to bring together international scholars and indigenous farmers for a fruitful exchange regarding terrace protection, sustainability challenges and solutions, conscientious development, landscape management, and examples of good practice around the world. For more information, please refer to the event's website at <http://www.1stwtfc-honghe.net/English/About/About.Html>

14 – 16 November, New Delhi, India. THE INDIA ECONOMIC SUMMIT. This year's India Economic Summit will convene under the theme "Implementing India" and will pay particular attention to how inclusive social and economic progress can be delivered and serve as a model for other developing economies. The Summit has the objective of moving from agenda to action. It will focus on how domestic and international decision-makers from business, government and civil society can implement national policies across states in both rural and urban areas to accelerate economic development, remove barriers to growth and increase social inclusion. In this context, India's imperatives include building critical infrastructure, expanding skills development, addressing security threats and achieving income and gender equality. For more information, please refer to the summits website <http://www.weforum.org/en/events/IndiaEconomicSummit2010/index.htm>

17 – 19 November, Santo Domingo, Dominican Republic. SECOND INTER-AMERICAN MEETING OF MINISTERS AND HIGH-LEVEL AUTHORITIES ON SUSTAINABLE DEVELOPMENT. The upcoming Ministerial Meeting is the next milestone of progress in the western hemisphere's environmental agenda. During the preparatory process, the Department of Sustainable Development of the Organization of the American States will work closely with governments, technical experts, civil society organizations and the private sector to set out specific, tangible and cooperative measures that can make a difference in the regions' environmental performance. The OAS welcomes and encourages participation of the environmental community in this process. For more information, please refer to the OAS's website at http://www.oas.org/DSD/MinisterialMeeting/SecondMeetingSustainableDevelopment_e.asp

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.

11 November: Committee of Participants on the Expansion of Trade in Information Technology Products

15-19 November: Geneva Week

16-17 November: Workshop on Agriculture Notifications

16 + 18 November: Trade Policy Review Body – Papua New Guinea

16 November: Committee on Specific Commitments

16 November: Committee on Trade in Financial Services

Other upcoming events

18 – 19 November, Bogota, Colombia. IDB MITIGATION AND ENVIRONMENTAL SUSTAINABILITY WORKSHOP. The national workshop "Mitigation of Climate Change and Environmental Sustainability: Roles can play in development banks in both dimensions" is intended to provide an overview of the risks and opportunities of climate change as well as the funding challenges that face within the context of climate change mitigation. This event is co-organized by the Inter-American Development Bank (IDB), the Banco de Comercio Exterior de Colombia (Bancoldex) and the American Association of Development Financing Institutions (ALIDE). For more information, please refer to the event's webpage at <http://events.iadb.org/calendar/eventDetail.aspx?lang=En&id=2570>

19 November, Geneva, Switzerland. SHORT COURSES ON KEY INTERNATIONAL ECONOMIC ISSUES. Part of a series of short courses on key international economic issues to be held in the second half of 2010 for delegates and other staff who follow matters pertaining to UNCTAD or the World Trade Organization (WTO) in Geneva. The aim is to give permanent missions an opportunity to follow a shorter, more focused version of the regional three-week course on key issues on the international economic agenda. For more information, please refer to the UNCTAD website at <http://www.unctad.org/Templates/Meeting.aspx?iItemID=2068&lang=1&m=20243&year=2010&month=11>

21 – 23 November, Helsinki, Finland. SECOND MEETING OF THE CONSULTATIVE GROUP ON INTERNATIONAL ENVIRONMENTAL GOVERNANCE. The second meeting of the Group established by the Governing Council to build upon the work of the previous group and will consider options for broader reform of the current IEG system. The outcome of the Group's discussions will be contributed to the preparatory process for the Rio+20 Conference in support of its second

theme: The institutional framework for Sustainable Development. For more information, please refer to the Group's webpage at <http://www.unep.org/environmentalgovernance/Introduction/GCfeb2010/tabid/4556/language/en-US/Default.aspx>

21 – 25 November, São Tomé, Sao Tome and Principe. 14TH AFRICAN OIL, GAS AND MINERALS TRADE AND FINANCE CONFERENCE AND EXHIBITION. The African Oil, Gas and Mines Trade and Finance Conference and Exhibition is an annual forum for sharing experiences and debating topical issues relating to the extractive industries, such as: investment and finance; legal and regulatory issues; revenue and resource management; energy security; technology; and local participation. The objective of the conference is to provide a platform for high-level policy dialogue between producers and consumers, investors and host countries and other stakeholders. For more information, please refer to UNCTAD's webpage <http://www.unctad.org/Templates/Meeting.aspx?iItemID=2068&lang=1&m=19681&year=2010&month=11>

Resources

WHY THE IMF AND THE INTERNATIONAL MONETARY SYSTEM NEED MORE THAN COSMETIC REFORM. By Yilmaz Akyüz. (The South Centre, November 2010). This South Centre report argues that the G20 agenda misses some of the key issues that need to be dealt with in order to effectively reform the international monetary system so as to avert future global financial crises. The missing issues include enforceable exchange rate and adjustment obligations, orderly sovereign debt workout mechanisms and the reform of the international reserves system. The paper also points out that there are no effective rules to control the unstable global financial market, no multilateral discipline over misguided monetary and exchange rate policies, and national policy makers are preoccupied with resolving crises by supporting those responsible for these crises rather than introducing measures to prevent future crises. This may sow the seeds for future problems. To access this paper, please refer to the Centre's

website at

http://www.southcentre.org/index.php?option=com_content&view=article&id=1409%3Awhy-the-imf-and-the-international-monetary-system-need-more-than-cosmetic-reform-&catid=65%3Ainternational-financial-institutions-governance&Itemid=67&lang=en

BRAZIL'S EARLY URBAN TRANSITION: WHAT CAN IT TEACH URBANIZING COUNTRIES? By George Martine and Gordon McGranahan (International Institute for Environment and Development, August 2010). This paper specifically describes the urbanization experience of Brazil, by far the largest country in Latin America, and which has attained levels of urbanization that surpass those of most European countries. Despite historical differences in timing and context, the trajectory of urbanization in Brazil holds many parallels and key lessons for other countries that are currently undergoing rapid urban growth. Reflections based on this narrative, including both the account of failed policies of the past and the innovative but partly proven policies of the present, could help policymakers in countries facing similar challenges deal more successfully with their own urban transitions. The intention of this study is to provide the basis for such reflections with a broad-based case study of urban growth and urbanization in Brazil that will situate this process within the trajectory of the country's overall development pathway. For more information on this paper, please refer to the IIED's website at <http://www.iied.org/pubs/display.php?o=105851>
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FINANCIAL CRISIS AND TRADE AGREEMENTS. Third World Network (September 2010). This paper briefly reviews in a preliminary way some of the causes and effects of the current crisis and the way in which the provisions in multilateral and regional trade and investment agreements can make it more difficult to effectively deal with the crisis and prevent future similar crisis. The paper finds that a variety of provisions in these agreements can make it difficult to effectively carry out the measures recommended to deal with the crisis. While it claims that most barriers are likely to come from the services and investments provisions, competition, goods, intellectual property and

government procurement chapters in North-South FTAs can also have an effect. To access this paper, please refer to the TWN's website at http://www.twinside.org.sg/title2/briefing_papers/twn/bpfinancialcrisis.pdf

EQUITY AND SOCIAL JUSTICE IN WATER RESOURCE MANAGEMENT IN BANGLADESH. By Golam Rasul and A. K. M Jahir Uddin Chowdhury (International Institute for Environment and Development, July 2010). In Bangladesh, equitable and sustainable water management is critically important due to the country's geographical location, low-lying topography and high incidence of poverty. A large proportion of the rural poor is dependent on natural water bodies in floodplains and in hilly watersheds for their livelihood. Their subsistence is based on food production, fishing, harvesting wetland plants, plying country boats and other activities which depend on healthy aquatic ecosystems. In this report, the authors propose a framework for promoting equity in water management and preserving the environment. For more information on this report, please refer to the IIED's website at <http://www.iied.org/pubs/display.php?o=146001>
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