



# Bridges Weekly Trade News Digest

*Weekly trade news from a sustainable development perspective*

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Contributors to this issue of Bridges Weekly Trade News Digest© are Ammad Bahalim, Trineesh Biswas, Hannah English, Martin Harms, Jonathan Hepburn, Abigail Hunter, Eugene James, and Joachim Monkelbaan. Director: Ricardo Meléndez-Ortiz.

## LEAD STORIES

### Awaiting Davos, WTO Ag Negotiators 'Tread Water'

Despite plans to “hit the ground running” in January, farm trade negotiators in Geneva are “treading water” while they await a political signal from an upcoming meeting of influential trade ministers in Davos, officials have acknowledged.

“I’m a bit disappointed,” said one trade diplomat. Another said there had been no change of pace since last year.

In a bid to explain a lacklustre meeting of the WTO agriculture negotiating committee on Monday, and a relatively sparse schedule of activities for the week, delegates suggested that the outcome of ministers’ late-January discussions at the Swiss mountain resort would set the tone for further engagement. The meetings, held on the margins of the annual conference of the World Economic Forum, have in recent years become a standard fixture in negotiators’ calendars.

Although senior officials are in Geneva this week to confer with counterparts, delegates suggested that their discussions on agriculture would mainly be confined to bilateral talks aimed at quietly exploring whether trading partners were willing to offer new concessions. The relatively advanced state of the draft text on agriculture meant that delegates were instead looking to movement in other negotiating areas, such as intellectual property or rules, in order to prepare the ground for future trade-offs..

### New negotiating text?

“I don’t really expect anything major to come out of this week”, one negotiator observed, adding that he would be “really surprised” if a revised negotiating text on agriculture were ready by April.

WTO Director-General Pascal Lamy had previously called for the chairs of the negotiating committees to prepare texts in all areas by the end of the first quarter of this year.

“The only technical work remaining is on SSM,” another said, in a reference to the proposed ‘special safeguard mechanism’ that developing countries would be able to use to raise duties temporarily in the event of sudden import surges or price falls. High-level talks in July 2008 foundered over differences in how the safeguard would operate.

The remaining issues are “very political in nature,” one official observed, while another suggested that they “could be cleared up in a couple of hours”.

Although in December the chair of the talks, New Zealand Ambassador David Walker, had suggested he would hold consultations this week on the SSM, on whether countries would be allowed to create new tariff quotas, and on how tariffs could be simplified from more complex forms, members reported that only the last of these was likely to be discussed in a small-group meeting during the week.

A ‘room E’ consultation amongst some three-dozen countries, from a cross-section of negotiating coalitions and regions, was due to be held on Thursday afternoon, delegates said. All members had been invited to a final meeting on Friday afternoon, at which the chair would report back on progress.

#### **“Member-driven process”**

“The chair is looking at it as a member-driven process”, one delegate observed, in a reference to the chair’s often-repeated assertion that he would not seek to impose a prefabricated solution upon negotiators. “So the members have to drive it...”, the source added wryly, in an attempt to explain the slow progress during the week.

A meeting on Monday morning, convened by the chair and open to all members, only lasted around an hour: parts of it were described as “dull” by one official who was present. During the discussion, Canada made a presentation on how members might account for their ‘blue box’

subsidy spending when scheduling commitments arising from a Doha Round accord. In addition, Brazil reportedly suggested reviewing proposed new rules on overall trade-distorting support, and India indicated that, at a subsequent meeting, it would present further work on a set of issues on which it had, along with China and Argentina, sought further clarification.

Alongside the planned ‘mini-ministerial’ in Davos, the EU has invited ministers from six other major trading powers to meet on 28 January to discuss the way ahead in the Doha Round talks. The countries – Australia, Brazil, China, the European Union, India, Japan and the United States – have been dubbed the ‘G-7’ by negotiators.

Sources indicated that senior negotiators would also explore possible trade-offs across negotiating areas in a meeting scheduled for 24-25 January, immediately before the Davos gathering is due to begin.

ICTSD reporting.

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### **WTO Members Look to Davos Meetings for Doha Revival**

Ministers and top officials from major trading nations are set to meet next week to see if they can breathe new life into the long-struggling Doha Round of global trade negotiations.

As has become customary, trade ministers from several WTO members will hold an informal gathering on the sidelines of the World Economic Forum’s annual conference in Davos from 26-30 January. At the EU’s invitation, a smaller group of seven central players in the negotiations – Australia, Brazil, China, India, Japan and the US, in addition to the EU – are scheduled to meet on 28 January for a more detailed discussion on how to proceed.

Whether they will be able to break the deadlock is another question. Despite brave rhetoric about positive political signals a “critical window of opportunity” for concluding an accord this year, trade diplomats at WTO headquarters report that the planned “intensive work programme” of negotiations has struggled to get off the ground.

The single biggest sticking point in the negotiations – deep differences between the US and large developing countries such as China, Brazil, and India over the depth of tariff and subsidy cuts – appears unchanged, to go by US Ambassador Michael Punke's comments to journalists last week.

"The central question of whether or not we'll succeed in Doha remains the question of whether the emerging economies are prepared to accept the responsibility that goes along with their position in the global economy," he said, by which he meant greater market-opening. "If they're prepared to accept that responsibility, we'll have a successful outcome. If they're not prepared to accept that responsibility, we won't."

China, India, and Brazil have consistently rejected US demands for greater access to their markets as unrealistic and out of proportion to what rich nations are being asked to do in terms of cutting tariffs and farm subsidies. Officials from the three countries disagree with the US's "fundamental belief," reiterated by Punke, that the terms currently being contemplated in the Doha Round talks are "imbalanced against" the US.

Unusually, Punke singled out countries for individual criticism. The US was "somewhat disappointed" with what it had heard from China at a meeting in December," seeing at best "a big of a glimmer of hope" when Chinese Commerce Minister Chen Deming said that he would consider some proposals for slashing tariffs across entire industrial sectors (although he did not specify which). Punke criticised Brazil for not having signed on to the Information Technology Agreement, which requires signatories to eliminate tariffs on a wide range of high-technology products, and referred to recent tariff increases by Brasilia as a "stick in the eye of Brazil's trading partners." India, for its part, was sending "conflicting signals."

One long-time observer of WTO negotiations suggested that Punke's harsher tone could potentially be a signal that real negotiations are taking place, and that Washington is "playing hardball," seeking to maximise what it can get in return for concessions it is still prepared to make.

The US ambassador did acknowledge that the upcoming negotiations would be "a process of give and take." On the other hand, the US may simply be jockeying for position to avoid being blamed if the talks cannot be revived in any meaningful way.

Trade featured high on the agenda as Chinese President Hu Jintao travelled to Washington for a state visit this week. In a joint statement on Wednesday, Hu and US President Barack Obama "emphasised their strong commitment to direct their negotiators to engage in across-the-board negotiations to promptly bring the WTO Doha Development Round to a successful, ambitious, comprehensive, and balanced conclusion, consistent with the mandate of the Doha Development Round and built on the progress already achieved." However, the statement, posted on the Chinese foreign affairs ministry's website, echoed pro forma language in past declarations from the Group of 20 leading economies, of which the US and China are members, and offered no new indications of whether the two countries intended to soften their stance in the WTO negotiations.

Trade relations between the world's two largest national economies have been troubled in recent months. Prior to Hu's arrival in Washington, a group of senators reintroduced legislation targeting China for alleged currency manipulation, a charge that Chinese officials have denied. Obama, too, urged China to revalue the yuan. Hu did, however, make conciliatory noises on government procurement, and the Obama administration announced that China had struck trade and investment deals with US companies worth some \$45 billion.

Underlining how exchange rate tensions could become yet another roadblock in the Doha Round negotiations, Brazilian Finance Minister Guido Mantega earlier this month criticised both the US and China for currency policies favouring undervaluation, warning that the "currency war" that he identified last year now risked becoming a full-fledged "trade war." In an interview with the Financial Times, Mantega said that the US's ultra-loose monetary policy had reversed its trade balance with Brazil, and that China's "undervalued currency" was also distorting trade and investment

flows. The Brazilian real has appreciated considerably against the dollar and many other major currencies over the past two years, putting pressure on Brazilian exporters of manufactured goods.

Roberto Azevedo, Brazil's ambassador to the WTO, told members of the global trade body late last year that the appreciation of the real meant that conditions as "we approach the Doha Round end-game are significantly different from those prevailing when key tradeoffs were made." He argued that the real's appreciation had "wiped out" much of the protection afforded by Brazil's tariffs to its manufacturing sector. Rebuking the US's demands for greater access to the Brazilian market, he noted that Brazil's imports from the US had grown by 51 percent from 2006 to 2010. "To request further unilateral disarmament in tariffs is unreasonable, illogical, and unrealistic," he said at the time, underlining once more the depth of the differences WTO members will need to overcome if they are to strike an agreement in the Doha Round.

ICTSD reporting. "Trade war looming, warns Brazil," FINANCIAL TIMES, 9 January 2011; "Obama hosts Hu Jintao on state visit, presses China on human rights," WASHINGTON POST (website), 19 January 2011.

## OTHER NEWS

### US Commerce Department Contemplates Limits on 'Zeroing', In Bid to Ease Trade Tensions

Late last month, the US Department of Commerce submitted a proposal to limit its use of the controversial practice of 'zeroing' when calculating antidumping margins, in an effort to stave off retaliation by the European Union, Japan, and other trading partners.

Zeroing continues to be a major irritant in trade relations between the US and some of its most important trading partners, including the European Union, Japan and Mexico. Despite a large number of WTO rulings against the practice,

Washington is yet to bring its anti-dumping laws into compliance. Instead, the US continues to defend the practice as justified under WTO rules, and in the Doha Round negotiations on rules, has been pushing for an explicit legalisation of the methodology. The Department of Commerce proposal could potentially be a first step towards compliance.

WTO rules allow governments to levy extra duties against countries that export a product at a price lower than that charged in its home market, if the 'dumped' product is found to be causing, or threatening to cause, material injury to the competing domestic industry. Zeroing is a methodology for calculating these 'antidumping' duties.

Under the practice of zeroing, the US ignores certain data when calculating antidumping duties. Specifically, it 'zeroes out', or ignores, instances where the good in question is actually being sold at a higher price in the US than in its home market. For instance, if the US imports widgets from Japan, and US commerce authorities are looking at three cases -- widget one, which sells for \$100 in the US market and \$150 in Japan; widget two, which sells for \$75 in the US and \$100 in Japan; and widget three, which sells for \$175 in the US and \$100 in Japan -- the average dumping margin would ordinarily work out to zero, with the higher-priced third widget negating the effects of the other two. However, by setting the third value to zero, the US ignores the negative margin and the result is a total dumping margin of \$75, which would then serve as the basis for the US' calculation of antidumping duties to impose. US trading partners complain that the methodology artificially inflates US antidumping margins and duties.

This is not the first time that the US commerce department has moved to limit the use of zeroing. In 2007, it forbade the use of zeroing in original investigations of dumping margins (investigations to determine if dumping is occurring). However, it continued to allow the practice under so-called 'administrative reviews' of anti-dumping duties already in place. This effectively enables the US to increase antidumping duties by returning to cases where dumping has been established and use zeroing to evaluate dumping that has taken place since the first investigations, potentially increasing

antidumping duties. This has given rise to further trade disputes.

On December 28, the commerce department proposed extending the ban on zeroing to administrative reviews, partially including the 'sunset reviews' intended to determine whether antidumping duties can be phased out -- after five years -- without likely leading to renewed dumping. It also addresses cases of antidumping duties that were introduced before 2007 and continue to be applied. However, the proposal stops short of providing for damages or other kinds of compensation. The proposal, which is in the Federal Registry and publicly available, remains open to comment until 27 January, with a final decision to be issued later. It is likely that the proposal will be altered substantially during this process.

Officials from the US and the EU have treaded lightly when speaking about the new proposal, with Brussels remaining sceptical about full US compliance while Washington remains committed to zeroing in the Doha Round negotiations.

John Clancy, EU trade spokesman, said the proposal was "a step in the right direction," but that the EU remained uncertain whether the plan would bring the US into full compliance with WTO rulings. "We note at this stage the proposal will apply to future cases, and does not appear to deal with the issue of excess duties levied against a large number of EU firms because of zeroing since 2007," he said.

Earlier this month, the Financial Times quoted Sander Levin (Democrat-Michigan), the top Democrat on the House of Representatives' powerful Ways and Means Committee, which has jurisdiction over important aspects of US trade policy, as noting that the commerce department was "proposing compliance with WTO rulings that the United States has previously criticised in the strongest terms."

A spokeswoman for the US Trade Representative's office acknowledged the importance of complying with WTO rulings, but denied a change in the US stance on zeroing in the Doha Round negotiations. "Our decision to come into compliance with the WTO rulings in no way signals a change in the US position in the Doha

rules negotiations with regard to zeroing," she told Bridges. "The United States considers that the Uruguay Round Antidumping Agreement permitted zeroing, and we will work hard to reaffirm the ability to use this practice through the negotiations."

The EU and Japan have postponed seeking retaliation through the WTO while the US devises a plan for compliance with zeroing-related dispute rulings. The EU remains uncertain as to whether the plan would bring US into full compliance with WTO rulings.

### **The significance of zeroing**

In light of the recent recession, many countries have increased their use of antidumping measures, although this increase has not been high by historical standards. Zeroing is significant because it can mean the difference between a finding of no dumping and a positive dumping margin that results in an antidumping duty. In practice, exporters may find themselves getting taxed in instances where they would have avoided extra charges had zeroing not been used.

Zeroing has been the subject of frequent challenges at the WTO, most often resulting in a finding against the practice. Since 1998, over 20 disputes have involved zeroing and there have been at least 22 separate decisions finding the practice of zeroing to be inconsistent with the Anti-Dumping Agreement. Most recently, a WTO panel backed South Korea on Tuesday in its challenge of the US zeroing practice.

The EU has had a persistent interest in zeroing, not least because it used to employ the practice itself, until losing to India in 1998 in the EC-Bed Linen case (DS141). Since amending its own antidumping practices, the EU has brought several cases against the US on zeroing and participated as a third party in many more. In a recent arbitration to determine the amount of retaliatory sanctions Brussels could levy against the US, the EU estimated its losses resulting from the practice at over \$300 million annually.

ICTSD reporting. "US moves to defuse trade dispute," FINANCIAL TIMES, 5 January 2011; "US proposed changes to comply with WTO

rulings,” WALL STREET JOURNAL, 4 January 2011; “US continues fight to preserve zeroing in Doha despite new proposal,” INSIDE US TRADE, 7 January 2011; “US Antidumping: much ado about zeroing,” WORLD BANK POLICY RESEARCH WORKING PAPER, June 2010.

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## WTO Environmental Goods Talks Find Way Forward

Following years of stalemate, WTO talks on freeing up trade in environmental goods and services (EGS) took some small steps forward last week, as negotiators agreed on a process for proceeding with the negotiations.

Delegates agreed to break up into smaller negotiating groups to discuss details of a deal on trade in environmental goods and moved into drafting mode, reported sources familiar with last week’s discussions in the Committee on Trade and Environment special (negotiating) session (CTE-SS).

During last November’s meeting of the committee, many delegates had stressed the need to address ‘cross-cutting’ issues such as non-tariff barriers (NTBs), special and differential treatment for developing countries, and technology transfer. Others, however, were in favour of moving forward into more technical discussions on the basis of identified environmental goods. Despite the lack of agreement on how negotiations should proceed, most members had agreed last year on the need to accelerate the negotiations.

Although last week’s meeting made little in the way of substantive progress, it set out parameters for intensive consultations on EGS in the coming months. Modalities of treatment, flexibilities and S&DT to support the development of green industries, and the central but still-unresolved issue of identifying ‘environmental’ goods (with issues such as multiple use goods, the need for accuracy of HS classification and description, clear ex-outs and the clarification of the environmental rationale for the goods) will all be on the table.

In terms of the identification of products, members are now set to organise technical

discussions on a number of environmental goods of interest proposed by the mostly developed country ‘Friends of Environmental Goods’ group. They will also examine a selection of categories based on a new WTO secretariat compilation that divides environmental goods among those for air pollution control, carbon capture and storage, waste management and water treatment, environmental technologies, renewable energies, and ‘others’. In small groups, members are to start testing the environmental merits, development and flexibility issues, applied tariffs and bound tariffs for some products contained in the first three categories.

With members still undecided on how to decide which products should qualify for an extra measure of liberalisation under the Doha mandate for trade in environmental goods, several countries will examine, as potential way forward, the possibility of a hybrid approach combining aspects of the different methods that have been proposed thus far. A list of products would be coupled with project-specific liberalisation for goods that may not have qualified for the list but are being used in an environmental project (for instance under the Clean Development Mechanism). This could be complemented by a request and offer process for products where there is no common agreement.

As for non-tariff barriers, sources say that a lot of work is still required, since members’ submissions on NTBs related to environmental goods have thus far been quite general, simply indicating sectors (e.g. organic agriculture, carbon capture and storage) where there could be potential NTBs instead of identifying measures with any real degree of specificity. Many members expressed support for Mauritius’s idea to include NTBs in the category-by-category exercise.

If the talks on environmental goods have been at a stalemate, those on the identical mandate for liberalising trade in environmental services have simply been neglected. Three ideas on potential ways to move ahead were proposed last week: one, reaching an “understanding” that members will seek to enhance commitments on other services related to environmental services and/or goods and the implementation of environmental projects such as CDM projects; two, pursuing a



"package" of environmental goods and services, whereby enhanced market-opening commitments are undertaken on those services related to environmental goods for which trade has been liberalized; and three, a "hybrid" approach that would see members undertake enhanced commitments on a core group of environmental and other services and then negotiate on enhanced commitments in a request-offer process.

Another issue emphasised last week was the importance of technical assistance and capacity building. Key questions include how to facilitate the acquisition of environmental technologies and the identification of EGS export opportunities for developing countries. In terms of special and differential treatment, members will need to work out the difference in treatment, coverage, and implementation schedule for developed and developing countries.

The next open-ended informal meeting of the CTE-SS will be in mid-February.

ICTSD reporting.

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## FAO and USDA Warn of New Surge in Global Food Prices

Global food prices have inched past records set at the height of a commodity price boom in 2008. This time -- at least so far -- products like sugar and oilseeds are leading the charge, with prices for the cereals such as rice that are staple foods of the poor still below peak levels. Lowered projected harvests and stocks are to blame, according to independent reports from the US Department of Agriculture and the UN Food and Agriculture Organization.

The FAO's Food Price Index, which tracks a basket of key commodities, rose last month to 215 points, surpassing the June 2008 record of 213 points. According to the organisation, the "global food system is becoming more vulnerable and susceptible to episodes of extreme price volatility." It blamed the financialisation of food commodities, extreme weather events, links between food and energy, and more tightly integrated markets for the vulnerability. Although prices for nearly all food commodities have risen,

the sharpest increases were concentrated in sugar and vegetable oil.

Sugar prices, according to the index, are the highest they have been in over twenty years, following a smaller-than-expected crop in Brazil and flooding in Australia. Prices for the sweetener have been volatile this month, with many traders awaiting announcements from the Indian government on how much it will make available for export.

### Poor Harvests and Limited Stocks

Key staples may yet see further price increases, with the FAO and others reporting bleak prospects for this year's crops in several large agricultural exporters. La Niña, a weather phenomenon originating in the Pacific Ocean, has given Argentina unusually dry weather, leading to smaller than usual outputs of soybeans and corn. The heavy rains in Australia have affected the wheat crop in addition to sugar. Dryness in the US is affecting corn and wheat production.

Even smaller producers are facing challenges at meeting the demands of domestic markets. Excessive rain interrupted the rice harvest in Madagascar, while drought hit farm production in Russia and Central America.

Global cereal production is projected to be lower in 2011 than the previous three years. Developing country producers are expected to make up some of the shortfall in developed countries. Rice, among cereals, has the best stock-to-use ratio - production is expected to be the highest since 2007. Although wheat stocks are higher than 2007 levels, the FAO projects that it is the cereal most likely to be affected by changes in production.

### Inflation

The rise in food prices has contributed to inflationary pressures in some major economies. New Delhi and Beijing have moved to ease the pressure on price-sensitive consumers by lowering import barriers on some goods while restricting exports of others.

Indian government reports show food inflation easing. However, soaring prices for some goods,

such as onions, an important and politically-sensitive food, have led the government to clamp down on hoarders, ban exports and open its borders to Pakistani imports.

China is also struggling with growing demand for products such as vegetable oil. Although the Chinese government had been taking steps in 2010 to ward off inflation, by lowering transportation fees on the movement of food, it continues to struggle to keep prices in check.

Although food prices are a much smaller part of household spending in rich countries, the European Central Bank has also expressed concern over food-led inflation.

### Debate

In response to the high prices, and related riots in places such as Algeria, Robert Zoellick, a former US trade representative and current president of the World Bank, has urged governments to prioritise tackling food security at the upcoming meeting in Washington of the Group of leading 20 economies. Zoellick wrote in the Financial Times arguing for the merits of free markets in ensuring food for everyone, calling on donor governments to rein in export restrictions on humanitarian grounds, provide better information on stocks and weather, and provide food to those most at risk.

Others, such as Duncan Green of Oxfam and Raj Patel of Food First, have stressed the unique ability of governments to stabilise prices, incentivise food production, and provide food safety nets. Green criticised Zoellick for failing to call for land reform in favour of the rural poor, increased support for agricultural extension services, and a reversal of government policies that benefit large farms at the expense of smaller ones. Patel argues that the Indian government should spend more to provide public safety nets, but is not doing so because of undue fears of inflation.

The current FAO warnings contrast starkly with its statements in 2010, when the organisation tried to soothe fears that a crisis was in the offing.

FAO officials such as Assistant-Director General

Hafez Ghanem, have written about the need to conclude the Doha Round and to reform developed country agricultural policies. He argued that “agricultural subsidies in rich countries limit agricultural growth in developing countries,” while export restrictions raised prices for the world’s poorest people.

Rising prices will lead some producers to benefit and others to suffer due to the complex interplay between what farmers grow, buy and sell. Shortages of critical crops will continue to pose difficult decisions for policymakers.

ICTSD reporting. “Price volatility in agricultural markets evidence, impact on food security and policy responses”, UN FOOD AND AGRICULTURE ORGANIZATION, January 2011; “Algeria: 2 killed in riots over rising food prices”, ASSOCIATED PRESS, January 11 2011; “Free markets can still feed the world,” FINANCIAL TIMES, January 5 2011; “Food prices: exports regulated, action against hoarders”, INDO ASIAN NEWS SERVICE, January 13 2011; “Argentina’s dry spell trims harvest”, FINANCIAL TIMES, January 16 2011; “How to stop the rise in food price volatility”, „CARNEGIE ENDOWMENT INTERNATIONAL ECONOMIC BULLETIN, January 13 2011; “World agricultural supply and demand estimates”, UNITED STATES DEPARTMENT OF AGRICULTURE, January 12 2011.

## IN BRIEF

### Japan Exploring Participation in Trans-Pacific Partnership Talks

Japan has been considering whether to join negotiations on a prospective multi-country trade deal involving several Pacific Rim nations including the US and Australia. But US officials warned their Japanese counterparts last week that Tokyo would have to be prepared to make substantial market-opening commitments – presumably covering the country’s heavily protected agriculture sector – if it wants to be part



of an eventual Trans-Pacific Partnership agreement (TPP), reports Kyodo news.

Though it has been wary of joining a regional pact involving far-reaching liberalisation commitments, Japan is keen to link its own sluggish economy to faster growing countries in the region, and has been exploring the possibility of joining the TPP talks with countries such as Australia, New Zealand and Singapore. If Japan were to join the TPP, it would be in the face of heavy opposition from its domestic farm sector. There may also be ramifications for its trade relationship with China, Korea, and Southeast Asia: the Asahi Shimbun newspaper recently quoted a top official from a think tank affiliated with the Chinese government as saying that Japanese participation in the TPP process may cause Beijing to reconsider its pursuit of a free trade deal encompassing China, Korea, Japan and the Asean bloc.

The TPP negotiations have their origins in a 2005 trade agreement involving New Zealand, Chile, Singapore, and Brunei Darussalam. The expanded group of countries participating in the current talks include the US, Australia, Peru, Vietnam and Malaysia. In order to join the talks, Japan would require the consent of all participating countries.

Five round of TPP negotiations are scheduled for this year. The last round, from 6-10 December in Auckland, New Zealand, saw progress across the spectrum of the negotiations, including on setting the stage for increased regulatory compatibility.

The next round of negotiations will take place in Santiago, Chile next month.

ICTSD reporting; "US warns Japan of high goals for Pacific FTA," KYODO NEWS, 17 January 2011; "Joining TPP could have China fallout," ASAHI SHIMBUN, 14 January 2011.

WTO members are moving forward with fleshing out a proposed 'monitoring mechanism' that would review the functioning of provisions in multilateral trade rules for 'special and differential treatment' (S&DT) in favour of developing countries.

At a 13 January meeting of the Committee on Trade and Development in special (negotiating) session (CTD-SS), members mostly expressed support for proceeding on the basis of the chair's recently revised informal 'non-paper' describing the scope, structure, and functions of the monitoring mechanism. Delegations with reservations about the document said that they would discuss them in greater detail during upcoming small-group sessions. Talks are set to continue on 21 January, at an informal meeting open to any member that wishes to attend, sources report.

Negotiations on the mechanism date back to a July 2002 decision by the WTO's top permanent decision-making body, the General Council, endorsing the African Group's proposal for such a mechanism and directing the CTD-SS to establish terms for how it would work. However, the talks languished for years as the monitoring mechanism was linked to calls by some developed countries' for 'differentiation' among non-LDC developing countries, an explosive issue in WTO politics.

More recently, the main bone of contention in the discussions on the monitoring mechanism has been how best to balance developed countries' fear of creating permanent negotiating forum and developing countries' desire for something more than a simple transparency exercise. The most recent revision of the chair's non-paper, dated 16 December, specifies that while the monitoring mechanism "is not a negotiating body," it may make "recommendations or proposals for opening negotiations as applicable in other WTO bodies." It adds that monitoring, which would take place under dedicated sessions of the CTD, "shall complement, not replace, other relevant review mechanisms" in other WTO bodies. The CTD-DS will be able to "propose actions, including to the General Council, that strengthen and improve the implementation of the reviewed S&D provisions."

## WTO IN BRIEF

### Members Moving Forward on S&DT Monitoring Mechanism

Sources report that the US expressed the view that it was not clear how the effectiveness of S&DT provisions would be measured. It also sought clarification of how the monitoring mechanism would relate to technical bodies such as the Committee on Sanitary and Phytosanitary Measures, or the Committee on Technical Barriers to Trade. The US believes these technical bodies should be referred to in the monitoring mechanism's mandate.

Argentina praised the revised 'non-paper', saying that it would help members come up with a mechanism that would reflect the spirit of the Doha mandate to review all S&DT provisions with a view to making them "more precise, effective, and operational." India was less enthusiastic, suggesting that the draft still had some shortcomings.

The chair appealed to all delegates to negotiate with an open mind. He will continue consultations on the issue on Friday.

ICTSD reporting.

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## US Launches WTO Dispute Against Chinese Wind Power Fund

The US last month initiated dispute proceedings against China at the WTO, alleging that Beijing's special fund for wind power manufacturing is an illegal subsidy under international trade law.

Trade tensions between the two countries have heated up in recent months, as Washington's request for consultations, dated 22 December, represents the second time in less than four months that it has accused China of violating WTO rules. The Obama administration has also been increasingly concerned that US companies risk falling behind their Chinese counterparts in the area of clean energy.

Beijing insists its policies are both within the bounds of WTO rules and good for the environment. The Chinese commerce ministry said in a statement on its website that it "will conscientiously study the US request for

consultations, and will deal with this in accordance with WTO dispute settlement rules."

The US claims the special Chinese government fund awarding grants to wind power makers is illegal under WTO rules because it seems to benefit manufacturers using parts made in China. Washington argues that Beijing's grants are inconsistent with WTO rules because they appear to award funds based on the use of domestic over imported goods, a violation of Article 3 of the SCM Agreement. The US has also taken issue with China's failure to notify the WTO of these measures. Moreover, the US alleges China has violated the commitments it made when acceding to the WTO by not making available translations of the domestic legislation regarding the grant program in English, French, or Spanish (the official languages of the WTO).

"Import substitution subsidies are particularly harmful and inherently trade distorting, which is why they are expressly prohibited under WTO rules, said Ron Kirk, the United States trade representative. "These subsidies effectively operate as a barrier to US exports to China. Opening markets by removing barriers to our exports is a core element of the president's strategy."

According to Kirk's office, total subsidies under the Chinese program, which began in 2008, could amount to several hundred million dollars. The case originated in Mr. Kirk's office in response to complaints by the United Steelworkers Union (USW). The USW complaint included allegations that China employs a wide range of policies to protect its domestic producers of wind and solar energy equipment, advanced lithium batteries and energy-efficient vehicles, among other products. The US trade office, however, has only filed complaints at the WTO with respect to wind power, and has yet to make a determination on the solar power aspects of the union's complaint.

Requesting consultations is the first step in the Dispute Settlement process at the WTO. If the US and China fail to reach a solution in 60 days, the US can request the creation of a panel to hear the case.

President Obama is expected to raise the issue with China's President Hu Jintao at a summit meeting in Washington on 19 January.

ICTSD reporting. "Beijing moves to defuse trade row with US over green technology," THE GUARDIAN, 24 December 2010; "US says China fund breaks rules," NEW YORK TIMES, 22 December 2010.

## EVENTS & RESOURCES

### Events

#### Coming soon

20 January, Paris. ECONOMIC DEVELOPMENTS AND FUTURE CHALLENGES IN SOUTHEAST ASIA. This open conference on the economic developments and future challenges in Southeast Asia is being hosted by the IFRI Centre for Asian Studies and the OECD Centre for Co-operation with Non-Members to mark the release of the OECD's Southeast Asian Economic Outlook 2010. More information can be found on the [website](#).

24 January, Paris. ECONOMIC FORUM ON LATIN AMERICA AND THE CARIBBEAN. This forum is organised by the OECD Development Centre, the Inter-American Development Bank and the French ministry of Economy, Industry and Employment. Further information can be found [here](#).

24 January - 4 February, New York. NINTH SESSION OF THE UN FORUM ON FORESTS (UNFF 9). The theme for UNFF 9 is forests for people, livelihoods and poverty eradication. UNFF 9 is also expected to complete consideration of the means of implementation for sustainable forest management. For further information, please refer to the UN [website](#).

25-28 January, London. UNITED NATIONS GLOBAL CONFERENCE AT THE HIGHEST LEVEL. This conference aims to measure the World Financial and Economic Crisis and its impact on development. Further information can be found [here](#).

26-30<sup>th</sup> January, Davos, Switzerland. WORLD ECONOMIC FORUM ANNUAL MEETING 2011. This annual meeting of world leaders in industry, government, academia, civil society, and media aims to provide a re-thinking of the WEF systems and explore strategies and solutions that have positive transformational implications. Particular emphasis for 2011 will be placed on addressing the question of "How," going beyond analysis and elaborating innovative ideas and solutions to key global challenges. More information can be found on the [WEF website](#).

27-28 January, London. ILLEGAL LOGGING UPDATE AND STAKEHOLDER CONSULTATION. This meeting, organized by Chatham House, will provide an update on efforts from around the world to improve forest governance and reduce illegal logging. Topics to be considered include recent EU and US legislation to tackle the trade in illegal timber, and efforts to improve forest management and control in producer countries. The links between these initiatives and those being developed in order to reduce deforestation as part of climate change mitigation efforts will also be considered. For more information, visit the event [website](#).

31 January – 1 February, Geneva. GLOBAL COMMODITIES FORUM 2011 (GCF 2011). This is a multi-stakeholder UNCTAD meeting that will discuss and find better solutions to perennial problems of the commodity economy. A detailed outline of the meeting can be found on the [website](#).

#### WTO events

An updated list of forthcoming WTO meetings is posted at: [http://www.wto.org/meets\\_public/meets\\_e.pdf](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.

18-20 January: Trade Policy Review Body - Jamaica.

25 January: Dispute Settlement Body.

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## Resources

GLOBAL TRADE IMBALANCES: WHICH IS THE CORRECT EXCHANGE-RATE INDICATOR? Policy brief No. 19 by UNCTAD. January 2011. This brief outlines UNCTAD's recommendation to the G-20 leaders to use the Real Effective Exchange Rate (REER) as a practical and effective indicator to differentiate between sustainable and unsustainable trade imbalances. Continually, the paper argues that a REER based on unit labour costs is better suited to grasp changes in competitiveness than one based on consumer price inflation. The policy brief can be reviewed [here](#).

SOUTH AFRICA'S WAY AHEAD: SHALL WE SAMBA? Paper published by the Trade Law Centre for Southern Africa (2010). This publication examines the trading implications of extending the current preferential trading agreement between the Southern African Custom Union and MERCOSUR to a full free trade agreement. The document can be found [here](#).

GOOD DEAL BAD DEAL: "ILLEGAL TRADE IN NATURAL RESOURCES" Conference report published by the Institute for Environmental Security (November 2010). This report covers the conclusions of the IES Conference on illegal trading in natural resources finding that in conflict-ridden countries and countries plagued by weak governance, the governments are incapable of controlling criminally exploited domestic resources. The report discusses the EU's potential role in reforming global commerce by prioritizing the effort to create trade where there is now theft. For the complete text, please consult the [website](#).

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