



European Update

September 1, 1999

WTO: The Next Round

Negotiations Before The Real Negotiations

Representatives of the 134-member countries of the World Trade Organization (WTO) will meet for the next trade round in Seattle in late November. However, there are several uncertainties...such as the agenda. WTO members have reached little consensus on what should be included on the agenda for discussion. Even leading trading nations have yet to agree on key issues for inclusion.

The so-called "built-in" agenda, agreed to during the Uruguay Round, includes agriculture and services as well as industrial tariffs. But how deep will the discussions run? Agricultural reforms, arguably the most contentious issue, remain a key sticking point. The United States, the Cairns Group, and other large agricultural exporting countries favor

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NEW WTO DIRECTORS

Temper flared this past Spring while supporters of Supachai Panitchpakdi of Thailand and Mike Moore of New Zealand competed to have their candidate replace Renato Ruggiero as Director-General of the WTO. After months of anxious coalition building on both sides, it became clear that a con-



Mike Moore and Supachai Panitchpakdi will each serve a three-year term as Director General of the WTO

sensus could not be reached. Not wanting to force a vote, the parties have agreed to split the post, with Mr. Moore beginning his three-years post this September 1 and Mr. Panitchpakdi beginning his term in September of 2002. The compromise reflects the changes taking place in the organization, long dominated by the wishes of North America and Europe. Pakistan's trade envoy, Mounir Akram commented, "It moves the WTO closer to other organizations where the views of the majority count."

"New Era of Change" Prodi Names New Commission

Following the resignation of the entire European Commission this past March, Romano Prodi, President-designate of the European Commission, announced the proposed new Cabinet on July 9. After hearings scheduled to begin this week, the European Parliament is expected to approve the 19-member team by mid-September.

The EU Parliament's confirmation hearings for the new Commission promise to be difficult. Parliament does not have the right to reject individual Commissioners, rather they must accept or reject the entire Commission as proposed.

Some major changes have taken place with regard to the structure of the Commission. The External and Trade portfolio

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EU-Latin America: Talks Are On But Not for Tariffs or Agriculture

The EU has pushed forward in its attempts to negotiate association agreements with MERCOSUR and Chile. Although many expected that talks would not begin until 2003, the EU has agreed that the talks between the four members of MERCOSUR (Argentina, Brazil, Paraguay, and Uruguay) along with Chile (an associate member of MERCOSUR) will begin in November. The first round of talks will focus on removing non-tariff barriers. Talks on liberalizing services and tariffs will begin on July 1 of 2001 and would be held during the ongoing WTO negotiations. Although there is no deadline for

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WTO Ruling Against US Tax Breaks for Exports

A report from the World Trade Organization dispute panel released in July upheld "on all significant counts" a claim from the European Union that a US law permitting Foreign Sales Corporations (FSC) is discriminatory and violates international trade rules. The EU was quick to claim victory in their battle to prohibit US exporters from sheltering as much as \$10 billion a year from taxes.

The WTO panel ruled that the FSC tax exemption constitutes a prohibited export subsidy under the WTO Agreement on Subsidies and Countervailing Measures. The panel also ruled that the tax exemption constitutes an export subsidy under the WTO Agreement on Agriculture, and violates provisions of that agreement.

Sir Leon Brittan, the acting Commissioner for Trade and External relations said that the report requires that the US change the FSC law. Quick to claim victory, Sir Leon added, "This export subsidy has created a major distortion of US trade by granting very substantial and unfair advantages to US products."

However, the final ruling is not expected until mid-September and the Office of the US Trade Representative can make an appeal. The US Trade Representative's Office has stated that the EU complaint is unwarranted and that the law is in line with WTO requirements.

The FSC was introduced in the early 1980s after its predecessor provisions, the Domestic International Sales Corporation (DISC) rules, were found to be a prohibited export subsidy under General Agreement on Tariffs and Trade (GATT) subsidy rules. In line with the GATT ruling against the DISC and certain European tax provisions, the US brought its system in line with WTO regulations.

The FSC rules permit a portion of income generated outside the territorial limits of the United States to be exempt from US income tax. To qualify for these exemptions, the FSC must have a foreign presence, meet certain management requirements and meet certain economic process requirements.

"The panel appears to have systematically disregarded the history of this issue, the applicable WTO legal rules concerning income tax measures, and the facts of record before it," —

Charlene Barshefsky, United States Trade Representative

EU Supports Halt on GM Approvals

This past June, European Environmental ministers pledged their support for a moratorium that would prohibit the approval of genetically modified (GM) products. Approval of GM products is likely to be held up for a number of years until legislation governing GM products is changed and meets the approval of the EU.

The hostile stance has frustrated British officials, whose government supports GM technology, and US companies trying to gain market access for their GM products. GM opponents, led by France, were able to block the decision-making process designed to establish new rules for the approval of GM products. Unless the opposing countries change their positions, it is very unlikely that any new GM products will be approved any time before 2002.

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EU Enlargement: Six on Track for Entry

In June, Günter Verheugen, then German Minister for Europe, and the newly appointed EU Commissioner for Expansion, was upbeat about progress toward enlarging the EU. Cyprus, Hungary, Poland, Estonia, the Czech Republic, and Slovenia are on-track in their push to negotiate their entry into the EU. Mr. Verheugen said that Poland had made "splendid progress" and that Poland's "ambitious goal of entry by January 1, 2003, was not unrealistic."

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major reforms to the EU's Common Agricultural Policy (CAP) as well as to Japan's protective agricultural policies. However the EU contends that the CAP has been reformed as agreed upon by EU leaders earlier this year. In reality, the EU CAP reforms have been labeled timid and limited in depth.

While the EU has argued in favor of a comprehensive trade round addressing issues such as competition policy, investment, consumer health, environment, development, and government procurement, other countries are not so sure. Many developing nations, such as India, have opposed the EU's stance arguing that many nations have yet to implement decisions made in the 1986-1993 Uruguay Round.

"This will be the largest trade event ever held in the United States and it will inaugurate global negotiations which will shape world trade as we move to the next century."

—Charlene Barshefsky,
United States Trade
Representative

Other issues which have been presented by various member countries include tighter anti-dumping and subsidy measures, trade and labor standards, and food safety policy. These propositions have been met with substantial opposition. Whether they will be included on the agenda remains to be seen.

In addition to difficulties in formulating an agenda agreeable to all member nations, many countries would like to approach the trade talks differently. One proposal is for a "single undertaking" approach in which "nothing is agreed until everything is agreed." Fearing that decisions will only be made contingent on agreement on agriculture issues, the United States has proposed an "early harvest" approach which would allow trade agreements to be implemented as they are reached.

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Prodi Names New Commission

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lios, previously held by Sir Leon Brittan, are now to be split between Chris Patten, former Governor of Hong Kong, who will serve as Commissioner of External Relations, and Pascal Lamy who will serve as the Commissioner of Trade.

Sighting the increased responsibilities of the Commission as an important actor on the international political stage, the Commission is being reorganized to "improve the Commission's activities in this area." Mr. Patten will have to share his responsibilities covering external relations with Javier Solana, retiring in October as NATO's Secretary-General, who will become the spokesperson for the Council of Member States on foreign-policy and security.

The Commission's creation of a trade port-

folio will cover responsibilities in the formulation of trade policy and bi-lateral relations, including the ongoing banana dispute with the US.

The appointment of Pascal Lamy, a 52-year old French Socialist, to lead the EU's trade relations with the US and the next WTO Round of negotiations, was surprising to many. While committing himself to free trade, Mr. Lamy has been quite outspoken against US attempts to open European markets, especially to agriculture products. Many in Brussels, not impressed with his views and management style, are threatening to make trouble. While many are cautious, some observers believe Mr. Lamy will prove more effective than Sir Leon in pursuing an activist trade agenda, especially in his ability to persuade France to make difficult concessions in the upcoming WTO trade round.

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As if there are not enough issues up for discussion, the official name of the trade talks in Seattle has not been settled. Possible choices include “The Millennium Round”, suggested by former EU Trade Commissioner Sir Leon Brittan, or “The Clinton Round”, as the White House hopeful.

Despite the numerous disagreements over agenda, scope, official name, and approach to the trade meeting in Seattle, member countries have generally agreed that the round should last no longer than three years, which is perhaps an overly ambitious deadline. In September, the WTO’s governing general council will begin working on the draft of the ministerial declaration, which will set the agenda for the round.

On a side-note, militant environmen-

talists, labor unions, peasant groups, and other free-trade opponents are gearing up for huge protests during the meeting in Seattle. A California-based group called the Ruckus Society is planning on teaching classes to eager protest participants on everything from forming human blockades to climbing over barbed wire all in an attempt to further disruptions. WTO-opponents, led by such groups as Public Citizen, charge that WTO agreements favor multinational corporations at the expense of workers and the environment. Pro-trade groups have pledged to hold their own counterprotests to lend their support to the WTO meeting. If you are planning on going to Seattle, we might recommend that you bring your riot gear!

Prodi Names New Commission

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Guenther Verheugen, Deputy Foreign Minister of Germany, will be the new Commissioner for Enlargement and will preside over the EU’s process of expansion toward Eastern and Central Europe. Michel Barnier, a former French minister for European Affairs, will oversee regional policy, and Michael Schreyer, of Germany’s Green Party, will be responsible for the Commission’s budget.

Four members of the old Commission are returning, some with new posts. Franz Fischler of Austria will be returning to his old post as the EU Agriculture Commissioner while picking up the responsibilities of the EU’s sensitive fishing policy. Neil Kinnock moves from his post governing transportation to the new post of Reform Commissioner and has been assigned the

task of coming up with a reform policy by next February. Mario Monti of Italy moves from taxation to anti-trust policy. Erkki Liikanen of Finland, formally in charge of the budget, will become the new Commissioner for enterprise and information.

Other members of the Prodi Commission include Loyola de Palacio (Vice President, Relations with the European Parliament, Transportation and Energy); Fritz Bolkestein (Internal Market); Philippe Busquin (Research); Pedro Solbes Mira (Economic and Monetary Affairs); Poul Nielson (Development and Humanitarian Aid); David Byrne (Health and Consumer Protection); Viviane Reding (Education and Culture); Margot Wallström (Environment); Antonio Vitorino (Justice and Home Affairs); and Anna Diamantopoulou (Employment and Social Affairs).

“I promised to launch a new era of change in the Commission. This is what I intend to deliver, starting from today. I am determined that the new Commission should meet the very highest standards of public life.”

—Romano Prodi upon announcing the proposed Commission

EU Enlargement: Six on Track for Entry

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However, many diplomats have pointed out some potential stumbling blocks, such as Poland's laws prohibiting the sale of land to foreigners and the Czech Republic's desire to retain a customs union with Slovakia. In addition, the entry of Cyprus into the EU is made more complicated with the tensions between Greece and Turkey. The Commission may have a clearer timetable for expansion by the end of this year or early 2000.

The reform of Poland's agricultural sector remains a hurdle to its entry into the EU. The agricultural sector employs 25 percent of the population, yet makes up only 6 percent of its gross domestic product. Many in the EU fear that Poland would drain subsidies given to EU farmers. In its most recent reform of the Common Agriculture Policy (CAP), the

EU shifted its agriculture subsidies from price support to direct farmer subsidies. However, the CAP reforms do not include a plan for subsidies for future members, like Poland. Although the Polish government is working to complete EU membership requirements, many Polish farmers worry that they will lose their subsidies upon joining the EU. Some estimate that it will cost the Polish government \$10 billion for entry into the EU. While high, the price may be worth it. EU membership affords so many benefits but without additional subsidies for Polish farmers, Poland's economy may take a sharp decline upon accession.

In addition, Romania and Bulgaria are asking the EU to push up their accession date as a reward for their support of NATO policies in Kosovo.

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EU-Latin American Talks

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completion of the talks, any EU-Latin American agreement would not be concluded before the WTO round is completed. There had been much internal debate within the EU as to a start date for negotiations with MERCOSUR and Chile. Germany had been pushing for a July 2002 start date, while Spain pushed for an earlier start date.

While agreeing not to exclude an sector from the talks, the EU has said they will not discuss agriculture until 2003 (or until after the WTO round is complete). However, for MERCOSUR and Chile, any agreement's big attraction would be greater access to the EU's protected agriculture market. The EU has been very timid about plans to make any agricultural concessions in the WTO citing limitations imposed by their Common Agricultural Policy reforms.

EU Halts GM Approvals

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Environmental ministers worked to make it very difficult for companies to grow and sell GM products in Europe. But the US contends that the EU's moratorium is based on political considerations as opposed to real concerns about any health and safety problems associated with GM products. But Ritt Bjerregaard, acting EU Environmental Commissioner, said there was no reason why the EU's position on GM products could be challenged.