

# BRIDGES WEEKLY

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## CURRENCY

### Developed Country Monetary Policy Fuelling "Currency War," Brazil Says

Warnings that the global economy is embroiled in a "currency war" were again raised by Brazilian Finance Minister Guido Mantega last week, following the US Federal Reserve's announcement earlier this month that it would be undertaking another round of monetary stimulus. Brasilia's plan to temporarily raise import tariffs on various goods has also ramped up tensions between the trading partners, as Brazilian officials – including the country's president – argue that the measures are both WTO-consistent and necessary to counter the currency effects of developed country policy, amid Washington's claims that the tariffs are protectionist.

#### US Federal Reserve's move sparks unease in Brasilia

The 13 September announcement that the US Federal Reserve would be launching a third round of "quantitative easing" – in other words, buying up assets, in this case mortgage-backed securities, to prop up the economy – has prompted harsh criticism from Mantega on various occasions over the past week, with the finance minister lambasting the Fed's decision as a "protectionist" one that would help the US little.

Instead, Mantega told the Financial Times, QE3 – as the Fed's programme is commonly known – would only cause the dollar to depreciate while increasing US exports. Japan's recent decision to expand its own quantitative easing programme was similarly criticised by the Brazilian finance minister. Mantega has argued that the US and others should instead pursue more fiscal measures, rather than relying too heavily on monetary policy.

"[The United States and Japan] will be stimulating the currency wars as [they] will lead all countries also to pursue these wars," Mantega told reporters in London on Friday, in comments reported by Reuters. He added that the US Federal Reserve's and the Bank of Japan's moves would prompt other countries to act in defence of their economies.

The finance minister has lately said that, if necessary, his country could enact taxes on short-term capital inflows and other measures to prevent Brazil's currency, the real, from appreciating.



International Centre for Trade  
and Sustainable Development

Brazilian President Dilma Rousseff similarly lambasted the Federal Reserve's decision during her address to the UN General Assembly on Tuesday.

"Monetary policy cannot possibly be the only answer to solve increasing unemployment, higher poverty levels, and lack of heart and lack of a future outlook which currently affect the most vulnerable layers of the population worldwide," she said.

Noting the imbalance in foreign exchange rates caused by developed country central banks using such monetary policies, she told the audience that emerging economies will again lose market space as a result, due to their own currencies appreciating.

This latest round of quantitative easing is slated to continue until the US job market improves substantially, and involves the Federal Reserve's buying US\$40 billion a month in mortgage debt, in addition to other existing programmes for a total of US\$85 billion in asset purchases per month.

Mantega first cautioned of a "currency war" in September 2010, in a speech that made headlines worldwide and fuelled increased debate on the impact of currency valuation on export competitiveness. (See Bridges Weekly, 29 [September 2010](#)) Concerns over what critics deem "excessively loose" monetary policy by developed economies – particularly the US and EU – has since been on the rise, with various developing countries arguing that such policies effectively "export the crisis" to emerging and developing economies.

Brazil has been one of the most vocal critics of these measures, as the South American country has worked to push against an import surge exacerbated by the real's continued appreciation. While the real's appreciation has lately slowed, with the currency now being at what Mantega calls "a reasonable value," it is still "overvalued against a basket of Brazil's trading partners," according to the minister.

The South American country has also pressed for discussions on the impact of exchange rates on trade to take place in the WTO context, which most recently led to the Geneva-based organisation holding a seminar on the subject. (See Bridges Weekly, 4 [April 2012](#))

QE3 has been [defended](#), however, by International Monetary Fund (IMF) Managing Director Christine Lagarde, who similarly praised the European Central Bank's OMT bond-purchasing programme and Bank of Japan's expanded Asset Purchase Program as "big policy signals in the right direction."

"They point the way forward and create an opportunity to build on what has been done; an opportunity to make a decisive turn in the crisis," Lagarde said, while noting that prospects for the future remain uncertain.

WTO Director-General Pascal Lamy has similarly noted that "recently announced measures to reinforce the euro and boost growth in the United States are... extremely welcome."

Some analysts, such as Kevin Gallagher – a professor of international relations at Boston University – have urged the Federal Reserve to approach renewed quantitative easing with caution, with Gallagher urging in a recent Financial Times [op-ed](#) that the US use more fiscal policy and not just employ monetary policy.

Gallagher also suggested that the Federal Reserve pursue stronger financial regulation "in order to ensure that financial institutions do not steer newfound liquidity into currency and commodity speculation in emerging markets and developing countries—speculation that can wreak havoc on developing countries' financial systems and growth prospects."

### **Washington criticises Brazilian import tariffs**

Meanwhile, Brazilian and US officials have also exchanged barbs over the South American country's plans to temporarily increase import tariffs, ramping up tensions further between the two trading partners.

"I am writing to state in strong and clear terms the United States' concern about scheduled and proposed tariff increases in Brazil and Mercosur," US Trade Representative Ron Kirk wrote in a letter to Brazilian Foreign Minister Antonio Patriota last week.

Brasilia plans to raise import tariffs on 100 products this month, with increases in rates of up to 25 percent for most products. Additional products are set to be added to that list in October.

The scheduled tariff increases are likely to "significantly hit US exports to Brazil in key areas of export interest to the United States," Kirk said in his letter, criticising these and earlier import tariff increases throughout the year as "clearly represent[ing] protectionist measures" that could risk a response in kind from trading partners.

Brazil's Foreign Ministry quickly countered the US trade official's criticism, with a ministry spokesman calling the claims "baseless."

In his reply to the US trade official, Brazilian Foreign Minister Antonio Patriota argued that the currency effects of US monetary policy is forcing the South American country to tackle "a flood of imported goods at artificially low prices."

"It would be fairer if those increases [in US exports] took place in an environment not distorted by exchange rate misalignments and blatant government support," Patriota said, adding that Brazil's policies were WTO-consistent, unlike the "illegal subsidisation of farm products by the United States, which impact Brazil and other developing countries, including some of the poorest countries in Africa."

Rousseff similarly defended the trade measures during her UN speech on Tuesday. "We cannot possibly accept that trade defence initiatives of developing countries be unfairly classified as protectionism," she said, given that current rich country monetary policy is having the effect of worsening current global recession trends.

"It should be called to mind that legitimate trade defence measures are enshrined under the norms of the World Trade Organization," she added, adding that protectionism and other forms of trade manipulation "should be tackled inasmuch as they accord greater competitiveness in an illegitimate, spurious, and fraudulent fashion.

ICTSD reporting; "UPDATE 5-U.S. warns Brazil on tariffs, gets stinging rebuke," REUTERS, 21 September 2012; "US calls on Brazil to reconsider proposed tariff increases in Brazil and Mercosur," MERCOPRESS, 21 September 2012; "Don't wait for the end of the EU crisis: boost trade among emerging economies, recommends Brazil," MERCOPRESS, 19 September 2012; "Mantega says Brazil's economy resilient," FINANCIAL TIMES, 20 September 2012; "Brazil's finance chief attacks US over QE3," FINANCIAL TIMES, 20 September 2012; "UPDATE 3-Brazil may fire up tax artillery in 'currency war'," REUTERS, 21 September 2012; "Let's not get 'carried away' by Bernanke's latest twist," FINANCIAL TIMES, 25 September 2012.

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## WORLD TRADE ORGANIZATION

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# Multilateralism is Struggling, WTO Chief Warns

Civil society descended on WTO headquarters this week to address a question familiar to anyone who has attended a multilateral negotiating session in recent years: is multilateralism in crisis? The WTO is, perhaps, one of the most appropriate venues for addressing such a question, where – given the continued Doha Round impasse – some delegates concede that they feel as though they are merely treading water.

The question was met head-on during the first day of the 24-26 September WTO Public Forum, when key speakers addressed attendees in plenary. The panel, which included the likes of former Swiss president Micheline Calmy-Rey; Chilean senator Ricardo Lagos Weber; eBay vice chairman, CEO, and chief financial officer Nicholas Staheyeff; United Arab Emirates minister for foreign trade Sheikha Lubna Al Qasimi; and WTO Director-General Pascal Lamy, discussed the state of multilateral negotiations and offered perspectives on what global forces are shaping the current landscape.

### Multilateralism 2.0?

When pressed to give a quick assessment of the future of multilateralism, Lamy said he was "cautiously pessimistic." He suggested that current multilateral structures have not had time to adjust to the speed with which globalisation has taken root and shaped the world.

"To put it very simply, today's multilateralism was okay 20 years ago," the Director-General told the audience before comparing the system to a computer in need of a software upgrade. Lamy noted the shifting balance of global power over the past few decades, with developing countries increasingly finding their collective voice and taking a more active voice in negotiations.

Lamy said that while the "hardware" of multilateralism was sufficient, developing countries would like to have a say in how the code of the new "software" is written. Calmy-Rey also pointed this shift in power in her speech, noting that the question of exceptional flexibilities for developing countries has been one of the most difficult issues to overcome in negotiations at both the WTO and the UN Framework Convention on Climate Change (UNFCCC).

"Difficulties have crystallised the differences between developed and emerging economies over the degree of responsibility and solidarity in making commitments," the former Swiss president told the forum. "It is very interesting to note the parallel between Special and Differential Treatment [at the WTO] and the Common but Differentiated Responsibility in the climate change discussions."

Comparisons between the WTO and UNFCCC negotiations were commonplace at the three-day forum's numerous sessions, with some panellists and participants questioning whether it was better to inch negotiations forward – as climate change negotiators did last December in Durban – or hold out for a complete package, which WTO members attempted unsuccessfully for years with the Doha talks, only to struggle later in even trying to conclude smaller mini-packages.

Many participants pointed to the reality that although the WTO has encountered difficulties in the Doha Round of negotiations, the organisation's role as a monitor and dispute settlement instrument cannot be overlooked.

At one Public Forum session focussed on dispute settlement, one panellist noted the fact that a large number of disputes come to the WTO from countries that are part of regional or bilateral agreements with their own dispute settlement mechanisms. Others noted that the WTO dispute settlement system has served as a model for the dispute mechanisms in some regional or bilateral pacts.

### **Bilateral, regional deals proliferate**

The increased prominence of plurilateral and bilateral trade talks loomed over the discussions at the forum. Some participants framed the seemingly endless list of agreements as "alternatives" to multilateral negotiations, while others felt they could be complementary. Most agreed, however, that progress on the Doha negotiations in the immediate future appears to be a nearly insurmountable task, while in the meantime trade departments are increasingly focussing their attention on other liberalising deals, such as the proposed Trans-Pacific Partnership (TPP).

Meanwhile, the legitimacy of intergovernmental forums with limited membership, such as the G-20, was also questioned by some speakers, with Calmy-Rey cautioning that such groupings should not be tasked with taking major decisions that should fall under the purview of more universal groups.

"These universal organisations do not derive their legitimacy from the size or economic clout of states, but from the collective will of all their constituting members," she said.

Others, however, noted that such forums can lead to positive outcomes that could then be extended to a wider group, with Lamy noting the recent progress on liberalising environmental goods made by Asia-Pacific Economic Cooperation (APEC) members in Vladivostok, Russia. (See Bridges Weekly, [12 September 2012](#))

While APEC members are part of a regional grouping, and not a region-wide trade pact - with therefore no penalties for non-compliance - the Director-General called the conclusion of an environmental goods list for liberalisation "great news," because it demonstrates that China and the US are able to find common ground on difficult trade issues, especially given that APEC members encompass a large portion of global trade.

Lamy asserted that while deals like this are regional, they need not remain that way. Combined with the EU, which already has generally low tariffs on such products, the trade chief explained, the APEC green goods list could eventually turn into something that could be imported into the WTO.

### **Room for optimism?**

As the Forum came to a close on Wednesday, panellists reflected on the discussions of the last three days. Discussants agreed that multilateralism is facing significant challenges, but pointed to a series of positive multilateral processes that are robust and functioning well. Echoing the words of Pascal Lamy's comments at the opening plenary, panelists at the closing plenary spoke of a need for an upgrade to "multilateralism 2.0."

The WTO Public Forum has been an annual event since 2001. The public outreach initiative typically draws a wide range of participants, including representatives of non-governmental organisations, intergovernmental organisations, academics, industry groups, private sector, and government.

ICTSD reporting.

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## DISPUTES

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# US Compliance Report in Boeing Dispute Rejected by EU

The longstanding row between Brussels and Washington over domestic support to the airplane industry resurfaced this week, with the EU [rejecting](#) the US' [claim](#) that it had eliminated those subsidies for aerospace giant Boeing that had been deemed inconsistent with WTO rules ([DS353](#)).

Washington's compliance [notification](#), released by the Office of the US Trade Representative (USTR) on 23 September, outlined a series of measures taken to comply with the WTO's Dispute Settlement Body ruling, after the global trade arbiter's Appellate Body largely upheld an earlier panel ruling in the EU's favour this past March. (See Bridges Weekly, [14 March 2012](#))

On Tuesday, however, the EU rebuffed the claims that the US has done enough to bring its support for Boeing in line with WTO rules.

"We had expected that the US would have finally complied in good faith with its international commitments and would have abided by the WTO rulings that clearly condemned US subsidies to Boeing," [said](#) EU Trade Commissioner Karel De Gucht.

"We are disappointed that this does not seem to be the case," the EU trade chief continued, noting that Brussels' next move would be to "insist on proper compliance before the World Trade Organization." Specifically, Brussels is requesting that Washington enter into consultations regarding the compliance notification.

However, US officials argue that their efforts to meet the terms of the DSB ruling have been successful. "We remain confident that the actions we announced on Sept. 23 have brought us into full compliance with our WTO obligations," USTR spokesman Andrea Mead told Bloomberg in a statement, adding that Washington is ready to discuss Brussels' concerns.

Boeing, for its part, issued a statement of its own on Sunday, praising the US government's compliance efforts, while lambasting the EU and Airbus for allegedly not doing the same.

"Boeing fully supports the actions the US government announced today that it has taken to address the relatively small amounts of subsidy that the World Trade Organization identified as inconsistent with its rules," the civil manufacturer's [statement](#) said, claiming that Washington has indeed complied with the DSB ruling. "Unfortunately, the same cannot be said of Airbus and its government sponsors, which have thumbed their noses at the WTO."

Brussels' parallel dispute with the US over government support to EU civil airplane manufacturer Airbus is currently at the compliance panel stage, after Washington similarly rejected the EU's claims that it had brought its Airbus subsidies in line with WTO rules ([DS316](#)). (See Bridges Weekly, [14 December 2011](#) and [11 April 2012](#)) While the WTO did appoint an arbitrator to oversee Washington's countermeasures claim, arbitration proceedings have temporarily been suspended, pending the results of the compliance panel.

The parallel disputes together form the world's largest trade row, with the markets involved having a combined worth of US\$2 trillion.

### **Next steps**

Under WTO rules, the EU can request that the original dispute panel issue a decision on the US' compliance in the case. Should the judges find that the US did indeed fail to implement the DSB ruling, countermeasures can then be authorised by the arbitrators.

ICTSD reporting; "EU Rejects U.S. Claims in WTO Case Involving Boeing," BLOOMBERG, 25 September 2012.

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## INTELLECTUAL PROPERTY

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# Discussions on Possible Industrial Design Treaty Stumble at WIPO

Member countries found themselves at odds over whether the World Intellectual Property Organization (WIPO) was ready to pursue a new treaty on industrial designs, leaving the Standing Committee on the Law of Trademarks, Industrial Designs and Geographical Indications (SCT) unable to reach a compromise on the matter at its meeting last week.

According to WIPO's definition, an industrial design refers to the aesthetic aspects of an item, such as its shape and colour. Industrial designs are applied to a large array of products, ranging from medical instruments to watches and household appliances.

The industrial design treaty is a "case in point" to test whether the WIPO normative agenda is being inspired by "the constructive spirit and engagement" that led to the adoption of the Beijing Treaty on Audiovisual Performances last June, WIPO Director-General Francis Gurry told delegates at the beginning of the SCT's twenty-seventh [session](#), which met from 18-21 September. (See Bridges Weekly, [27th June 2012](#))

Discussions have been taking place at WIPO since 2009 on possible areas of convergence regarding industrial design law and practice. In 2010, negotiations began to centre on a potential legal instrument that would harmonise industrial design registration formalities at the international level. The convening of a diplomatic conference for the adoption of a treaty on industrial designs was established as one of WIPO's priorities at the organisation's General Assembly last year.

### **No consensus on diplomatic conference for industrial design treaty**

Last week's session saw some developed country delegations eager to move discussions on industrial designs towards a diplomatic conference.

"We believe that the text is very close to an agreement, but without a specific impetus we will not make progress," the EU delegate said.

The EU request for a diplomatic conference was met with resistance by several developing countries, who called the move "premature."

Brazil, on behalf of the Development Agenda Group (DAG), noted that “the draft articles are a work in progress and there are many issues that need to be better addressed” before moving forward. “This exercise has started as a discussion involving few members and the outcomes of these early discussions reflect the laws, practices, and regulations of developed countries,” the delegate said.

“We need to take into consideration the realities of developing countries and also their needs in terms of technical assistance,” Brazil added.

The impasse regarding the committee's future work was reflected in a meeting [summary](#) released by Imre Gonda, Deputy Head of the Hungarian Intellectual Property Office and chair of the SCT. Even though “no delegation had expressed opposition to the possibility that this work could result in an international instrument,” the document acknowledges that the SCT was unable to agree on whether to recommend that the WIPO General Assembly convene a diplomatic conference.

The decision on the matter will therefore be left to the upcoming Assembly, which is slated to meet on 1-9 October.

### **Developed, developing countries disagree over impact study**

During the four-day talks, SCT members also discussed a [study](#) on the potential impacts of the draft instrument that had been requested by developing countries at the previous SCT on the grounds of the Development Agenda recommendations related to norm-setting. The study – prepared by the office of the Chief Economist – examines the potential impacts of the proposed changes to industrial design law and practice on applicants and offices, as well as the flexibilities contained in the draft provisions.

Some developed countries reiterated their call for a diplomatic conference, stating that the study “contributes to a better understanding of the benefits of convergence” of design formalities, and emphasising that the adoption of the treaty will ease the registration of industrial designs “by making it easier, cheaper, and quicker.”

However the DAG noted that the implementation of the treaty would require “a good deal of effort by developing countries.” Similarly, the African Group recalled the importance of observing the Development Agenda recommendations related to capacity building and the need to “take into account costs, benefits, and different levels of development.”

Brazil, speaking on the DAG's behalf, noted that the study “can help members to have a better assessment.” However, they continued, the study did not follow the country classification mandated in the terms of reference; they also mentioned the need for more analysis of developing countries' needs.

For its part, the African Group called upon the Secretariat “to improve the study in order to complete the terms of reference that were not or that were only partially addressed.”

However, the EU – supported by other developed countries– said it does not support such a proposal “for it means delaying further the prospective of concluding our work on the treaty on industrial designs.”

Ultimately no agreement on the subject was reached.

### **Internet intermediaries deleted; protection of country names sees progress**

Following last Monday's information meeting on trademark protection on the web and the role of internet intermediaries, members of the SCT agreed to remove the issue of internet intermediaries from the committee's agenda. (See Bridges Weekly, [19 September 2012](#))



At the same time, members agreed on a proposal by Jamaica and Barbados that would require the secretariat to prepare a study on the protection of country names. The study, which would be presented at the SCT's 29<sup>th</sup> session, would aim "to determine possible best practice for the protection of country names from registration as trademarks or as elements of trademarks." The proposal rises from the need to tackle the increased use of country names in goods and services which have no association to the country in question.

ICTSD reporting; "Decision on WIPO Design Treaty Left To General Assembly; Internet Issue Dropped," IP WATCH, 21 September 2012; "WIPO: Protection Of Country Names Inspires Delegates; Designs Conference Elusive," IP WATCH, 20 September 2012; "Hope To Advance Industrial Design Treaty At WIPO Meets Reluctance From Developing Countries," IP WATCH, 19 September 2012.

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## TRADE STATISTICS

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# WTO Scales Back Trade Growth Estimates

World trade growth is expected to be slower this year than previously anticipated, WTO economists announced on Friday, downgrading their earlier estimates released in April. The global trade body credited the lowered forecast to "increasingly strong headwinds" in the world economy, including poor output and employment data from the US, signs of slower growth in China, and the continued European sovereign debt crisis.

Rather than the 3.7 percent in trade expansion that WTO economists predicted five months ago, the global trade body says that trade volume will instead grow by only 2.5 percent this year. (See Bridges Weekly, [18 April 2012](#))

Developed economy exports are expected to increase in 2012 by 1.5 percent, with a 3.5 expansion in developing countries; with imports, however, the new numbers indicate "nearly stagnant growth" in developed economies from 0.4 percent – a 1.5 percentage point drop from earlier estimates – and a 5.4 percent rise in developing country imports, with that number having dropped by 0.8 percentage points.

Next year's estimates have also been downgraded from 5.6 percent to 4.5 percent, the Geneva-based organisation said, adding that as long as financial uncertainty in Europe continues, the forecast will remain at risk of being further reduced.

The drop of intra-EU trade, as well as the EU bloc's trade with the rest of the world, has largely been at fault for the downward revision of the forecast, though the WTO statement noted that there could be some hope for improvement should the European Central Bank's bond purchasing programme end up boosting the EU's import demand.

In the developing world, lessened trade flows are largely due to decreased domestic demand from China and low import demand from developed economies, the WTO statement says.

**"More needs to be done," Lamy urges**

However, while "recently announced measures to reinforce the euro and boost growth in the United States are... extremely welcome," WTO Director-General Pascal Lamy [said](#) upon the release of the new figures, "more needs to be done."

"We need a renewed commitment to revitalise the multilateral trading system, which can restore economic certainty at a time when it is badly needed," the trade chief urged. "The last thing the world economy needs right now is the threat of rising protectionism."

In a speech the same day, the Director-General [noted](#), however, that the revised data – while reflecting "historically low numbers on average" – is still essentially the result of the global slowdown and "cannot be sourced to a separate set of circumstances afflicting trade."

"This implies that trade policy has remained stable and economies have remained open," Lamy told a Singapore business audience on Friday. "This is largely true, although there have been some cases where governments have introduced restrictive trade measures." However, he cautioned against complacency, noting that governments are facing even more pressure to pursue protectionist policy measures than they were following the "aftermath of 2008."

Concerns over increased protectionism among WTO members has heightened in recent months, with the release of new data indicating an increase in trade restrictive measures being applied both in the Group of 20 leading economies, as well as in many of the organisation's membership overall. (See Bridges Weekly, [6 June 2012](#) and [4 July 2012](#))

While the G-20 during its June summit extended its pledges to avoid imposing new protectionist measures – and to rollback existing ones implemented since the start of the crisis – to 2014, trade observers have questioned how much of an impact such a commitment will actually have. (See Bridges Weekly, [20 June 2012](#))

Similar downward adjustments to global economic growth estimates are [expected](#) to soon be released by the International Monetary Fund (IMF) during its upcoming annual meeting, set to be held in Tokyo, Japan from 9-14 October.

ICTSD reporting.

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## CLIMATE CHANGE

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# EU Airline Emissions Rule Under Fire by US Senate

The US Senate unanimously voted on Saturday in favour of legislation that could protect US airlines from taking part in the EU's Emissions Trading System (EU ETS), nearly a year after the US Congress' other chamber passed a similar measure. While the legislation still must go through various steps before it can become law, the move has sparked questions over whether the US will be the next to formally act against the inclusion of aviation in Brussels' scheme.

The Senate legislation would give the US Transportation Secretary the authority to stop airlines from participating in the EU scheme "in any case in which the Secretary determines the prohibition to be, and in a manner that is, in the public interest," accounting for impacts on US consumers, carriers, and operators; effects on US economic, energy, and environmental security; and impacts on US foreign relations.

According to US Senator John Thune, a Republican from the state of South Dakota who was a sponsor of the Senate legislation, the move will "ensure that US air carriers and passengers will not be paying down European debt" through what he called an "illegal tax."

Under the EU ETS, all airlines – regardless of nationality – will be required to surrender emission permits for intra-EU flights, as well as flights to and from the 27-country bloc. Airlines will have to buy permits for 15 percent of their carbon emissions, while being allocated the remaining 85 percent for free. The inclusion of aviation into the EU scheme entered into force this past January, though airlines will not have to surrender permits for 2012 carbon production until April 2013.

The law has been the subject of harsh criticism from various non-EU governments, including the US, who argue that Brussels is exceeding its legal jurisdiction by charging for aviation emissions over the full length of the flight instead of just the portion in EU airspace.

The law has also drawn concern from European aerospace officials, with Peter Hintze – the German government official in charge of aerospace policy – telling reporters after a meeting of Airbus "ministers" of Britain, France, Germany, and Spain earlier this month that industry representatives would soon be asking national governments to delay the April 2013 start date until autumn of that year.

The US aviation industry has been similarly vocal, with a group of nearly 20 industry groups having last week called on the White House to initiate dispute proceedings under the International Civil Aviation Organization (ICAO), the UN civil aviation body. "An article 84 [dispute] action will prompt, rather than impede, agreement and implementation of a global framework for addressing aviation greenhouse gas emissions," the group said, in excerpts of the letter published by Reuters.

Although the majority of countries have complied with Brussels' policy, the US is not alone in its stance against the inclusion of aviation in the EU scheme, with other detractors including China, Russia, and India. Earlier this year, China and India became the first to ban their airlines from complying with the aviation emissions rule without government

approval, with some Chinese and Indian airlines missing an interim deadline to submit aviation emissions data to Brussels earlier this year. (See Bridges Weekly, [16 May 2012](#))

### **Possible new US approach in ICAO?**

As opposition to the EU aviation emissions policy continues unabated, observers are watching to see whether the 191-member ICAO will be able to clinch a global aviation emissions deal.

Notably, the Senate legislation includes a provision that would allow the Transportation Secretary to reassess the exemption of US airlines at any time, including in the case that the EU amends its aviation emissions rule or if a global aviation emissions pact is agreed. Should a US law or rule be passed to address aircraft emissions, the Secretary would also be able to reconsider the exemption.

However, European Commissioner for Climate Action Connie Hedegaard, while commending the bill for encouraging Washington to work within the ICAO for a global pact, appeared unconvinced that a proposed new approach would necessarily translate into action. "It's not enough to say you want it, you have to work hard to get it done... the US needs to change its approach in ICAO and show willingness to actually seal a meaningful global deal," the EU climate chief said.

The ICAO's governing council is set to meet from 29 October to 6 November. A draft plan for a global aviation emissions agreement – which has long struggled to make headway – is now expected by March of next year, instead of the previous end-2012 deadline, according to Reuters. If finalised, the plan would be subject to approval by the organisation's membership in autumn 2013.

### **Next steps**

The Senate's move comes almost a year after the House of Representatives passed a similar measure aimed at prohibiting US airlines from complying with the EU law and directing US federal agencies to take measures to ensure carriers do not suffer penalties as a result (see Bridges Weekly [2 November 2011](#)).

To become law, any differences between the House and Senate versions would need to be reconciled in conference, after which President Barack Obama's approval would be needed. However, Congress is out of session for the remainder of the US election session, meaning any movement on reconciling the two bills would likely have to wait until at least November.

In addition, though administration officials – including Transportation Secretary Ray LaHood and Secretary of State Hillary Clinton – have pushed against the inclusion of aviation in the EU scheme, it remains unclear whether Obama would indeed sign the bill should it reach his desk. (See Bridges Weekly, [18 January 2012](#))

ICTSD reporting; "Senate passes bill to shield US airlines from EU carbon-emissions law," THE GUARDIAN, 22 September 2012; "Senate votes to shield US airlines from EU's carbon scheme," REUTERS, 22 September 2012; "Airbus ministers seek EU CO2 plan delay: Hintze," REUTERS, 14 September 2012; "U.S. airline industry urges Obama to block EU carbon scheme, REUTERS, 18 September 2012.

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## SERVICES

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# Kirk: New Look at Services Trade “Long Overdue”

A new approach to trade in services “is long overdue,” US Trade Representative Ron Kirk [said](#) last week, advocating strongly for a proposed agreement on liberalising services trade that is currently being explored by a subset of WTO members. Other trade officials from some of the member governments participating in the initiative similarly pushed for negotiations on such a pact to begin shortly, while expressing interest in attracting more members.

The “policy backdrop surrounding global services trade looks somewhat like a patchwork quilt right now,” Kirk told an audience at last week’s 2012 Global Services Summit in Washington. “The [International Services Agreement, or ISA]... offers a means of building international consensus on new trade rules that someday could be introduced into the WTO,” he continued. “This is a significant feature, because the WTO’s central role as a cornerstone of the multilateral trading system depends on its capacity to advance creative and ambitious approaches to trade liberalisation.”

[Testifying](#) the next day in front of the US House of Representatives subcommittee that deals with trade, US WTO Ambassador Michael Punke particularly emphasised the difficulty that the Doha Round impasse poses to reducing barriers in services trade, arguing that existing WTO frameworks will not allow for “real progress on services trade liberalisation anytime soon.”

“The positions of the major players are too firmly entrenched, and too closely tied to a web of other issues,” the US ambassador explained, noting that the Geneva-based global trade body is “an institution at a crossroads.”

“This situation has resulted in a fair amount of hand-wringing and doomsday predictions in Geneva. But our view is that the WTO can’t fix its problems without first acknowledging them,” Punke said, while adding that the acknowledgement of the impasse has served as a way “to learn from our collective mistakes in the Doha negotiation and craft more constructive and productive ways forward.”

The prospect of a services liberalisation pact has gained prominence in Geneva over the past year, with a group of WTO members meeting regularly to review possible ways to reduce barriers in services trade. The group, which includes a mix of developed and developing economies, announced in July that their discussions were ready to enter a new phase following the August recess. (See Bridges Weekly, [11 July 2012](#))

The group has said that any services agreement would need to be comprehensive in scope with substantial sectoral coverage, without any “*a priori* exclusion of any sector or mode of supply.”

Whether or not to establish a positive or negative list has been one of the topics explored during the early technical talks this year, along with how to multilateralise whatever result emerges from the initiative – subjects that were reportedly raised again by trade officials at last week’s Global Services Summit, which included among its attendees Canadian Trade Minister Ed Fast, Costa Rican Foreign Trade Minister Anabel González, Mexican

Secretary of the Economy Bruno Ferrari and Ambassador to the WTO Fernando de Mateo, South Korean Trade Minister Taeho Bark, and New Zealand Trade Minister Tim Groser.

The need to launch negotiations soon was also raised by some officials, with some advocating for a 12-month negotiating timeframe.

### **Need for more members, industry groups and trade officials say**

Various services industry groups have similarly backed the initiative, with the Global Services Coalition releasing a [statement](#) last week calling for more WTO members to join in the discussions. They also urged participating members “to move rapidly to capture the existing hard-won momentum towards launching formal negotiations by the end of this year – to achieve early practical outcomes in support of global economic growth.”

The group involved in the initiative, known as the Real Good Friends of Services, or RGF, is now up to 20 members with last week's addition of Panama. However, the recurring question among trade observers is whether emerging economies – which have so far been sceptical of the services initiative, questioning the systemic implication of pursuing a plurilateral approach to negotiations – will eventually decide to join the talks, given their large role in services trade.

However, some trade officials from countries involved in the initiative, such as Canadian Trade Minister Ed Fast, have stressed that such a pact must have high-standard market access provisions and not be limited by concerns over whether such commitments might be too ambitious for emerging economies to later join, according to Reuters.

### **Next steps**

“We have reached agreement on a core set of objectives, and agreed to intensify our efforts this fall,” Punke told the House subcommittee last week. “Our next step is for the group to develop more specific negotiating parameters so that each participant can conduct the domestic consultations necessary in order to decide how to proceed.”

The ambassador added that there is currently no “hard deadline” for the initiative, and that the group is planning to conduct monthly meetings throughout the rest of the year, with the next meeting planned for early October.

The trade official also warned that, while early signs of progress might appear promising, differences are likely to arise among the 20 countries involved as discussions intensify. “Some members may even choose to reduce their engagement,” he noted, adding that this “would be a natural and healthy part of any negotiating process that should be embraced rather than feared.”

ICTSD reporting; “US, trade allies push for international services talks,” REUTERS, 19 September 2012.

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## AGRICULTURE

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# Subsidies Smaller Share of Farm Income, OECD Says

Newly released figures from the Organisation for Economic Co-operation and Development (OECD) show that farmers are deriving a smaller share – 19 percent in 2011 – of their income from government coffers. High prices for farm goods are largely behind the trend, the Paris-based organisation said, since policies remain largely unchanged.

The OECD's monitoring efforts track shifts in agricultural policies for its member countries and offer a standardised means of comparing changes in farm spending. The annual figures show that while government spending is relatively stable at US\$252 billion, record commodity prices in key countries have left many farmers less dependent on government payments for their income.

Some countries, however, continue to provide their farmers with a large share of their income, with levels reaching 51 and 60 percent in the case of Japan and Iceland, respectively. The OECD member average was 20 percent over the 2009-11 period.

A deadlock in Geneva trade talks has eased the pressure on many subsidising countries to change their policies as part of a global trade deal. "Farmers don't care that much about the rules right now," Robert Carlson, president of the World Farmers' Organisation, told an audience at the WTO Public Forum on Tuesday in reference to the Doha Round.

However, a delegate from a major agricultural exporter, speaking to Bridges, noted that improved disciplines on domestic support serve as "insurance" against times when prices for agricultural commodities decline and government spending increases to compensate farmers.

Legislation currently in the works in some countries, such as the US, is attempting to shift spending towards crop insurance – eschewing direct payments for more trade-distorting outlays under WTO rules. Critics of the shift worry that higher prices might be locked in over long periods as a result.

Echoing the delegate's concerns, Carmel Cahill of the OECD's Trade and Agriculture Directorate told Bridges that the challenge of making farm spending more cost effective will not have "been solved if prices come down."

The OECD currently projects that commodity prices will remain high over the medium term, possibly allowing the trend in diminished farm payments as a share of income to continue.

### High prices an opportunity for reform?

Ken Ash, Director of Trade and Agriculture at the Paris think tank, noted in a [statement](#) that, given high prices, "there is a clear opportunity to turn farm policy toward the most pressing policy goals, like boosting innovation across the food and agriculture system."

Frustrated with the pace of reforms in agricultural trade policy, Sheila Page of the Overseas Development Institute told Bridges that the recent report offered little that was beyond "simple arithmetic," where the shifting share of government support in farmer

income was merely a change in the denominator. Cahill was more optimistic, however, observing that change comes slowly on farm policy, "like water dripping on a stone."

ICTSD reporting.

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## EVENTS & RESOURCES

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# Vacancies

The **Economics and Trade Branch of the United Nations Environment Programme** (UNEP-ETB) is seeking a consultant to contribute to UNEP-ETB's work on trade and environment policy, including follow-up activities relating to the United Nations Conference on Sustainable Development (Rio+20). Applicants for this Geneva-based position must have expertise in the field of trade and the environment from an economic or legal perspective, as well as excellent drafting skills. For the full job description and requirements, please visit the UNEP [website](#).

The **Africa Europe Faith and Justice Network** (AEFJN) is seeking candidates for the position of Policy Officer. AEFJN is a faith-based international network that works to promote economic justice between the EU and Sub-Saharan Africa, focusing on areas such as food security and trade, among others. To learn more about the job duties and requirements, as well as how to apply, please visit the AEFJN [website](#).

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# Events

## Coming soon

27 September, Geneva, Switzerland. **BRIDGES CHINA DIALOGUE: INTERNATIONAL POLITICAL ECONOMY OF A TRANSITIONAL CHINA**. This will be the fifth instalment of ICTSD's annual dialogue focused on China's role in global sustainable development governance, particularly as the country enters a new period of transition in political, economic, social, and international spheres. This event, co-organised with Friedrich-Ebert-Stiftung (FES) and Indiana University Bloomington's Research Center for Chinese Politics and Business, aims to provide an opportunity for all stakeholders to consider the implications of this transition period, and evaluate how Chinese entrepreneurs, governments, and civil society organisations contribute to sustainable development both within China and globally. For more information, please visit the Bridges China 2012 dedicated [website](#).

27 September, Washington, US. **CHINA'S ECONOMIC SLOWDOWN AND ITS POLICY IMPLICATIONS**. This Carnegie Endowment-hosted event will address the increasing concern that China's economic slowdown is intensifying. Speakers will discuss how, despite the hope for a "soft landing," this slowdown is occurring at a particularly inopportune time for China, just as the next generation of leaders is being appointed.



Speakers will also address China's economic prospects and policy options for the coming year. For more information, visit the Carnegie Endowment [website](#).

27 September, online. EMERGING ISSUES IN CLIMATE MITIGATION AND ADAPTATION. In this free monthly online seminar from the World Bank's e-Institute, World Bank experts will share the latest approaches on topics such as social entrepreneurship and green growth through online presentations. The goal of the series is to educate and foster discussion around pressing issues in development. For more information, visit the e-Institute [website](#).

27-28 September, Paris, France. GREEN FORUM 2012. Sponsored by WWF France and organised with the support of the Institute for Sustainable Development and International Relations (IDDRI), Notre Europe, Entrepreneurs d'avenir, Maison de l'Europe de Paris, and Mouvement Européen-France, this forum aims to bring together economists, researchers, business leaders, politicians, and NGO representatives to discuss the event's theme: "A green path of growth for the European economy?" For more information, visit the event [website](#).

1 October, Washington, US. FOREIGN INVESTMENT, ECONOMIC GROWTH AND JOB CREATION. This forum, hosted by the Initiative on Business and Public Policy at the Brookings Institution, will examine the key factors policymakers should consider in trying to attract global investment in the US, and how to create more US jobs through these foreign investments. Jonathan Browning, President and CEO of Volkswagen Group of America, will give the keynote address, which will then be followed by a panel discussion. For more information, visit the Brookings [website](#).

3 October, London, UK. NEW INVESTMENT STRATEGIES FOR A CHANGING WORLD. This event, sponsored by Chatham House, will discuss the fact that prospects for economic growth in sub-Saharan Africa remain strong and, with investor confidence in high-income countries weak, businesses around the world are increasingly interested in investment opportunities in Africa. Helen Zille, the leader of the Democratic Alliance and the premier of the Western Cape, will argue that in a changing world, businesses need to redefine their interest and investment approaches in sub-Saharan Africa. The discussion will also centre on how South Africa is becoming an increasingly important partner of choice for countries seeking to engage in Africa. For more information, visit the event [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.

28 September: Working Party on the Accession of the Lao People's Democratic Republic

28 September: Dispute Settlement Body

1 October: Committee on Trade in Financial Services

1 October: Committee on Trade-Related Investment Measures

1 October: Working Party on GATS Rules

3-4 October: General Council

### Other Upcoming Events

4 October, Paris, France. 2012 INTERNATIONAL ECONOMIC FORUM ON AFRICA. Organised by the Organisation for Economic Co-operation and Development (OECD) Development Centre in collaboration with various other organisations, this annual meeting of European and African policymakers, economists, and academics will discuss the performance of African economies and the major challenges faced by the continent. This year, the forum will focus on African youth training, employment, and prospects for the future. It will also look at the role of the state and the private sector in promoting a job-creating growth strategy, the opportunities and challenges of better training of African youth to adapt them to the needs of the labour market, and the benefits of using natural resources to create jobs and foster development. For more information, visit the event [website](#).

4-5 October, Santiago, Chile. SEMINAR ON INVESTMENT FOR ECONOMIC GROWTH, SOCIAL INCLUSION AND ENVIRONMENTAL SUSTAINABILITY. Hosted by the UN Economic Commission for Latin America and the Caribbean (ECLAC), this seminar is intended as part of the preparations for the European Union (EU) and Community of Latin American and Caribbean States (CELAC) Summit of Heads of State and Government in January 2013. The upcoming January summit is being held under the theme "Alliance for Sustainable Development: Promoting Investments of Social and Environmental Quality." For more information, visit the event [website](#).

11 October, Geneva, Switzerland. CELEBRATION OF WORLD FOOD DAY. The UN Food and Agriculture Organization, the World Food Programme (WFP), and the International Federation of Red Cross and Red Crescent Societies (IFRC) is hosting an interactive panel discussion on the theme "Can we end Hunger?" Speakers will address the state of global food security, as well as trends, progress, and challenges in the fight against hunger and malnutrition. In particular, the panel will discuss the *Zero Hunger Challenge* launched in June at the Rio+20 Conference. For more information, visit the event [website](#).

24 October, Washington, US. PRIVATE SECTOR EXPORT OPPORTUNITIES FOR GREEN BUILDING AND CLEAN TECH. Sponsored by the Northern Virginia-DC US Export Assistance Center, this event will feature a panel of small businesses currently exporting or becoming export ready in the green building and clean tech market. The panel will also address the opportunities in this field. For more information, visit the event [website](#).

5 November – 14 December, online. STRENGTHENING THE INSTITUTIONAL FRAMEWORK FOR SUSTAINABLE DEVELOPMENT. This six-week web-based course from the UN Institute for Training and Research (UNITAR) is geared toward groups and individuals that are interested in obtaining a general understanding of international sustainable development governance, as well as the latest developments in that field. Participants will learn about the current institutional architecture concerned with sustainable development; emerging policy issues requiring an effective institutional response; and political challenges in advancing reform, as reflected in the Rio+20 negotiations. For more information or to register, visit the event [website](#).

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## Resources

**DEVALUING TO PROSPERITY: MISALIGNED CURRENCIES AND THEIR GROWTH CONSEQUENCES.** Published by the Peterson Institute for International Economics (August 2012). This book examines the various propositions relating to currency misalignments, and their effect on various items of policy interest. The author analyses more than a century of global exchange rate management and growth outcomes, aiming to demonstrate that a country can systematically devalue and still prosper. The analysis aims to help in interpreting several phenomena of the past three decades, which have witnessed high economic growth in developing countries, a widening of global imbalances, and a sharp increase in reserve accumulation, particularly among high-growth Asian economies. The book argues that these events are strongly linked via a consistent policy of currency undervaluation in Asian economies. The full text can be purchased [here](#).

**CAPITAL ACCOUNT POLICIES AND THE REAL EXCHANGE RATE.** Published by the Peterson Institute for International Economics (September 2012). This paper presents a simple model of how a small open economy can undervalue its real exchange rate using its capital account policies. The paper presents several properties of such policies, and proposes a rule of thumb to assess their welfare cost. The model is applied to an analysis of Chinese capital account policies. The full text can be viewed [here](#).

**THE TRANS-PACIFIC STRATEGIC ECONOMIC PARTNERSHIP: WILL IT DIVIDE THE ASIA-PACIFIC?** Published by CUTS International (2012). This briefing paper provides background on the proposed Trans-Pacific Partnership (TPP) Agreement and the lack of consensus between members that has led it to miss prior deadlines for completion. The author aims to provide background on the TPP initiative, and argues that the proposed trade pact will continue to dominate the strategic economic discourse on the regional architecture of the Asia-Pacific, regardless of its outcome. The full text can be found [here](#).

**CARRY-OVER OF AAUS FROM CP1 TO CP2 – FUTURE IMPLICATIONS FOR THE CLIMATE REGIME.** Published by Thomson Reuters Point Carbon (September 2012). This report estimates the size of the Assigned Amount Units (AAU) – also known as emission rights – surpluses both from the first Kyoto commitment period (2008-2012) and the second commitment period. It provides an explanation and qualitative analysis of banking AAUs, including how they interact with the EU emissions trading scheme (EU ETS). The report also models the likely scale of the surplus based on projections of actual emissions at country level, and reports on its impact on the second commitment period under the Kyoto Protocol. The full text can be found [here](#).

**FOOD SECURITY IN SOUTHERN AFRICA: A LOAF IN HAND IS WORTH TWO IN THE OVEN?** Published by the International Institute for Sustainable Development (IISD) (2012). This essay examines the state of food security in Southern Africa, and identifies where government policies both in the region and outside can contribute to reducing hunger. The essay uses developments in food prices and food market volatility from 2006 to the present as context in its analysis. The full text can be found [here](#).

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