



# Bridges Weekly Trade News Digest

*Weekly trade news from a sustainable development perspective*

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## LEAD STORIES

### Doha “Plan B” Hits Early Roadblock

WTO members have agreed to try to strike deals this year on certain issues within the long-running Doha Round of global trade talks, while postponing attempts for a comprehensive multilateral accord. The challenge for them now is to identify what might become part of a so-called ‘early harvest’ (if the term can be used nearly seven years after the talks were first scheduled to conclude).

Some trade officials in Geneva have suggested that securing agreement among the WTO’s 153 members on which issues to pull out of the Doha agenda might prove nearly as hard as reaching the broad accord that has eluded them for nearly a decade.

It is already proving complicated. On Tuesday afternoon, WTO Director-General Pascal Lamy postponed a meeting of the Doha Round’s supervisory Trade Negotiations Committee (TNC) that had been scheduled for 9 June, after his consultations with member governments determined that they were not yet in a position to provide the hoped-for direction on how to proceed. No new date was announced.

Governments are aiming to reach the issue-specific deals in time for the WTO’s ministerial conference in mid-December, allowing themselves about five months, given the global trade body’s August holiday.

In his remarks to a TNC meeting last week, Lamy pointed to the limited time available, urging members to refrain from seeking a “Christmas tree” of multiple issues for a December early harvest. On the basis of consultations with members, he suggested that top priority be given

to a package of issues for least-developed countries (LDCs): duty- and quota-free access for their products, improved rules of origin, a waiver allowing countries to discriminate in favour of LDC services exports, and “a step forward” on cotton. At the other end of the spectrum, he suggested that market access in industrial goods, agriculture and services, trade remedies, and intellectual property issues be placed in a “slow lane,” since agreement did not seem possible this year.

Considerably more hazy was the content of a ‘middle lane’ of potential candidates for inclusion in a December package so that it goes beyond LDC-specific issues. Lamy left the matter to members’ “ongoing deliberative process,” saying only that they would need an “LDC-plus outcome with a significant development component by December.”

### **Controversy over composition of “LDC-plus” package**

During last week’s meeting of the Trade Negotiations Committee, the content of a prospective LDC-plus package was the subject of considerable disagreement, with members disputing each others’ views on which issues are mature for an agreement (see Bridges Weekly, [1 June 2011](#)).

For instance, the US argued that new rules limiting government support to the fisheries sector were ready for inclusion in a December package, but Japan and Korea, which have resisted strong disciplines on fisheries subsidies, disagreed. Other topics put on the table for December included trade facilitation, updating provisions on special and differential treatment for developing countries, agricultural export support, provisions on regional trade agreements or liberalised trade in environmental goods and services.

Many negotiators have cautioned that overloading the agenda for December would damage prospects for any sort of deal.

Asked this week by Bridges about how a December LDC-plus package might look, one delegate sighed, “if only one knew.”

In the agriculture negotiations, the official said, it ought to be possible to include disciplines on export competition, not least because the phase-out of export subsidies is in line with the EU’s ongoing reform of its Common Agricultural Policy. The Cairns Group and the agricultural G-20 (the developing country alliance in the Doha Round negotiations, not to be confused with the group of 20 leading rich and developing economies) have pushed for their inclusion. But it remains unclear as to whether export subsidies would figure in a December package, sources say, primarily because of political perceptions regarding the balance of concessions being made.

### **Despite assurances, negotiating mandate remains at risk**

One of the thorny issues confronting WTO members as they explore the shape of a potential ‘Plan B’ for the Doha Round – ‘Plan A’, a comprehensive agreement, being beyond reach for the moment – is how a December early harvest would relate to what’s left of the negotiating mandate.

Lamy said last week that “nobody wants to drop the Doha mandate” and “nobody wants to break the single undertaking,” the notion that nothing in the WTO negotiations is agreed until everything is. He noted that the Doha mandate provided for those early agreements reached before the final conclusion of negotiations to be “implemented on a provisional or a definitive basis.” ([Doha Declaration, Paragraph 47](#))

Nevertheless, one trade negotiator told Bridges, the determination of which issues could be part of a December package cannot happen in isolation from the level of ambition for a potential agreement, as well as a work programme for outstanding issues in the Doha Round.

Another trade diplomat expressed concern that an ‘LDC-plus’ package might turn out to be the only product of the negotiations. This would mean that agricultural subsidies and tariffs, which only came under the scope of global trade rules in the previous Uruguay Round of trade negotiations, would escape meaningful discipline yet again.

Sources report that Lamy is continuing to consult with members to find a way forward.

ICTSD reporting.

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## US Proclaims Victory in Wind Power Case; China Ends Challenged Subsidies

*Updated on 9 June to include quotes from China Mission.*

The United States Trade Representative (USTR) Ron Kirk announced yesterday that China has ended a controversial public fund for wind power manufacturing. The subsidies were the subject of a formal WTO dispute between the US and China that commenced late last year.

The disputed fund provided grants to those Chinese wind turbine manufacturers that used locally-produced input rather than foreign imports. According to USTR Individual grants had ranged from US \$6 to 22 million, with several hundred million dollars being spent since the inception of the programme in 2008.

Washington had argued that Beijing's grants were prohibited, as grants were given conditional on the use of local input. This requirement would be in violation of Article 3.1(b) of the Subsidies and Countervailing Measures (SCM) Agreement. The US had also taken issue with China's failure to notify the WTO of these measures.

Moreover, Washington alleged that Beijing had 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 - i.e. the official languages of the global trading body.

"The United States is pleased that China has shut down this subsidy program. Subsidies requiring the use of local content are particularly harmful and are expressly prohibited under WTO rules. This outcome helps ensure fairness for American clean technology innovators and workers," Kirk said.

In a statement released on 9 June, the Permanent Mission of China to the WTO rejected that

version: "China noticed that the US had misunderstandings on the measure at issue, and has made clarifications in the consultations for this dispute. The aim of the measure at issue is to enhance investments on research and development in wind power technology, but not to use domestic goods instead of imported goods," the statement read.

Already in February this year China had decided to formally revoke the legal measure that had created the programme that is known as the Special Fund for Wind Power Equipment Manufacturing. "From 2010, China has terminated the implementation of the program. In order to remove some WTO members' doubt, China announced publicly that the measure at issue was an invalid document in February 2011," the Chinese Mission explained today. While the decision was communicated to the US, it was not part of a formal agreement regarding the dispute between the two parties. At the WTO it is common practice that parties enter into mutually agreed solutions that are then announced to the global trade body, marking a formal end to the dispute.

The announcement by USTR, however, indicates that the US considers the revocation a major victory. "This is the third successful WTO challenge that the United States had brought against Chinese government subsidies. In each of these cases, following formal consultations at the WTO, China agreed to eliminate the subsidies that the United States had challenged," the USTR claimed.

Also the US industry applauded the decision as "one less distortion in the marketplace for clean energy technology products." "With this first green technology issue behind us, we encourage the Administration to continue to work to level the playing field for clean technology companies and American workers to grow sustained employment and good job opportunities," Leo Gerard, president of the United Steelworkers union (USW), commented in a statement. USW had initiated the dispute by submitting a petition to USTR calling for action against Chinese green energy subsidies.

## **Subsidies simply no longer needed, Chinese industry suggests**

While US officials appear ecstatic, Chinese wind energy firms seem less impressed. “It is understandable that the Chinese government is ending subsidies to an industry that is strong enough to compete with international players,” Shi Pengfei, vice-president of the China Wind Energy Association, told China Daily.

Indeed, the success of the Chinese wind power industry is no longer dependent on the support measures. The wind energy industry in China has grown rapidly over the last decade, with local production support measures being equally successful. While in 2004 82 percent of all wind power equipment installed in China was imported, in 2010 Chinese-made equipment accounted for almost 90percent of new installations. Meanwhile, in 2010 China overtook the US as the country with the greatest installed wind power capacity.

This rapid growth, coupled with support programmes, allowed the major manufacturers to accumulate technology and investment while overcoming challenges in the production of megawatt-level and offshore wind turbines. Chinese wind power manufacturers are now among the top global leaders with increasingly globalised supply chains.

At the same time, observers fear overproduction and shortcomings in connecting wind power plants to the electricity net; these concerns increase the pressure for Chinese manufacturers to invest and export abroad. Domestic content requirements could hamper such efforts, observers caution.

This reasoning might be the real motivation for China to end its special fund. “The cancellation of the subsidies should not be interpreted as a shift in the policy to support the green industry,” commented Zou Ji, China Director at the World Resources Institute.

Vice Minister of Finance Li Yong endorsed China’s commitment to supporting its green industry only two weeks ago. Li announced that China would increasingly make use of interest-rate

subsidies to the renewable-energy and high-technology material sectors.

## **The green side of the dispute**

The dispute had found itself at the centre of international attention since its beginning, given that it was one of the first ‘green technology’ disputes brought to the WTO. Had it proceeded further within the WTO system, it could have been one of the first opportunities for the WTO to take position in the climate protection versus trade discussion.

Early on in the discussions, Beijing’s Commerce Ministry had insisted that the fund was consistent with China’s WTO obligations. “Every country in the world is seeking to develop renewable energy to cope with climate change,” they said in a statement this January. “China’s wind power measures are helping save energy and protect the environment” (see Bridges Trade BioRes Review, [April 2011](#)).

Beijing’s position got prominent support when Robert Howse, Professor at New York University Law School, suggested in March that “China has good grounds, environmental grounds, for wanting to ensure its security of a domestic supply of alternative energy technologies in the future. [Thus] there might be a plausible argument [for domestic content requirements], which is that China’s demand for clean energy is so enormous that it would be irresponsible for China not to take measures to ensure it has an adequate domestic industry in this area.”

The China case did not proceed for long enough to test the WTO on this. However, with increasing global green technology support and harsh competition in the sector, more cases are likely to follow.

ICTSD reporting; “China to halt wind turbine subsidies,” CHINA DAILY, 8 June 2011; “China to Promote Renewable Energy Through Subsidies,” THE WALL STREET JOURNAL, 20 May 2011; “China’s Promotion of the Renewable Electric Power Equipment Industry,” NATIONAL FOREIGN TRADE COUNCIL, March 2010.

## OTHER NEWS

### Heated US Spending Battle Puts Brazil Cotton Deal at Risk

The wrangling over US spending cuts has put the spotlight on Washington's federal farm subsidy programme, which has been a source of ongoing contention both domestically and abroad. Last week's meetings of the US House Appropriations Committee, which is tasked with allocating government expenditures, saw three cotton-related amendments to the Agriculture Appropriations bill for fiscal year 2012 pass by voice votes.

Representative Rosa DeLauro, a Democrat, sponsored an amendment that would shift the US\$ 147.3 million being provided to Brazil Cotton Institute to the Women, Infants and Children (WIC) public nutrition programme for 2012.

The Brazil Cotton Institute, which acts a technical fund for Brazilian farmers, was one of the conditions of the US-Brazil Framework Agreement that was finalised last year (see Bridges Weekly, 23 June 2010). The agreement put a temporary hold on Brazil's plans to impose WTO-authorized trade sanctions on the US following a bitter trade dispute. The bilateral deal gives the US until the 2012 update of the Farm Bill – the omnibus legislation dealing with the federal farm subsidy programme – to change its cotton subsidy regime. In the meantime, the US would provide Brazil with compensation to establish the fund.

According to Reuters, DeLauro recognises that her amendment would make the US non-compliant with its WTO obligations – but saw it as a necessary step to limit the cuts that the WIC nutrition programme was already likely to see under the appropriations bill.

Representative Jeff Flake, a Republican, introduced two other cotton-focused amendments. One of them would cut direct payments by the same amount necessary to fund the Brazil Cotton Institute in fiscal year 2013 – i.e. by US\$147.3 million. This would effectively take the burden of supporting the Brazil Cotton

Institute off taxpayers and put it on cotton farmers.

Flake also sponsored an amendment that would set an income limit for farmers receiving direct payments; only farmers earning less than US\$250,000 per year would be eligible for these subsidies.

While all three amendments passed the US House Appropriations Committee, the Agriculture Appropriations bill still requires approval by the entire House of Representatives, the Senate, and the President to be enacted into law.

The move resulted in uproar by the National Cotton Council of America – the industry's main lobbying body – which last Wednesday decried the development as “counterproductive.” NCC Chairman Charles Parker criticised the Agriculture Appropriations bill as “a misguided approach to farm policy,” citing the potential violation of the US-Brazil Framework Agreement as one of the bill's main problems. The NCC made clear that they would be following up with both the House's Appropriations and Agriculture committees on the subject, in the hopes of preventing these changes from becoming law.

Sallie James, a trade policy analyst at the Washington-based Cato Institute, a libertarian think tank, told Bridges that Agriculture Committee members, particularly in the House, seem “confident that they will be able to deal with the amendments on the floor.” She added that there is a “resistance [in Congress] for any of this to be dealt with outside the 2012 Farm Bill,” with the Agriculture Committee trying to keep “jurisdictional hold” on that process.

James anticipated two main arguments would arise in upcoming discussions over these amendments: one would be that cotton subsidies should be left for the Agriculture Committee to resolve, and the other that “[Congress] can't do this [i.e. cut direct payments] because American exporters will suffer.”

James added that she is more favourable to Flake's amendment regarding the Cotton Institute than DeLauro's, as “it's staggering to me that there should be an argument that anyone but the cotton

farmers” should pay for the Brazilian technical fund.

The US-Brazil deal has attracted opposition since its inception. This February, Representative Ron Kind, a Democrat, introduced an amendment that would eradicate the Brazil Cotton Institute (see Bridges Weekly, 24 February 2011). Kind’s argument was that the US should focus on reforming its programmes, rather than just compensating Brazil and ignoring the larger problem.

Kind’s amendment, which was voted down in the House, was followed by an attempt by Paul Ryan – a Republican who chairs the House Budget Committee – to cut direct payments to farmers, along with changing the nature of a currently open-ended crop insurance programme (see Bridges Weekly, 6 April 2011).

While cutting agriculture subsidies has always been a difficult proposition to pass through Congress, James noticed that there has been a “subtle shift in rhetoric” on the subject. While previously farm supporters in Congress were strongly against any reductions in subsidies, they are “now talking about the size of cuts” – an important concession, and one likely a result of the tight spending climate.

The Agriculture Appropriations bill could be voted on as early as next week, according to the congressional newspaper The Hill.

### Implications for the Brazil Cotton Institute

Haroldo Cunha, head of the Brazil Cotton Institute, told Bridges that this was “not the first attempt to stop with payments to Brazil.” He affirmed that his organisation’s opinion was “that there is an agreement between two countries, two governments,” and therefore this is no space for Congressional representatives to interfere with that.

However, Cunha added that the amendments seemed unlikely to pass the full House – and even if it did, “We think it wouldn’t pass in the Senate,” given that there are many sectors in Congress interested in avoiding Brazilian trade sanctions.

The Brazil Cotton Institute is currently receiving US\$12.275 million from the US on a monthly basis, which – if these amendments do not pass – will continue until the 2012 Farm Bill is finalised. Currently the Brazil Cotton Institute’s funds come only from the US, as per the Memorandum of Understanding between the two countries. However, if the Agriculture Appropriations bill passes with the Flake and DeLauro amendments intact, the institute would be forced to alter its current business plan.

The institute, which is currently finalising its operating structure, soon hopes to start investing the US-provided funds into a variety of programmes. The institute’s management board has agreed to invest “approximately US\$20 million a year in eight different [programme] areas,” according to Cunha. These include capacity training for Brazilian workers, Brazil-based sustainability programmes, and technical assistance – excluding research – for the Cotton-4 countries, which are Benin, Burkina Faso, Chad, and Mali.

According to Cunha, the technical fund is considering allocating approximately 10 percent of this year’s funds to work in the C-4. These West African countries took an avid interest in the US-Brazil case, as they have been fighting for changes in the cotton subsidy system in the WTO’s Doha Round. An ICTSD-commissioned study last year, conducted by Mario Jales of Cornell University, found that the US subsidy programme has indeed harmed the C-4 by suppressing the world price of cotton (see Bridges Weekly, 21 April 2010).

ICTSD reporting; “House panel OKs income limit for farm subsidy recipients,” DES MOINES REGISTER, 1 June 2011; “Cuts to agriculture programs may be next in the House,” THE HILL, 6 June 2011; “House panel OKs ‘Appropriators approve agriculture cuts, target farm subsidies and Brazil,’” THE HILL, 1 June 2011; “House bill cuts U.S. farm aid, payment to Brazil,” REUTERS, 31 May 2011.



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**IN BRIEF**

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**Climate Talks Off to Slow Start in Bonn**

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The ongoing international negotiation process on climate change has been bogged down by procedural quarrels from its onset on Monday 6 June. The two-week talks in Bonn, Germany, are part of the process leading up to the next Conference of the Parties (COP) in Durban, South Africa this upcoming December.

Already, many countries are acknowledging that their expectations for Durban are low. Key countries lack the political will to move forward, due largely to concerns regarding to the competitiveness of their carbon-intensive industries and their focus on growth and jobs more generally.

The future of the Kyoto Protocol in particular looks glum, with its first commitment period running out in 2012, and several parties already having announced that they do not intend to participate in the foreseen extension, or “second commitment period,” of the agreement. Meanwhile, movement in negotiations for a new agreement that could supplant Kyoto, known as the working group on Long-term Cooperative Action (LCA), are taking place at a sluggish pace, thanks to many fundamental disagreements among negotiating blocs and countries.

In stark contrast to the slow pace of multilateral negotiations, new information released by the International Energy Agency (IEA) showed that global carbon dioxide emissions have risen sharply following a slump caused by the 2008 recession. In fact, 2010 emissions are the highest recorded to date.

**Trade, response measures hampering discussions**

Trade-related issues were among those creating discord among participating countries at the opening of the current round of talks. Countries disagree on whether or not to address emissions from agriculture and maritime and aviation

transportation as discrete topics in the negotiations.

Problems also emerged with regard to ‘response measures,’ which deal with social and economic impacts that countries could experience as a result of the policies and measures that other countries take to mitigate climate change. These include trade measures, such as international transport taxes or carbon labelling schemes.

Discussions on response measures have advanced in various negotiating tracks over past years, and this session’s agenda included a special “forum” that would consider a work programme and modalities for more in-depth treatment of the potential impacts. However, some countries, including the US, are blocking the discussion in any track to avoid any potential decisions at Durban.

Once the procedural disagreements are worked out, substantive discussions should get under way on a broad range of topics. One of the key questions still hanging in the air for this meeting, and eventually for Durban, is what will become of the Kyoto Protocol.

The next issue of Bridges Weekly will provide an update on both the negotiations and the response measures forum, with a focus on trade relevant issues.

ICTSD reporting.

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**Altercation over Health Safety Measures Triggers EU-Russia Trade Dispute**

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An EU-Russia spat over trade in fresh vegetables is casting shadows on Moscow’s ongoing bid to accede to the World Trade Organization.

In the wake of a fatal E. coli outbreak in Europe, Russia on 2 June imposed an import ban on all fresh vegetable products from the EU, even though Russia’s health agencies have not yet signalled any cases of infection in their country. The European Commission— which has been among the stronger supporters of Russia’s

accession to the global trade body – has criticised the import ban as disproportionate, unscientific, and contrary to WTO rules.

Russian Prime Minister Vladimir Putin has defended the ban, and dismissed criticism that it contravenes global trade rules. “We can’t poison our people for the sake of some spirit [of WTO],” he told Russian business executives in the southern Russian city of Sochi.

This feud follows a mysterious and rare bacterial outbreak that has primarily affected Germany; as Bridges Weekly went to press, over 20 people had died and over 2,300 sickened in the past month. Spanish producers estimate that Germany’s panic regarding Spanish produce – German officials initially blamed Spanish cucumbers and tomatoes for the outbreak – is costing them €200 million weekly. One Spanish exporter, Costa de Almeria, has already incurred €1 million worth of losses from having to destroy stocks, according to a 3 June BBC report.

European Commissioner on Health and Consumer Policy John Dalli “protested to the Russian Federation” and “requested the immediate withdrawal of the measure” in a 2 June letter to Russian authorities.

### **Blanket ban has repercussions for industry and WTO entry**

The Russian ban applies to all fresh vegetables that originate from the 27-country bloc. Russia accounts for a quarter of EU fresh vegetable exports, with the Moscow Times putting that value at €600 million annually. The export market, however, pales in comparison to the EU’s own internal trade.

The ban will benefit Russian vegetable producers. The head of the Russian Consumer Protection Agency, Gennady Onishchenko, has publicly urged Russians “to forego imported vegetables in favour of domestic products,” arguing that the E. coli outbreak “shows that Europe’s lauded health legislation – one which Russia is being urged to adopt – does not work.”

According to Russia’s agricultural minister, Yelena Shrinnik, their position is heavily influenced by the nation’s capacity to suffice on domestic

agricultural production alone.

The all-encompassing ban is illegal under WTO regulations, Fernando Valenzuela, head of the EU delegation to Russia, argued.

“One of the aspects of joining the WTO are a number of regulations... and certainly the ban that has been decided by the sanitary authorities of Russia is not compliant with those rules,” Valenzuela said at a news conference in Moscow. He then asserted that Russia must demonstrate that it can, of its own accord, abide by the rules of the WTO in order to demonstrate that it is willing to become a responsible member of the organisation.

Maxim Medvedkov, Russia’s top negotiator for its WTO membership talks, rejected Valenzuela’s comments, telling Interfax that “any WTO member is entitled to this, and Russia has and will have this right after joining the organisation.”

WTO rules give members the right to restrict trade in order to protect the health and safety of their citizens, but specify that such restrictions must be “applied only to the extent necessary to protect human, animal or plant life or health” and are “not maintained without sufficient scientific evidence.” (Article 2.2 of the [SPS Agreement](#))

The Russian consumers’ rights agency has said that Moscow would consider lifting the ban once the EU identifies the source of the outbreak and the mechanism for the bacteria’s transmission.

EU officials have warned that the trade spat could sour the mood for discussions scheduled for tomorrow’s EU-Russia summit in Nizhny Novgorod, Russia.

ICTSD reporting: “E. coli: Russia bans import of EU vegetables,” BBC, 2 June 2011; “Spain seeks compensation for E. coli blame,” BBC, 3 June 2011; “Spanish farmers blame Germany for crisis,” BBC, 3 June 2011; “Russia won’t lift ban on EU vegetables to enhance its WTO bid, Putin says,” BLOOMBERG, 3 June 2011; “Russia and EU clash on trade ahead of summit,” EU OBSERVER, 6 June 2011; “Russia refuses to lift Europe vegetable ban,” FINANCIAL TIMES, 3 June 2011; “Ban on Vegetable Imports Threatens



to Derail EU Summit,” THE MOSCOW TIMES, 6 June 2011.

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## **Brazil, Argentina Trade Tensions Cool Down**

Argentina and Brazil have agreed to “fast track” import licenses for cars, food, and appliances that have stocked up along their borders since February due to a contentious trade dispute between the two nations. The clash between the Mercosur partners originated with Argentina’s cancellation of automatic licensing for imports in February 2011 (See Puentes, [25 February 2011](#)).

Argentine Minister of Industry, Débora Giorgi, and her counterpart at the Brazilian Ministry of Trade, Fernando Pimentel, met on 2 June in Brasilia to settle the issue of expediting import licensing for certain detained goods. However, no solution was presented on how to solve disputes in the future, besides an agreement to meet bilaterally for trade discussions every 30 days.

Pimentel downplayed the severity of the trade tensions, insisted that “there was never a crisis or rupture in trade relations between Brazil and Argentina. He explained that “we have a very large flow of trade between the countries and this naturally generates noise from time to time.”

The meeting culminated with the Ministers’ announcement of their “willingness to facilitate the approval of import licenses and the release of products currently on the border.”

Their joint statement also mentioned that the countries would meet the 60-day WTO limited for issuing non-automated import licenses, as long as Brazilian imports complied with phytosanitary regulations.

Farm equipment, footwear, tyres, olive oil, glass, and powdered milk were some of the 529 Brazilian products affected by the removal of automatic licensing that will now receive expedited issuance. Automobiles and auto parts from Argentina, which comprise over 50 percent of Brazilian car imports, will receive “fast track” licensing.

Last week’s agreement guarantees that Argentine automobile imports will be reviewed within 10 days of their license application; Businessweek reports that, prior to this agreement, the process could take up to two months.

Argentina also agreed to make special considerations for Brazilian farm equipment. In the upcoming weeks Giorgi said Argentina will look at making similar arrangements for footwear, auto parts - such as batteries and brakes – textiles, dishes, appliances, and electronics.

### **Argentina hit hard by trade barriers**

Giorgi said her Ministry suspects that Argentina’s actions in the dispute only affected 20 percent of Brazilian exports to Argentina, in comparison with the much larger impact that Brazil’s decisions had on Argentine exports. Argentina’s trade deficit with its neighbour grew by 79 percent from January to May, according to the Wall Street Journal.

Argentine exports to Brazil dropped 13 percent in May, when Brazil instituted measures against automatic licensing for automobile imports. Adefa, Argentina’s automakers association, called the Brazilian measure a major threat to investment and employment in the sector.

While the move is viewed by many as retaliation for Argentina’s actions in February, Brazilian officials deny the claim.

“We would like to point out that we removed automatic licensing for all automobiles imported from around the world,” said Pimentel. “We did not want problems with Argentina because half of our imported cars come from there. That is why we are committed to issuing expedited authorisation.”

Despite the months of tension, trade between the two nations hit record highs in 2011. Last month alone, those totals reached nearly US\$3.21 billion, according to the Brazilian Trade Ministry’s estimates.

ICTSD reporting; “Argentina-Brazil agree to expedite import licenses,” ASSOCIATED PRESS, 2 June 2011; “Brasil promete agilizar

permisos para la exportación de vehículos,” CLARÍN, 3 June 2011; “Desactivan el conflicto con Brasil y reabren las fronteras,” LA NACIÓN, 3 June 2011; “Cars in Argentine-Brazil Border Backlog Slowly Clearing Today,” MERCOPRESS, 6 June 2011; “2<sup>nd</sup> Update: Brazil, Argentina Talks Fail to Resolve Trade Dispute,” WALL STREET JOURNAL, 2 June 2011.

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## EU Emissions Scheme Extends to Airlines, Sparking Trade Concerns

Tensions are building over the EU’s decision to extend their Emissions Trading Scheme (ETS) to aviation. Under the new plan, all airlines inbound to and outbound from the 27-member bloc would be covered under the system – an announcement that drew criticism from airplane groups and non-EU countries alike.

The inclusion of airlines, which became public on Monday, would be fully implemented from 1 January 2012 onward. As the 27 EU members, the European Parliament, and the European Commission have all adopted the ETS, EU Climate Commissioner Connie Hedegaard insists that including the airline industry is within the EU’s rights.

In an article on 31 May for the Economic Observer, Hedegaard explained the need to bring aviation into the ETS: “as most other subjects are already subject to measures, it is only reasonable that this sector should also contribute to fight climate change.”

The Emissions Trading Scheme would oblige airlines to pay for carbon permits if they exceeded a certain emissions cap. This requirement would apply to all flights entering the 27-member bloc, for both EU and non-EU airlines.

Before the announcement, the International Air Transport Association (IATA), the global body that represents over 230 airlines, had publicly supported carbon markets as a way to regulate emissions. However, it is now toeing a difficult line between backing its prior statements of support and voicing its current concerns over cost.

Paul Steele, the Director of Aviation Environment at IATA, insisted that his organisation was still in favour of the ETS: “IATA’s position is very clear. We see emissions trading as a useful tool and we’ve not backed away from that at all.” He then clarified that the issue “is not about the ETS as a mechanism, it’s about the fact that the EU has probably overextended itself in the way it’s trying to impose it.”

Willie Walsh, head of International Airlines Group, which manages British Airways and Spanish airline Iberia, told British newspaper The Telegraph that he expected trade retaliation from non-EU countries, “whether in the form of imposing additional taxes on European airlines or restricting access to markets.”

## China, US express frustration

Recent statements from Chinese officials seemed to confirm Walsh’s fear. Chai Haibo, vice president of the China Air Transport Association (CATA), stated that “if the EU presses ahead with its plan, the friendly relations between Chinese airlines and European airlines and aircraft manufacturers will surely be affected.” The impact of the legislation on Chinese airlines could be up to €84.5 million in the first year, estimated the CATA.

According to the Wall Street Journal, several US airline carriers have also banded together to contest the decision’s legality.

Despite the opposition, Hedegaard stood firmly by the ETS, arguing that any change in position would make Brussels appear uncommitted to climate change. “If someone says boo, we do not change our laws – that would not be serious,” she told British newspaper The Guardian.

There are also alternatives available, should non-EU countries not want to participate in the trading scheme. If those countries can prove that they have taken “equivalent measures” to mitigate their airlines’ emissions, then they would not be subject to the ETS.

ICTSD reporting; “Chinese Airline Group ‘Totally Opposes’ EU’s Emissions Plan,” BLOOMBERG, 6 June 2011; “EU’s scheme could blacken

relations,” CHINA DAILY, 8 June 2011; “Greener skies over Europe,” FINANCIAL TIMES, 6 June 2011; “China threatens trade war over EU emissions trading scheme,” GUARDIAN, 6 June 2011; “EU insists on right to curb airline CO2 emissions,” REUTERS, 6 June 2011; “Airline group IATA says fully supports CO2 trading,” REUTERS AFRICA, 7 June 2011; “IAG chief executive Willie Walsh: a European green tax could lead to a trade war,” THE TELEGRAPH, 6 June 2011; “European Commission Stands Its Ground On Airlines Emissions,” WALL STREET JOURNAL, 6 June 2011.

## EVENTS & RESOURCES

### Events

6-16 June, Bonn, Germany. 34TH SESSION OF THE UNITED NATIONS FRAMEWORK CONVENTION ON CLIMATE CHANGE CONVENTION ON SUBSIDIARY BODIES. The 34th session of the UNFCCC Subsidiary Body for Implementation (SBI) and Subsidiary Body for Scientific and Technological Advice (SBSTA). Further information is available on the [UNFCCC website](#).

8 June, Bonn, Germany. RESPONSE MEASURES: UNDERSTANDING THEIR BREADTH, IMPACTS, AND POSSIBLE APPROACHES FOR THE FORUM. The Global Platform on Climate Change, Trade and Sustainable Energy at ICTSD will address an array of climate change response measures such as carbon standards and border carbon adjustments, along with the potential implications for SIDS, BASICS, LDCs, and other categories of countries. This side event to the UNFCCC meeting will also address the UNFCCC Response Measures Work Programme and possible future forum. More details can be found on their [website](#).

10 June, Bonn, Germany. TRADE IMPLICATIONS AND OPPORTUNITIES IN THE CLIMATE CHANGE NEGOTIATIONS. The Global Platform on Climate Change, Trade and Sustainable Energy at ICTSD will host an

informal roundtable in parallel to the UNFCCC negotiations. The event is designed to provide up-to-date information and analysis on numerous trade-related issues as they specifically relate to topics within the Long-term Cooperative Action (LCA) and Subsidiary Body (SB) negotiations. For further information please consult the [event website](#).

13 June, London, UK and online. DEVELOPMENT BY TRIAL AND ERROR. At this event, Tim Harford, columnist for the Financial Times, will present his work drawing on case studies from development aid, business and medicine, and exploring the practical and ethical implications of an experimental approach to development. Information about the event and details on how to attend online are available on the [website](#).

### WTO events

An updated list of forthcoming WTO meetings is posted [here](#). 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.

14 June: Committee on Budget, Finance and Administration

15-16 June: Committee on Technical Barriers to Trade

15 June: Committee on Balance-of-Payments Restrictions

### Other Upcoming Events

22-24 June, Geneva, Switzerland. UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT (UNCTAD) PUBLIC SYMPOSIUM: MAKING TRADE AND FINANCE WORK FOR PEOPLE AND THE PLANET. This third annual UNCTAD Public Symposium provides a venue for a multi-stakeholder dialogue on topics likely to dominate

the global political agenda in 2011 and 2012. Key topics for discussion will be financial and monetary reforms for sustainable development and making the transition to a green economy fair and equitable. Participants from civil society, the private sector, parliamentarians, academia, the media, international organisations and governments will have an opportunity to exchange their views on these issues. For more information, visit the [event website](#).

27-28 June, Paris, France. RECONCILING POVERTY ERADICATION AND QUALITY OF THE ENVIRONMENT: WHAT ARE THE INNOVATIVE SOLUTIONS? This conference is set to bring together French and international high level speakers, well-known in the scientific, political, non-profit and academic world in preparation for the G20 conference one year before Rio+20. It will be hosted by the Veolia Environment Institute and the Agence Française de Développement. More information is available on the official [website](#).

5-7 March 2012, New York, US. THIRD INTERSESSIONAL MEETING FOR UNITED NATIONS CONFERENCE ON SUSTAINABLE DEVELOPMENT (UNCSD). This will be the final intersessional meeting in the lead up to the UNCSD Rio+20 conference. Information concerning this event is forthcoming, and can be accessed on the [Rio+20 website](#).

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## Resources

GLOBALIZATION, BRAIN DRAIN AND DEVELOPMENT. By Frederic Docquier and Hillel Rapoport at the Center for International Development at Harvard University (March 2011). This paper reviews four decades of economics research on the brain drain, with the authors focusing on its connection to development and recent contributions on the subject. They first assess the magnitude, intensity and determinants of the brain drain, showing that brain drain (or high-skill) migration is becoming the dominant pattern of international migration and a major aspect of globalisation. The authors then use a stylised growth model to analyse the various channels through which a brain drain affects the

sending countries. Their findings suggest that high-skill emigration need not deplete a country's human capital stock and can generate positive network externalities. The paper can be accessed [here](#).

PRECAUTIONARY SAVINGS AND GLOBAL IMBALANCES IN WORLD GENERAL EQUILIBRIUM. By Damiano Sandri at the International Monetary Fund (1 June 2011). In this paper, the author assesses the implications of precautionary savings for global imbalances by considering a world economy model composed by the US, the Euro Area, Japan, China, oil-exporting countries, and the rest of the world. These areas are assumed by the author to differ only with respect to gross domestic product (GDP) volatility, which is calibrated based on the 1980-2008 period. The model he uses predicts a wide dispersion in net foreign asset positions (NFA), with the highly volatile oil-exporting countries accumulating very large asset holdings. While heterogeneity in GDP volatility may lead to large imbalances in international investment positions, the author finds its impact on current accounts to be much weaker. He concludes that this is because countries are expected to move towards their optimal (NFA) at a very slow pace. The paper is available on the IMF [website](#).

SHARED VALUE, SHARED RESPONSIBILITY. By Emma Wilson and Judy Kuszewski at the International Institute for Environment and Development (April 2011). High prices and concerns about energy security in the oil and gas industry are driving expansion into ever more sensitive environments with greater technological, political and social risks, say the authors. While brands such as BP, Shell and ExxonMobil are well known, this paper finds that some 70 percent of oil and gas industry activities are typically contracted out to service providers and their subcontractors. The fallout from the April 2010 Gulf of Mexico disaster cast a spotlight on alleged systemic failures and ongoing difficulties in contracting relationships. As the governments of oil producing countries – from Nigeria to Kazakhstan to Venezuela – seek to take greater control of their oil and gas resources, there are pressures to expand the role of local businesses in contractor chains. This paper draws on three years of research and interviews within

the oil and gas sector to highlight an array of critical challenges facing those companies involved in complex supply chains, and to identify urgent and longer-term actions for progress. The paper is available for download from the IIED [website](#).

comment through July 2011 and can be found online [here](#).

THE TRANS-PACIFIC STRATEGIC ECONOMIC PARTNERSHIP AGREEMENT: A LATIN AMERICAN PERSPECTIVE. Written by Sebastián Herreros and published by United Nations Economic Commission for Latin America and the Caribbean (ECLAC) (March 2011). In a detailed examination of the Trans-Pacific Partnership (TPP), this paper finds that for the current two Latin American participants (Chile and Peru), as well as for other prospective candidates, the TPP offers the possibility of strengthening their trade and investment links with Asia Pacific, the world's most economically dynamic region. However, the author finds that, given the current set of participants, the negotiations offer both Chile and Peru little in terms of improved market access. Moreover, the talks are characterised by uncertainty as to their content, architecture and membership, as well as by risks such as having to make new concessions in sensitive areas like intellectual property and investment. Overall, it concludes, the success prospects of the TPP negotiations depend largely on how the trade policy environment in the US evolves during 2011. The entire paper can be viewed [here](#).

A POCKET GUIDE TO SUSTAINABLE DEVELOPMENT GOVERNANCE. Published by the Rio+20 Stakeholder Forum and Commonwealth Secretariat (2011). This guide was initiated by the Stakeholder Forum and the Commonwealth Secretariat in response to the perceived 'knowledge gap' on the history and dynamics of global governance for sustainable development. As the 'institutional framework for sustainable development' has been Development (United Nations Conference on Sustainable Development 2012), the guide hopes to provide the necessary background information on global sustainable development governance to allow both governmental and non-governmental stakeholders to familiarise themselves with the key issues more comprehensively. The guide is open to public