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DEVELOPING COUNTRY FINANCIAL SECTORS DE-REGULATE WITH WTO ACCORD

Trade negotiators from 102 countries at the World Trade Organization managed to hammer out an agreement in the early hours of December 13 that takes steps to liberalize financial services in areas such as banking, insurance and securities. The deal covers 95 percent of global revenues in these sectors, subjecting activity in them to a set of global rules to be administered by the WTO.

In an attempt to protect domestic financial services industries, many developed and developing countries have until now maintained significant barriers against the entry of foreign banks and insurance companies. The WTO agreement, which will come into effect in 1999, will slash some of these barriers, opening the way for higher levels of foreign investment and knowledge transfer in these multi-trillion-dollar industries.

The negotiations were marked by a range of responses and offers from developing countries in the face of global pressure to reduce barriers to foreign financial services. Whereas Indonesia -- its economy recently wracked by financial instability -- allowed 100 percent foreign ownership of non-bank financial firms such as insurance companies to operate within its borders, Malaysia ceded just 51 percent ownership to foreign insurance companies. Said Malaysian International Trade and Industry Minister Datuk Seri Rafidah Aziz, "Foreign insurance companies certainly have to comply with whatever the Finance Ministry and Bank Negara put up."

In response to Malaysia's tighter regulations, the U.S. will not permit Malaysian firms to enter its insurance market unless Malaysia foregoes its 51 percent policy, which implicitly guards against large foreign insurance firms such as American International Group. Since no Malaysian insurance companies were in the process of venturing into the U.S. market, Rafidah stated that the U.S. conditions were "quite all right by us."

WTO Director-General Renato Ruggiero expressed relief that the agreement had been achieved. "With so much of the world facing economic turbulence," he said, "negotiators from all our member states have shown once again the courage and commitment to pursue the policies of liberalization which are essential to economic stability, growth and development." Last week Ruggiero insisted repeatedly that the pact would be a "win-win deal," giving developed country firms new investment opportunities and developing country markets a much-needed injection of capital and expertise.

"Foreign financial firms 'must adhere to policy on equity'," THE STAR, KUALA LUMPUR, December 15, 1997; "Global agreement would remove competitive barriers in multi-trillion-dollar financial services arena," AP/BLOOMBERG, December 13, 1997. "U.S. signs WTO financial services pact with MFN exemption on Malaysia," INSIDE U.S. TRADE, December 15, 1997.

IMPLEMENTATION AND TRADE IMPLICATIONS OF KYOTO SUMMIT REMAIN UNCERTAIN

Delegates to last week's highly-publicized conference of parties (COP-3) to the United Nations Framework Convention on Climate Change (UNFCCC) held in Kyoto, Japan, have agreed to a legally-binding treaty calling for a 5.2 percent reduction in emissions from developed countries. Though some are calling it a multilateral negotiations success, the fact that the Kyoto accord must first be ratified by the 159 signatory countries has left many groups apprehensive over its ultimate fate.

The Kyoto Protocol, signed on Thursday November 11th, exhibits significant departures from participating countries' pre-Kyoto positions. The U.S. and Japan in particular compromised prior commitments, despite the concentrated efforts of domestic industrial and business lobby groups. Under the agreement, the U.S. is committed to cutting the emissions of six greenhouse gases by seven percent by 2008-2012, a significant increase even from its proposal on November 10th of five percent. The U.S. is responsible for 35 percent of world emissions. The EU, originally advocating a 15 percent cut, settled for just eight percent.

The central caveat will be whether the Protocol will be ratified by signing parties' governments. As the U.S. Senate pronounced the treaty "dead on arrival," prospects do not look promising at first blush. "If the threats of Republican critics in the Congress become a reality, we might have another landmine," stated Germanwatch's Christoph Bals.

Though American ratification of the Protocol would carry a lot of force, it is not essential. Under the terms of the agreement, ratification requires the approval of at least 55 parties to the Convention -- incorporating states included in the 37 so-called Annex 1 countries (i.e. OECD countries and Central and Eastern European states) -- which accounted in total for at least 55 percent of the total carbon dioxide emissions for 1990. Since the U.S. accounts for 35 percent of these emissions, Protocol ratification without its approval would still be conceivable, though it would require the participation of almost all other Annex 1 countries.

The trade implications of the landmark agreement are far from clear, however. In order to achieve the delicate compromise that was agreed to, parties to the Protocol have had to include flexibility mechanisms. Since these have yet to be defined, it is difficult to determine to what extent countries will use them to fulfill their commitments. The option of emissions trading permits was discussed, although it has yet to be decided how this might be implemented. Regardless, the Protocol will likely have an impact on how businesses and governments approach the issue of greenhouse gas emissions. "The

Protocol should therefore send a powerful signal to business that it needs to accelerate the delivery of climate-friendly products and services," said a United Nations statement Thursday.

"Global warming: NGOs concerned about fate of Kyoto Treaty," IPS, December 11, 1997; "Kyoto Protocol to the United Nations Framework Convention on Climate Change," December 11, 1997; "Global dealers could beat pollution," FINANCIAL TIMES, December 10, 1997.

CHINA'S WTO BID: NEW OFFER RECEIVES LUKEWARM RESPONSE

China's latest services offer in its bid for admission to the World Trade Organization received an underwhelming response in Geneva the week of December 5. Trade officials criticized China's offer for not going far enough in improving market access and continuing to maintain regional and quantitative restrictions on services. Long Yongtu, Chief Chinese negotiator in the accession talks, said that many of the delegations were disappointed that China's liberalization offer excluded basic telecommunications. Long indicated that China intends to include this sector in the future but that the area is considered quite sensitive by China.

In bilateral talks with the U.S., China offered to eliminate tariffs on toys, beer and furniture, as well as remaining committed to joining the global Information Technology Agreement. China and the U.S. remain far apart on services, however -- most notably in China's assumption that its services market will remain closed except for areas where it has made access concessions. WTO services rules assume that all markets are open, except for specific exemptions. The two sides plan to meet early in 1998 to resume negotiations.

Long Yongtu said last week that China has concluded market access for goods talks with a number of countries including Japan and South Korea, and are in the final negotiating stages with at least 20 others.

"Trade officials in Geneva criticize China's latest WTO services offer," INTERNATIONAL TRADE REPORTER, December 10, 1997; "U.S., China far apart on services; goods offer to come next year," INSIDE U.S. TRADE, December 12, 1997; "China in fresh bid to join WTO," JOURNAL OF COMMERCE, December 8, 1997.

EU MAY DELAY BAN ON TALLOW, OTHER CATTLE MATERIALS

The European Commission (EC) last week proposed a three-month delay in imposing a controversial ban on a range of cattle products containing so-called "specified risk material". The SRM ban, originally set for January 1, is aimed at avoiding risks of bovine spongiform encephalopathy, or BSE, which can infect livestock and pose a serious threat to human health. Gelatin and tallow from beef by-products are used extensively in cosmetics and drug manufacturing. The EC's scientific advisory body failed to reach a consensus last week on various aspects of the ban, including a provision giving pharmaceutical companies up to two years to develop product and process alternatives before complying with the ban.

The ban is strongly opposed by the U.S. government, which estimates it would affect nearly US\$4.5 billion in trade: the U.S. pharmaceutical industry says the ban would affect about 85 percent of all drugs from entering the EU. The U.S. argues that there is no history of BSE in U.S. cattle products and should

therefore be exempt from any ban. Germany, Austria, Spain, Greece, Finland, Sweden and Italy also argue that their cattle is free of BSE and should be exempt from the ban.

The EC proposed the three-month delay to give scientific experts time to examine the geographical incidence of BSE, and the way in which different raw materials such as tallow and gelatins might contribute to BSE. The scientific committees are to report their findings by January 31, 1998. Sources say that the study of geographical incidence may open a Pandora's box: evidence could justify the insistence by the six EU countries and the U.S. that they are BSE free and should be granted an exemption from the ban. This could create a very serious division between EU member states that are subject to the ban versus those which are not, and put passing the ban at risk altogether.

"Lack of consensus forces EU to propose three-month delay of SRM ban," INSIDE U.S. TRADE, December 12, 1997; "Commission seeks delay on cattle materials ban," FINANCIAL TIMES, December 12, 1997; "Could delay controversial drug ban," WALL STREET JOURNAL EUROPE, December 11, 1997.

INDIA PUSHING FOR SETTLEMENT WITH U.S. IN QR DISPUTE

India last week renewed its call for a negotiated settlement to its trade dispute with the U.S. over India's quantitative restriction regime. U.S. Secretary of Commerce William Daley, visiting India last week, said the U.S. remains unhappy with India's plan for phasing out import restrictions on over 2,700 goods. Last month the WTO dispute settlement body agreed to investigate the U.S. complaint against India's import regime. The U.S., pointing to an IMF report from earlier on this year, argues that India's balance of payments situation is such that maintaining the import restrictions violates global trading rules.

Secretary Daley said that while the U.S. is hopeful of a negotiated settlement with India, it is not backing off of its complaint. The U.S. is dissatisfied with the "backloading" of goods within India's six-year phaseout plan: the goods most important to the U.S. – mainly agricultural -- are left to the final phase. India's Commerce Minister B.B. Ramaiah said last week that the differences remaining in talks between the U.S. and India are not substantial and that a settlement should be reached soon.

The European Union, Australia and New Zealand have concluded separate agreements with India to settle their respective disputes. New Zealand International Trade Minister Lockwood Smith last week said that fruit, notably kiwi, and produce exporters will be the first to benefit from the New Zealand-India agreement.

"U.S. unhappy with India plan on import curbs," REUTERS, December 10, 1997; "India calls for a negotiated end to trade dispute with U.S.," AP-DOW JONES NEWS, December 8, 1997; "New Zealand welcomes India deal to phase-out import curbs," REUTERS, December 9, 1997.

EU, MEXICO STEP CLOSER TO FREE TRADE

The European Union and Mexico last week pledged to begin negotiations next year towards establishing a free-trade zone. The Economic Partnership, Political Coordination and Cooperation Agreements signed by both sides last week include clauses setting standards for human rights and democracy-inclusions Mexico resisted during the two years of negotiating leading up to last week's signing, but to which it agreed earlier this year. The EU hopes the anticipated free-trade zone will help revive EU exports to

Mexico, which have suffered since the North American Free Trade Agreement went into effect in 1994. The EU share of Mexican international trade fell from 11.4 percent in 1994 to 6.1 percent in 1996.

A free-trade agreement between Mexico and the EU will help Mexico diversify Mexico's export base. The U.S. buys 80 percent of Mexico's exports at present. Mexico has been criticized at the WTO for its heavy reliance on the U.S. Trade talks are expected to last two years.

"EU, Mexico sign trade accord calling for free-trade talks in 1998," INTERNATIONAL TRADE REPORTER, December 10, 1997; "Free-trade treaty sought by Mexico, EU," LOS ANGELES TIMES, December 9, 1997.

CARIBBEAN LEADERS MEET TO DISCUSS LOME V STRATEGY

Caribbean government and business leaders met in Havana earlier this month to discuss the upcoming Lome V negotiations, set to begin in September 1998. The leaders signaled they will stand firm in protecting Caribbean interests in upcoming trade talks with Europe, and expressed concern about Europe's calls for a new approach to EU-ACP relations. The EU has proposed that Lome V, which will replace Lome IV when that agreement expires in 2000, include a gradual move to reciprocal and free trade partnerships in line with WTO rules. ACP leaders understand the need for a regime in line with international trade rules, but are calling on the EU to maintain its system of non-reciprocal trade preferences and market access within Lome V.

Caribbean leaders are concerned about an EU proposal to create separate economic partnerships which each of the African, Caribbean and Pacific regions—a move ACP leaders fear will impede their negotiating power. Caribbean leaders also expressed concern over suggestions that EU-ACP development should focus on the poorest countries and gradually move middle-income countries, including Caribbean countries, off of aid programs. Yesu Persaud, chairman of the Caribbean Council for Europe, said of the suggestion that "This is short sighted and dangerous...It cannot be right that small island states such as ours should be expected to have to compete with vastly larger developed nations without an adequate transition period."

"Islands to fight in EU trade talks," FINANCIAL TIMES, December 6-7, 1997.

WTO APPELLATE BODY DELAYS BEEF-HORMONE DECISION A SECOND TIME

Citing the "exceptional nature of the case," translation time constraints, and the intervention of the Christmas holidays, the WTO's dispute settlement Appellate Body has delayed for a second time its decision on the EU-U.S./Canada beef-hormone dispute. A statement issued by the WTO has indicated that the Appellate Body Report on the September 24 1997 appeal by the European Community will be circulated to WTO member states by Friday January 16, 1998.

A previous delay had extended the 60-day period allocated to the Appellate Body up to December 23, 1997. According to WTO rules, the Appellate Body must circulate its report no later than 60 days after the appellant has formally notified its decision to appeal. If for some reason the Appellate Body cannot fulfill this task in the time required, it must "inform the WTO Dispute Settlement Body in writing of the reasons for the delay together with an estimate of the period within which it will submit its report."

An earlier WTO Dispute Settlement Panel had ruled that the EC's ban on American and Canadian beef containing certain growth hormones violated international trade rules.

ICTSD's internal files.

EU FARMERS DEFEND 'EUROPEAN MODEL' OF AGRICULTURE

As EU leaders prepared to meet in Luxembourg last week to discuss changes to the Common Agricultural Policy, European farmers' unions demanded that any changes preserve "the European model of agriculture." European farmers' unions wrote to EU leaders, urging them to resist outside pressures to liberalize EU farm policy. "To preserve European agriculture's richness and ensure its future on a lasting basis at a time of globalization," union leaders wrote, "the European Council must ensure that its future is shaped by the concerns of its own citizens and not those on other continents," most certainly referring to the U.S. as well as to demands from the Cairns Group of agricultural exporting countries in the WTO.

The European Commission was expected to receive approval from EU leaders last week to formulate plans to reform the current system of subsidies paid to grain, beef and milk farmers. Reducing EU dependence on export subsidies will be a main target for trading partners when talks begin at the WTO for a global agreement on agriculture in 1999. The Commission has warned that the current subsidy program cannot be maintained with the expansion of the EU to include 10 central European economies – it has also warned that the current system, left unfettered, would result in grain and beef stockpiles as subsidized European farm prices remain higher than world prices.

European farmers fear proposed reforms to the CAP -- including cutting the guaranteed prices paid to farmers, could force small farmers out of business.

"EU farmers lobby governments to limit farm policy changes," BLOOMBERG, December 10, 1997.

EVENTS/RESOURCES

Agriculture, Trade and the Environment: Anticipating the Policy Challenges: Available from the Organization for Economic Cooperation and Development. Publication No. OECD/GD (97) 171. Contact OECD Publications and Information Center, 2001 L Street NW, Suite 650, Washington, DC, 20036-4922 USA. Ph: +01/202/785/6323; Fax: +01/202/785/0350.

Global Convention on Biological Diversity. 29 December, 1997. International Biodiversity Day. For more information, tel: 1-514-288-2220; fax: 1-514-288-6588, e-mail: biodiv@mtl.net.

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Thank you for your continued interest and best wishes for the season!

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