

# BRIDGES WEEKLY

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## WASHINGTON

### US Looks Towards System-Shaping Trade Agenda as New Year Begins

US trade negotiating activity is picking up as the new year gets underway, with some meetings already taking place in early January and others planned for later this month. Separately, a series of reports from domestic investigations on select trade issues are due to be released within the first weeks of this year, with potentially significant implications for Washington's trading relationships.

Talks are due to resume next week on the modernisation of the North American Free Trade Agreement (NAFTA), the two-decade-old deal which sets the rules for the trading relationship between Canada, Mexico, and the United States.

Negotiators are due to meet in Montreal, Canada, from 23-28 January for a sixth round of talks. At their most recent round in November, they continued work across several areas, without reporting any major breakthroughs, according to a [trilateral statement](#) released afterward. (See Bridges Weekly, [23 November 2017](#))

The NAFTA modernisation negotiations began in August, and after some quick advances such as the substantive conclusion of a competition chapter, the pace slowed significantly as officials began tackling more challenging areas and dealing with more contentious proposals.

For example, the US' proposals to scrap Chapter 19 dispute settlement on trade remedies and to increase the threshold of US content in automobiles required to benefit from preferential treatment under NAFTA has drawn public criticism from its negotiating partners. (See Bridges Weekly, [19 October 2017](#))

Mexico is due to hold its general election in July, with that political dynamic already being cited by leaders as a possible reason to extend the NAFTA talks further.

The target date set by the three parties for concluding a deal has already been moved from the original end-2017 date to the end of the first quarter of 2018.

"I can tell you I'm not sure about world markets, but I can tell you I think the American market would go up if I terminated NAFTA and renegotiated a new deal," US President Donald Trump told the Wall Street Journal in a wide-ranging [interview](#) published on 14 January, while saying that he prefers not to terminate the deal unless negotiations fail.

As for the timing, he told the newspaper that "I'm leaving it a little flexible because they have an election coming up. So I understand a lot of things are hard to negotiate prior to an election," ostensibly referring to the Mexican election in July.

The suggestion of having a more "flexible" negotiating timeframe was welcomed by Canadian Foreign Minister Chrystia Freeland shortly thereafter. "I thought that was a sensible suggestion from [Trump]. I think all of us are mindful of the Mexican elections," she said last week, according to comments reported by Reuters.

The US will also be gearing up for its midterm elections in early November, which will see the full House of Representatives along with 34 of the Senate's 100 seats up for a vote, along with other positions at the state and local levels. The future of NAFTA could prove to be a challenging issue to address on the campaign trail, with the midterms serving as one of the early tests for the current Republican administration and its supporters.

Trump told farmers last week that NAFTA remains a major priority, along with noting that his administration continues its examination of existing US trade deals "to make sure they are fair and reciprocal," particularly in areas such as agricultural trade and manufacturing.

"When Mexico is making all of that money, when Canada is making all of that money, it's not the easiest negotiation. But we're going to make it fair for you people again," said Trump in reference to NAFTA, while [speaking](#) to the American Farm Bureau Annual Convention in Nashville, Tennessee on 8 January.

### **KORUS meetings**

Negotiators from the US and South Korea met in Washington in early January to discuss potential modifications to their existing trade deal, known also as the KORUS FTA. The accord has been in force since March 2012.

The 5 January meeting included discussions on automobiles and their component parts, a sector that was also a key sticking point during the work to develop the current deal in place, according to a [statement](#) published by the Office of the US Trade Representative .

Last year, US Trade Representative Robert Lighthizer requested that a special session under the KORUS "joint committee" begin meeting to address what the US deemed was a "significant trade imbalance" with the Asian country. Two "special sessions" were held last year, and Seoul officials have indicated that they would also like to see some changes to the deal to improve its "mutual benefits," and have since referred to an interest in changes to the investor-state dispute settlement mechanism as one example. (See Bridges Weekly, [12 October 2017](#))

While negotiators have not yet confirmed when they will meet again, media reports suggest this could happen within the coming weeks.

### **Investigations update**

Also on the docket are the next steps for various trade remedy investigations which the US executive branch launched last year. One of these is a "Section 232" investigation on the national security implications of steel imports, with Commerce Secretary Wilbur Ross confirming that he [submitted](#) the relevant report to Trump on 11 January.

Trump has 90 days to decide what to do in response to its contents, which have not yet been made public. A report on a separate Section 232 investigation involving aluminium is expected within days. Both are being watched closely for what they could mean not just for China, a top global producer, but also for other trading partners who have previously expressed concerns over the use of a national security-focused trade investigation and the trade actions which could result from that.

A decision in a Section 201 safeguard investigation on imported solar products is due from Trump by 26 January, following the submission of reports from the US International Trade Commission. Another decision is on the horizon in the coming weeks on a case involving washing machine imports, which could affect US trade ties with South Korea.

### **WTO: Ambassador nominee hearing**

The Senate Finance Committee held a long-awaited hearing on 17 January on the nomination of Dennis Shea, vice chairman of the United States-China Economic and Security Review Commission, to be the US' Ambassador to the World Trade Organization, a post that has been vacant throughout the first year of the Trump administration. Shea was nominated in July.

"Too many countries fail to live up to their WTO obligations without any consequence. Too many, including some of the world's wealthiest nations, seek exemptions from these obligations by claiming status as developing countries. The WTO has shifted from a forum with a focus on facilitating negotiation among sovereign states to a litigation-centered institution," Shea told lawmakers in his [opening testimony](#) on Wednesday.

"If confirmed, I expect that institutional reform at the WTO will be a major part of the US Agenda," Shea said, referring to a recent US proposal on transparency and improving WTO member notifications as one example.

Shea's nomination was one of two that were subsequently put on hold on Wednesday by Tim Scott, a Republican senator from South Carolina, who said that he needed more clarity from US Trade Representative Robert Lighthizer on certain trade questions that the senator has attempted to raise previously. He did not clarify what those questions were.

While next steps for multilateral negotiations are still unclear in the wake of the WTO ministerial conference in December, meetings are planned during this first quarter for the various group initiatives unveiled at the conference. The US has signed on to be part of a group pursuing "exploratory work" towards launching formal WTO talks on electronic commerce among interested parties, with plans to begin meeting by the end of March or sooner. (See Bridges Daily Update, [14 December 2017](#))

Meanwhile, the US is continuing to block the start of selection processes to fill the vacancies on the WTO's Appellate Body. While normally the organisation's highest court has seven members, three of those seats are now vacant. A fourth Appellate Body member is due to see their first term expire in September, and if not reappointed this would create another vacancy on the court. Whether that issue can be resolved in the new year remains to be seen. (See Bridges Weekly, [2 November 2017](#))

### **State of the Union, TPA renewal**

Trump is due to give his first State of the Union address to Congress on 30 January, which analysts expect will include some mention of trade. The speech, which will allow Trump to unveil his desired legislative agenda to lawmakers, will come just days after the US president visits the Swiss city of Davos for the World Economic Forum's Annual Meeting, where he is also due to give remarks. The last US leader to attend that high-level event while in office was Bill Clinton in the year 2000. (For more on Davos, see related story, this edition)

The Office of the US Trade Representative is due to release its annual Trade Policy Agenda on 1 March, in line with [federal statute](#), which will outline "the trade policy objectives and priorities of the United States for the year, and the reasons therefore" along with planned steps to meet these goals, among other information.

Aside from the negotiations with international partners and the domestic-level investigations, another key deadline looming over US trade circles is 1 July 2018, which is the date for renewing Trade Promotion Authority (TPA). That legislation confers the US executive branch with the authority to negotiate international trade deals, which would otherwise be the responsibility of Congress.

It also sets out negotiating objectives, requirements on transparency, and what would be required for a completed international accord to be voted on by Congress in a straight "up or down" vote, rather than being opened up for amendments.

The current version of TPA is known formally as the Bipartisan Congressional Trade Priorities and Accountability Act of 2015, and was signed into law by then-President Barack Obama in June of that year following a long and contentious legislative process. (See Bridges Weekly, [2 July 2015](#))

The 2015 legislation was set in place for an initial three years, with the possibility of a one-time extension for an additional three years, subject to certain requirements.

This includes a series of steps taken by the US executive to notify Congress and different related committees of their interest in renewal, along with updating on the negotiating state of play. It also requires that neither legislative chamber votes to "disapprove" extending TPA, according to [analysis](#) by Jeffrey Schott of the Peterson Institute for International Economics. This process would need to start by 1 April, at latest, with set dates and deliverables from then through 1 July.

ICTSD reporting; "Canada welcomes Trump talk of possible NAFTA deadline extension," REUTERS, 12 January 2018; "Transcript of Donald Trump Interview With The Wall Street Journal," WALL STREET JOURNAL, 14 January 2018; "Bumpy road ahead for S. Korea-U.S. FTA renegotiation: senior official," YONHAP, 15 January 2018; "The ITC's New Solar Report Could Bolster Trump's Broader Trade Agenda," GREENTECH MEDIA, 5 January 2018; "Trump Must Decide on Tariffs for Imported Washing Machines," NEW YORK TIMES, 21 November 2017; "Republican senator puts hold on Trump's trade nominees," THE HILL, 17 January 2018.

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## GLOBAL ECONOMY

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### **Spotlight on Global Economy as Davos Approaches, Trade Ministers to Consider WTO Next Steps**

A host of officials, including several world leaders, are preparing to descend on the Swiss alpine town of Davos next week for four days of high-level discussions which are expected to touch on questions regarding how to improve global cooperation on issues such as the economy, trade, and climate change. The event will also feature an informal meeting of trade ministers from various WTO members, which could serve as an early opportunity for reflecting on the results of the Buenos Aires ministerial conference last December.

The 23-26 January Annual Meeting of the World Economic Forum (WEF) is slated to bring together leaders from industry and business, policymakers from intergovernmental organisations and from various different countries and country groups, and representatives from academia, think tanks, and the media.

This year's theme is "Creating a Shared Future in a Fractured World," with the WEF [description](#) of the event noting that "geostrategic fissures have re-emerged on multiple fronts with wide-ranging political, economic, and social consequences."

"Governments, business, civil society cannot address alone the manifold challenges we have on the global agenda. We need collaborative efforts. Davos has become the annual, most representative high-level multi-stakeholder summit," said Klaus Schwab, WEF Founder and Executive Chairman, at a pre-meeting [press conference](#) on 16 January.

"We are living at an inflection point with many opportunities, great opportunities, but also confronting, like never before, perils. There is today a real danger of a collapse of our global systems. The change is not just happening. It is in our hands to improve the state of the world," he added.

New forecasts [released](#) by the World Bank last week have already suggested that global economic growth could hit 3.1 percent this year, crediting this improvement partly to trade and investment being on the rebound. However, the organisation also warned that this is "largely seen as a short-term upswing" and noted the potential risks ahead that could have damaging implications for poverty and inequality.

#### **Leaders' list growing**

At last year's event, Chinese President Xi Jinping delivered a speech defending globalisation which captured headlines around the world, and led many analysts to question whether Beijing is planning to take a greater leadership role on the global economic stage, particularly as the US began stepping back in order to focus on the new administration's "America First" agenda. (See Bridges Weekly, [19 January 2017](#))

Indian Prime Minister Narendra Modi is due to give this year's keynote in the WEF plenary, which will reportedly focus on the development of a "new, young, and innovative India" and address wider economic concerns, according to the Economic Times.

Leaders from dozens of countries are expected in Davos, including Argentina, Brazil, Canada, Colombia, France, Israel, Italy, and the United Kingdom, among various others. High-level officials are also attending from China, Nigeria, South Africa, and Switzerland, to name a

few. European Commission President Jean-Claude Juncker will also attend, according to a [list of participants](#) released by the WEF.

Much of the G7 and G20 coalitions will also be represented at Davos, and Schwab told reporters this week that this could see some discussions on how both groups address their upcoming agendas under their respective presidencies. This year's G7 will be hosted by Canada, while the G20 is under the presidency of Argentina.

US President Donald Trump is due to give a closing speech at Davos, according to the WEF. His decision to go to the WEF Annual Meeting was announced by White House Press Secretary Sarah Huckabee Sanders earlier this month, who [told reporters](#) that Trump "welcomes the opportunity to go there and advance his America First agenda with world leaders."

"The President is still 100 percent focused and committed to promoting policies that promote strength for American businesses and the American worker. And that's going to be the same whether he's in the US or any other place," she said in response to questions on whether Trump's move to attend Davos was showing a shift in tactic or viewpoint, given previous reticence to attend a meeting that was deemed a gathering of high-powered international elites.

Trump will be [joined](#) in Davos by various cabinet-level officials, including US Trade Representative Robert Lighthizer and Secretary of State Rex Tillerson, with the delegation itself led by Treasury Secretary Steven Mnuchin.

Given the critical challenges facing the future of global cooperation on trade, climate change, and other subjects, the WEF's Schwab told reporters this week that "in this context, it is absolutely essential to have President Trump with us" for the Davos discussions.

### **Trade ministers' meeting**

The Davos meet has also traditionally served as an occasion for trade ministers from various countries to convene and send political signals over where discussions at the WTO may go in the coming year. These meetings are convened by Switzerland, as host country.

The gathering comes just one month after trade ministers concluded their eleventh WTO ministerial conference in Buenos Aires, Argentina, which saw limited substantive outcomes at the multilateral level and many questions raised regarding the organisation's [future role](#) on global trade and investment governance.

In Buenos Aires, no deal was reached to discipline harmful fisheries subsidies, as originally pushed for, with ministers instead agreeing to work towards adopting such an accord in two years. They did not endorse any work programme on agriculture, nor did they reach consensus on any outcomes from the WTO's development talks. (See Bridges Daily Update, [14 December 2017](#))

The next steps for negotiations at the multilateral level remain unclear, and how trade ministers may address the future of these outstanding issues, as well as the differences which led to the result in Buenos Aires, will be a key question heading into Davos.

While an informal meeting on fisheries is scheduled at the WTO's headquarters later this month, the timing of other negotiating meetings is not confirmed. The WTO's General Council is currently set to meet in early March.

Notably, the WTO ministerial did see various groups of members agree to launch initiatives on e-commerce, investment facilitation, and micro, small, and medium-sized enterprises (MSMEs), which would be open to any interested parties. Regarding e-commerce, this effort is being pursued with the goal of launching formal negotiations. On investment facilitation,

participants are aiming to hold “structured discussions with the aim of developing a multilateral framework on investment facilitation.”

Officials from interested countries are due to convene their first meetings on these subjects before the end of this quarter. Many of these countries will be represented at the ministers' and potentially leaders' level throughout next week, and will have trade ministers present at the informal ministers' meeting.

ICTSD reporting; “PM Narendra Modi to encapsulate making of new, innovative India in Davos,” ECONOMIC TIMES, 14 January 2018; “Commerce sends Section 232 steel report to Trump,” POLITICO MORNING TRADE, 12 January 2018.

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## ASIA-PACIFIC

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# Singapore Becomes ASEAN Chair, Charts Path for Future of Regional Integration and Cooperation

Last week, Singaporean Prime Minister Lee Hsien Loong launched his country's chairmanship of the Association of Southeast Asian Nations (ASEAN) for 2018. As the Philippines passes along the baton to their city-state neighbour, Lee commenced the agenda-setting process and outlined directions for the bloc's future with a focus on regional economic integration.

The annually rotating ASEAN chairmanship grants each member the opportunity to facilitate official meetings, introduce new projects, and ensure the functionality of ASEAN as a forum for cooperation.

"ASEAN's economic community has opened up many job and business opportunities. Singapore companies have benefitted. With the ASEAN Free Trade Area, Singapore companies can reach ASEAN's market of 630 million people – 100 times Singapore's own population and more," said the Prime Minister, [speaking](#) on the occasion of the launch at the Experience ASEAN carnival in Bishan-Ang Mo Kio Park on Friday. The ten-member regional bloc celebrated 50 years since its establishment in 2017.

The ASEAN Economic Community (AEC) [was created](#) in 2015 to ensure the free flow of goods, services, labour, and capital across the combined 622 million ASEAN citizens and US\$2.6 trillion market. The Community is guided by the [AEC Blueprint 2025](#) aimed at promoting integration both among and between members and the global economy and creating an innovative, competitive, and connected community.

"Singaporeans also benefit from the freer flow of goods and services. In our supermarkets we can buy Thai rice, Vietnamese coffee, Filipino dried mangoes, Indonesian kerupok, and Malaysian Musang King durians, all at very affordable prices," Lee said.

Looking to priorities ahead for the region, "resilience" and "innovation" have been selected as guiding themes for the Singaporean chairmanship with the underlying aim of transforming ASEAN into "a better home for our future generations." Lee identified in his remarks a role for ASEAN in strengthening collective resilience in the face of shared threats, including terrorism, cybercrime, and climate change. He also promised the promotion of innovation through dedicated schemes to leverage technology to create a dynamic and well-connected community.

Singapore has singled out e-commerce as a priority, given that ASEAN's digital economy is projected to reach US\$200 billion by 2025. This initiative is backed by the blueprint, which counts consumer data protection, secure payment systems, and coherence between legal frameworks for online disputes as key areas of interest towards trade facilitation and improved connectivity and prospects for small businesses.

The ASEAN [Single Window](#) aims to make strides in this respect by expediting the clearing of shipments. Plans for its implementation were signed in September 2015 by ASEAN finance ministers.

The AEC Blueprint also aims to foster an inclusive, people-oriented community. "ASEAN is not just for diplomats and officials. ASEAN has benefitted all of us who live in Southeast Asia including Singaporeans," Lee underlined on Friday.



## Eyes on RCEP

The ten ASEAN member states are also actively undergoing negotiations together with their six FTA partners for the Regional Comprehensive Economic Partnership (RCEP), a deal of which Singapore has been a vocal supporter. Negotiations have been underway for five years, with the 20<sup>th</sup> and most recent round of talks concluding in South Korea in November, after which officials reaffirmed that an earlier target of concluding talks in 2017 would not be feasible. (See Bridges Weekly, [2 November 2017](#))

Delegates will meet in Indonesia in February to kick off deliberations for 2018, which has four rounds of meetings scheduled so far including a possible leaders' gathering.

The pact will aim to cover goods, services, investment, competition, e-commerce, and intellectual property rights, among other topics. As negotiators begin wrapping up chapters, members are seeking to find consensus on various outstanding issues. For example, India is reportedly resisting pressure to open up 90 percent of its traded goods to competition, and has also sought to secure greater market access in services, especially with regard to the temporary movement of skilled workers across borders. India has a well-developed services sector, particularly in the information technology field.

New Delhi has been particularly cautious with granting tariff concessions to China, preferring not to expose its domestic industries to intense competition. Over the 2016-2017 period, India's trade deficit with China amounted to US\$51 billion. China is India's largest trading partner.

## Leadership changes

At the start of this month, Dato Lim Jock Hoi [took office](#) as the 14<sup>th</sup> ASEAN Secretary-General. The new Secretary-General was formerly Permanent Secretary at the Ministry of Foreign Affairs and Trade of Brunei and the country's chief negotiator for the Trans-Pacific Partnership (TPP), another regional trade bloc that is moving towards completion. He will succeed former Secretary-General Le Luong Minh for a five-year term.

Speaking at the handover ceremony in Jakarta, Indonesia, the new Secretary-General [said](#) that "the immediate tasks for ASEAN would be to prepare the people of ASEAN for the new technological age, and to ensure the region advances towards inclusive growth and sustainable development."

"The constantly evolving global and regional landscape means that the challenges and opportunities facing ASEAN today are different compared to its early days," he continued, underlining the importance of a united ASEAN in the face of these changes in order to continue progress towards closer economic integration in the region.

"The world is looking at ASEAN, and will measure its success on ASEAN's resilience; how it stays on course in its integration efforts; and how it responds to emerging issues and developments arising from an interconnected world," he said.

ICTSD reporting; "Indian resistance could spell trouble for RCEP," BANGKOK POST, 8 January 2018; "RCEP: India hardens stand ahead of summit with ASEAN," THE HINDU, 23 December 2017; "Trade deficit with China a matter of concern: Nirmala Sitharaman," THE ECONOMIC TIMES, 25 July 2017; "Singapore takes the hot seat: Steering Asean amid challenges," THE STRAITS TIMES, 14 January 2018; "Singapore atop Asean with a wary eye on China," ASIA TIMES, 12 January 2018; "Great opportunities for India-ASEAN collaboration: Singapore minister," THE ECONOMIC TIMES, 6 January 2018; "Singapore to focus on themes of resilience, innovation as ASEAN chairman," CHANNEL NEWS ASIA, 12 January 2018.

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## CLIMATE CHANGE

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# China Looks Towards Next Steps For Implementing National Carbon Market

The world's biggest emitter of greenhouse gas emissions announced the start of its long-awaited emissions trading scheme (ETS) one month ago, on 19 December. As the new year begins, how the world's largest carbon market will operate in practice and when trading might begin will be a closely-watched subject in climate and energy circles, given the various details which remain to be hammered out.

The launch of the carbon market came later than originally envisioned. Design problems were credited with the delay, with the kick-off initially planned for 2016.

Under the carbon market, covered companies will have to reduce emissions below a certain limit, which will contract gradually. Trading will allow companies with higher reduction costs to purchase additional permits to account for higher pollution, while those with lower reduction costs will be able to sell their surplus allowances.

The ETS is a key tool in China's efforts to meet its pledge under the UN's Paris Agreement on climate change. Under its nationally determined contribution, China has committed to peak its emissions by 2030 and raise the share of renewables in its energy supply to 20 percent by the same year.

"The ETS will push industrial plants to eliminate outdated capacity and improve their production," said Jiang Zhaoli, vice director at the climate change department of China's National Development and Reform Commission, in comments reported by Reuters last month upon the market's launch.

### Initial scope

The Chinese ETS will initially cover the power sector only. Under earlier plans, companies from eight sectors were meant to take part in the scheme, including petrochemicals, chemicals, building materials, iron and steel, non-ferrous metals, paper, power, and aviation.

According to Chinese officials and experts, the change is due to the fact that the power sector has the most credible and transparent emissions data, which makes it a suitable sector for starting the scheme, while other sectors lack strong enough statistical foundations.

Under the initial scope, the ETS will cover 3.5 billion tonnes of carbon dioxide from 1700 installations, accounting for over a third of China's total carbon emissions. This means that China will overtake the EU, which covers 1.4 billion tonnes, as the world's largest carbon market.

Nine regions and cities, including the seven which have piloted regional carbon markets over the past few years, will coordinate to set up the national ETS.

### Pending design elements

Many details about the Chinese ETS are yet to be decided and announced. This includes the initial level of the emissions cap and its planned trajectory over time.

China also has to announce how permits will be allocated. Authorities will need to specify both the share of permits to be allocated for free and those to be auctioned, as well as how auctions will operate.

The provisions for monitoring and enforcement, as well as details about penalties for non-compliance, are other features which need to be developed.

Given the list of pending tasks, it is not yet known when trading will begin. Experts expect the set-up of the ETS to take at least one year, with 2020 likely to mark the launch of actual trading and broader sectoral coverage. This would coincide with the publication of China's next Five-Year Plan and the submission of its new climate pledge under the Paris Agreement.

### **Climate leadership**

The move to a national carbon market in the world's second largest economy and largest CO<sub>2</sub> emitter has been welcomed in the climate community as a significant development.

"With the top global polluter enacting policies to support the Paris Agreement and transition to a low carbon economy, it is clear that we're at a tipping point in the climate crisis," said former US Vice president Al Gore, who is a vocal advocate for climate action and won the Nobel Peace Prize for his efforts just over one decade ago.

Once fully implemented, the Chinese ETS is expected to cover around five billion metric tonnes of carbon dioxide. According to a [report](#) by the International Carbon Action Partnership (ICAP), this means that 15 percent of total global emissions will be covered by carbon markets. Experts argue that China's national ETS can spur wider climate action around the world.

The news is a step that "could have global ramifications," Jonathan Grant, director of climate change at advisory firm PWC UK said, according to GreenBiz. "China's actions could reduce concerns about competitiveness which is often a barrier to implementing climate policy in other countries."

The launch of China's national ETS came almost immediately after US President Donald Trump removed a description of climate change as a national security threat from a new national security strategy plan and several months after he announced his intention to withdraw from the Paris Agreement. (See Bridges Weekly, [8 June 2017](#))

Various policymakers have praised China for stepping up its climate leadership at a time when the US has scaled back its role at the federal level.

"As the US government turns its back on the fight against climate change, China, the EU and many others are forging ahead with robust climate policies and measures," said EU Climate Action and Energy Commissioner Miguel Arias Cañete in a [statement](#). "This announcement sends a very strong signal: the world is changing with new, broad climate leadership. With both the EU and China committed to emissions trading, two major international players are championing carbon markets to meet their commitments under the Paris Agreement and curb emissions cost-effectively."

### **A strong year for carbon markets**

China's announcement follows a year of positive carbon market developments around the world. In November, the EU clinched a reform deal to strengthen its ETS and together with the US state of California announced their intention to ramp up carbon market cooperation. (See Bridges Weekly, [16 November 2017](#))

In New Zealand, Prime Minister Jacinda Ardern proposed incorporating agriculture into the ETS, moving towards a scheme that covers “all gases, all sectors.” (see Bridges Weekly, [26 October 2017](#))

Closing the year, national and sub-national leaders from North and Central America released the [Carbon Pricing in the Americas declaration](#) on 12 December at the One Planet Summit, pledging to deepen carbon market cooperation. The statement was signed by Canada, Chile, Colombia, Costa Rica, Mexico, the Governors of California and Washington state, and the Premiers of Alberta, British Columbia, Nova Scotia, Ontario, and Québec.

ICTSD reporting; “China to launch nationwide carbon market next week: officials,” CLIMATE HOME NEWS, 14 December 2017; “China aims for emissions trading scheme in big step vs. global warming,” REUTERS, 19 December 2017; “China's 'monumental' new emissions trading scheme,” GREENBIZ, 21 December 2017; “What to Make of China's Announcement of a National Cap-and-Trade System?,” HUFFINGTON POST, 5 January 2018.

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## TRADE AGREEMENTS

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### EU Talks with Mexico, Mercosur Push On For 2018 Trade Deals

Trade negotiations between the EU and a number of Latin American countries are picking up in the new year, with officials aiming to clinch an updated EU-Mexico agreement and a long-awaited EU-Mercosur accord in the near term.

EU-Mexico talks have already resumed, with negotiators meeting last week in Mexico City to advance the process. The two sides had attempted to finish the trade deal update last year, only to confirm after the final negotiating round in December that they would need more time. (See Bridges Weekly, [7 December 2017](#))

After that meeting, held from 12-21 December, EU Trade Commissioner Cecilia Malmström [said](#) that the negotiating teams would need to do additional work in early 2018, "aiming for a deal that is right, not any deal."

"As I've said before, quality must come before speed, and this is a goal shared by our Mexican partners," Malmström added.

Similarly, EU-Mercosur negotiations did not lead to a political deal during talks held in mid-December on the sidelines of the WTO's Eleventh Ministerial Conference in Buenos Aires, Argentina. (See Bridges Weekly, [7 December 2017](#) and Bridges Daily Update, [13 December 2017](#))

"We have made good advancement but there's still stock taking today," Malmström [said](#) after the Buenos Aires meeting, according to Reuters. "We see the end of this," she added.

Also on the docket is a planned modernisation of the EU's trade accord with Chile. The 28-nation European bloc will also be working on the ratification processes for trade agreements with Singapore and Japan this year, while also navigating the next phase of the Brexit talks.

#### Updating the EU-Mexico deal

At a December round, EU and Mexican negotiators discussed all areas of the agreement, and the talks "resulted in very good progress," according to the European Commission's [statement](#).

These advances reportedly included wrapping up their work on competition, good regulatory practices, small and medium-sized enterprises (SMEs), transparency, sanitary and phytosanitary (SPS) measures, and trade and sustainable development. Discussions also included revised market access offers for goods, though that process is still ongoing.

The original trade deal, now nearly two decades old, is a part of a "Global Agreement" covering various areas. (See Bridges Weekly, [27 July 2017](#))

"As well as the economic benefits, the agreement is also a way to tie our citizens closer together and to confirm our shared values on sustainable development, labour and environmental rules, human rights, and our objectives on climate change. We will also have for the first time a chapter on how to tackle corruption in the public and private sectors – something which is relevant for trade of course," [said](#) Malmström in a statement last month.

However, clinching a final deal requires decisions on sensitive issues, including agricultural market access on meat and dairy; rules of origin, including with agriculture; and geographical indications, among others.

The Mexican Secretary of Economy Ildefonso Guajardo Villarreal [mentioned](#) "high sensitivity" on meat as one of the factors slowing down progress.

"What is the matter? A high sensitivity on meat and an excessive obsession on entering the dairy market. We are working to see what can be achieved. We are moving forward and hope to reach a conclusion and an agreement in early February," Guajardo [said](#) to El Universal, a Mexican news outlet.

The debate over geographical indications partly involves the EU proposal to protect nearly 60 cheeses originating from the bloc, which Mexico also produces. Various members of the Mexican dairy industry have reportedly lobbied against these geographical indications, which would prevent them from selling cheeses such as manchego and parmesan produced locally under those names.

Meanwhile, the EU and Chile are set to continue talks to modernise their existing trade accord, which were launched last year. Chile and Mexico are both members of the Pacific Alliance, a Latin American coalition which also includes Colombia and Peru, which also have deals in place with the European Union. (See Bridges Weekly, [23 November 2017](#))

### **Eyeing EU-Mercosur agreement**

Meanwhile, officials from the South American bloc Mercosur and the European Union are also expected to resume negotiations shortly, after efforts to clinch a long-awaited deal came close to conclusion last year, only to falter on differences such as market access for beef and ethanol.

The four full members of Mercosur are Argentina, Brazil, Paraguay, and Uruguay. Meetings are expected to resume in the coming weeks.

The EU had proposed in October to provide tariff-rate quotas of 600,000 tonnes of ethanol and 70,000 tonnes of beef per year, an amount that the members of Mercosur argued was not enough. While the bloc put forward a revised offer on goods in December, and Mercosur put forward its own updated offers on goods, services, and government procurement, talks are still ongoing to reach common ground. (See Bridges Weekly, [19 October 2017](#))

"We have a meeting scheduled for this month, we have to set a date in which we will also be receiving the EU proposal in relation to some outstanding issues, among them those that refer to the agricultural issue in its entirety and the subject of ethanol," [said](#) Paraguayan Foreign Minister Eladio Loizaga to journalists.

The two blocs have been negotiating a trade pact for nearly two decades, though the talks have stalled repeatedly and were re-launched in 2016. The remainder of the pact is said to be well advanced, [with a report](#) from the European Commission on the 29 November-8 December negotiating round which preceded the Buenos Aires talks noting that chapters such as dispute settlement, SPS, services and establishment, and trade and sustainable development are either finished or close to being complete.

ICTSD reporting; "EU, Mexico Pushing Ahead With FTA Talks," GLOBAL TAX NEWS, 2 January 2018; "Names of cheeses are obstacle in trade talks," MEXICO NEWS DAILY, 4 January 2018; "Plantean a la UE abrirse a agroproductos mexicanos," EL UNIVERSAL, 13 January 2018; "Guajardo ve obsesión Europea de vender quesos en México," EL UNIVERSAL, 10 January 2018; "EU trade in 2018: A preview," EURACTIV, 8 January 2018; "EU stalls on new Mercosur trade offers, delaying deal: source," REUTERS, 12 December 2017; "Mercosur y la UE se reunirán en Asunción este mes," EL PAIS, 12 January 2018.

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## DISPUTES

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# Canada Files WTO Challenge on Broad Swath of US Trade Remedy Practices

Canada has filed a wide-ranging WTO case ([DS535](#)) against the United States on various aspects of Washington's trade remedy practices, citing examples affecting several countries and that in some cases date back several years.

The 32-page complaint was submitted on 20 December and circulated on 10 January. The first seven pages of the document cover six types of "measures" in relation to US anti-dumping and countervailing duty policies, with the remaining text filled with annexes detailing examples of the alleged violations. These examples span over two decades and have been flagged as evidence "in part" of Canada's concerns.

In this context, the complaint also says that the different US measures violate, depending on the measure involved, certain aspects of the Anti-Dumping Agreement, Subsidies and Countervailing Measures (SCM) Agreement, Dispute Settlement Understanding (DSU), and the General Agreement on Tariffs and Trade (GATT) 1994.

The complaint drew swift [condemnation](#) from US Trade Representative Robert Lighthizer, who called the charges "groundless" and deemed the consultations request a "broad and ill-advised attack on the US trade remedies system." The US official also warned that the move would be counterproductive for Ottawa, helping other economies instead.

"For example, if the US removed the orders listed in Canada's complaint, the flood of imports from China and other countries would negatively impact billions of dollars in Canadian exports to the United States, including nearly US\$9 billion in exports of steel and aluminium products and more than US\$2.5 billion in exports of wood and paper products," said Lighthizer.

### Wide-ranging complaint

Among the concerns raised by Canada is how the US responds to instances where its anti-dumping or countervailing duty measures are deemed to be in violation of WTO rules – specifically, what Washington does in response to situations where it has collected cash deposits for the entries of imports at levels that have been subsequently deemed to be WTO-illegal.

Canada cites a so-called "Section 129 determination" that Washington uses to correct this issue, with Section 129 referring to a specific provision in the larger US law which enacted the WTO's Marrakesh Agreement into the country's domestic legal framework. Among other concerns, Ottawa argues that the US does not "immediately" take steps to refund the difference between the WTO-illegal and the corrected rates.

The complaint also addresses other issues having to do with the retroactive collection of duties, along with concerns over how the US calculates or interprets certain information during an investigation. On the latter, Canada has questioned the US practice when calculating whether a government has provided a good for "adequate remuneration," which then determines the level of "benefit" conferred by a subsidy in countervailing duty cases. The US investigative authority disregarded "negative" benefits resulting from some comparisons that they could not offset with other positive benefit findings, said Canada.



Canada has also questioned how the US determines the presence of a subsidy when dealing with “export controls” such as quotas or bans on input products. Canada questions the US’ practice of treating these as “financial contributions” for downstream products and thus being potential countervailable subsidies that can face investigation.

The final two measures raised by Canada have to do with when US investigators choose to stop accepting evidence in investigations, along with how a tied vote among the members of the US International Trade Commission is treated. Under US trade remedy practices, a tied vote is considered to be an “affirmative determination” of material harm or potential harm to industry. Canada has thus questioned whether this “creates an institutional bias in favour of affirmative results.”

The vast bulk of the examples used to support Canada’s claims are US trade remedy investigations against other WTO members, with only a small number relating to investigations involving Canadian products. These specifically involve softwood lumber and “supercalendered” paper, otherwise known as glossy paper, which have been products where the two sides have long-standing public differences.

The other investigations cited by Canada involve countries across Europe, Asia, and some parts of South America, with many of the examples involving China. The oldest examples listed in the annexes date back to the mid-1990s, while the most recent are from 2017.

### **Brewing trade tensions**

The timing of the complaint comes during a period of intense friction between the two sides, both on the softwood lumber and supercalendered paper duties mentioned above, as well as a separate US investigation and duties involving Canadian aerospace giant Bombardier, though this case is not referred to specifically in Canada’s complaint. (See Bridges Weekly, [5 October 2017](#))

The two countries are in the middle of negotiations to modernise the North American Free Trade Agreement (NAFTA), a decades-old deal which also includes Mexico as a partner. The sixth round of talks is scheduled to begin next week in Montreal, Canada. (For more on NAFTA, see related story, this edition)

Trade remedies have been among the topics which have taken centre stage in the NAFTA talks, in light of a US proposal to drop the “Chapter 19” dispute system for adjudicating cases on the subject. That proposal has been deemed untenable by Canada and Mexico. (See Bridges Weekly, [19 October 2017](#))

The case is the third WTO dispute filed by Canada against the United States over the past two months. The other two cases deal with anti-dumping measures ([DS534](#)) and countervailing duty measures ([DS533](#)), respectively, that the US has applied on imported softwood lumber from its northern neighbour.

There is a separate dispute ([DS505](#)) involving US countervailing duty measures on Canadian supercalendered paper, which began in March 2016 and is now at the panel stage. (See Bridges Weekly, [14 April 2016](#) and [23 June 2016](#))

### **Next steps**

A request for consultations marks the first formal step in WTO dispute settlement proceedings. Should these consultations fail to lead to an agreed solution after at least 60 days, a complaining party can then ask for the establishment of a dispute panel to examine the case.

ICTSD reporting.



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## TRADE AGREEMENTS

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### EU, UK Gear Up for Trade Portion of Brexit Talks

The new year will see the next stage in the Brexit negotiations between the United Kingdom and the other 27 EU member states, after the latter group, meeting under the European Council, called for the end of the first phase of negotiations in mid-December.

The move was confirmed after the Council noted advances made across citizens' rights, the UK's financial obligations, and how to address the status of Northern Ireland without jeopardising the peace process.

Formal negotiations for the UK's withdrawal from the EU began last June, just over two months after the United Kingdom formally invoked Article 50 of the EU Treaty. That article provides for two years to negotiate a full exit accord, in other words until the end of March 2019, unless parties agree to extend that timeframe. (See Bridges Weekly, [28 September 2017](#) and [5 October 2017](#))

#### Trade and transition

Experts suggest that this next Brexit phase will prove especially challenging, particularly as the UK and EU craft the details of their revised trading relationship, given that the UK will no longer be part of the bloc's single market after exiting the bloc. Other issues, some of which also have significant economic relevance, will also need to be resolved in this stage, as well as the duration of any transitional period.

Furthermore, what will happen to the myriad trade and economic deals that the EU has with non-EU partners around the world remains an open question. For example, whether the UK will be able to continue participating in those deals during a Brexit transition period is currently unclear, and what role the EU would have in agreeing to that possibility.

Draft EU negotiating guidelines cited by the Financial Times have suggested that the remaining 27 members would like the right to approve whether the UK can take steps to maintain those benefits, though how that language might be interpreted reportedly remains up for debate. Those negotiating guidelines are due to be finalised later this month.

The planned transition period may also have implications for the timeframe for the UK to launch new trade talks with interested partners, analysts say.

Michel Barnier, the EU's chief negotiator, has said that an accord like that between the EU and Canada, known as the Comprehensive Economic and Trade Agreement (CETA), is the most feasible scenario for future UK-EU trade ties. That accord has been provisionally in force since last September. (See Bridges Weekly, [21 September 2017](#))

David Davis, the UK Secretary of State for Exiting the European Union, said last month that his government hopes to craft a "Canada plus plus plus" deal with his EU counterparts, according to an interview published by the BBC and quoted by various other news outlets. For him, this would start with "the best of Canada, the best of Japan and the best of South Korea and then add to that the bits that are missing, which is services."

While services are covered in those accords, the UK has said that it wishes to see an EU-UK deal go much further in the area of financial services than what is seen in those cases. Indeed, how this topic is dealt with has drawn intense public debate in recent weeks and is expected to be a major part of the Brexit talks, given the importance of this sector for the United

Kingdom with its financial services hub, as well as for the wider European Union. It is just one of many other issues, such as regulations, that will feature in the complex trade negotiating process which lies ahead.

In order for an exit agreement to be ratified by the European Parliament in time for the official "Brexit" date of 29 March 2019, EU officials say that the deal itself will need to be crafted by October of this year – a timeframe which both sides acknowledge will be tough to meet.

Meanwhile, EU negotiators have [said](#) that a UK transition period for the country's exit should not extend beyond 31 December 2020, at latest, citing concerns over potential complications this could create for the bloc's multi-year budget if it goes on for longer.

The European Council has formal meetings scheduled for March, June, October, and December, with the state of the Brexit talks one of the items likely to be a recurring topic when leaders meet.

ICTSD reporting; "The real Brexit challenges facing the UK in 2018," THE GUARDIAN, 30 December 2017; "EU trying to 'cherry pick' Brexit deal, says David Davis," THE TIMES, 2 January 2018; "May faces tougher transition stance from EU amid Norway pressure," THE GUARDIAN, 15 January 2018; "Brexit: David Davis consults lawyers over EU preparations for no deal," THE INDEPENDENT, 9 January 2018; "David Davis attacks EU's 'damaging' no-deal Brexit planning," FINANCIAL TIMES, 8 January 2018; "European governments welcome Brexit progress but warn of challenges," THE GUARDIAN, 8 December 2017; "Brexit transition must end in December 2020, says Barnier," THE FINANCIAL TIMES, 20 December 2017; "Brexit No Deal or Norway Are May's Only Brexit Choices, Brookings Says," BLOOMBERG, 9 January 2018.

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## EVENTS & RESOURCES

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# Events

### Coming Soon

19 January, Nairobi, Kenya. WORKSHOP ON SUSTAINABLE RURAL BIOENERGY SOLUTIONS IN AFRICA. This workshop is being organised by the International Renewable Energy Agency (IRENA) in cooperation with the World Agroforestry Center (ICRAF) and Japan International Research Center for Agricultural Sciences (JIRCAS). The meet will focus on the role of new approaches to sustainable rural bioenergy, tying this issue to social, environmental, and food security impacts. More information about the workshop is available on the IRENA [website](#).

23-26 January, Davos-Klosters, Switzerland. WORLD ECONOMIC FORUM ANNUAL MEETING 2018. This annual high-level event, held by the World Economic Forum (WEF), will revolve around the theme "Creating a Shared Future in a Fractured World." The event draws officials from international agencies, governments, private sector, think tanks, media, and more for discussions on various facets of the global policy landscape. More information is available on the WEF [website](#).

25 January, Tokyo, Japan. MYTHS AND OBSERVATIONS ON UNCONVENTIONAL MONETARY POLICY: TAKEAWAYS FROM POST-BUBBLE JAPAN. This meeting is being held by the Asian Development Bank Institute (ADBI), with a focus on developing a better understanding of the impacts of different approaches to monetary policy, along with how these impacts differ across time periods and countries. The data used for this analysis was derived specifically from Japan's own experiences over the past few decades. More information is available on the ADBI [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 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.

22 January: Dispute Settlement Body

23 + 25 January: Trade Policy Review Body – The Gambia

25 January: Informal Open-ended Dispute Settlement Body – Special Session

### Other Upcoming Events

29-30 January, Geneva, Switzerland. FIRST MEETING – SUSTAINABLE FISHERIES TEAM OF SPECIALISTS. This meeting is being organised by the UN Economic Commission for Europe (UNECE) Secretariat, and will launch a process featuring regular meetings of specialists in the field of fisheries management. This process is aimed at ensuring that sustainable fisheries standards are used effectively at the international level, and thus address an information gap involving overfishing and illegal, unreported, and unregulated (IUU) fishing. Participation in this specialist group is open, subject to meeting certain requirements. More information is available on the UNECE [website](#).

30-31 January, Incheon, South Korea. 8<sup>TH</sup> ADB-ADBI-OECD-ILO ROUNDTABLE ON LABOR MIGRATION IN ASIA. This roundtable will focus on migration within Asia, looking at what these experiences could mean for future work on migration policy at both the regional and UN levels. The event is being organised by the Asian Development Bank Institute (ADBI), the International Labour Organization (ILO), and the Organisation for Economic Co-operation and Development (OECD). More information is available on the ADBI [website](#).

31 January, Atlanta, United States. THE FUTURE OF TRANSATLANTIC RELATIONS: A DEBATE. This event will feature a debate on the future of the US-EU relationship, including on various economic issues of shared interest. It will look at areas for future partnership, and will address other topics such as diplomatic concerns and security. The event is being held at the George Institute of Technology, hosted by the university's Sam Nunn School of International Affairs. This is in cooperation with the Brookings Institution's Foreign Policy program, the Koch Institute, and Politico. More information is available at the Brookings [website](#).

6 February, London, United Kingdom. TRADE TRENDS IN LATIN AMERICA. This Chatham House event will feature a presentation by Paolo Giordano, principal economist at the Inter-American Development Bank (IDB), on recent trends in trade involving the Latin American region, as well as future prospects. Please note that attendance is by invitation only. For more information on this event and related meetings, visit the Chatham House [website](#).

12 February, London, UK. FOSSIL FUELS EXPERT ROUNDTABLE: FORECASTING FORUM 2018. This Chatham House event will look at the prospects for fossil fuels in 2018, along with how certain developments at the political or other levels could affect these forecasts. Please note that meeting attendance is by invitation only. To learn more, visit the Chatham House [website](#).

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## Resources

INTERNATIONAL TRADE GOVERNANCE AND SUSTAINABLE TRANSPORT: THE EXPANSION OF ELECTRIC VEHICLES. Published by the International Centre for Trade and Sustainable Development (ICTSD) (December 2017). This new paper aims to explore issues on trade-related aspects of moving towards the increased use of electric vehicles for road transport, along with what knowledge gaps exist in this area. The publication is available for download at the ICTSD [website](#).

BREXIT AND ORIGIN: A CASE FOR THE WIDER USE OF CROSS-CUMULATION. By Anna Jerzewska for the RTA Exchange (January 2018). This new paper examines the issue of rules of origin within the wider Brexit context, and how cross-cumulation could be used following the UK's exit from the EU bloc. The RTA Exchange, which published this paper, is an initiative implemented jointly by the International Centre for Trade and Sustainable Development (ICTSD) and the Inter-American Development Bank (IDB). The paper is available for download [here](#).

TRADE REDEMPTION: HOW TRADE AGREEMENTS CAN HELP DECARBONIZE THE ECONOMY. By Rafael Leal-Arcas for Queen Mary University of London – School of Law (January 2018). This new paper, which will also serve as a chapter in an upcoming book on renewable energy and the European Union, will focus on the role that international trade accords can play in supporting the transition to a low-carbon economy. To learn more and to download a PDF version of the paper, click [here](#).

UNCTAD'S REFORM PACKAGE FOR THE INTERNATIONAL INVESTMENT REGIME. Published by the UN Conference on Trade and Development (UNCTAD) (December 2017). This publication features a series of recommendations drawn from the existing history of rules developed in the field of international investment arbitration. It describes the challenges to address, and what policymakers should consider in the process. The publication is available [here](#).

DO GOVERNMENTS DRIVE GLOBAL TRADE IMBALANCES? By Joseph E. Gagnon for the Peterson Institute for International Economics (December 2017). This working paper focuses on trade imbalances and their contributing factors, particularly at the domestic level. The author ties this in to the work within the G20 coalition of major advanced and emerging economies in this area and what this means going forward. The paper is available on the Peterson Institute [website](#).

LEVERAGING CLIMATE, TRADE, AND INDUSTRIAL POLICIES TO UPGRADE EAC AGRO-INDUSTRIES IN REGIONAL AND GLOBAL VALUE CHAINS. By Boniface Otieno Owino for CUTS International (January 2018). This briefing paper examines a range of policy areas, including climate change and trade, with a focus on their implications for value chain participation within the East African Community. The paper is available [here](#).

OECD ECONOMIC OUTLOOK, VOLUME 2017 ISSUE 2. Published by the Organisation for Economic Co-operation and Development (OECD) (December 2017). This biannual publication outlines the economic prospects for various countries over the upcoming biennium, with data across various different economic indicators. The publication is available from the OECD [iLibrary](#).

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