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Cynicism in Geneva Rises Before G-20 Summit

Senior trade negotiators, who began meeting again at the World Trade Organization (WTO) the week of Sept. 14 as directed by trade ministers in New Delhi ten days earlier, have turned cynical about prospects for the Doha Round, and some sources say they have detected that same cynicism in WTO Director General Pascal Lamy (see **WTTL**, Sept. 7, page 2). The cynicism has been fueled by repeated calls by world leaders and trade ministerial to conclude the round but with no specific direction on how to reach that conclusion. New exhortations are expected from leaders of the 20 largest economies (G-20) at their next summit in Pittsburgh Sept. 23-24, but no new instructions that will move the trade talks, sources say.

> At a Sept. 16 session of the group negotiating on non-agriculture market access (NAMA), officials were told a timetable is being drawn up for talks over the next three month. But Swiss Ambassador Luzius Wasescha, who chairs the NAMA committee, told the group that talks "were not ripe yet." Some delegations warned the meeting about the dangers of reopening some "stable" texts or reopening some aspects of the mandate, such as the link between tariff-cutting coefficients in the formula and flexibilities for developing countries.

U.S. Trade Representative (USTR) Ron Kirk also has drawn criticism from developing country officials for his repeated demand that their countries offer more in the talks. "Nothing's going to happen with that kind of attitude," one high-ranking developing country trade diplomat told WTTL. He said Kirk wants a new deal, not the outline that has been negotiated already. Countries don't even have agreement "on the basic parameters of the negotiation," the diplomat said. "Every indication we get from Washington is of a lack of urgency," he said. He noted the absence of a U.S. agriculture negotiator and the expected gap between the retirement of Deputy USTR Peter Allgeier and the confirmation of Michael Punke to replace him. "Our basic assessment is that the U.S. isn't in a position to agree" on a final deal, he said.

WTO Report Calls for Plan to End Government Intervention

Countries need a strategy to end market interventions before distortions emerge, a WTO report released Sept. 14 suggests. The global economic crisis isn't over and protectionism pressure will rise with continued rising unemployment, possibly for years, said the report prepared for the G-20 meeting in Pittsburgh Sept. 23-24 on the current state of protectionist actions. "Protectionism will remain a threat, a risk for the time to come," said WTO Director- General Pascal Lamy with the release of the report. The report on actions taken between April and

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August 2009 was prepared by the WTO, the Organization for Economic Cooperation and Development (OECD) and the United Nations Conference on Trade and Development (UNCTD) at the request of the G-20. Trade protectionism is likely to produce heated discussion in Pittsburgh, especially in reaction to the U.S. safeguard action against Chinese tire imports.

> The deep involvement of countries in troubled banks and companies raises questions about public-sector management and nondiscriminatory treatment of investors, the report said. The involvement creates scope to favor certain firms and disguise discrimination against foreign investors, it said. Governments need to start planning to eliminate fiscal and financial packages used to tackle the crisis as soon as possible, the report urged.

"Once the global economy is on the way to recovery, the exit of the state from investments made during the crisis will involve a reinjection of private capital, including through foreign investment," the report noted. "In fact, some governments are beginning to dispose of assets acquired during the crisis," it added. "Divestiture almost always involves case-by-case arrangements and discretion in structuring deals. Such processes could create further scope to favour certain firms over others and, more specifically, to discriminate against foreign investors," the report warned.

The rate of new antidumping investigations started by G-20 countries is about the same this year as last, but the distribution has changed significantly, the report said. China started three investigations from January to July 2008 and 14 during that period in 2009. The European Union (EU) started 15 for the seven-month period in 2008 and two in that time in 2009. For the same time period, the U.S. started 14 in 2008 and 10 in 2009. The number of safeguard investigations rose from two in 2008 to 16 in 2009. India, however, was the main proponent, with zero in 2008 and 14 in 2009. The U.S. started none in 2008 and one in 2009.

Trade policy slippage has occurred since the beginning of the economic crisis, the report said. The U.S. and EU reintroduced agricultural export subsidies for dairy products. Some G-20 countries increased tariffs and nontariff barriers across a wide range of imports; however, most seem to have limited their policy actions, the report said. "Agricultural products, iron and steel, motor vehicles and parts, chemical and plastic products, and textiles and clothing have been the products most affected overall by these measures," it noted.

Eleven G-20 countries, including the U.S. and EU, "took emergency measures that have the potential to restrict or distort worldwide capital movements," the report said. At the same time, Brazil, China, India, Indonesia, Mexico, the Russian Federation and Saudi Arabia "announced cuts in import duties, fees and surcharges and the removal of nontariff barriers on various products, and China removed some restrictions on trade in certain services sectors."

Report Maps Anti-Corruption Policies of Fortune 500

Governments and industry aren't yet on the same page when it comes to practices used to stem the tide of corruption, according to speakers at a Sept. 17 briefing to unveil a new report on the anti-corruption programs and policies of Fortune 500 companies. The report said the companies used their own criteria and rules to develop such programs and seldom root them "in the international instruments" such as the United Nations Convention Against Corruption, said Antonio Costa, executive director of the U.N. Office on Drugs and Crime (UNODC).

Pricewaterhouse Coopers Austria (PWC) conducted the study for UNODC on a pro bono basis and gathered information on the 500 companies from their websites and other publicly available information. "The report aims to serve as an inspirational tool, not a commentary on corporate anti-corruption performance," the five-volume report states. The report is a snapshot of what companies are publicly saying they're doing or prepared to do to curb corruption within their own organization, said PWC senior partner Friedrich Roedler. The economic crisis increases pressure on business to perform, he said, noting that government involvement in the private sector creates new opportunities for impropriety. Michael Pedersen, an associate director at the World Economic Forum (WEF) said, "At the end of the day, the employees of a company reflect society, and no matter how good a company is in implementing an anti-corruption program, it can or should be certain that sooner or later, it will find itself involved in a corruption case." [**Editor's Note**: Copy of volume one, which reports on top 100 Fortune firms, will be sent to subscribers on request.]

> "Most companies implement anti-corruption measures like the government implements a tax law," said Maximilian Burger-Scheidlin, executive director of the International Chamber of Commerce Austria (ICC). "It's there, it has to be obeyed, but everybody tries to get around it," he said. The ICC is establishing a corruption-reporting center, Burger-Scheidlin told the briefing. The aim is to collect reports that will boost the ICC's ability to pressure governments to review agencies where trouble is being reported, he explained. Companies in difficult countries can be very corrupt or clean, Burger-Scheidlin said.

Other crimes flow out of corruption, including blackmail, intimidation and murder. Nine of 66 journalists murdered last year were "most likely" killed for writing about corruption, said David Dadge, director of the International Press Institute. The reason isn't entirely clear in another 21 murders, but they were working on corruption investigations at the time, Dadge said.

Obama Seeks "Street Cred" with 421 Tire Decision

From his days as a community organizer in Chicago, President Obama probably learned that sometimes you have to walk-the-walk, not just talk-the-talk, to establish credibility among your constituents. That appears to be part of the rationale behind his decision Sept. 11 to impose tariffs on Chinese tire imports in response to the Section 421 petition by the United Steelworkers (see **WTTL**, Aug. 10, page1). The announcement, which was slipped out after 9:00 P.M., drew instant applause from Democrats in Congress and unions.

> It was probably no coincidence that the decision came nearly a week before the statutory deadline and just five days before Obama drew a rousing reception at a speech before the annual meeting of the AFL-CIO in Pittsburgh. It has become increasingly clear that the president will do nothing on trade to antagonize the Democratic base while he needs to hold the party together to support his initiatives on health care and cap-and-trade climate legislation.

Obama's decision on tariffs reportedly came after U.S. trade officials failed to reach a deal with China to settle the case. Washington wanted Beijing to curb subsidies to its tire industry, including rebates on the value added tax, and other economic measures. "Both sides very much wanted a negotiated settlement," one source said. But with the 421 safeguard provisions expiring in three years and the impact of the proposed tire tariffs uncertain, the U.S. had little leverage to force the Chinese to take broader economic measures, the source suggested.

Initial fears that the action would trigger a trade war with China diminished quickly in the week following the announcement. When the stock market opened down on Sept. 14, some attributed it to reaction to Obama's decision. By the end of the day, however, the market closed on the plus side as other news overtook trade concerns. In the following days, talk of a trade war all but ended.

Obama contributed to the quieting of trade-war fears Sept. 14 in a speech on Wall Street. The one-paragraph mention of trade in the speech appears to be the "statement" on trade that USTR Ron Kirk said the president intended to make before the G-20 meeting in Pittsburgh. "Make no mistake, this administration is committed to pursuing expanded trade and new trade agreements," Obama declared. "But no trading system will work if we fail to enforce our trade agreements, those that have already been signed. So when -- as happened this weekend -- we invoke provisions of existing agreements, we do so not to be provocative or to promote selfdefeating protectionism, we do so because enforcing trade agreements is part and parcel of maintaining an open and free trading system," he asserted.

> As expected, the Chinese denounced the order. "We are strongly dissatisfied and resolutely opposed to the U.S. decision," said Chinese Foreign Ministry spokesperson Jiang Yu. "The U.S. decision, an abuse of trade remedies and a practice of grave trade protectionism, breached its commitments at the G-20 Financial Summit," he said; adding, "China has made solemn representations to the U.S. and reserves all rights to take responsive actions." One Beijing response was to launch antidumping and countervailing duty (CVD) investigations into U.S. chicken imports and a CVD case against U.S. automobile imports. It also asked for consultations at the WTO on the tire 421 action. China's decision to take the case to the WTO was viewed as a positive sign that it is adhering to international trade rules in its reaction to the ruling.

The Chinese complaint at the WTO is likely to reargue points made during the International Trade Commission's (ITC) investigation of the case, sources suggest. Beijing is likely to raise three arguments. One will focus on whether the ITC met the legal requirement to show that tire imports "are rising" currently and not just in the past during the 2004 to 2008 period. Another point could be the ITC's determination on "causation" and whether Chinese tires were a cause of market disruption because China is not the largest source of imports nor the cheapest. China may also contend the Commission didn't properly consider the profitability of U.S. producers during part of the investigation period.

Tire Sanctions May Offer Only Token Relief for U.S. Workers

In its recommendations to President Obama on the Section 421 case on tires from China, the USTR's office reportedly offered three options: reject relief; accept the ITC recommendation for three years of tariffs at 55%, 50% and 45%; or grant relief for three years with tariffs of 35%, 30% and 25%. Obama chose the last option. The decision to impose the lower tariffs, however, may produce only token relief for U.S. tire companies and workers. A greater benefit may come from the apparent end of the current recession and the expected increase in consumer spending over the next year and particularly a rebound in auto sales.

> The final ITC majority report cited one source that estimated the 55% tariff would increase sales of U.S.-made tires by 6.8 million units – from the 137 million shipped in 2008 – and add or retain 1,200 jobs in the industry. That estimate probably will have to be shaved with the lower tariff relief. But the long-term impact of the relief is in question. The ITC staff report on the case said increased tariffs may allow the U.S. tire industry to keep open some plants that otherwise would have closed, but "it is more likely that it would take more than just a temporary change in price for this to occur."

The smaller than expected impact could also result from a shift of imports from China to other foreign suppliers who already provide one-third of tires sold in the U.S. Moreover, the 35% added tariff may not push Chinese imports out of the market as much as some have predicted. In 2008, according to the ITC report, the average unit price of a Chinese tire import was $38.90, although prices vary widely based on tire size and quality. A 35% tariff would raise that price by $13.61 to $52.51. This higher price would still be less than the average price of imports from Mexico ($55.76), Korea ($56.11) and Canada ($59.05), while leaving the market open to cheaper tires from Indonesia ($32.10) and Brazil ($48.93).

* * * Brief * * *

USTR: USTR Ron Kirk Sept. 14 today announced appointment of Gail Strickler to be Assistant USTR for Textiles. She was previously vice president of global apparel division for Duro Textile, LLC, global textiles company that purchased Saxon Textile Corp where she worked for 26 years.