



# ASEAN+3 Trade Reporter

December 2011 Edition

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ITS Trade Reporter is a monthly round-up of trade developments from around the world. It is published by ITS Global, Australia's leading consultancy on international trade and environmental policy developments in the Asia-Pacific region. Information on ITS Global activities and current projects is available at [www.itsglobal.net](http://www.itsglobal.net)

## Latest Issues

**How will the Eurozone crisis affect Asian growth?  
Regional concern about environmental trade barriers**

## Commentary by ITS Global

**How will the Eurozone crisis affect Asian growth?**

Whatever action is taken in Europe the impact on Asian economies will be negative. First, Europe is a major market for China and China's demand for imports from the region will fall as demand for its export to Europe flag. If the EU botch its strategy, the drop in growth will be significant. Even if they muddle through, it will still be negative.

Two other factors will have impacts as well. Growth will not slump as much in the lower income economies because a key driver of growth is the activation of hitherto inactive resources. In this respect an analyst in the Financial Times forecast Indonesia's growth would probably continue largely unimpeded because domestic demand in its large population was strong.

A second factor is the steady increase of competitiveness of US manufacturers. Most currencies in Asia have been strengthening against the US dollar. This is a long term trend which to a degree has been masked by the uncertainties created by the European crisis. Nevertheless it should serve as a reminder to economies in Asia that this implies a slow but steady fall in competitiveness compared to US companies.

This is all the more reason regional governments should accelerate strategies to reduce barriers to foreign investment and further reduce trade barriers.

## Regional concern about environmental trade barriers

At the Durban climate change conference, India tabled a resolution committing UN parties to oppose unilateral environmental trade barriers. The target was the EU, in particular its imposition of higher charges on

airlines flying into the EU from economies which did not have measures to reduce emissions of greenhouse gases comparable to the EU's. India's action was political – resolutions such as this are not usually tabled in these meetings.

But this served to focus attention on rising use of environmental trade barriers. The EU has already been criticized for restricting imports of biofuel based on Palm Oil from Indonesia, and Malaysia – Indonesia has already raised this in the WTO. It has imposed similar controls on imports of biofuels from sugar in Brazil and Soybean in the US.

As well, the EU, the US and now Australia, have implemented or are planning to implement laws that restrict imports of illegal timber. This is principally a tool to pressure other countries to restrict forestry. The incidence of illegal product in exports is quite low. The bans have little impact on logging practices in exporting economies and usually simply increase the cost of timber in the importing countries.

Nevertheless, activist NGOs are pressing authorities in Europe and the US to press such measures on trading partners. The US for example has fostered establishment of an illegal logging expert group in APEC and is reportedly pressing for inclusion of restrictions on supposedly illegal timber in the Trans Pacific Partnership Trade Agreement which is under negotiation.

Expect a steady rise of complaints in the WTO about environmental trade barriers.

## Global Developments

### **WTO: Russia to join**

14 December, [News Item](#), Financial Times

Russia's accession to the WTO is expected to be announced in coming days at the WTO Ministerial Meeting in Geneva bringing to a close 18 years of accession negotiations. Russia cleared the last hurdle to accession having reached an agreement with neighbouring Georgia over monitoring of international trade across its shared border. Russia will introduce a number of market reforms as part of its accession agreement including improved market access for foreign banks and reducing foreign equity restrictions on overseas telecommunications companies.

### **WTO: Government procurement deal finalised**

15 December, [News Item](#), WTO

Notwithstanding the impasse of the Doha Development Round acknowledged by APEC leaders in Hawaii, WTO negotiators concluded an updated WTO Government Procurement Agreement (GPA) at WTO Ministerial Meeting in Geneva. The plurilateral agreement, which will include 42 of the 153 member countries, requires that signatories not discriminate in favour of domestic firms when issuing government contracts.

### **US Farm Bill**

21 November, [News Item](#), FT

The United States Farm Bill, which has provided US\$288 billion to farmers and low-income families in price support programs and food-stamp payments over the last 5 years, is due to be renegotiated in 2012. The recent failure of lawmakers to agree on terms to reduce the US budget deficit has thwarted attempts by congressional agricultural committees to limit cuts in agricultural subsidies to US\$23 billion over the next 10 years.

## **Asia-Pacific**

### **Japan to join TPP**

12 November, [Press Release](#), USTR

The APEC leaders' summit included an announcement by host, US President Barack Obama, that Trans Pacific Partnership (TPP) negotiations, underway for the past two years, had yielded a framework agreement though not yet a finalised treaty. The big news, however, was that Japan used the occasion to announce it would join negotiations. This is a game changer for APEC. Under the TPP, Japan will need to open its agriculture market. It also means negotiations are now more complex and an outcome is unlikely prior to the 2012 US presidential election. TPP members now include Australia, Brunei, Chile, Malaysia, New Zealand, Peru, Singapore, the US, Vietnam and Japan. Canada and Mexico have also expressed interest in joining negotiations. This political momentum means other APEC members may decide they also want in.

### **APEC: Environmental goods tariff to be lowered**

13 November, [Leaders' Declaration](#), APEC

A US-led APEC initiative has borne fruit at the leaders' summit with the announcement of a plan to reduce tariff rates on environmental goods and services to 5 per cent or less by the end of 2015. The US had been hoping to achieve this by the end of 2012 but faced strong resistance from China.

### **APEC: Trade costs fall but more to be done**

8 November, [News Release](#), APEC

APEC trade ministers have released a comprehensive review of the outcomes of the second Trade Facilitation Action Plan (TFAP) which aimed to reduce trade transaction costs across APEC by a further 5 per cent between 2006 and 2010. The APEC report, prepared by ITS Global, reveals that whilst total fees and charges for importers and exporters increased in real terms across the region by US\$6.3 billion or 4.8 percent between 2006 and 2010, the total time taken to complete trade-related procedures decreased, resulting in savings of US\$65 billion or 6.2 per cent over the same period. Overall trade transaction costs therefore fell, resulting in total savings for businesses of US\$ 58.7 billion.

### **ASEAN raises concern over US trade plan**

4 November, [News Item](#), FT

Following a plan recently tabled by US Treasury Secretary, Tim Geithner aimed at limiting current account imbalances to a percentage of GDP, finance ministers from each ASEAN member economy has raised the concern that the plan could see the US increasing import restrictions. They argue this would impact exporting countries in Southeast Asia. However, China – which is key to any rebalancing efforts in the global economy – has expressed interest in the idea.

## **Australia**

### **Australia's investment climate damaged?**

24 November, [News Item](#), The Australian

Australia's proposed new mining tax, the Minerals Resource Rent Tax, has been approved by the lower house of the federal parliament. It is expected to pass through the Senate and take effect from 1 July, 2012 and is forecast to raise \$12 billion over 2012-13. Opponents of the tax argue the failure of process on the part of the government in setting out the case for the tax and negotiating with the mining industry has damaged Australia's country risk standing in the eyes of foreign investors.

### **Coalition releases anti-dumping policy**

8 November, [News Item](#), Australian Financial Review

Opposition leader, Tony Abbott, recently announced the Coalition's anti-dumping policy that it will take to the next election. The policy includes a proposal to reverse the onus of proof placed on a foreign exporter requiring it to demonstrate it is not dumping product. This is intended to make it easier for Australian companies to establish instances of foreign producers dumping in Australia.

### **Philip Morris initiates legal action**

November, [News Update](#), Mallesons

Australia's new Tobacco Plain Packaging Act requires that all tobacco products sold in Australia from 1 December 2012 must be in plain packaging. Big tobacco is responding. Philip Morris Asia (PM Asia) has initiated an investment treaty claim against Australia claiming that the legislation is in breach of Australia's 1993 bilateral investment treaty (BIT) with Hong Kong. In the statement of claim, PM Asia argues the legislation amounts to – among other things – an expropriation of its investment in Australia through the prohibition of the company using intellectual property such as its trademarks. The treaty provision requires the parties first try and settle the dispute amicably.

## **Trade Agreements**

### **Indonesia ratifies AANZFTA**

21 November, [News Item](#), The Australian

Indonesia has ratified the ASEAN-Australia-New Zealand Free Trade Agreement (AANZFTA) and will officially join in January 2012, making it

the last of the 10 ASEAN member states to formally implement the agreement. Under the agreement, Australia will eliminate tariffs on 99 per cent of Indonesia's exports and Indonesia will eliminate tariffs on 92 per cent of Australia's exports, with a further 5 per cent of Australian exports facing tariffs no greater than 5 per cent.

#### **Korean lawmakers ratify US FTA**

23 November, [News Item](#), WSJ

South Korea's government has ratified the FTA with the United States following US ratification of the agreement in October. Under the FTA, most tariffs on goods between the two economies will be eliminated with some ending immediately and others including automobiles and fruits, to be reduced incrementally over a five to 10 year period. The FTA will come into effect early next year and is expected to expand the economies US\$90 billion two-way trade relationship by 10 per cent within five years.

#### **Japan and Australia to resume trade talks**

25 November, [News Item](#), AFR

Australia and Japan have resumed trade talks, which were postponed due to the earthquake and tsunami in March this year. The two countries have held 12 rounds of talks since 2007; however, progress has historically been overshadowed by Japan's reluctance to open its agricultural markets. Two-way trade between Australia and Japan was worth \$62 billion in 2010, led by exports of Australian coal and iron ore.

### **World Trade Organisation**

#### **WTO: US country-of-origin food labelling ruled illegal**

20 November, [News Item](#), Bloomberg

The World Trade Organization (WTO) ruled that US country-of-origin labelling requirements (COOL) on certain food products violate global trade rules and unjustly harm multilateral agricultural commerce. The WTO upheld complaints by Canada and Mexico which argued that their beef and pork exports were treated less favourably than comparable US products, due to COOL labelling requirements. This ruling has the potential to affect as many as 70 other WTO member countries which have mandatory labelling requirements, including the EU. The US has 60 days to appeal.

#### **US contests Chinese solar panels subsidies**

21 November, [News Item](#), New York Times

The United States Commerce Department has opened an anti-dumping trade case against China which it alleges is providing subsidies to solar panel manufacturers allowing them to dump product in the US in contravention of WTO rules. The Commerce Department is considering countervailing import tariffs of 50 to 250 per cent to stem the flow of the alleged product sold at below production and marketing cost. In response Chinese industry in conjunction with the Chinese Ministry of Commerce is considering its own trade case against the US manufacturers of polysilicon – a key input to the solar panels – and more broadly US renewable energy subsidies.

## ***WTO Dispute Settlement***

**DS384** and **DS386** – On 18 November 2011, WTO panel issued a report “United States — Certain Country of Origin Labelling (COOL) Requirements”, which examined complaints by Canada and Mexico.

No new disputes. For a complete list of the WTO's disputes [click here](#).

### **Australia's current involvement in WTO dispute settlement system**

For a complete guide to Australia's disputes, [click here](#).

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