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EUROPEAN UNION

Globalisation Debate Continues in Europe as Election Season Gets Underway

The debate over the merits of globalisation continues to hold centre stage in Europe, as leaders prepare for a wave of elections across key economies, while also working to advance the EU's goals of increased trade ties abroad and a strengthened union within.

The future of the bloc was on the agenda when EU leaders met informally in Malta on Friday 3 February, spending the morning on migration and related issues and the afternoon in a session regarding the 25 March celebrations of the 60th anniversary of the Rome Treaties, which established the European Economic Community.

The latter meeting of the "EU 27" was held without UK Prime Minister Theresa May, as the process involves a "political reflection" on the bloc's direction for when the United Kingdom formally exits the EU. (See Bridges Weekly, [22 September 2016](#))

Tusk: EU must keep role of "trade superpower"

Prior to the Malta discussions, European Council President Donald Tusk [sent a letter](#) to leaders in which he outlined a series of challenges and opportunities that should be addressed during the 3 February meeting of the "EU 27."

Notably, Tusk flagged the leadership change in Washington as both a "worrying" sign, but also one that could prove to be a positive opportunity for the European Union on trade. The bloc is working on myriad trade initiatives with individual countries and country groups, spanning across the Americas, Asia, Africa, and Oceania.

"We should use the change in the trade strategy of the US to the EU's advantage by intensifying our talks with interested partners, while defending our interests at the same time," said the European Council president.

"The European Union should not abandon its role as a trade superpower which is open to others, while protecting its own citizens and businesses, and remembering that free trade means fair trade," Tusk continued.

Tusk prefaced this call for an even more ambitious trade agenda with a description of the various threats that he says are the riskiest for the continued success of the European integration project, arguing that these “are more dangerous than ever before in the time since the signature of the Treaty of Rome.”

Tusk, outlining a series of three “threats” that he deemed unprecedented either in type or scale, referring to a rapidly changing geopolitical scene within and outside the EU; a growing trend in “anti-EU, nationalist, increasingly xenophobic sentiment” in the bloc; and what he termed the “state of mind of the pro-European elites” in a time when populist pressures are on the rise.

“For this reason, the most important signal that should come out of Rome is that of readiness of the 27 to be united. A signal that we not only must, but we want to be united” said Tusk, referring to the upcoming March summit.

In a separate though related development, the UK’s House of Commons approved this week a bill that will empower the government to formally notify the EU of its intention to leave – a procedural step that will then kick off the actual negotiations between the United Kingdom and the European Council.

Delivering a [statement](#) about the Malta meeting at the UK’s House of Commons on 6 February, May reported that her EU counterparts “welcomed the clarity” of her government’s stated objectives in the upcoming talks, which she unveiled last month. (See Bridges Weekly, [19 January 2017](#))

“They warmly welcomed our ambition to build a new partnership between Britain and the European Union that is in the interests of both sides. They also welcomed the recognition that we in Britain want to see a strong and successful European Union, because that is in our interests and the interests of the whole world,” she said.

Electoral campaigns ramping up

Looming over these discussions is the potential for major leadership transitions in some key EU economies over the coming year, which could have significant implications for the direction of broader EU policy.

The 28-nation bloc is due to see a series of presidential and legislative elections in the coming months, including in some of the larger economies such as France, Germany, and the Netherlands.

Marine Le Pen, the leader of the far-right National Front, officially kicked off her campaign for the French presidency on 5 February, repeating her long-standing pledge on taking France out of the Eurozone, restructuring France’s ties with its EU partners, curbing immigration, and potentially holding a domestic referendum to leave the European Union entirely.

She also advocated for adopting measures of “intelligent protectionism” as part of her broader economic policy platform should she win office. While current polls suggest that she would likely lose to former economy minister Emmanuel Macron in a second round, the high-profile electoral campaign promises to be a heated one, particularly in light of geopolitical debates elsewhere and the social and economic tensions seen in France.

The election’s first round is slated for 23 April, with a run-off set for 7 May in the case of no candidate winning an outright majority. Macron and Le Pen are also facing off against Socialist Party candidate Benoît Hamon, conservative candidate François Fillon, and left-wing candidate Jean-Luc Mélenchon.

In neighbouring Germany, the federal election is scheduled for 24 September, pitting the incumbent Chancellor Angela Merkel against former European Parliament President Martin Schulz, among other candidates. That electoral process is similarly expected to grapple with populist pressures and migration tensions, with Merkel warning repeatedly over the last several months against protectionism and other inward-focused policies.

The Netherlands will be holding its own parliamentary elections on 15 March, with polls currently tipping the right-wing populist candidate Geert Wilders to win, though without enough support to then form the necessary coalition to govern. Wilders is facing off against the incumbent Prime Minister Mark Rutte, among others, with the campaign process also drawing attention to the country's role in the EU and future prospects.

EU trade chief warns against protectionism

Earlier this week, EU Trade Commissioner Cecilia Malmström told a business audience in Brussels that the bloc would continue its efforts to push back against protectionist tendencies even in the difficult geopolitical climate, and that it is looking to form stronger partnerships with other key countries – including China – in doing so.

"These days, we see many politicians offer simplistic solutions to complex problems. But barriers and protectionism are a threat: to the open societies of Europe, to the livelihoods of billions in the developing world," she said on Monday 6 February.

However, she added that this challenge could also provide the EU with the "opportunity" to develop deeper trade ties with other countries – "to show that the way we would like to make our country great again is building bridges, not walls."

Referring to Chinese President Xi Jinping's keynote speech at the World Economic Forum's (WEF) Annual Meeting in Davos, Switzerland, last month, she also suggested that Brussels and Beijing would do well to advance their bilateral economic relationship, including by reaching a bilateral investment treaty, which has been under negotiation since late 2013. (See Bridges Weekly, [19 January 2017](#))

She noted, however, that the EU would like to see China meet both its current agenda for reforms announced in 2013 in order for a deeper trading and investment relationship to ultimately be successful. (See Bridges Weekly, [14 November 2016](#))

ICTSD reporting; "Marine Le Pen promises crackdown on immigration and globalisation," FINANCIAL TIMES, 5 February 2017; "Poll shows Macron-Le Pen French presidency runoff, Macron winning," REUTERS, 6 February 2017; "The Wilders effect," POLITICO, 8 February 2017; "Low-lying Dutch establishment seeks dam against populist wave," FINANCIAL TIMES, 8 February 2017.

CLIMATE

EU Commission Prepares for Implementation of Aviation, HFC Climate Deals

The EU's executive arm has proposed that the bloc continue limiting its coverage of aviation under its flagship carbon market to only intra-EU flights, along with taking on other steps that will support the implementation of a new global deal to offset aviation emissions.

Last October, the International Civil Aviation Organization (ICAO) approved a market-based mechanism designed to help offset some of the emissions from air travel, with the pilot phase of this new system to begin in 2021. ICAO is the UN's civil aviation body and is the designated agency for dealing with international aviation emissions, which currently account for two percent of the global emissions total and are expected to increase rapidly. (See Bridges Weekly, [13 October 2016](#))

The new global market-based mechanism is known as the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA). Participation will take place initially through voluntary phases before eventually including all countries from 2027. Exceptions are made for poorer nations or those who play just a small part in the aviation sector.

Currently [66 countries](#) have signed on to participating voluntarily in Phase I of CORSIA, which will be from 2021-2026. These 66 countries make up nearly 87 percent of global aviation activity, according to the UN agency.

Aviation in the EU ETS

The EU's carbon market is known as the EU's Emissions Trading System (EU ETS) and has been in place since 2005, covering a host of sectors in countries that form the European Economic Area – in other words, all EU member states as well as Iceland, Liechtenstein, and Norway. The bloc moved in [2008](#) to bring commercial aviation under the emissions trading scheme, with that rule coming into force in [January 2012](#).

However, the original rule covered all aviation touching down or taking off from the European Economic Area – even those flights which began elsewhere and whose trajectories were partially outside of the bloc's airspace. The move raised the hackles of countries from various parts of the world, including Brazil, China, India, Russia, South Africa, and the United States, who threatened to impose [countermeasures](#) should the EU not revise the policy. (See Bridges Weekly, [22 February 2012](#))

After years of heated debate, the EU ultimately decided to "stop the clock" and adopted legislation in 2014 to exclude from ETS coverage any commercial flights that did not take place exclusively under the European Economic Area. The decision, they explained, was to help support advances in global talks under ICAO aimed at reaching an international agreement on regulating airline emissions. (See Bridges Weekly, [10 April 2014](#))

The exemption of these other flights from the scheme was envisioned only through the end of 2016, with its continuation pending the results of the ICAO negotiations last October.

The European Commission has now proposed extending this "reduced scope application," suggesting that doing so will "provide further momentum to international discussions on the remaining rules and governance necessary for the implementation of" CORSIA. The EU's

executive arm also refers to an additional “post-2020” review of the ETS, once ICAO has had time to clarify various issues relating to the global aviation deal’s implementation.

“Following ICAO’s landmark agreement, the European Union is now focused on getting the global scheme up and running. We are serious about achieving carbon neutral growth for aviation, and we will provide technical and financial assistance to make it happen,” said EU Commissioner for Transport Violeta Bulc.

EU Commission officials say that they hope this proposal can make its way through this bloc’s legislative processes successfully by early 2018 at the absolute latest, with the proposal referring to the need for “legal certainty for compliance with the ETS in 2017.”

On that subject, Peter Liese, the European Parliament’s rapporteur on past iterations of European legislation involving aviation emissions, called the Commission’s proposal “a good basis for deliberations in Parliament.” However, he [also suggested](#) that some aspects might still face hurdles in the chamber given the provisions of the final ICAO deal.

“There is now a decision by the International Civil Aviation Organization to introduce a climate protection instrument for air traffic, but this is still burdened by many questions and is by no means ambitious. However, the Commission is now proposing to exclude intercontinental flights from the EU ETS on a permanent basis. This is problematic,” he said.

As an alternative, he suggested that the EU agree to extend its moratorium on covering intercontinental flights only through 2021, pending the outcome of ICAO discussions clarifying CORSIA’s rules and implementation. He also said that those countries which decide not to join the global scheme should be brought back into the ETS, referring specifically to Russia, which is among those nations which have not offered to participate in the initial voluntary phase of CORSIA.

HFC ratification update

In related climate news, the European Commission has also [tabled a proposal](#) for its member states [to ratify](#) a separate international deal reached last year to curb the use of climate-warming coolants. This particular deal involves an amendment to an existing environmental treaty known as the Montreal Protocol on Substances that Deplete the Ozone Layer.

The Montreal Protocol dates back to 1987 and has already undergone previous changes, including the adoption of a decision to set up a [multilateral financing arm](#) that would [help developing country parties](#) meet the environmental treaty’s requirements. The treaty’s existing design also includes provisions on trade in controlled substances meant to incentivise greater participation in the deal.

The latest amendment, which was agreed last October during a UN meeting in Kigali, Rwanda, commits countries to curb the use of hydrofluorocarbons (HFCs) over an established timeframe. While not an ozone-depleting substance, HFCs have increasingly been used as an alternative to another gas that was targeted for elimination under the original Montreal accord. (See Bridges Weekly, [20 October 2016](#))

HFCs are used in products such as air conditioners, refrigerators, and building insulation, and have a warming potential that is potentially several thousands of times greater than carbon dioxide.

In order for the amendment to enter into force, at least 20 Montreal Protocol parties must ratify it – a threshold which EU officials note can be met easily just by having the 28-nation bloc approve the deal.

“Not only will this landmark deal help us meet our climate objectives, but it will also provide new opportunities for European manufacturers of air conditioning and refrigerants to access

the global market, creating additional jobs and attracting new investment," said EU Commissioner for Climate Action and Energy Miguel Arias Cañete.

The Kigali amendment envisions the first cuts in HFC use by most developed country parties by 2019, while developing countries will impose limits on their use in either 2024 or 2028, depending on the country.

The reductions will [continue progressively](#) over the coming decades, with developed countries set to hit a plateau in 2038 after cutting HFC consumption by 85 percent, while developing countries will have until the 2040s, with cuts between 80-85 percent by that time.

ICTSD reporting; "EU Considers Prolonging ETS Indefinitely," AVIATION WEEK, 3 February 2017; "EU Said to Spare Foreign Flights From Carbon Curbs Through 2020," BLOOMBERG, 24 January 2017.

TRADE AGREEMENTS

TPP Signatories Consider Next Steps Following US Withdrawal

Various meetings between ministers from the Trans-Pacific Partnership (TPP) countries are on the docket in the coming weeks, as the remaining signatories of the Pacific Rim accord weigh their next steps after the US' withdrawal from the pact.

US President Donald Trump issued a presidential memorandum last month confirming that the United States would no longer be a TPP signatory and would prioritise bilateral trade deals under his administration. María Pagán, the Acting US Trade Representative (USTR), subsequently [circulated a letter](#) to New Zealand as the TPP depositary on 30 January confirming that "the United States does not intend to become a party" to the deal. (See Bridges Weekly, [26 January 2017](#))

While the US move was expected, in light of Trump's repeated campaign trail promises on the subject, the confirmation that Washington would indeed be withdrawing after having played such an active role in the TPP's development has raised questions over what might be salvaged from the multi-country effort.

The TPP negotiations were concluded in late 2015, with the deal signed by the 12 participating countries in February of the following year. (See Bridges Weekly, [11 February 2016](#))

Ciobo: TPP minus one?

In the wake of the US' withdrawal, officials from the remaining TPP signatories have issued differing assessments over whether the trade accord can move forward in some form without the US.

Australia, for example, has been among those calling for the group to consider a so-called "TPP 12 minus one" in light of the US decision.

"What it comes down to is this, there were a lot of hard fought gains that were achieved through intense negotiations over many years, in relation to the TPP. I don't want, and I know a number of other countries don't want to let those gains slip through our fingers," said Australian Trade Minister Steven Ciobo in an interview on 8 February with Bloomberg Daybreak, according to [a transcript](#) provided by his office.

Ciobo added that he would be pursuing a "minimalist approach" aiming to keep in place the advances negotiated under the TPP and "apply it to as many member states as possible that are willing to sign up to those terms, less the United States."

He suggested, however, that if participants want to do more than just change the existing rules over the minimum threshold of original signatories that must ratify the deal, then the process would become more complicated. Even so, he mentioned that he has already held some initial discussions with fellow TPP ministers, with more talks forthcoming.

"I'm not going to rattle off any particular countries indicating their support or otherwise, but if we were able to do something with Canada, Mexico, Peru, Chile, New Zealand, Singapore, and Japan for example, well that would be a great outcome," said Ciobo.

However, Canadian officials have been among those suggesting in recent weeks that moving forward without the US would be difficult, given the way the accord was designed.

"This agreement was so constructed that it can only enter into force with the United States as a ratifying country," said Canadian Foreign Minister Chrystia Freeland last month in a briefing for reporters.

Whether Japan would be willing to be part of a "TPP minus one" approach also remains unclear, though other domestic officials have also suggested that the Asian economic giant first wishes to discuss the trade deal further with Trump.

New Zealand trade minister visiting TPP counterparts

Other officials have already made known their own early assessments on where the TPP could go from here. New Zealand Trade Minister Todd McClay met with Ciobo earlier this week to discuss the next steps for the trade deal, with McClay planning trips to Mexico, Japan, and Singapore as well.

"Despite the United States' recent decision to pull out of the agreement, a number of other TPP signatories – including Australia – have expressed a strong commitment to continuing with TPP. This meeting will be an important opportunity to understand Australia's ambitions in this area," said the New Zealand trade official, according to a [press release](#) issued by his office.

He also said that it would be "too early to say" whether the TPP could still be revived, but that Wellington is currently interested in exploring and attempting it. In a [separate statement](#), McClay confirmed that the meetings with his Japanese and Singaporean counterparts this week would also allow for discussions on the deal's future.

Meanwhile, Mexican officials have reportedly suggested that they will be looking to codify the TPP's gains into bilateral deals with any TPP signatories with whom they do not already have an existing free trade accord. Discussions between Mexican Economy Secretary Ildefonso Guajardo Villareal and New Zealand Trade Minister Todd McClay later this month are expected to include the subject of a possible bilateral deal, along with the TPP's future.

Separately, Japanese Prime Minister Shinzo Abe is due to meet with Trump this week, with trade expected to be high on the agenda. While initial reports of their 10 February summit in Washington indicated that the Japanese leader might push for discussions of a bilateral trade pact with the US, some officials are now suggesting that this topic may no longer be on the docket. (See Bridges Weekly, [2 February 2017](#))

"Abe is going to talk about how we can widen the importance and value of the TPP to the Asia-Pacific region in the economic talks with the US. I don't think an FTA will be discussed," said Yautoshi Nishimua in an interview with Bloomberg earlier this week.

Chile meeting to "canvas options"

Along with the various bilateral meetings scheduled for February, coming up next month will be a summit hosted in Chile among ministers from various countries to discuss collectively the possible next steps for the TPP.

The gathering will be held in the coastal city of Viña del Mar on 14-15 March, and Chile has reportedly invited all TPP signatories as well as China and South Korea, according to multiple news reports. The final list of attendees has yet to be confirmed publicly at this stage.

However, some officials have already suggested that bringing the group together could be a useful opportunity to “canvas options” for the possible road ahead, both in terms of how to harvest the deal’s gains and whether adding on new members could be an option.

“In many respects these are questions that are best answered after March,” said Ciobo in response to questions as to whether China might formally be asked to join the TPP in light of the US’ withdrawal. “The reason I say that is because in March we’ll have the opportunity in Chile to meet and discuss, as the TPP countries, what we see as the path forward.”

ICTSD reporting; “Trade ministers on TPP rescue mission,” RADIO NEW ZEALAND, 5 February 2017; “Chile quiere salvar lo que queda del TPP e invita a China a pláticas,” EL ECONOMISTA, 3 February 2017; “Australia still seeking TPP deal,” SKYNEWS, 24 January 2017; “Mexico pushes for trade deal with NZ,” THE NEW ZEALAND HERALD, 7 February 2017; “Mexico pushes for free trade deal with New Zealand,” 3 February 2017; “TPP trade deal dead without US: Canada,” REUTERS, 25 January 2017; “Tokyo turns down Australian proposal for TPP without U.S., vows to keep pushing trump,” THE JAPAN Times, 24 January 2017; “Australia opens door to China in push to save TPP,” AFP, 24 January 2017; “U.S.-Japan Trade Deal Unlikely Topic at Summit, Abe Adviser Says,” BLOOMBERG, 7 February 2017.

TRADE AGREEMENTS

EU, Latin American Countries Move to Deepen Trade Ties

Efforts on behalf of the EU and Mexico to modernise a sixteen-year old free trade agreement have been ramped up, following a phone call between EU Trade Commissioner Cecilia Malmström and Mexican Economy Secretary Ildefonso Guajardo Villareal last week.

Under the new plans, additional negotiating rounds have been scheduled for April and June and the leaders have agreed to convene in Mexico City between the two sessions to monitor progress.

"We will take our trade relations fully into the 21st century. We will be able to boost growth, making our firms more competitive and widening choices for consumers while creating jobs," said the two trade officials in a [joint statement](#) issued following their phone call.

"We are already well underway in our joint efforts to deepen openness to trade on both sides. Now, we will accelerate the pace of these talks in order to reap the benefits sooner," they added.

The existing agreement, which entered into force in October 2000, aims to strengthen economic ties between the two trading partners, eliminating barriers to trade and creating a stable operating environment for trade and investment.

Today, the EU is Mexico's third-largest trading partner after the US and China, where the annual trade in goods between the two partners increased from €26 billion (US\$27.8 billion) to €53 billion (US\$56.7 billion) in the period from 2005 to 2015.

The accession of 13 new member states to the EU, the introduction of the euro, and the deepening of the single market since have been [pointed to](#) as driving forces for an upgrade to the agreement. Meanwhile, Mexico has seen a 20 percent increase in GDP in real terms since the deal was implemented.

Broader changes in the global trade landscape also have far-reaching implications, where lengthening value chains, a more prominent role for services, and advancements towards deeper integration and wider scope in bilateral and regional trade agreements have left the original agreement out of date.

A December [blog post](#) authored by Malmström on Mexico trade relations underlines that the European Union must "be proactive and work hard with our partners to ensure that our trade agreements can continue to deliver in the areas of jobs creation and economic growth, despite the many challenges that come with a constantly changing environment."

Similarly, a [press release](#) issued following the first round of talks stated that it "is notably crucial to adapt EU-Mexico relations to the new realities of global trade and investment policies and flows...to better respond to the shared global challenges of a new modern world, from security threats, to migration, the fight against epidemics, and climate change."

New leadership in Washington has similarly begun to signal a shift in the US trade agenda with direct consequences for Mexico, following President Donald Trump's decision to withdraw from the Trans-Pacific Partnership (TPP) and discussions surrounding re-

negotiation of the North American Free Trade Agreement (NAFTA). Mexico is a signatory to the former and a party to the latter. (See Bridges Weekly, [26 January 2017](#))

"Together, we are witnessing the worrying rise of protectionism around the world," the joint statement from Malmström and Guajardo said. "Side by side, as like-minded partners, we must now stand up for the idea of global, open cooperation."

Negotiations to upgrade the agreement were launched in May 2016, following a resolution at the EU-CELAC Summit in 2013 to explore options for an update, and subsequent preliminary investigations in the form of an EU-Mexico Joint Working Group and an impact assessment study. The first round of talks was held in Brussels in June, and a second took place in Mexico City in November. (See Bridges Weekly, [23 June 2016](#))

Negotiations will seek to build or otherwise elaborate on existing provisions pertaining to sanitary and phytosanitary measures, technical barriers to trade, intellectual property rights including geographical indications, small and medium-sized enterprises, public procurement, and rules of origin.

In terms of revisions to the sections on sustainable development and anti-corruption, the EU referred to the "Trade for All" initiative as a useful model, and Mexico highlighted lessons learned from the TPP. Discussions will also reportedly consider what contribution the deal could make in pursuit of the UN Sustainable Development Goals.

Greater Pacific Alliance cooperation

EU officials [have also met](#) in recent months with members of the Pacific Alliance, another regional grouping in Latin America that includes as members Chile, Colombia, Mexico, and Peru, with a view to deepen bilateral economic cooperation.

The Pacific Alliance was launched nearly five years ago among these four countries and has since drawn the interest of [49 observer countries](#), including several European ones. The group has since seen various advances, including a deal in 2014 to cut tariffs on 92 percent of products and progressively phase out the rest. (See Bridges Weekly, [13 June 2012](#) and [13 February 2014](#))

Along with the plans to upgrade the EU-Mexico trade accord, the EU has similar ambitions to modernise a free trade agreement with Chile, another TPP member, which entered into force in February 2003.

The EU already has a trade deal with Colombia and Peru, which Ecuador has since joined. (See Bridges Weekly, [17 November 2016](#))

French President François Hollande said late last month that both his country as well as the EU more broadly would be looking to have deeper commercial ties with the South American regional grouping, pledging that the EU and the Pacific Alliance "will launch commercial negotiations to be able to develop trade."

EU-Mercosur progress?

Meanwhile, German Chancellor Angela Merkel discussed last week the ongoing talks between the EU and Mercosur, another Latin American economic bloc bringing together Argentina, Uruguay, Paraguay, and Brazil. While Venezuela is also a member, it is the newest in the group and its membership was suspended in 2016.

"We are fundamentally in favour of international trade agreements, which is why we are happy with the effort in the Mercosur countries" to forge a deal with the EU, said Merkel in her weekly video [podcast](#).

An initial agreement on bilateral cooperation was signed between the EU and Mercosur in 1999, followed by efforts to establish a free trade agreement between the two blocs. The talks have since struggled to advance and have been re-launched multiple times, most recently with the exchange of market access offers last May and a negotiating round in October. The next round is scheduled for March 2017 in Buenos Aires.

With regard to more sensitive issue areas, such as agricultural products, Merkel called for reaching "a fair agreement that takes into account both the interests of Europe and those of Latin America." (See Bridges Weekly, [19 May 2016](#))

The comments were made ahead of a visit by Uruguay's President Tabaré Vázquez to Berlin on 8 February in which matters relating to trade and energy were prioritised.

Separately, a bilateral meeting was also held Tuesday between Brazilian President Michel Temer and Argentine President Mauricio Macri to discuss Mercosur's trade ties with third countries, including the potential deepening of ties with the Pacific Alliance and the European Union.

ICTSD reporting; "France's Hollande: EU to Talk Trade with Pacific Alliance," REUTERS, 23 January 2017; "EU in Latin America trade push," EURACTIV, 18 March 2016; "EU and Mexico accelerate free trade talks as Donald Trump threatens to tear up NAFTA," THE INDEPENDENT, 1 February 2017; "Mercosur and EU feel '2017 is a window of opportunity', but can't find the path despite Brexit and Trump," MERCOPRESS, 9 January 2017; "Germany's Merkel Would Welcome South American Trade Deal With EU," BLOOMBERG, 4 February 2017; "Merkel hopes for 'fair' EU-Mercosur trade deal," THE LOCAL, 5 February 2017; "Brazil, Argentina push for closer trade with Mexico in Trump era," REUTERS, 7 February 2017.

AGRICULTURE

Russia's Trade-distorting Farm Support Hits New Low, Figures Indicate

Russia's trade-distorting farm support fell in 2015 for the fourth year running, new figures from the government suggest.

Data notified to the WTO on 27 January and released publicly this week show overall trade-distorting support fell sharply to US\$3.3 billion (₽200 billion), one-third less than the US\$5 billion reported the previous year, and also far below the US\$7.2 billion ceiling that Moscow agreed to respect when it joined the global trade body in August 2012. (See Bridges Weekly, [25 July 2012](#))

However, the figures also show that a steep decline in the value of the rouble played an important role in the fall-off in trade-distorting support. Despite the sharp fall in US\$ terms, support measured in roubles actually increased slightly over the same period, rising to ₽200 billion from ₽190 billion the previous year.

Similarly, support classified as "green box" – or only minimally trade-distorting under WTO rules – fell to US\$2 billion (₽123 billion), which again represented a small increase in rouble terms. (See Bridges Weekly, [4 May 2016](#))

Green box subsidies are not subject to any cap or reduction commitments under the WTO's Agreement on Agriculture.

Exempt support

The vast majority of Russia's trade-distorting agricultural support was classified by the government as "de minimis" support, meaning that it fell below a minimal threshold of five percent of the value of production.

De minimis payments are exempt from counting towards the agreed ceiling on highly trade-distorting "amber box" subsidies under the WTO's agriculture rules.

At US\$50 million, amber box payments amounted to only 1.5 percent of Moscow's overall trade-distorting support in 2015, the notification indicates.

Product-specific payments amounted to just over one-fifth of total de minimis support, the new data shows, with the remainder represented by trade-distorting payments such as subsidised credit that were not linked to the production of particular products.

Sharp increase in research, infrastructure spending

Outlays on certain green box categories increased sharply in 2015, the new figures show.

Research spending almost tripled in US\$ terms, growing from US\$54 million to US\$156 million (or from ₽2 billion to ₽9 billion). Infrastructure spending grew from US\$202 million to US\$232 million – or nearly doubling in size in rouble terms.

Other important subcategories of green box support included spending on pest and disease control and on training services, with the two categories together representing about one-third of all green box support.

Decoupled income support to producers accounted for another quarter of green box spending, according to the government's figures. In trade jargon, "decoupling" refers to removing the link between payments to farmers and agricultural production.

Comparing major economies

Moscow's new farm subsidy notification comes shortly after a similar report to the WTO that was submitted by Washington a few weeks ago. (See Bridges Weekly, [26 January 2017](#))

That latter report shows that trade-distorting US farm support is considerably greater than the level provided by Russia.

While delays in reporting current data hamper meaningful cross-country comparisons, the latest available figures show that both the US provided around US\$14 billion in 2014, while Japan provided ¥1140 billion in 2012, a comparable amount in US\$ terms. (See Bridges Weekly, [10 April 2014](#))

Meanwhile, China reported that it made available ¥123 billion (US\$18 billion) in 2010 in trade-distorting support. Lower levels were provided by the EU, India, and Brazil.

Brussels has reported that the EU's trade-distorting subsidies amounted to €10 billion (US\$7.7 billion) in the 2012-13 marketing year. India has indicated it provided US\$2 billion in 2010-11, a figure which excludes input and investment subsidies for low-income farmers amounting to US\$21 billion and which are not subject to any limit under current WTO rules. (See Bridges Weekly, [12 November 2015](#) and [18 September 2014](#))

Finally, agricultural powerhouse Brazil has said it also provided just US\$2 billion in trade-distorting subsidies in the 2014-15 marketing year. (See Bridges Weekly, [3 November 2016](#))

WTO officials have repeatedly urged countries to notify up-to-date figures, in part to help facilitate ongoing negotiations on farm subsidy reform at the global trade body.

ICTSD reporting.

TRADE AGREEMENTS

Sri Lanka Aiming for China Trade Deal in 2017, Official Says

Sri Lanka aims to finalise a free trade agreement (FTA) with China later this year, said the country's ambassador to Beijing last weekend. The two Asian economies have been [negotiating](#) a trade deal since 2014.

Sri Lankan ambassador Karunasena Kodituwakku also confirmed to journalists in the Chinese capital city that his country's prime minister, Ranil Wickremesinghe, will visit Beijing in May to continue high-level FTA discussions, according to comments reported by Reuters. The two sides have held [four negotiating rounds](#) to date.

When the trade talks [launched](#) nearly three years ago, China's Ministry of Commerce (MOFCOM) [affirmed](#) that the future accord aimed to "contribute to further deepening bilateral economic and trade relations, and accord with the benefits of the two countries."

According to a joint feasibility study issued in 2014, the two sides aim to address areas such as tariffs and non-tariff measures, rules of origin, customs procedures, and sanitary and phytosanitary measures and technical barriers to trade. They will also cover various aspects of services trade, along with addressing issues related to investment and economic and technological cooperation, including e-commerce and small and medium-sized enterprises.

The [report](#) also suggested that the deal could be a boon both in terms of "economic development and social welfare" for the two trading partners. Bilateral trade has been on the rise between the two Asian economies, hitting US\$4.56 billion in 2015, increasing 12.9 percent year on year.

Separately, China has also been working with Sri Lanka on the development of the Hambantota port, as a part of China's "[One Belt, One Road](#)" initiative, an ambitious regional connectivity project which aims to develop land and maritime corridors across the region to Europe and beyond.

A growing network

Supporters of the deal suggest that the future FTA would help support the continued efforts to improve regional integration. China has [actively pursued](#) trade deals within the Asia-Pacific and further afield, including in its participation with the 16-country Regional Comprehensive Economic Partnership (RCEP). The RCEP is being negotiated between the 10 members of the Association of Southeast Asian Nations (ASEAN) along with their six FTA partners: Australia, China, India, Japan, New Zealand, and South Korea.

For its part, Sri Lanka is currently party to five trade deals, some regional and others bilateral, with three other under negotiation, including the one with China, according to [a list compiled](#) by the Asian Development Bank. Other countries, including India and New Zealand, are also reportedly considering trade deals with the South Asian country.

ICTSD Reporting; "Sri Lanka eyes China free trade deal this year, PM to visit in May," REUTERS, 4 February 2017; "Sri Lanka eyes China free trade deal," THE HINDU, 4 February 2017; "A tale of two trade pacts in Asia: TPP and RCEP," ASIAN DEVELOPMENT BANK, 2 June 2016.

EVENTS & RESOURCES

Events

Coming Soon

9 February, Geneva, Switzerland. DRIVING CLEAN ENERGY TECHNOLOGIES THROUGH TRADE POLICY. This event is being organised jointly by the International Centre for Trade and Sustainable Development (ICTSD) and the World Energy Council. This dialogue will feature a discussion relating to global value chains and non-tariff measures in the context of clean energy and energy efficiency, placing these topics and others in the broader context of how trade policy can be used to support greater clean energy supply. To learn more and to register, please visit the ICTSD [website](#).

9 February, Washington, US. NAFTA 2.0? This event by the Washington International Trade Association (WITA) will examine the history and results of the North American Free Trade Agreement (NAFTA) to date along with the prospects for re-opening the accord under the current political context. Please visit the Eventbrite page for the event to register and see an updated list of speakers. The webpage is available [here](#).

13 February, online. ONLINE Q&A ON THE U.S.-JAPAN ALLIANCE. This event is being organised by the Carnegie Endowment for International Peace and will feature Senior Fellow James Schoff for a Reddit "Ask Me Anything" event to discuss the state of play in the US-Japan relationship, looking into its past history and future prospects. The Q&A will be held from 2-5 PM EST. To learn more, please visit the Carnegie Endowment [website](#).

14 February, London, UK. EUROPEAN COMMISSION PRESENTS: WINTER 2017 ECONOMIC FORECAST. This Chatham House event will feature as its guest speaker Carlos Martínez Mongay, Director at the Directorate-General for Economic and Financial Affairs at the European Commission. He will present the latest economic forecasts for the EU's executive arm, which will be released publicly the day before. He will also examine what these forecasts mean for the bloc's economic prospects. Please note that attendance is by invitation only. More information is available at the Chatham House [website](#).

16 February, Washington, US. THE FUTURE OF US-CHINA TRADE AND INVESTMENT RELATIONS. This event by the Washington International Trade Association (WITA) will focus on the potential direction of US-China trade ties in the future. A full list of speakers is forthcoming, with registration possible through the gathering's EventBrite page. More information is available [here](#).

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.

10 February: Workshop on Aid for Trade

10 February: Committee on Trade and Development – Session on Aid for Trade

14 + 16 February: Trade Policy Review Body – Sierra Leone

Other Upcoming Events

22 February, Geneva, Switzerland. SUSTAINABLE DEVELOPMENT CRITERIA FOR INVESTMENT. This workshop is being organised jointly by the International Centre for Trade and Sustainable Development (ICTSD) and the World Economic Forum (WEF), with support from the Government of the Netherlands. Participants will examine the sustainability characteristics of foreign direct investment (FDI), focusing on the existing sustainability criteria and what could help support them. Please note that attendance at this event is by invitation only. Additional details are available at the event [website](#).

1 March, Geneva, Switzerland. G20 TRADE AND INVESTMENT AGENDA: CHINA, GERMANY, AND BEYOND. This event is being organised jointly by the International Centre for Trade and Sustainable Development (ICTSD) and the Friedrich Ebert Stiftung (FES) Geneva office, in partnership with T20 Germany. The meeting aims to provide experts and government officials the opportunity to evaluate potential priorities for this year's G20 leaders' meeting, particularly regarding trade and investment. Other topics for discussion will also include the WTO negotiations, in light of the upcoming ministerial conference in Buenos Aires, Argentina, being held later this year. Please note that attendance at this event is by invitation only. More information is available at the ICTSD [website](#).

9-13 April, Grahamstown, South Africa. ELSA MOOT COURT COMPETITION. The African Regional Round of the European Law Students' Association (ELSA) Moot Court Competition on WTO Law is being sponsored by the International Centre for Trade and Sustainable Development (ICTSD), ELSA, and Rhodes University. The student-organised event aims to support the development of technical and legal capacity for aspiring trade officials. To learn more about the competition, please visit the ICTSD [website](#).

1-3 May, Yokohama, Japan. GLOBAL THINK TANK SUMMIT 2017. This event is being organised jointly by the Asian Development Bank Institute (ADBI) and the Think Tanks and Civil Societies Program of the University of Pennsylvania. The gathering will bring together think tank officials from dozens of countries for a discussion on various policy issues of the present day. For more information, please visit the ADBI [website](#).

Resources

G20 GUIDING PRINCIPLES FOR GLOBAL INVESTMENT POLICYMAKING: A STEPPING STONE FOR MULTILATERAL RULES ON INVESTMENT. By Anna Joubryn-Bret and Cristián Rodríguez Chiffelle for the E15 Initiative (February 2017). This new paper has been prepared under the E15 Initiative, which is convened jointly by the International Centre for Trade and Sustainable Development (ICTSD) and the World Economic Forum (WEF). The paper looks at the G20 Guiding Principles for Global Investment Policymaking that were endorsed at last year's Hangzhou Summit of G20 leaders, reviewing how these were developed and what their policymaking impact may be. The paper is available for download [here](#).

THE ROLE OF RESPONSE MEASURES IN ENSURING THE SUSTAINABLE TRANSITION TO A LOW-GHG ECONOMY. By Andrei Marcu and Wijnand Stoefs for the International Centre for Trade and Sustainable Development (ICTSD) (January 2017). This new policy brief examines how the area of response measures – referring to climate change mitigation measures – may develop in the wake of the UN's Paris Agreement on climate change, which has been in force since November 2016. The policy brief is available for download [here](#).

GLOBAL INVESTMENT TRENDS MONITOR No. 25. Published by the UN Conference on Trade and Development (UNCTAD) (February 2017). This latest update of UNCTAD's monitor reviews the levels of global foreign direct investment (FDI) flows last year and their prospects for 2017, along with some of the factors behind these trends. The monitor also examines specific regional contributions to these figures. To download the publication, please click [here](#).

TOWARDS BETTER TRADE POLICIES. Published by the Organisation for Economic Co-operation and Development (OECD) (February 2017). This OECD brochure reviews issues ranging from trade facilitation to the relationship between trade, the environment, and natural resources, arguing that taking a "more integrated" approach when it comes to the development of trade, investment, and national-level policies can help make sure that people experience wider benefits from trade. The brochure is available for download [here](#).

TOWARDS BETTER FOOD POLICIES. Published by the Organisation for Economic Co-operation and Development (OECD) (February 2017). This OECD brochure notes the developments seen in food and agriculture policy in recent years, while arguing that more needs to be done both at the national and international levels to address today's challenges, including in the areas of health and the wellbeing of farm households. The brochure is available for download [here](#).

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