



# Bridges Weekly Trade News Digest

*Weekly trade news from a sustainable development perspective*

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## LEAD STORIES

### Doha: Difficult Road Ahead for December Mini-Package

WTO members are struggling to reach consensus on what the components of their December's "Plan B" deliverables package might entail. Today's meeting of the WTO's Trade Negotiations Committee (TNC) saw delegations repeat similar positions to those presented at their 31 May gathering, showing little progress from three weeks ago.

Since the 31 May meeting (see Bridges Weekly, 1 June 2011), Director General Pascal Lamy has held a series of consultations with members, in the hopes of figuring out a way forward. He found that members' "level of political commitment to a successful conclusion of the Doha Round, including to our collective aspirations for this year and beyond, remain strong."

Lamy cautioned, however, that members "urgently need to have clarity about what we can and cannot do by the Ministerial Conference [MC8] in December so that we can get down to work without further delay." Various members echoed Lamy's concern, noting that a failed MC8 would have powerful implications for the credibility of the multilateral trading system.

Even prior to the 22 June TNC meeting, some delegations expressed concern about the months ahead. Speaking to Bridges, a Cairns Group delegate emphasised the uncertainty that members feel regarding the upcoming negotiations: "All the balls are up in the air. One, some or all the balls could hit the ground."

Today's TNC meeting had originally been scheduled for 9 June; however, the contrasting ideas of what the "plus" part of an LDC-plus package should include caused the meeting to be

postponed, according to the Cairns group delegate.

At the meeting, Canada noted that members did not seem ready to co-operate amongst themselves, based on today's meeting results. They added that members need to realistically assess their current standings, and examine whether there is some space available for compromise.

Three main positions came up repeatedly at the gathering – that the Doha Round must continue, with a December deliverables package that has least developed countries (LDCs) at the core; that an LDC-only package would be unlikely to succeed; and that an LDC-“plus plus plus” package would have no success at all.

China was among several members that alluded to the latter issue, noting that the “rule of thumb is that the plus should facilitate rather than frustrate the LDC package.”

Lamy urged that the following four key issue areas be considered for inclusion in an LDC package: duty-free, quota-free access for developing country products; improved rules of origin; a “step forward” on cotton; and a services waiver for LDCs.

### Options on the table for December

Some countries, such as China, India, Egypt, and South Africa pushed for an LDC-only package at the meeting, as did Bangladesh on behalf of the LDCs and Mauritius on behalf of the Group of 90 (G-90) developing countries.

Brazil, while stating its preference for an LDC-only package, mentioned that it would be open to including additional components, i.e. export competition. This proposition was quickly rejected by the EU – a sign of the possible conflicts that may arise during future negotiations.

In a [statement](#), the EU insisted that “the phasing out of EU export refunds was a major concession, and could only be on the table as part of a comprehensive, ambitious and balanced package.” The EU called the export competition pillar a “key part” of the single undertaking, i.e. the notion that nothing is agreed until all is agreed.

Brazil was not alone in mentioning export competition as a possible component of the package, which proponents noted would rebalance rules in agriculture. In response, the EU insisted that this issue would have to be linked to the domestic support and market access provisions established in the December 2008 draft modalities, along with issues related to intellectual property rights, i.e. geographical indications (GIs).

The EU was also among several delegations pushing for “certain systemic components of the negotiating agenda, for example Regional Trade Agreements and review of the Dispute Settlement Understanding...to be given priority” when composing the “plus” part of a December package.

A developed country delegate, speaking to Bridges prior to the meeting, noted that the “US can't or won't do an LDC-only package.” The delegate then added, “I trust the Americans when they say we'd never be able to sell a pure LDC package in Washington - yet this is problematic.” The US confirmed at the TNC that they would indeed be pursuing an LDC-plus package, as did Australia, the EU, and others.

Cotton remained a hot-button issue at today's meeting, with the US insisting all of the major cotton subsidisers – such as Brazil and China – commit to reducing their distortions. An African LDC delegate told Bridges before the meeting that a deal on cotton is likely to be difficult until members have a clearer idea of what will happen on the wider agriculture front.

Sources note that, along with their hard stance on cotton, the US does have some concerns regarding the duty-free, quota-free aspect of the LDC-only plan. Specifically, providing this level of market access would mean exposing politically influential industries, such as t-shirts and other garments, to competition from some LDCs that had previously been the subject of high tariffs, such as Bangladesh.

Meanwhile, the US reiterated that fisheries subsidies reductions were ready for inclusion in the “Plan B” package – a suggestion that Japan,

South Korea, and Taiwan rejected outright, on the grounds that the issue was not yet at maturity.

Some members have also been asking for a standstill on tariffs, which would involve members binding their tariffs at applied levels. These levels would be beyond what is being asked for in the context of the Doha negotiations. Various members expressed opposition to the idea, though proponents argue that this measure might prevent countries from slipping back into protectionist tendencies.

Several members also mentioned that, if plus issues are included in the package, then those additional components should still have a development component. Trade facilitation was presented as a possible option, within which the package could include special and differential treatment provisions, along with technical assistance.

### **Post-December path essential, but unclear**

Despite the disagreements on the “plus” issues, members were in consensus on the need for a clear Doha roadmap after December’s WTO Ministerial. The “Plan B” package cannot be a standalone agreement, especially with issues such as non-agricultural market access (NAMA), services, and agriculture still unresolved.

While Lamy plans to hold additional consultations with members in the upcoming weeks, a date for the next TNC meeting has not been set. Given the lack of clarity on the package’s components, members worry whether the package can be delivered at all if views are not reconciled.

“I am well aware of the dangers of drifting towards the ministerial with a collection of unresolved issues,” Lamy added. “The time for discussion is gone – you now need to negotiate.”

ICTSD reporting.

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## **Bonn Climate Meet Spawns Autumn Session**

The UN climate secretariat has confirmed that they will be holding an additional major meeting

this year, a sign some read as a positive harbinger for end of year climate talks in Durban, South Africa. The announcement was made at the closing plenary of the 6-17 June meeting, which was held in Bonn, Germany.

Heading into the UN Framework Convention on Climate Change’s (UNFCCC) mid-year conference, which wrapped up on Friday, many observers speculated that slow movement in climate talks showed a lack of enthusiasm for progress in 2011. This opinion was bolstered early in the first week of the meeting when precious negotiating days were wasted haggling over the content of the negotiation agenda (see Bridges Weekly, [8 June 2011](#)).

As the session neared its end, one outstanding question was whether an inter-sessional negotiation would take place prior to the Durban Conference of the Parties (COP). Inter-sessionals have become standard fare in the climate negotiations, yet some parties maintained that, in the absence of progress in Bonn, the expense and time of another week of talks would be a waste. In the corridors, a number of delegates and observers explained that the failure of any party to offer funding for an inter-sessional meeting was a procedural block to hinder further advance on topics key countries were not ready to agree on in Durban.

Apparently, sufficient pressure and progress were made to merit further discussion, prompting UNFCCC Executive Secretary Christiana Figueres to announce the establishment of an autumn inter-sessional meeting to continue ongoing discussions in the Ad Hoc Working Group on Further Commitments for Annex I Parties under the Kyoto Protocol (AWG-KP) and the Ad Hoc Working Group on Long-term Cooperative Action under the Convention (AWG-LCA). Eventually, the two bodies suspended their sessions with the intention of resuming negotiations at the newly announced meeting.

It was announced that the meeting would take place during the last week of September and the first week of October, but exact dates have not been confirmed. While a venue has not been officially announced, sources say Panama is a frontrunner.

## Question of Kyoto looms

The future of the Kyoto Protocol continues to bedevil the negotiations. Executive Secretary Figueres recently noted that Parties have already missed the deadline to finalise a second commitment period to begin in 2013 as the first period expires, since parties would need a full year after finalising talks to line up the new period's terms for implementation. Negotiating mitigation commitments has become a particularly sensitive area of discussions, with expectations that it will become even more so as the 2012 end of the first period of the Protocol approaches.

Most developing countries, however, say that procedural issues are fixable and insist that implementing a second phase of Kyoto is the only way forward in the climate talks. In the absence of a new agreement under the LCA on emissions reduction targets and pathways for all countries, they say, terminating the Protocol leaves the world completely empty handed.

While the possibility of extending Kyoto has not been ruled out, the declaration of Japan, Canada, and Russia that they have no intention of signing on to such a deal suggests the second phase would be weaker than the historic first agreement. In response, some developing countries are now suggesting that the three countries should be excluded from discussions shaping the rules for the second commitment period.

In Bonn, Figueres insisted that leaders need work together to find a compromise on the issue to ensure talks move forward. Many agree that the Kyoto crisis is now essentially a political question, whose resolution requires involvement from the top.

"Governments are realising that this link needs to be dealt with to get to a global solution and that will require high-level leadership during the year," she said. "They can double their efforts and come forward with middle ground solutions and options which are acceptable to all sides."

## Trade featured prominently in Bonn

Trade issues received significant traction over the two-week meeting as the chairs of the Subsidiary

Body for Implementation (SBI) and Subsidiary Body for Scientific and Technological Advice (SBSTA) convened a forum on the impact of "response measures," climate-speak for how to address the negative consequences on developing countries of efforts to mitigate GHG emissions. In Cancun, countries agreed to convene such a forum in Bonn and Durban.

Chairs of the SBI and SBSTA eventually merged the forum with a contact group on the same topic, thereby bringing a negotiating component to the forum. Still lingering is the question of how or whether the forum will take place in Durban. Notably, numerous presentations by countries and expert organisations contained explicit references to the potential effects on international trade of mitigation measures, such as border taxes, free allowances in emissions trading schemes, and access to climate-friendly goods and technology, with many pointing out that an ongoing space to discuss and address these issues is necessary.

The forum provided input to a separate informal group under the AWG-LCA that considered how to address the impacts of response measures – such as the establishment of a permanent forum, the use of existing channels to share information on the issue, and barriers to trade. These discussions are expected to be picked up again when the autumn inter-sessional gets underway.

ICTSD reporting.

## OTHER NEWS

### US Attempt to Defund Brazil Cotton Institute May Reignite Trade Tensions

Questions are being raised about the future of the hard-won US-Brazil cotton agreement, thanks to last week's vote in the US House of Representatives to end payments to the Brazil Cotton Institute. In a 223-197 vote, members passed an amendment to the Agricultural Appropriations bill for fiscal year 2012 that, if enacted into law, would violate the terms of the 2010 WTO US-Upland Cotton agreement

between the two countries (see Bridges Weekly, 8 June 2011).

The US\$147.3 million annual payments were part of an agreement between the two countries that meant to hold Brazil back from imposing US\$830 million in WTO-authorized countermeasures. The agreement came after a protracted WTO dispute that deemed various aspects of the US cotton subsidy regime as illegal. As the US continuously failed to comply with the ruling, Brazil had been given permission to both retaliate in goods and cross-retaliate in intellectual property.

Brazil chose not to impose these countermeasures only upon last year's signing of a Memorandum of Understanding and subsequent "Framework Agreement" (see Bridges Weekly 14 April 2010 and 23 June 2010, respectively), in which Washington promised to provide annual payments of US\$147.3 million for the establishment of a technical fund for Brazilian farmers. These payments would continue until the US reforms its subsidy programmes under the 2012 farm bill. These US\$147.3 million payments amount to exactly the permitted annual retaliation in goods.

Brazil retained the right to impose countermeasures if the US does not comply with the terms of the Framework Agreement, e.g. by not providing the promised funds for the Brazil Cotton Institute.

Representative Ron Kind, a Democrat who proposed the amendment, heralded the decision. In a statement, Kind argues that "supporting Brazil's cotton industry with taxpayer dollars is wasteful and unnecessary." This win marked a major reversal of fortunes for Kind, whose February attempt at defunding the Brazil Cotton Institute had failed by a two-to-one margin (see Bridges Weekly, 24 February 2011).

Despite his win, Kind, a supporter of farm subsidy reform, was not pleased with the overall agriculture appropriations bill. He found that the "bill as a whole still irresponsibly overlooks other commonsense cuts such as the billions of dollars in outdated farm subsidies going to very few large agribusinesses."

During the markup of the Agriculture Appropriations bill in committee, Representative Rosa DeLauro, a Democrat, had also offered an amendment to the bill that would have redirected the \$US147 million being paid to Brazil in fiscal year 2012 to Women, Infants and Children (WIC), a federal food assistance program for low-income mothers and children. The amendment was rejected by Republicans in the House Rules Committee, before the rest of the spending legislation made it to the House floor. Under the latest version of the bill, the WIC would now face US\$650 million in spending cuts; in a statement, DeLauro described the legislation as a "disaster for American families."

Meanwhile, US cotton farmers will continue to receive subsidies, despite strong opposition from both parties. On the House floor, Representative Jeff Flake, a Republican, sought an amendment to prohibit countercyclical payments for upland cotton, which had been one of the subsidies that the WTO had ruled against. Earlier, during the Appropriations Committee markup of the bill, Flake had also proposed banning direct payments to farmers with average adjusted gross incomes exceeding \$US250,000. Both amendments were rejected on the House floor.

Agriculture Committee Chairman Frank Lucas expressed disappointment about the attempted defunding of the Brazilian Cotton Institute, cautioning that if the Kind amendment passes through the Senate and garners presidential approval, the United States could risk over \$US800 million in retaliatory tariffs. Lucas predicted that Brazil will target non-agricultural sectors, causing Americans to be exposed to "job-killing sanctions."

In a statement, the National Cotton Council (NCC) – the industry's main lobbying body in the US – also expressed dismay at the decision to withhold funding from the Brazil Cotton Institute. "The [framework] agreement allowed Brazil to withhold implementation of prohibitively high tariffs on US exports and provided for a series of consultations that could lead to a resolution of the dispute," they said.

Recent comments by Brazil Foreign Relations Minister Antonio Patriota seem to confirm the

renewed risk of Brasilia-issued countermeasures. On Friday, Patriota stated that "the eventual suspension of payments to the cotton fund would constitute a break of a bilateral agreement." Patriota warned that Brazil would be forced to take steps against American imports as authorised by the WTO, including the right to ignore United States intellectual property rights on genetically modified crops.

### **Brazil Wins Ethanol Tariff Cut**

Despite concerns about cotton, Patriota was encouraged by a decision made in the US' other legislative chamber with regard to ethanol subsidies. On Thursday the US Senate repealed a \$US0.54 per gallon tariff on Brazilian ethanol imports. Washington has faced mounting pressure to end the 30-year tariff since April 2010, when Brazil eliminated a 20 percent tariff on ethanol imports.

Patriota has cautioned that the Senate decision is not definitive, and that "the ethanol proposal will still need to take a long path through legislature, but in any case the government appreciates the decision taken in the Senate because it's a response to an old request that we had made." The Senate vote still requires approval from both the House and US President Barack Obama before becoming law.

Marcos Jank, president of Brazil's Sugarcane Industry Association (UNICA), considers the decision an important victory: "Undoubtedly, this is a major advance towards a freer global market for biofuels, particularly in the case of the ethanol produced from sugarcane."

Critics argue that the tariff cut, if signed into law, could be of only limited significance to Brazil. High sugar cane prices this past year have made it more profitable for Brazil to sell unprocessed sugar cane rather than convert it into fuel; the country has actually been importing ethanol from the United States to meet domestic demand.

ICTSD reporting; "WTO cotton settlement ripped in ag budget debate," ASSOCIATED PRESS, 20 June 2011; "Food fight: how battles over turf and trade killed an increase in WIC funding," CONNECTICUT MIRROR, 16 June

2011; "Ethanol industry is unruffled by Senate vote against tax breaks," NEW YORK TIMES, 17 June 2011; "Brazil to retaliate if US ends cotton payments," MARKETWATCH, 18 June 2011; "Agriculture bill narrowly clears House," POLITICO, 16 June 2011; "UNICA vê avanço histórico em decisão do Senado dos EUA contra tarifa sobre etanol," UNICA, 16 June 2011.

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## **World Bank Launches Trade Strategy**

The World Bank Group released its first ever Trade Strategy on Thursday 16 June, after conducting a six-month series of consultations with stakeholders from government, civil society, the private sector, bilateral donors, and other international organisations. The strategy will guide the Bank's trade support activities for the next decade.

The move to develop a trade strategy came in response to a 2006 report from the Independent Evaluation Group, the World Bank Group's internal evaluation unit. The IEG report, while recognising the Bank's success in opening trade markets, criticised the organisation's trade-related projects for not "consistently or systematically address[ing] poverty and distributional outcomes."

The IEG also found that the Bank "paid insufficient attention to trade-related operations; countries' external environments; and, to complementary policies that can improve their competitiveness in world markets," according to the Trade Strategy's overview of the 2006 report.

Much of the motivation for developing an official trade strategy was to adjust to a "changing trade landscape," with developing countries making up a growing amount of global merchandise trade. The report notes that exports from developing countries increased by 80 percent between 2000 and 2009, while the rest of the world only saw a 40 percent increase. However, the growing openness of trade over the last couple of decades has also made countries vulnerable to global shocks, such as the recent financial crisis.

Bernard Hoekman, Director of the International Trade Department at the World Bank, was on



hand to present the report at the Geneva launch event, held at the WTO.

After outlining the Bank's earlier focus on the "trade incentive framework" – i.e. tariffs and other "at the border" policies, Hoekman noted that today's "policy agenda is increasingly a 'behind the border' agenda." In other words, the main obstacles for developing countries the costs of producing and exporting goods to markets, as opposed to tariffs.

The new Trade Strategy outlined four pillars around which the Bank plans to structure its trade-related activities, in light of this new trade environment. These priorities include trade competitiveness and diversification; trade facilitation and trade finance to cut transport costs; support for market access, international trade co-operation for better integrated regional and global markets; and managing external shocks.

With trade facilitation, for instance, the Bank hopes to address the infrastructure problems and high transaction costs that make it difficult for developing countries to engage in international trade. The Bank, through its International Finance Corporation (IFC) branch, hopes to improve firms' access to trade credit.

### **Food prices, regional co-operation**

Hoekman also emphasised that the World Bank's efforts would target the 2010-2011 global food price surge (for more on food prices, see our article on the OECD-FAO Agricultural Outlook in this issue). The Bank is "going to stress in the trade strategy...the role trade can play" regarding improving food security and "attenuating" volatility.

When discussing the Bank's focus on improving global and regional co-operation, Hoekman briefly alluded to the struggling Doha Round at the WTO. "What I would stress is Doha is not the WTO"; given the Round's current challenges, the Bank intends to help "leverage those agreements already in place" so countries can benefit from those agreements.

The Bank intends to implement its trade-related work via region-specific work programmes, which

will span over a series of years. The region-centric work will be co-ordinated via an internal Trade Council. The Bank's activities will primarily take the form of lending and technical assistance; knowledge and policy dialogue; and external partnerships, combined with improvement co-ordination with development partners.

At the event, WTO Deputy Director General Harsha Vardhana Singh praised the Bank for developing the strategy, as "this is the moment where we must build on wealth" that the world market has created, especially in a world where some people are living at "one-half the cost of a cup of coffee." He emphasised that trade must be "part of an inclusive development approach."

At the same time, Singh urged the Bank to avoid delays, as they would weaken "the credibility of the strategy."

### **Areas for further research remain**

ICTSD Chief Executive Ricardo Meléndez-Ortiz provided the commentary at the Trade Strategy launch event. Meléndez-Ortiz commended the Bank for their four pillars, noting that these track with many of the priority lists that least developed countries (LDCs) have put together in recent years.

While the idea of a Bank-wide strategy was a step forward from previous sporadic research-based and ad hoc activity, Meléndez-Ortiz pointed out that there were some issue areas that required more focus and bank attention.

For instance, he urged the Bank to explore further the policy implications of twenty-first century trade transactions that bundle together goods, services, technology, and investment, and involve multiple actors in diverse jurisdictions in the production of final tradable products. He also suggested that the Bank further investigate the links between trade and poverty, beyond the traditional job and price effects, as that is an area of research that is still "very poorly understood."

In this context too, he noted that it is critical for the Bank to incorporate a better reading of the nature of trade-led growth, which can "lift people out of poverty" or generate perverse welfare

outcomes, such as jobless growth or exacerbation of inequality. Therefore, interventions on trade need to contain methodologies and review processes that ensure “how at least not to do harm with trade policy.”

He also recommended that the Bank look into green growth strategies and transformative low-carbon policies, and well as examine the potential implications of different Doha Round options.

The World Bank Trade Strategy can be viewed online at the [World Bank website](#).

ICTSD reporting.

## IN BRIEF

### EU, Mercosur Talks Struggling to Stay Alive

Negotiations for a trade agreement between the EU and South American trade bloc Mercosur are approaching yet another impasse, just a year after re-launching the talks. The discussions have been plagued by the worsening euro zone debt crisis, along with the persistent contention over agriculture subsidies and intellectual property rights.

The hopeful ambition that accompanied the May 2010 move to re-start negotiations (see Bridges Weekly, [12 May 2010](#)) has wilted under the pressure of the EU’s growing debt problem, leaving officials on both sides wondering if the current economic climate makes reaching accord impossible.

A Brazilian delegation member, quoted in MercoPress, noted that “advance has decelerated, there’s a serious risk of stagnation and back to a freezing condition.”

Long-standing disagreements, such as over agriculture liberalisation – which was largely deemed responsible for the October 2004 breakdown in talks – are rearing their heads once more. Mercosur is again demanding that the EU cut large portions of their farm subsidies while

Brussels continues to lobby for greater market access in manufactured products.

### Domestic challenges affecting foreign relations

New domestic pressures on both sides are making it more difficult for officials to compromise on these highly contentious issues. EU negotiators, for example, are reluctant to lower either agriculture tariffs or subsidies in accordance with Mercosur’s wishes, given EU unemployment rates.

The euro zone crisis is already being felt in the Mercosur bloc, which counts Argentina, Brazil, Paraguay, and Uruguay as full members. “Sometimes there are protectionist tendencies,” remarked Ana Paula Zacarias, who heads the EU delegation in Brazil.

Mercosur countries are facing domestic pressures of their own, which are inhibiting progress in negotiations. According to MercoPress, EU sources claim that Buenos Aires officials are hesitant to make large economic policy changes as presidential elections approach in October. Meanwhile, the flood of underpriced imports entering Brazil because of the overvalued exchange rate has moved manufacturers to push for protectionist barriers.

### Intellectual property concerns

Disagreements over intellectual property rights are also contributing to the stalemate. Mercosur does not wish to accept the EU proposal for stricter rules on copyrights and patents than are stipulated by the WTO’s Trade-Related Aspects of Intellectual Property Rights (TRIPS) Agreement.

These intellectual property concerns primarily come from Brasilia, which fears further restrictions will inhibit their production of generic drugs and their ability to break patents in the occasion of national health crises.

Many onlookers believe that a consensus could be reached on the intellectual property issue if Mercosur agrees to adopt regional indications; the EU might then be willing to drop its request that Mercosur go beyond the standards of TRIPS. [Article 22](#) of the TRIPS Agreement describes



these as “indications which identify a good as originating in the territory of a member, or region or locality in that territory, where a given quality, reputation or other characteristic of the good is essentially attributable to its geographical origin.”

Regional indications would allow specific goods such as French Champagne and Italian Parma ham to be easily distinguished from like goods produced more cheaply by South American competitors. EU sources indicate that this concession is necessary if the agreement is to receive support from the 27-member bloc, according to Reuters.

As talks continue to crumble, an EU-Mercosur trade deal covering US\$120 billion a year seems to be moving further from reach. The two trade blocs acknowledge that a completion of negotiations will most likely be unmanageable for this year, as hoped.

Some officials are already trying to mitigate the damage that a stalemate might do to the trade relationship between the two blocs. During his four-day visit to South America, Antonio Tajani, Vice President of the European Commission and the European Commissioner for Industry and Entrepreneurship, reaffirmed Mercosur's importance to the EU as a trading partner.

In an 11 June article he authored for South Atlantic news agency MercoPress, Tajani pushed for the finalisation of an EU-Mercosur agreement. “It would be in our common interest to facilitate this process toward a stronger economic integration, from which other Latin and Central American countries are already benefiting.”

Since restarting the talks, delegations from the EU and Mercosur have met for five rounds of negotiations; two more rounds have been scheduled between now and the end of the year. The sixth meeting will be in early July in Brussels, and the seventh will be held in Uruguay this November.

ICTSD reporting; “EU challenges and opportunities with Mercosur and Latin America,” MERCOPRESS, 11 June 2011; “EU/Mercosur trade talks are frozen on the ‘edge of the cliff,’” MERCOPRESS, 14 June 2011; “Exclusive: EU-

Mercosur trade talks nearing stalemate,” REUTERS, 14 June 2011.

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## OECD, FAO: No End for High Food Prices in Upcoming Decade

High global food prices and volatile commodity markets are expected to persist over the next decade, according to a joint report from the Organisation for Economic Co-operation and Development (OECD) and the United Nations Food and Agriculture Organization (FAO). These issues are likely to be salient points of discussion at this week's meeting of agriculture ministers from the Group of 20 (G-20) leading economies.

The [Agricultural Outlook 2011-2020](#), released on 17 June, focuses on the global state of agriculture for the next ten years. The report indicates that although strong harvests are expected to push down commodity prices later this year, real prices are projected to be an average of 20 percent higher for cereals and 30 percent higher for meats over the 2011-2020 period, in comparison with the last decade.

Continued high food prices could be disastrous for populations in developing countries. At the [press conference](#) for the report's release, OECD Secretary-General Angel Gurría observed that, “While higher prices are generally good news for farmers, the impact on the poor in developing countries who spend a high proportion of their income on food can be devastating.” Gurría later warned that “people are going to be forced, either to literally eat less, or find other sources of income.”

Adding to these problems, the average annual growth rate for global agricultural production is projected to decline from 2.6 percent to 1.7 percent in the next decade due to high energy and fertiliser costs.

The report does suggest a possible solution to volatile food prices in the form of farm investments. In a [statement](#), FAO Director-General Jacques Diouf emphasised the importance of “boosting investment in agriculture and reinforcing rural development,” especially for smallholder farmers in low-income food-deficit countries.

Price volatility could also be mitigated if governments provide better information on commodity markets. “If we’re trying to avoid volatility, information is absolutely of the essence,” said Gurriá. Diouf affirmed Gurriá’s statement, noting that an improved information system would also be key for improving the transparency of these markets.

One positive finding of the report was that global agriculture production is expected to continue outpacing population growth, with production per capita rising slightly. However, this is not the case for all regions: in sub-Saharan Africa, local production is unlikely to keep pace with population-driven demand, leading to increased food deficits.

### **Biofuels deemed a culprit in food price increases**

Invigorating the “food for fuel” debate, the Outlook reports that the projected rise in commodity prices can be blamed on expanding biofuel production. By 2020, it is expected that 13 percent of global coarse grain production, 15 percent of vegetable oil production, and 30 percent of sugar cane production will be used for the production of biofuels.

Diouf called for cuts to biofuel subsidies, arguing that “the problem is not biofuels themselves...the problem is the policies adopted by certain governments to encourage the development of biofuels.”

Similar concerns about the impact of biofuel subsidies on food prices came up in a June 2011 ICTSD study, prepared by economics professor Bruce Babcock of Iowa State University. His findings revealed that US ethanol subsidies – which amount to approximately US\$6 billion a year – magnified increases in maize prices, which were already rising thanks to market-driven growth in ethanol demand.

Maize prices were inflated by as much as 17 percent in this year alone, according to Babcock’s findings. In addition, had US ethanol production not increased from its 2004 levels, 2009 maize

prices would have been 21 percent lower than they actually were.

Last Thursday, the US Senate voted to make substantial cuts to ethanol subsidies; however, the bill still requires approval from the US House of Representatives and President Barack Obama to become law. The Senate also voted to cut a tariff on imported ethanol; for more, see our article on the US-Brazil cotton controversy in this issue.

### **G-20 Agriculture Ministers meeting crucial forum for these issues**

The food security issues reviewed in the Agricultural Outlook will likely be discussed at the meeting of G-20 Agriculture Ministers, which is currently taking place in Paris. These discussions are being held as a precursor to the November G-20 Summit.

French Agriculture Minister Bruno Le Maire told reporters on Friday that it is crucial for these G-20 agricultural ministers to reach an agreement on resolving the growing food security problem. Le Maire cautioned that without an agreement in Paris on these issues, the next hundred years could become “the century of hunger.”

ICTSD reporting; “World faces century of hunger without farm deal, France’s Le Maire says,” BLOOMBERG, 17 June 2011; “Decade of soaring food prices forecast,” FINANCIAL TIMES, 17 June 2011; “Senate vote marks start of end for ethanol subsidies,” REUTERS, 16 June 2011; “High food prices here to stay, says UN and OECD,” THE TELEGRAPH, 18 June 2011.

## **WTO IN BRIEF**

### **Appellate Body Upholds Ruling against Thailand in Philippines Cigarette Dispute**

The Philippines were once again able to claim victory in their long-running dispute with Thailand over the latter’s cigarette import policies, with the WTO Appellate Body confirming on Friday the results of an earlier panel ruling on the subject.

The ruling specifically targeted Bangkok's taxation and customs valuation regime for the product, which has long been a sore subject with Manila.

The Philippines brought the conflict between the two South East Asian neighbours to the WTO in late 2008, following three years of unsuccessful bilateral negotiations. Philip Morris, an international tobacco giant and the Philippines' main cigarette manufacturer, has taken a special interest in the dispute, with Thailand being the prime destination for exports from its Philippine branch.

Manila had argued that Bangkok discriminated against foreign tobacco by applying taxes in excess to those applied to local products, along with applying different administrative requirements. Furthermore, the Philippines criticised Thailand's practice of customs valuation.

The Appellate Body ruling, released last Friday, deemed that Thailand's treatment of resellers of imported cigarettes, as compared to its treatment of resellers of like domestic cigarettes, was indeed inconsistent with the WTO's national treatment requirement. It also found Bangkok in breach of the WTO's customs valuation agreement, which regulates the practice of customs officials imposing a valuation of imports that differs from the value declared by the importer.

While the adjustment of declared transaction values by foreign authorities is allowed in certain cases of "related-party transactions" - i.e. where the cross-border transaction takes place between parties that are economically related - the process must follow certain rules. In that context, in the case of some Philippine tobacco imports, Thailand had rejected the importer's declared values. Thailand argued that the economic relationship between exporter and importer was likely to influence the transaction price and would therefore require an adjustment by the authorities.

Bangkok saw the burden of proving that the relationship did not influence the price as resting with the importer - a position that was criticised by the Philippines. Also, Manila found that the process did not allow for a reasonable opportunity for the importer to comment on the new valuation. The Appellate Body ruling confirmed

that this process was in violation of certain procedural and substantive requirements of the WTO's customs valuation agreement.

"We are happy on this victory because after all, what we really want is a level playing field and this will really help our tobacco farmers," a Philippine official commented to the Manila Bulletin. "The dispute mechanisms under WTO are there exactly to resolve trade issues similar to our case so we are really happy with the WTO's decision," she added.

### **Philip Morris' role**

Tobacco is an important industry for both Bangkok and Manila. The Thai Tobacco Monopoly (TTM), whose cigarettes account for approximately 80 percent of Thai tobacco consumption, is the only entity that Bangkok has authorised to produce cigarettes in the country. The Philippines had argued that the links between the Thai government and TTM "create serious conflicts of interest."

On the other hand, the Philippines has benefited from substantial foreign investment by tobacco giant Philip Morris International, particularly in 2000, when the company invested US\$300 million to build a manufacturing plant in the city of Tanauan. This was one of the biggest foreign tobacco investments in the region at that time. Philip Morris' activities in the Philippines had been seen as the main reason for the island state bringing the dispute to the WTO.

According to Philip Morris, today the factory in Tanauan rolls out more than 30 billion cigarette sticks a year, with Philip Morris Philippines Manufacturing Inc. (PMPMI) holding 90 percent of the Philippine market.

Thailand is the company's major export market for finished tobacco goods. In the course of the dispute, PMPMI claimed it suffered a 20 percent decline in exports in 2009, in part due to the Thailand cigarette tax issue. This decline substantially hurt tobacco farmers in the South of the archipelago.

The WTO will next set a time period that will allow Thailand to comply with the Appellate Body

ruling. The DSB will likely grant Bangkok between six to fifteen months to revise its policies.

ICTSD reporting; “Philippines wins cigarette tax ruling,” MANILA BULLETIN, 18 June 2011.

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## WTO Dispute Roundup: Environment Issues Taking Centre Stage

Environmental issues featured prominently in last week’s meeting of the WTO Dispute Settlement Body (DSB), as members deferred Japan’s first request for a panel on the Canadian province of Ontario’s green energy plan, while granting Ukraine’s request for a panel to adjudicate its dispute with Moldova on discriminatory “environmental charges.”

### Canada’s renewable energy efforts again under fire

Ontario’s feed-in tariff (FIT) programme for renewable energy has been an area of contention between Ottawa and Tokyo since last autumn. Under the FIT programme, Ontario supports the generation of green energy by guaranteeing electricity purchase prices, grid access, and long-term contracts to renewable energy producers thus limiting their risks and supporting needed investments. Around 75 similar programmes are currently in place worldwide.

However, it was not the FIT programme itself but a local content provision within the programme that landed Canada at the WTO. To receive FIT support, renewable energy producers must ensure that a certain percentage of the goods and services used for setting up the facility comes from Ontario. This can be as high as 60 percent. Japan alleges that the measure violates the national treatment provisions of the General Agreement on Tariffs and Trade (GATT) and the Agreement on Trade-Related Investment Measures (TRIMS).

Tokyo also claims that the local content requirement makes the FIT a “prohibited subsidy,” under the terms of the WTO’s Subsidies and Countervailing Measures (SCM) Agreement.

Japan’s request for a dispute panel, which was issued on 1 June and deferred at the DSB meeting, comes several months after Tokyo initiated the case. Japan requested consultations with the Canadian government on 13 September 2010; soon after the EU and the US submitted requests to join those consultations, given their own interests in renewable energy generation (see Bridges Weekly, [7 October 2010](#)).

The Japan Ministry of Economy, Trade and Industry, in a 1 June [press release](#) on the dispute, cited concern over the “possible proliferation of such protectionist measures all over the world” as their motivation for seeking the WTO’s assistance on this matter. They noted that their consultations with Canada in October did not provide them with the intended result, given that Canada “raised a local content requirement from 50 percent to 60 percent on 1 January 2011.”

Under WTO rules, targeted countries are allowed to refuse the first request for a dispute panel. As such, Canada blocked the creation of the panel at the 17 June meeting of the DSB. However, Japan can present the request a second time, at which point a panel of arbitrators will automatically be established.

For a detailed analysis of the potential legal implications of the *Canada – Renewables* dispute, please refer to the [April 2011](#) issue of the Bridges Trade Bio Res Review.

### Ukraine, Moldova row moves forward

The DSB established a panel for a dispute between Moldova and Ukraine this Friday; Ukraine had issued its initial panel request on 24 May, which Moldova blocked (see Bridges Weekly, [1 June 2011](#)).

The Ukraine case stems from a 1998 Moldovan law that allows Moldova to apply charges to imports whose use contaminates the environment, in addition to other duties or taxes. The fee ranges from 0.5 to 5 percent of the customs value of those products.

Like the *Canada – Renewables* case, national treatment also plays a significant role in the *Moldova – Environmental Charges* dispute. Ukraine

alleges that Moldova's actions are in violation of the WTO's General Agreement on Tariffs and Trade (GATT) 1994, by not charging the same fees to like domestic products.

Ukraine also claims that Moldova charges importers an environmental fee for plastic or "tetra-pack" packages containing imported goods, without applying the same charge to like domestic goods.

Argentina, China, and the European Union have already reserved their third party rights to the dispute. The EU had also joined on to the initial consultations in March of this year. However, the Ukraine submission from 13 May ([WT/DS421/4](#)) claimed that "consultations were not possible since Ukraine had neither received any written reply nor had the Moldovan experts enter[ed] the consultations within a period as provided in ... the [Dispute Settlement Understanding]."

ICTSD reporting; "Japan challenges Canada at WTO over green energy programme," AGENCE FRANCE-PRESSE, 18 June 2011; "Japan challenges Canada's energy measures at WTO," REUTERS, 17 June 2011; "Japan takes Canada to WTO on green buy-local rules," 1 June 2011; "WTO sets up dispute panel on Ukraine-Moldova row," REUTERS, 17 June 2011.

## EVENTS & RESOURCES

### Events

25 June-2 July, Rome, Italy. UNITED NATIONS FOOD AND AGRICULTURE ORGANIZATION (FAO) CONFERENCE. During this thirty-seventh annual FAO conference, Heads of Delegation will meet to review the state of food and agriculture around the world. The meeting will consider the regional conferences of the FAO, the technical committees on commodity problems, agriculture, forestry, world food security, and fisheries, along with governance, legal, administrative and financial matters. For more information, visit the conference [website](#).

27-28 June, Geneva, Switzerland. FIFTY-THIRD EXECUTIVE SESSION OF THE TRADE AND DEVELOPMENT BOARD. The executive body of the United Nations Conference on Trade and Development (UNCTAD) will meet to discuss UNCTAD's activities with regard to African development. The subsidiary bodies of the Trade and Development Board will also report on activities in investment, enterprise, trade, and development. For more information please consult the event [website](#).

28 June, London, United Kingdom. THE FUTURE OF THE EUROZONE. This event, hosted by Chatham House's Under 35s Forum, features a discussion with Elga Bartsch, European Chief Economist at Morgan Stanley, and Nick Maxwell, Research Fellow and Programme Manager of International Economics at Chatham House. The discussion will explore the state of the financial system, prospects for the Euro, and geopolitical risks facing the Eurozone. For more information visit the event [website](#).

28 June, New York, US. UNITED NATIONS GENERAL ASSEMBLY (UNGA) THEMATIC DEBATE ON GLOBAL GOVERNANCE. Joseph Deiss, President of the UN General Assembly, will convene a thematic debate on global governance in the UNGA. This informal event is part of a series organised in support of the President's key priorities for the General Assembly session: the Millennium Development Goals, global governance, and sustainable development. The event also aims to reaffirm the central role of the United Nations in global governance. For more information visit the UNGA [website](#).

28 June, Paris, France. ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT (OECD) DEVELOPMENT ASSISTANCE COMMITTEE (DAC) GREEN GROWTH AND DEVELOPMENT WORKSHOP. This workshop will offer participants a platform to discuss the relevance of green growth in developing countries, in advance of the Rio 2012 Conference. It will feature chaired sessions on how a green growth lens could be applied to development; the potential impacts of a global green growth transition on developing and least developed countries; how green growth

short-run costs and technology requirements can be met; and ways to champion green growth. For more information visit the event [website](#).

29 June, Geneva, Switzerland. A DECADE IN THE WTO: IMPLICATIONS FOR CHINA AND GLOBAL TRADE GOVERNANCE. 2011 marks China's tenth year in the WTO. Since 2001, China has doubled its gross domestic product, increased exports by 4.9 times, and increased imports by 4.7 times. This dialogue aims to generate a better understanding of China's rise and its implications for international trade. The event also seeks to identify areas for further research with respect to the role of China and other emerging countries in sustainable development and the setting of future trade agendas. The dialogue is organised by ICTSD in partnership with the China Society for WTO Studies (CWTO), and the Friedrich-Ebert-Stiftung (FES) office in Geneva. More information about the event can be found on the ICTSD [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 only open to WTO Members and accredited observers only.

23 June: Committee on Agriculture

23 June: Committee on Specific Commitments

23 June: Workshop on Aid for Trade

24 June: Committee on Trade and Development - Session on Aid for Trade

24 June: Council for Trade in Services

27 June: Working Group on Trade and Transfer of Technology

28 and 30 June: Trade Policy Review Body - Nigeria

28-29 June: Committee on Regional Trade Agreements

29 June: Working Party on the Accession of the Lao People's Democratic Republic

### Other Upcoming Events

4-6 July, Marrakesh, Morocco. THIRD AFRICA CARBON FORUM. This event will bring together national focal points and representatives from the Designated National Authorities, UN agencies, governments, and the private sector to share knowledge about carbon investments in Africa. Matchmaking sessions will allow Clean Development Mechanism (CDM) project developers to showcase their projects to investors and carbon buyers. The forum is organised jointly by the United Nations Framework Convention on Climate Change, the UN Environment Programme (UNEP), the UNEP Risoe Centre, the International Emissions Trading Association, the UN Institute for Training and Research, the UN Conference on Trade and Development, the World Bank, and the African Development Bank. For more information visit the event [website](#).

11-12 July, Geneva, Switzerland. WIPO CONFERENCE ON INNOVATION AND CLIMATE CHANGE. This global forum will bring together leading thinkers, negotiators, and entrepreneurs from government, academia, nongovernmental organisations, intergovernmental organisations, industry, and the public to develop partnerships to accelerate innovation for a carbon-neutral future. The conference will address how the principal factors stimulating innovation can be integrated into coherent strategies that span across research and development, national production capabilities, access to markets, effective regulations, and sound intellectual property management. The conference will also explore options to accelerate technology transfer and diffusion. For more information visit the event [website](#).

11-15 July, Lombok, Indonesia. INTERNATIONAL CONFERENCE ON FOREST TENURE, GOVERNANCE AND ENTERPRISE: EXPERIENCES AND OPPORTUNITIES FOR ASIA IN A



CHANGING CONTEXT. Organised by Rights and Resources Initiative (RRI) and the International Tropical Timber Organisation (ITTO), this conference aims to promote an assessment of the relationship between forest tenure, sustainable forest management, and income-generating enterprises to promote action across a range of Asian countries. It will bring together stakeholders from the Asia-Pacific region and beyond and follow-up on RRI-ITTO organised international tenure conferences held in Acre, Brazil in July 2007 and Yaoundé, Cameroon, in May 2009. For further information, visit the [ITTO website](#).

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## Resources

DRAFT MINISTERIAL DECLARATION: ACTION PLAN ON FOOD PRICE VOLATILITY AND AGRICULTURE. (14 June 2011). This draft ministerial declaration from the ongoing meeting of G-20 Agriculture Ministers outlines their commitment to tackling the issue of food price volatility. In the declaration, ministers discuss their objectives for an “Action Plan on food price volatility and agriculture” that they intend to prepare for the November 2011 G-20 summit. These objectives involve (i) improving agricultural production in the short and long term; (ii) increasing market information and transparency; (iii) strengthening international policy co-ordination; (iv) improving and developing risk management tools; and (v) improving the functioning of commodity markets. The full text of the declaration can be accessed [here](#).

RISK MANAGEMENT IN AGRICULTURE AND THE FUTURE OF THE EU'S COMMON AGRICULTURAL POLICY. By Stefan Tangermann for ICTSD (June 2011). This paper examines risk management policies in agriculture, with a particular focus on the European Union (EU). The author discusses the nature of risk in agriculture, and the role of governments in managing risk. It continues with a presentation of the options that exist for risk-related government policies, along with their potential implications for the function of markets. The report also includes observations on risk management in the food and agriculture sector in

developing countries. It is available for download on the ICTSD [website](#).

PRICE VOLATILITY IN FOOD AND AGRICULTURAL MARKETS: POLICY RESPONSES. Co-ordinated by the United Nations Food and Agriculture Organization (FAO) and the Organisation for Economic Co-operation and Development (OECD), with contributions from several other United Nations agencies (2 June 2011). Requested by the Group of 20 leading economies (G-20), this interagency report discusses options on how to better mitigate risks associated with food and agricultural commodity price volatility. The report provides recommendations for the G-20 on risk management so that the most vulnerable can be protected without distorting market behaviour. The report is available on the WTO [website](#).

GLOBAL DEVELOPMENT HORIZONS 2011: MULTIPOLARITY – THE NEW GLOBAL ECONOMY. By the World Bank (13 June 2011). This flagship report by the World Bank discusses the multi-polar distribution of economic power that is expected across developed and emerging economies by 2025. The World Bank focuses on the shift in the balance of global growth, the rise of emerging-market firms in global business, and the evolution of the international monetary system towards a multicurrency regime. The report, along with underlying data and methodology, blog postings, and background papers, is available on the World Bank [website](#).

OECD ECONOMIC SURVEYS: INDIA 2011. By the Organisation for Economic Co-operation and Development (OECD) (14 June 2011). The OECD's review of India's economy includes chapters on sustaining growth and improving living standards, along with fiscal policy, energy subsidies, financial reform, and education. The report finds that increased investment and improvements in infrastructure, combined with wide-ranging reforms, have increased growth in India to an all-time high of nine percent. The OECD predicts that inclusive growth of 10 percent per year is feasible, but will only occur if administrative and regulatory barriers facing companies are relaxed. The report is available on the OECD [website](#).

IS PROTECTIONISM DYING? By Uri Dadush, Shimelse Ali, and Rachel Odell for the Carnegie Endowment for International Peace (May 2011). Despite the limited increase in the use of protectionist measures during the recent financial and economic crisis, the world overall avoided resorting to protectionism. In this paper, the authors discuss the complex, mutually reinforcing set of legal and structural changes in the world economy that have made a return to protectionism costly and disruptive, including: national disciplines, regional and bilateral agreements, and “facts on the ground.” The authors argue that World Trade Organization must view itself as a facilitator of all of these processes, and not just a multilateral forum for the exchange of concessions. The report is available for download [online](#).

ECONOMIC CHOICES IN A WARMING WORLD. By Christian de Perthuis at University Paris-Dauphine (March 2011). This book urges readers to concentrate on existing climate change policies, rather than asking more normative questions such as when to act or how to discount the long-term benefits and costs of climate change. The authors show how the development of carbon markets could dramatically reduce world greenhouse gas (GHG) emissions, triggering policies to build a new low-carbon energy system while restructuring the way agriculture interacts with forests. With this approach, the authors hope to provide a new perspective on how a post-Kyoto international climate regime could emerge. The book is available for purchase [online](#).