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Outline of December Ministerial Begins Taking Shape

With barely two weeks left until the WTO Ministerial Conference, potential outcomes for the three-day event are now beginning to emerge…

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The Centre for WTO Studies was set up by the Department of Commerce, Government of India in 1999. The intent was to create an independent think tank with interest in trade in general and the WTO in particular. The Centre has been a part of the Indian Institute of Foreign Trade since November 2002. The Centre provides research and analytical support, and allied inputs to the Government for WTO and other trade negotiations. The Centre also has its own body of publications, and conducts outreach and capacity building programmes by organizing seminars, workshops, and subject specific meetings to disseminate its work, create awareness on recent trade topics and build consensus between stakeholders and policy makers.

Strong exports bail out GDP growth in September quarter
Manas Chakravarty, Livemint

December 1, 2011: The gross domestic product (GDP) numbers for the September quarter show that growth was driven by private consumption on the one hand and exports on the other. Investment demand fell off a cliff during the quarter. Unfortunately, though, with the slowdown in global growth, exports are unlikely to be strong in future, making the Indian economy rely slowly on consumption as its driver of growth. Moreover, the data show that private consumption growth too has been decelerating, thus leaving its sole growth engine sputtering.

During the September quarter, the main driver of GDP growth continued to be private consumption. Growth in private final consumption expenditure (PFCE) accounted for 49.7% of the incremental growth in GDP at market prices (after adjusting for discrepancies). But then consumption has always been the prime growth driver—in fact during the June quarter it accounted for as much as 64.4% of incremental growth.

In the September quarter, the next big driver of growth has been the external sector (exports minus imports).

Export growth went up 27.4% compared with the year-ago period, while import growth was a muted 10.9%. The net result was that the external sector contributed a huge 37.5% of the incremental GDP growth in the quarter.

The third large sector of the economy—capital expenditure—contracted during the quarter from the year-ago period. Gross fixed capital formation (GFCF), therefore, contributed a negative 2.9% to GDP growth. Total investment demand fared a bit better, with increase in inventory contributing 0.8% and growth in valuables accounting for 8.7% of incremental GDP.

The trouble is that the contribution of the external sector is likely to shrink considerably in future. The world economy is slowing and the uncertainty over Europe is likely to drag on. The OECD recently reduced its forecast for growth in the developed economies. China too is likely to see slower growth. All this is going to affect exports—indeed year-on-year growth in exports slowed appreciably in October.

Now consider the year-on-year (y-o-y) growth in the other sectors. PFCE grew 5.9% in the September quarter, compared with 6.3% in the June quarter. So consumption demand, although still relatively strong, is cooling off. Consider also the trend in y-o-y PFCE growth (although these numbers are on the back of the old IIP series) : 8.9% in the second quarter of 2010-11, 8.6% in the third quarter and then a drop to 8% in the fourth quarter. It’s pretty clear that consumption growth is decelerating slowly and steadily.

In the next few quarters, therefore, exports will no longer be an engine of growth, capital formation has already started to contract and the biggest driver of growth, private consumption, is rapidly losing steam. Given these trends, we could see a sharp fall in GDP growth rates in future.

The saving grace, however, is good growth in agriculture. But then growth in agriculture was pretty high even in the second half of FY11, so the base effect will not be very helpful. Talking of base effects, it's worth pointing out that the drop in GDP growth from 7.7% in the June quarter to 6.9% in the September quarter is worse than it looks, simply because growth was lower at 8.4% in Q2 of FY11, compared with 8.8% in Q1. GDP growth for Q2 of FY11 has also been revised down from 8.9% to 8.4%, but then that's because of the new IIP series. On the other hand, it's also true that one reason for the decline in overall GDP growth is the lower growth in agriculture. Agricultural growth was 3.2% compared with 5.4% in the corresponding quarter last year. Non-agricultural GDP growth was in fact 7.3% during the September 2011 quarter.

That's because services growth remained strong in Q2, although there has been a deceleration under the "trade, hotels, transport and communications" head. But "financing, insurance, real estate and business services" showed accelerating growth in spite of a higher base. It is doubtful, however, whether the strength in services will continue. The HSBC India Services PMI has been below 50 in September and October, which means the services sector has been contracting (compared to the previous month). Indeed, if we go by the PMI data, manufacturing has improved a bit in October, while services have deteriorated.

Manufacturing growth has fallen to just 2.7% on a base of 7.8% growth in the corresponding quarter of FY11. In the June quarter, manufacturing growth was 7.2% on top of 10.6% growth in the June quarter of FY11. The deceleration in manufacturing growth has accordingly been very sharp.

Finally, a word about inflation. The GDP numbers can also be used to gauge the level of inflation in the entire economy by comparing the numbers at current prices with those at constant prices. The difference is the inflation rate. Since the wholesale price index (WPI) data do not take inflation in services into account, the GDP deflator is a better measure of inflation. According to this measure, inflation was 9.1% during the September quarter, compared to 9% in the June quarter.

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WTO sees export growth slowing

Agence France Presse

21 November 2011: The World Trade Organisation said Monday in its annual report that the worsening outlook for the global economy has led to slower growth in exports.

"The outlook for the global economy has worsened considerably in recent months," said the report, with WTO chief Pascal Lamy calling for renewed efforts to break down trade barriers.

"Global activity is slowing down. ... World trade has grown more slowly than expected in recent months," the report said.

The report confirmed a downward revision of its forecast for world export growth in 2011 to 5.8 percent from an earlier estimate of 6.5 percent.

Developed economies' exports are now expected to rise by 3.7 percent rather than 4.5 percent, and those from developing countries by 8.5 percent instead of 9.5 percent.

"In a context of greater economic uncertainty and rising global risks, it is all the more important that the process of global trade opening continues," Lamy said.

WTO members have been labouring for a decade over further trade liberalisation in the Doha round of talks, with industrialised and developing nations failing to agree on the level of cuts on industrial goods tariffs and agriculture subsidies.

The report noted a growing perception that trade protectionism is gaining ground in some parts of the world, but said fewer restrictive measures had been introduced over the past year.

While developing countries should continue to see strong trade growth in the coming months, the report warned that "even the most dynamic developing economies would still find themselves strongly affected by another global recession."

It noted that developing countries had accounted for more than half of the growth in the value of trade since the global economic crisis began.

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RBI for stable FDI inflow to gap current account deficit
Press Trust of India

Mumbai, November 30, 2011: The Reserve Bank of India (RBI) prefers a stable foreign investment flow to gap the current account deficit, Deputy Governor HR Khan said here today. "We have capital scarcity and our current accout deficit (CAD) continues. Thats why, we look forward to have stable FDI inflow. We will not like Indian economy to have too much of exposure on the debt sector," Khan said.

A recent report by the Prime Minister's Economic Advisory Council had said the CAD will be around 2.7% of the GDP in the current fiscal. However, with the decline in exports and rising import bill, it is being feared that the deficit will widen further.

Inflows through the FDI route are more stable while foreign institutional investors' money is more fickle.

Citing the East Asian crisis of 1997, Khan said RBI has adopted a stance of going slow on opening the debt market for foreign investment.

He pointed out that some East Asian nations were in trouble in the past due to opening up their debt market too soon.

Referring to global FDI flow, he said, "Post-crisis, there was a lull in investment. It (global FDI flow) was almost stagnated $1.1 trillion in 2010. But, in 2011 first half, there is slight increase. But, there can be bit of issue due to happenings in the world."

He, however, pointed out that despite occasional hiccups, India remains one of the most preferred investment destinations in the world.

On impact of ongoing debt crisis in Europe on India, Khan said that recent developments had created major concerns across the world, which is certainly going to affect investors' apetite.

"We have been certainly insulated (in the past), but we can't be totally decoupled (from the global economy). The more and more, we globally integrate, we derive the benefits and also have to pay the price of this," he said.

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FDI Policy in Multi Brand Retail
Ministry of Commerce Press Release

28 Nov 2011, New Delhi: Government’s attention is drawn to reports in some section of media on various elements of FDI policy in Multi brand retail:

The policy cleared by Union Cabinet on 24th November stipulates that FDI in multi brand retail will be allowed upto 51% foreign equity through the government approval route, subject to adequate safeguards for domestic stakeholders.

The policy rollout will cover only cities with a population of more than 1 million(As per 2011 census, there are only 53 such cities whereas there are 7935 towns and cities in India)

The policy mandates a minimum investment $ 100 million with at least half the amount to be invested in back end infrastructure, including cold chains, refrigeration, transportation, packing, sorting and processing. This is expected to considerably reduce the post harvest losses and bring remunerative prices to farmers.

Sourcing of a minimum of 30% from Indian micro and small industry having capital investment of not more than $ 1 million has been made mandatory. This will provide the scales to encourage domestic value addition and manufacturing, thereby creating a multiplier effect for employment, technology up gradation and income generation.

India has a federal structure of government. The FDI policy is an enabling framework and it remains the prerogative of the states to adopt it. On ground implementation of policy will clearly be within the parameters of state laws and regulations.

A strong legal framework in the form of Competition Commission is available to deal with any anti competitive practices including predatory pricing.

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FDI: Sourcing from small units will benefit exporters: FIEO

Special Correspondent ,The Hindu

The move will help establish backward-forward linkage, says Consortium of Indian Farmers Associations

November 29,2011: The Federation of Indian Export Organisations (FIEO) and the Consortium of Indian Farmers Associations (CIFA) have welcomed the decision of the UPA-II Government to allow 51 per cent foreign direct investment (FDI) in multi-brand retail sector stating it would increase exports and benefit the farmers.

In a statement issued here, Chengal Reddy, Secretary General CIFA, said he believed that this move of the government would help in establishing backward-forward linkage. It will help farmers in establishing producer groups and supplying to retailers directly leading to elimination of middlemen at four or five different levels.

Mr. Reddy said currently 30-40 per cent of all farm produce gets wasted due to an efficient link between the farm and the consumers. Infusion of new technology and funds would enable farmers to get inputs on best practices and help them in getting extension services.

The statement said producer groups would be able to get assured price as they have to enter into agreement with the retailers for continuous supply and said the fears of small traders being affected were unfounded as large retail outlets would be established only in mega cities covering perhaps 10-15 per cent of the population.
He said CIFA felt that this move would encourage farmers to become producer groups and have better bargaining power in future and competition among Indian and foreign retailers would increase competitiveness and fetch better price and services to farmers.

He said crop holiday and farmer suicides were directly related to failure of marketing which was a glaring failure of the agriculture sector. FDI in multi-brand retail will help in finding a solution.

On the other hand, Ramu S. Deora, FIEO President, said the 30 per cent sourcing from domestic small units, artisans, craftsmen and cottage units would provide further boost to exports. Units supplying to large retailers will achieve requisite quality and price competitiveness to graduate to exports. This will largely benefit exporters of textiles, leather, gems and jewellery, handicrafts, jute, coir and other lifestyle products. “This will also create jobs in these sectors and enhance their capabilities as retail buyers buy in bulk for their global re-distribution. Chile has been largely benefited with multi-brand retail in pushing its exports of wine and fruits across the globe,” he said.

He said farmers would be able to access the world market as efficient producers-sellers linkage would be established which would be more remunerative for producers. Indian farmers receive only 30 per cent of the price paid by consumers as compared to 50-70 per cent in developed markets. A structured retail would, therefore, enable better price discovery, he said.

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Retail, local sourcing & WTO
Amit Sen, Economic Times

Nov 29, 2011: WHAT IS LOCAL CONTENT REQUIREMENT & IS IT PROHIBITED BY WTO?

Local content clause makes it must for foreign cos to source a certain percentage of their inputs from the host country. Local sourcing is prohibited under the Trade Related Investment Measures, or TRIMs, Agreement, introduced during the Uruguay Round of WTO in 1995.

HAS ANY NATION EVER LOST A DISPUTE RELATED TO LOCAL CONTENT?

In 1997, the US, Japan and the EU filed a case against Indonesia for granting luxury tax exemption to auto-makers who sourced 60% of inputs locally. The WTO ruled that the exemption could not be allowed under TRIMs. Japan has also filed a case against Canada for making local sourcing must for green projects.

HOW IS THE GOVT DEFENDING ITS DECISION ON SME SOURCING NOW?

The commerce department has said that it has already made domestic sourcing compulsory under the Jawaharlal Nehru National Solar Mission. So, this won't be the first instance of compulsory local sourcing

CAN INDIA HOPE FOR ANY RELIEF IF IT IS TAKEN TO THE WTO NOW?

One possible argument that India could use in its defence is that the TRIMs agreement applies to goods and retail is actually a service. But the possible counter argument to this could be that sourcing by foreign investors in retail would ultimately affect trade and hence could not be subjected to different rules.

HAS INDIA EVER GOT INTO TROUBLE FOR MAKING DOMESTIC BUYS MUST?

India has got into trouble at the WTO with the US and the EU complaining that the local sourcing provision in the solar mission violates the TRIMs Agreement. However, no formal case has been filed yet.

WHY IS INDIA TAKING A CHANCE THEN?

It takes a long time for a WTO dispute settlement panel to be constituted even after a formal complaint. Even after the panel is formed, it takes years for a verdict to be reached. Confronted with political turmoil, the govt is safer taking on a distant body.

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India, Russia to set up public-private investment fund for key projects
Vinay Shukla, PTI

Moscow, Nov 18, 2011: India and Russia Friday decided to set up a joint public-private investment fund for financing key projects in the two countries.

With Russia's imminent accession to the World Trade Organisation (WTO), New Delhi and Moscow are gearing up to take several key steps to further strengthen economic ties and achieve a bilateral trade target of USD 20 billion by 2015.

The decision to set up the fund was taken at the 17th session of the Indo-Russian Inter-governmental Commission on Trade, Economic, Technological, Scientific and Cultural Cooperation (IRIGC-TEC). The meeting was co-chaired by External Affairs Minister SM Krishna and Russian Vice-Premier Sergei Ivanov.

The size of the fund, for setting up projects in Indian states and Russian regions, and other modalities are yet to be worked out by the two sides.

Krishna was here on a three-day visit to finalise the political and economic agenda of Prime Minister Manmohan Singh's summit talks here on December 16, with Russian President Dmitry Medvedev and Prime Minister Vladimir Putin.

Several key agreements including those on on energy are expected to be signed during Singh's visit. "Both sides have agreed on four important sectors to galvanize the bilateral trade and for fructifying cooperation," Ajay Bisaria, Joint Secretary (Eurasia) External Affairs Ministry, told the reporters after the IRIGC-TEC session.

The two countries are plan to form a joint study group to examine the possibility of a comprehensive Economic Cooperation Agreement (CECA) with the Russia, Belarus, Kazakhstan Customs Union. Under the Customs Union that came into operation in July 2010, Belarus, Russia and Kazakhstan agreed to remove tariffs and customs controls.

The two sides are also to work on enhancing connectivity through International North-South Corridor linking India with Russia via Iran and Central Asia, to ensure speedy movement of goods and cargo.

Special emphasis is being given to set up a Joint Working Group on Modernisation to boost bilateral and multilateral technological interaction with BRICS.

The meeting noted the progress in areas, including energy (conventional and civil nuclear), IT and telecom, metallurgy, automobile industry, pharmaceuticals, gems and jewellery, banking and financial services, construction of roads and underground metro, science and technology, tourism.
Cooperation in mining, railways, water transport, aviation and ship building, bio and nano-technologies, production of fertilisers and chemicals, agriculture and textiles have been identified as the promising areas of bilateral cooperation.

The Ministry of Chemicals and Fertilisers and the Ministry of Industry and Trade of Russia have signed a memorandum on cooperation in pharmaceuticals and bio-pharmaceuticals, details of which were not immediately available.

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Pakistan army on board trade liberalisation with India

Jyoti Malhotra, Business Standard

New Delhi November 21, 2011:Commerce minister Anand Sharma will travel to Pakistan in mid-February next year to take forward the already underway normalisation process, with Islamabad promising the most favoured nation (MFN) status to India and both sides promising last week to end their decades-old animosity by moving from a positive to a negative trading list like the rest of the world.

Sharma's visit, with a large delegation of Indian businessmen, will coincide with the decimation of the so-called "positive list" of 1,946 items at present — only these items can be traded between the two countries — and the creation of a "negative" list, which throws open all the bilateral trade except for the items on that list.

The fact is that Prime Minister Manmohan Singh has not only managed to leverage the distractedness of the political class over 2G and other scandals at home by employing political will to break down barriers with India's most intractable neighbour, but has also managed to insulate trade and economics from hugely contentious and emotional issues like terrorism and action against the Mumbai attacks accused.

In the second decade of the 21st century, economics is politics. That is why, when the home secretaries of India and Pakistan meet next month, they will agree to significantly liberalise the anachronistic visa regime between the two countries.

In pursuit of the long-honoured dictum that time is money — and India-Pakistan are proof of the exception, considering both have frittered away 64 years on war, proxy war and mutual recrimination — the liberalised visa regime is being targeted at businessmen from both sides, who will now be able to avail multi-city and multi-entry visas, also exempt from police reporting.

It can now be confirmed that Pakistani businessmen have had huge influence in persuading their government, as well as the all-powerful army, to end the linkage between improving trade with India and talks on Kashmir.

Significantly, the Pakistan army, which dominates the decision-making process and has taken charge of foreign policy towards India and the US, is on board the trade liberalisation process with India.

In fact, a huge concession was also made last week when trade across the Line of Control in Kashmir was increased from two to four days, even as for the time being, the same 21 items can be traded as those enumerated in 2005.

A card-carrying member of Pakistan's elite with close Army links said on the condition of anonymity, "The Pakistani army has watched, with some concern, as Pakistan's macro-economic indicators have dropped and India has managed to sustain its economic performance despite a worldwide recession."

"The Generals in the Army can see that if this goes on for much longer, the disparity between India and Pakistan will be unbridgeable," the observer added.

No wonder that at the commerce secretary-level talks between Rahul Khullar and Zafar Mahmood last week, an unnamed representative of the National Logistics Cell (NLC) in Lahore was present.

Now, although Wikipedia describes the NLC as the "crisis management arm of the Pakistan government in relation to logistics emergencies," and is headed by Major-General Junaid Rehmat since June 2010, it is widely rumoured to be a sister organisation of the Pakistan Army and the ISI.

In fact, the NLC has already cornered 100 acres on the Pakistan side of the Wagah-Attari border where the integrated check-post is in the final stages of being built. When it is ready in a couple of months, it will be a state-of-the-art facility, where Pakistani and Indian trucks bearing fresh produce and goods like cement and textiles — items that Pakistan is desperate to trade with India — will be able to drive in, offload their goods and then drive back into their own countries.

Certainly, the Pakistan army's willingness to allow the Yousaf Raza Gilani-Asif Ali Zardari government in power to normalize trade and economic relations with India is, for the moment, limited to this sector.

But, a recapitulation of the unfolding story, behind the scenes, from speaking to officials and policy observers on both sides, reveals a fascinating mix of power play and national interest. Over the last few months, commerce ministers Anand Sharma and Makhdoom Amin Fahim and commerce secretaries, Rahul Khullar and Zafar Mahmood drove the process, naturally coordinating with those in the highest echelons of power — in Pakistan, with Gilani and Zardari

as well as Army chief Ashfaq Kayani, and in India, with prime minister Manmohan Singh, national security advisor Shivshanker Menon and the PM's AfPak envoy, Satinder Lambah.
In the wake of the deteriorating relationship with the US, the Pakistani leadership's realisation that, in effect, it had no option but to open channels with India, was ironically underlined by the fact that Pakistani businessmen were telling US officials they were "very, very eager" to rebuild the economic relationship with India.

To Delhi's credit, it never publicly revealed Pakistan's economic desperation. However, Delhi also realized the process would not go anywhere if it did not drop its own non-tariff barriers that were cause of legitimate complaint within Pakistan and help save the latter's face.
These NTBs include the compulsory certification of Pakistani cement, opacity of sanitary and phyto-sanitary concerns, testing and packaging of food products, customs and valuation procedures and most important, testing for the use of azodyes — a dye banned in India and Pakistan — in Pakistani textiles, as well as marking and labeling requirements in Pakistani ready-made garments.

There was also the matter of Pakistan acceding to the Safta preferential trading regime vis-à-vis India, which it had refused to do so far because of its hostile relationship with Delhi. But, under the sunny sun in the Maldives 10 days ago, Gilani promised Pakistani would abide by its commitments. Last week in Delhi, Pakistan's commerce secretary reiterated Islamabad's decision, saying the mandate for "full normalisation of bilateral trade relations" would be accompanied by its "meeting of all legal obligations."

In other words, by February 2012, the "positive list" would give way to the "negative list". By November-December 2012, the "negative list", which allows trade at MFN tariffs, would give way to "preferential trade" where all goods could be traded — some at MFN tariff, and some even below MFN tariffs.

Aware that the breakthrough represented not only a huge increase in trade – from $7.5 billion at present ($2.5 billion official trade and $5 billion via Dubai) to $11 billion by 2012-end — officials from both sides said they were savouring the historical moment.

"After all, it isn't every day that India and Pakistan agree that they should at last become normal nations," they said.

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Palmolein import tax unlikely to be raised
Bloomberg

New Delhi December 1, 2011: India, the world's second-biggest user of cooking oil, will resist calls from local processors to increase tax on refined palmolein imports, as a plunge in the rupee makes overseas purchases abroad more expensive, according to two government officials.

The government will keep $484 a tonne as the base price for taxing imports at 7.5 per cent at least the next three months, said the officials, who have direct knowledge of the matter. An increase in the base rate would have raised the prices of imported oil, fuelling inflation, they said. The rate may be raised in the annual budget in February, they said.

India's rupee fell to a record 52.73 per dollar on November 22, on concern Europe's debt crisis would hurt demand for emerging market assets. The 14.6 per cent slump in the currency this year threatens to boost import costs, fueling inflation. The food price index has stayed above nine per cent for the last 16 weeks.

"If the current base price continues, refined oil imports will likely increase and hurt domestic refiners," said BV Mehta, executive director of the Solvent Extractors' Association of India, a grouping of processors. "Unfortunately, the government is more concerned about the food inflation."

The processors in September asked the government to increase the base price and import duty on refined palmolein after Indonesia, India's biggest supplier, cut export tax on refined palm oil and raised export duty on crude palm oil.

Food minister K V Thomas declined to comment. India set the base price for various cooking oils more than five years ago, while the actual cost of imported fats have surged, according to processors' group. Refined palmolein is imported at about $1,080 a tonne, while buyers need to pay tax only at $484 a tonne, it said. The benchmark prices, introduced to prevent traders from paying lower import duties by understating edible oil prices, are revised in line with international edible oil prices.

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Back to BASIC with 3-point agenda
Subodh Ghildiyal and Nitin Sethi, TNN

India To Work With Emerging Economies On Equity,IPR,Trade Barriers

December 1, New Delhi: India will work closely with BASIC group and other like-minded countries at Durban climate talks to ensure that its three agenda issues equity,intellectual property on green technologies and unilateral trade barriers become central to the UN climate negotiations after having fallen off the talks table at the Cancun meet last year.

The government wants the negotiating team,headed by Jayanthi Natarajan,to hinge Indias stance with the BASIC group in case of a split in the larger developing world bloc,G77+China.Else,Natarajan is to partner closely with the 137 country grouping.
The BASIC group comprises four emerging economies Brazil,India,South Africa and China.In a first in their recent partnership,the four formally placed their demands before the global community at the ongoing climate talks.

India will push for an unconditional acceptance of the second phase of Kyoto Protocol by rich countries,which the EU has opposed vehemently.It requires the developed world to commit to binding emission reduction targets under the Kyoto Protocol II after the first phase of the pact expires next year.It will not accept any quid pro quo for rich countries to undertake such targets.The EU has demanded that India and other emerging economies kick- start discussions for a new single legal binding treaty before they even politically pledge to the Kyoto Protocol beyond 2012.

The Cabinet is likely to clear Indias stance on Thursday,including the non-negotiable elements that remain unchanged,ahead of Natarajans departure for Durban to head the ministerial round of the two-week talks.

If push comes to shove from the developed world,India would agree to do so only after 2015,when the results of a review of the achievements under the UN convention are expected. IPCC,the United Nations climate science panel,is also expected to present its fifth comprehensive report at that time.

There has been no change in New Delhi’s stance since Cancun. India had decided that the country would not undertake any legally binding targets at this stage of its development. Even under the review slated for 2015,India will not accept the proposal of some countries to rework the existing UN compact. It will insist that a fair burden-sharing formula among countries be built into any decision on capping global emissions. It seeks to incorporate past emissions,which are higher for rich nations, to become the yardstick for such a formula.

The principle of equity ensures that any new deal is fair to developing world. India wants the IPR regime to be tweaked to ensure costly green technologies are provided to poor countries sans the exorbitant proprietary price tag.It also wants to ensure that the EU moves like unilateral imposition of carbon tax on aviation is blocked in future.

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India plans to retaliate against EU emission cap for airlines
Arun S, Business Line (The Hindu)

24 November 2011: India is considering taking multi-pronged retaliatory measures against the European Union over the latter's carbon-emission-cap norm from January 1, 2012, for all airlines operating within and into the EU.

This is because the new emission caps would result in increased costs for airlines, including those from India such as Jet Airways, Kingfisher Airlines and Air India that have flights to the EU, leading to increased airfares. Besides, if the airlines pass on the compliance costs (including costs incurred on more fuel-efficient planes) by pushing up transportation prices of goods taken from India to Europe and vice-versa, it could make Indian exports uncompetitive.

Incidentally, the norm comes at a time when most Indian airline companies are struggling financially.

The proposed retaliatory measures by India could include litigation over the issue, annulment of some bilateral agreements, challenging the issue at the World Trade Organisation and raising the issue during the talks on the United Nations Framework Convention on Climate Change, official sources told Business Line.

Some kind of retaliatory measure can be taken concerning any sector that is of interest to the EU, including airlines, they added.

NOT TO IMPACT INDIA-EU FTA

However, they said, the new EU norm is not likely to impact the ongoing India-EU Broad-based Trade and Investment Agreement as the issue is being taken up with the EU separately on a bilateral level by the Civil Aviation Ministry by co-ordinating with the Commerce Ministry.

The International Civil Aviation Organisation had reportedly asked the EU to exempt non-EU airlines in its emissions trading system (ETS).

This was on the lines of what India and many other countries had sought. Around 35 countries, including India, have opposed this EU norm on carbon-emission cap and have requested the EU to withdraw it, the sources said.

“They (EU) can impose any measure on their (EU-based) airlines. But when the same is being extended to companies from other countries also, it will affect their obligations with their trading partners,” an official said, adding, however, that the new norm is not India-specific and has affected even countries such as the US and China.

According to reports on the EU's ETS regulation, airlines from all nations would be taxed (they will have to buy extra carbon-emission allowances), if they exceed the specified emission cap while operating to and from the EU.

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EU to ease visa rules if India opens its market
Amiti Sen, ET Bureau

The European Union is ready to ease visa rules for professionals if India agrees to open up more of its sectors and markets.

Nov 22, 2011,.NEW DELHI: The European Union is ready to ease visa rules for professionals if India agrees to open up more of its sectors and markets as part of a proposed free-trade agreement the two sides hope to sign early next year.

While all 27 EU member states have approved liberalised visa norms for professionals, the Indian government could also allow entry to legal and accountancy pros, a commerce department official told ET, adding that New Delhi is open to lowering duties on costly spirits and automobiles as well.

Chief negotiators from both sides are meeting next month in Brussels to finalise the agreement, scheduled to be signed during the India-EU summit in February. The EU is India's largest regional trading partner, accounting for $90 billion of trade in 2010-11, equally balanced between the two sides. European countries are also ready to do away with the contentious "labour market test" and take on individual commitments for increased visas for various categories of Indian professionals.

"The labour market test is an inhibiting clause that disincentivises hiring of foreign professionals," said Arpita Mukherjee, professor, Icrier. Most EU countries give out work permits to foreigners only after ensuring that their own labour do not get left out. Employers in the EU have to advertise for a job locally for a specified amount of time before a foreign worker is allowed to fill up the post.

Although some exceptions to the labour market test have been made for some highly skilled sectors in a few countries, it is mostly applied across sectors. For India, the big-ticket beneficiaries of the visa relaxation rule would be the information technology and the IT-enabled services sectors, the official said.

Other gainers would include structural engineers, medical support services, architects, accountants and teachers. Commitment on a minimum number of visas to be issued by EU countries annually could cut both ways, said an expert in services trade at a Delhi-based research organisation. "Since it would be a kind of quota, we have to make sure that the commitment that we are getting is more than what is anyway allowed in these countries," he said.

The commitment would be for both contractual service suppliers who visit a foreign country to fulfill a work contract as well as individual professionals. India's demand for free movement of professionals is known as Mode 4 in technical parlance while the EU, in return, wants greater openings in Mode 3, which means setting up of commercial presence. It wants professionals in sectors such as legal and accountancy to be allowed to set up practice in India.

"There is a possibility of allowing legal professionals in some corporate segments, but it is being opposed big-time by large legal firms," the official said. The EU also wants commitments for allowing investments in both single brand and multibrand retail.

"While the decision on allowing foreign investment in multi-brand retail or further easing in single brand will be applicable to all countries, the EU wants us to take on commitments in these so that the rules are not changed later," the official said.

While India is open to slashing duties on high-end spirits such as Scotch, it wants to protect cheaper products like local wines. The government may also lower duties on automobiles, but the cuts are not expected to be very sharp.

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Telecom manufacturing policy sends negative signals, says EC
Thomas K Thomas, Hindu Business Line

New Delhi, Nov. 21: The European Commission has told the Communications and IT Minister, Mr Kapil Sibal, that the move to give preferential treatment to domestic manufacturers of telecom equipment raised questions about India's commitment to open and fair conditions of doing business.

In a letter to Mr Sibal, European Commission's Vice-President, Ms Neelie Kroes, said that the proposed manufacturing policy sent negative signals to the international business community and warned India of losing out on future innovations.
"The proposals fail to appreciate the way research and development is conducted and intellectual property developed, in today's world of widely distributed knowledge. By imposing local registration of IPR, India risks losing out on future innovation by shutting doors on innovation taking place interdependently across our economies," Ms Kroes said in the letter.

Second letter

This is the second letter from the European Union on the issue. In September, the Ambassadors of Italy, Finland, Denmark, France, Germany and Sweden had raised concerns against the proposed telecom manufacturing policy on grounds that it may flout WTO norms.

The Ministry of Communication and IT had floated a proposal to reserve 30 per cent of all electronic equipment procurement to items manufactured in India. This includes telecom gear and IT peripherals. When the policy is announced, telecom companies, both private and public sector, will have to buy 30 per cent of their hardware from those that have manufacturing base in the country or face penalty. This goes up to 80 per cent by 2020. The policy also gives fiscal benefits to local products in terms lower taxes.

If implemented, it will have major impact on European manufacturers, including Nokia Siemens, Ericsson and Alcatel-Lucent.

"We strongly believe that implementation of these proposals will not only have the potential to harm the EU and its ICT industry, but it will not be in India's own interest. Indian consumers and SMEs will pay higher prices than needed if domestically manufactured telecom products are given preferential market access," the latest letter from EC said.

The US Government had also raised similar concerns over this issue earlier as the proposed policy will also impact American manufacturers such as Cisco, HP, Motorola and Dell.

Local manufacturers

On the other hand, local manufacturers are pushing for more concessions in the proposed policy. According to the Telecom Equipment Manufacturing Association of India, the Government should be concerned about the huge import bill arising out of importing telecom gear.

They have also presented a case for creating an R&D fund that will be used to creating Indian IPR. Indian products account for just two per cent of the overall demand in the market estimated to be worth Rs 54,700 crore.

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US, EU seek to ban countries from imposing restrictions on food export, limit taxation on exports

Amiti Sen, Economic Times

Nov 21, 2011,NEW DELHI: Rich nations are likely to seek a ban on food export curbs as part of a solution to the global food crisis, a move India vows to fight vehemently.

Developed countries, including the US and the EU, are likely to move the proposal, which also calls for eliminating import duties on so-called environment products, at the World Trade Organization ministerial in December in Geneva.

India tightly controls food exports to ensure adequate domestic availability. "It is unacceptable to India and a number of developing countries, and we will put up a joint front at the ministerial meeting," a government official told ET.

The final declaration of the G20 Cannes Summit earlier this month encouraged the adoption of a declaration at the upcoming WTO ministerial to remove food export restrictions, including extraordinary taxes, for food purchased for non-commercial humani- tarian purposes by the UN's World Food Programme.

"Although the G20 named the United Nations as the agency which should be allowed to import food without restrictions, developing countries should not be allowed to take on such commitments as they have to feed their own people as well," the official said.

India's farm export are meager and often subject to price and quantity restrictions. In case of grain, despite sitting on huge stocks, New Delhi has been reluctant to allow exports fearing it will exacerbate food inflation, already running into double digits.

Restraining developing countries from imposing curbs on food exports could create considerable political problems as it could deprive locals from getting adequate supplies at reasonable prices, said Abhijit Das, head, Centre for WTO Studies. "We did export to Africa and Bangladesh last year on humanitarian grounds when the global food situation was not good. But it should not be binding on us," he said.

Experts see a bigger agenda in bringing food on the discussion table. Food is an emotive issue and the developed countries are using it to build grounds for a similar regime of export restrictions in case of natural resources like coal and metals and minerals to corner China, a trade expert from a Delhi-based think-tank said.

A recent report by UN Special Rapporteur on the Right to Food Olivier De Schutter warns against "face-saving, short-term solutions" aimed at hauling Doha over the line. Instead, we should grasp the opportunity to ask what kind of trade rules will allow us to combat food insecurity and realise the human right to food, it said.

A government official said India will also oppose the resolution pushing for eliminate import duties on environment-friendly products.

India is hopeful that influential countries, including China and Brazil, will fight attempts to arm-twist developing countries into agreeing to include new issues outside the agenda of the ongoing global trade talks of the WTO.

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US, Indian Nominees Appointed to Appellate Body

Bridges Weekly Trade News Digest

23 November 2011: The WTO Dispute Settlement Body (DSB) has announced two new appointments to the Appellate Body (AB). Thomas Graham, of the United States, and Ujal Singh Bhatia, of India, were officially selected on 18 November to join the other five AB members and will begin their four years of duty on 11 December.

This years' election comes at a time where the Appellate Body finds itself under fire after issuing a number of controversial rulings that have been criticised as 'law making' and not 'law application'. With dispute settlement procedures becoming more and more legalistic and trade conflicts touching upon an array of other public policy areas, AB member selection has become an important tool to influence the evolution of WTO law.

"If members are unhappy with the positions of the Appellate Body, they should be more careful with whom they give their vote," a high-level trade law expert told Bridges, speaking with regards to the criticism that followed an AB ruling from March on US antidumping and countervailing measures on Chinese imports.

The appointments follow an extensive interview process that began in summer of this year. A Selection Committee - made up of WTO Director-General Pascal Lamy and the Chairpersons of the General, Goods and Services Councils, the DSB, and the Trade Related Aspects of Intellectual Property Rights (TRIPS) Council - led the interview marathon. During those hours, nominees were quizzed on their knowledge of WTO law, their positions on controversial legal questions, and their approach to trade litigation.

Interviews with all interested missions in Geneva followed, during which delegates examined whether candidates supported their approaches to WTO dispute settlement. Questions focused on, amongst others, zeroing, the applicability of public international law, including the Vienna Convention on the Law of Treaties; judicial activism; and the role of dispute settlement in general - for bilateral dispute resolution or as a 'constitutional court'.

Major players, such as the US and EU, tend to claim opposing positions on these controversial subjects; for instance, the US traditionally seeks candidates that do not engage in too much 'gap filling', i.e. rule making where existing rules are imprecise.

Seats on the Appellate Body are typically distributed on a regional representation basis. Though there are officially no permanent seats, in practice, the US, EU, and Japan each claim a permanent appointment.

Notably, China was also granted a seat on the Appellate Body in its latest iteration.
In the present nomination cycle, there were two US nominees for the US seat, and nominations from India and Pakistan for the Asian seat.

Both of the new AB appointees - Bhatia of India and Graham of the US - have extensive resumes with relevant experience ranging from academia, to private law, and international trade relations.

Graham was previously at a private law firm, focused on international trade law. He has also represented the Office of the US Trade Representative, serving as Deputy General Counsel in negotiations on the Tokyo Round Agreement on Technical Barriers to Trade.

Bhatia, most recently an academic and consultant, notably served as India's Permanent Representative to the WTO from 2004 to 2010, where he participated in the dispute settlement process and served as a WTO dispute settlement panellist. *ICTSD reporting.*

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Anand Sharma welcomes Australian Decision to Reverse Ban on Uranium to India
Ministry of Commerce Press Release

17 Nov 2011, New Delhi: The Union Minister of Commerce, Industry and Textiles Shri Anand Sharma has welcomed the Australian decision of reversing its ban on selling uranium to India. In a meeting with Mr. Barry O'Farrell the Premier of New South Wales, Australia, Shri Sharma said this decision will be welcomed all around and is in line with the strategic nature of the relationship between the two countries.

Shri Sharma further mentioned that India is going through a decade of innovation and for this purpose, India has institutional linkages with Germany, Switzerland and U.K. in the sectors of agriculture, pharmaceuticals and precision engineering. India and Australia have huge potential in collaborating in this area . Shri Sharma recalled his meeting with Senator Kim Carr, Australia's Minister for Technology where both sides expressed willingness to collaborate in the fields of bio technology, Automobile sector ICT and mines.

Minister Sharma raised the concerns regarding pharmaceutical exports from India to Australia require approvals from Therapeutic Goods Administration (TGA). The TGA approval process is a long drawn out and expensive process. There is no recognition or concession to Indian companies who have FDA approval or GMP certificate, which allows a faster process. Minister suggested that using the services of Australian professionals to draw out a standard which when followed by the Indian companies would result in obtaining permission to export their medicines to Australia. This would only help in improving the standards of our industry as well as make it easier for Indian companies to enter the Australian market which is very lucrative for the pharmaceutical sector of India.

Bilateral Trade between India and Australia in 2010 has been US $ 13.708 billion. Total trade between January to August 2011 has been US $ 9.351 billion. India is engaged with Australia in negotiations Comprehensive Economic Cooperation Agreement. Shri Sharma emphasized that both sides must aim for concluding the agreement latest by middle of 2012.

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Aussie Spin on Trade Reform
Abhijit Das, Economic Times

Nov 18, 2011: With less than two months left for the next ministerial meeting of the World Trade Organization (WTO) in Geneva, Australia's trade minister has suggested a new pathway to global trade reform. His suggestions might seem constructive, but accepting them would undermine WTO's credibility and seriously threaten the legitimate development aspirations of many developing countries.

Australia's suggestions for future trade negotiations are broadly along four lines. First, countries would undertake a commitment to a standstill on existing trade protection to prevent trade barriers being raised while trade negotiations continue. Implementing the proposed stand-still would require WTO members to freeze their customs duties at existing levels.

Developed countries' obligations would be largely unaffected by the stand-still, as the applied levels of customs duties in these countries have remained close to the bound ceiling levels negotiated during the Uruguay Round. But developing countries would be required to provide deep concessions as, in most cases, they apply customs duties well below bound ceiling levels.

The proposed stand-still fails to meet the WTO's basic objective of 'reciprocal and mutually advantageous arrangements', as most of the tariff concessions would be made by developing countries. The Australian proposal also contains an inherent contradiction.

On one hand, it has been stated that the Doha agenda is too large and with too many entanglements between issues. In the same breath, Australia proposes that the Doha agenda is out of date and new issues need to be negotiated. Addition of new issues will only overload the agenda and introduce more complexities.

True, issues in the Doha agenda are complicated. However, failure to conclude the negotiations does not reduce the relevance and significance of the issues for developing countries. The Australian proposal seems to imply that some elements of the 'outdated' Doha agenda might be jettisoned. Treating the Doha agenda as outdated raises the broader issue of sanctity of WTO Ministerial Declarations. The latter are an article of faith, not an exercise in semantics to be ignored if fulfilling commitments is inconvenient for some countries.

The third plank of Australia's proposal relates to changing the negotiating architecture. In an attempt at making the negotiations manageable, Australia has suggested the possibility of confining negotiations to a critical mass of WTO members or following the plurilateral route in which only interested countries participate. This suggestion has many troublesome implications.

This negotiating architecture would not be relevant for reduction of developed countries' farm subsidies, this crucial issue would be relegated to the background of, if not totally removed from, the negotiating agenda. Second, the plurilateral option would result in fragmentation of the multilateral trade regime.

Separate rules would be applicable for members of the plurilateral group and for non-members. Such a situation prevailed in the era of General Agreement on Tariffs and Trade (Gatt), but was subsequently rectified in the WTO. Credibility of the WTO cannot be enhanced by undermining one of its main achievements of the past.

Third, interests of countries which may not be a party to a final plurilateral agreement would be adversely affected by such an agreement, as they could be denied benefits of lower tariffs in markets of plurilateral members.

The fourth plank of Australia's proposal relates to WTO members individually assisting the least developed countries (LDCs). This would imply significant dilution, if not complete abrogation, of commitments taken by trade ministers at the Hong Kong Ministerial Meeting of the WTO in favour of the LDCs.

These commitments relate to reducing cotton subsidies ambitiously and providing duty-free, quota-free market access to LDCs. Breaking promises on the pretext of practicality is not the best way of inspiring confidence of LDCs in the WTO system.

Overall, Australia's suggestions are likely to receive contrasting responses from the WTO membership: warm applause from the developed countries and opposition from most of the developing countries. Accepting Australia's new pathway to global trade reform will lead to the conclusion that the developed world can change the rules of the game to suit their interests. It cannot serve as a basis for imparting momentum to global trade talks.

Successful conclusion of the Doha Round is a shared responsibility of all WTO members. The burden cannot be shifted to the shoulders of emerging economies. Wisdom lies in retrieving the Doha Round from the brink and concluding it by matching intent of various WTO Ministerial Declarations with a balanced content of the final outcome. *The author is head of Centre for WTO Studies at the Indian Institute of Foreign Trade. Views are personal.*

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Outline of December Ministerial Begins Taking Shape
Bridges Weekly Trade Digest

30 November, 2011: With barely two weeks left until the WTO Ministerial Conference, potential outcomes for the three-day event are now beginning to emerge. Delegates have spent the past week engaged in intense consultations in advance of today's formal meeting of the General Council, with members seemingly ready to forward draft decisions and elements for political guidance to trade ministers for the December gathering.

The formal meeting of the General Council, which is the WTO's highest decision-making body outside of the ministerial conference, was still going on as Bridges went to press on Wednesday 30 November. An update with the final results of the meeting will be available in next week's issue of Bridges.

Today's discussions were expected to go late into the night, with one delegate calling it the "climax" of the pre-ministerial process.

Another delegate noted that, at yesterday's informal meeting of the General Council, many members had complained about the consultative process, citing a lack of transparency and inclusiveness. Therefore, the delegate noted, he did "not exclude the possibility" that members might introduce new elements during tonight's talks.

Draft decisions

The past two weeks of negotiations have seen a series of agreed recommendations emerge that will be forwarded to trade ministers at the December gathering, including some specific to the needs of least developed countries (LDCs).

The draft decisions expected to move forward for December include a continuation and extension of the work programme on small economies established in Hong Kong; an extension of the prohibitions on TRIPS non-violation complaints and e-commerce tariffs; LDC accessions; an LDC services waiver; the outcome of the Trade Policy Review Mechanism Fourth Appraisal; and an extension of the mid-2013 deadline for LDCs to comply with the Trade-Related Aspects of Intellectual Property (TRIPS) Agreement.

Both the TRIPS non-violation and e-commerce decisions have already featured regularly at previous ministerial gatherings.

In the case of the former, TRIPS non-violation complaints concern whether countries should be allowed to bring trade disputes on the grounds that the spirit of the WTO's TRIPS Agreement has been breached, rather than just the letter of the organisation's intellectual property rules.

A five-year prohibition on such complaints was put in place at the WTO's founding in 1995, and has been extended repeatedly at ministerial conferences ever since.

At the last ministerial in 2009, ministers had also agreed to extend the latter moratorium on e-commerce tariffs, which deals with tariffs on goods sold for online download, such as songs or films. A ban on such tariffs has been in place since the 1998 ministerial conference.

The inclusion of agreed recommendations on LDCs drew praise from some members at yesterday's informal meeting, with Mauritius, Bangladesh, and Kenya among those voicing support.

The push to prepare some LDC deliverables for the eighth ministerial conference has been a recurring theme over the past several months of negotiations, both in discussions regarding the Doha Round talks and the WTO's non-Doha work.

Talks earlier this summer under the Trade Negotiations Committee - the body tasked with the Doha Round - for an LDC-focused mini-package fell through largely because members could not agree on either the LDC or the non-LDC issues to include in such a package.

One trade source commented to Bridges that "the fact that we do have some agreed elements is not bad, given the background of the negotiations."

Three track approach

While the above-mentioned draft decisions and the reports from the WTO general bodies both appear set for the ministerial gathering, the third part of the chair's consultation process - elements for political guidance - was the subject of prolonged discussion at yesterday's informal meeting of the General Council, with talks expected to continue during today's formal gathering. These elements for political guidance have themselves been organised around three tracks: the importance of the multilateral trading system in the WTO; trade and development; and the Doha Round.

Outcome document

In acknowledgement of the immense difficulties members have seen in reaching consensus - or even convergence - regarding these elements, General Council Chair Yonov Frederick Agah of Nigeria told members on 24 November that there is now a general understanding that the ministerial is "not to be a negotiating meeting."

To that end, the December gathering, rather than attempting a full-fledged ministerial declaration, will instead focus on having a chair's statement as the outcome document, taken on the ministerial chair's own responsibility.

The first part of the document is expected to include those elements in which ministers have reached a consensus; the contents of this section are the subject of today's General Council meeting, and are expected to be finalised within the coming hours.

The second part of the document will be determined at the ministerial itself, featuring a summary of those items that trade ministers decide to bring up at the actual event.

Elements for political guidance stir debate

General Council Chair Agah told delegates at the 24 November meeting that, while the elements for political guidance that had garnered convergence during consultations “are rather general in nature and I am sure many of you would like to make them more specific… my consultations have shown that convergence becomes more elusive the higher the level of specificity.”

The difficulties in even reaching convergence were clearly apparent in recent discussions, sources told Bridges. For instance, the current language being tabled regarding protectionism - under the importance of the multilateral trading system track - had prompted significant debate over recent days, with members questioning what would fall under the definition of protectionism.

Recent talks among delegates have centred around language in the G-20 communiqué from this month’s summit in Cannes, France, specifically regarding a commitment made by those countries to continue a standstill on protectionist measures.

While some countries have argued that similar language should be taken on in the WTO framework, others have argued that the G-20 is more of a political forum and that such language does not necessarily have a place at the global trade body.

One delegate noted that the current language on the table reflects a “delicate balance” between members’ commitments not to take protectionist measures, while at the same time “not requiring any member to renounce policy space within their current commitments.”

Development

One of the elements of political guidance that had achieved convergence in consultations, the General Council chair noted in the past week’s informal gatherings, was an affirmation of development as a core part of the global trade body’s work.

The development-focused language tabled at yesterday’s informal meeting included, among other items a call for such work to take place in the Committee on Trade and Development (CTD), and would have ministers direct the organisation’s membership to fully operationalise the mandate of the CTD in this area.

The language would also have ministers commit to ensuring that the interests of LDCs be given priority in the organisation’s work.

Mauritius, speaking on behalf of the African, Caribbean and Pacific country group at yesterday’s informal meeting, was among those that welcomed the language on making the CTD more operational, adding that development is at the heart of the multilateral trading system.

Members vent frustration over process

The consultation process over the past few weeks has drawn sharp criticism from some members, who question whether the proposed elements of political guidance for the chair's summary truly reflect consensus among the WTO's membership.

At yesterday's informal General Council, Honduras told members that they had not been invited to participate in some of the consultations, and therefore still had questions regarding some of the issues being tabled.

Venezuela and Cuba also raised questions about the actual inclusiveness of the consultative process, with both countries suggesting that the document under discussion at the General Council lacked the consensus necessary to move forward.

Doha impasse acknowledged

The third track of elements for political guidance involves the Doha Round of trade talks, which are finishing their tenth year without any conclusion in sight.

At yesterday's informal General Council meeting, language was discussed that would acknowledge the Round's current impasse, and would have members commit to advancing the trade talks in those areas where progress might be possible.

However, sources told Bridges, some members were particularly concerned that the language tabled did not provide a clear path for the future of the Round - a clarity that many members have called for in recent weeks.

Despite the frustration among some members, one delegate commented to Bridges, the language does reflect for the first time a "real deadlock" in the Doha talks, rather than just "throwing things under the carpet."*ICTSD reporting*

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