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CEI Centre for International Economy

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WORLD

China initiates dispute settlement proceedings at the WTO over European electric car duties

In a new chapter of the escalating trade tensions between China and the European Union, the Asian country filed a complaint at the World Trade Organization (WTO) regarding the bloc's decision to impose countervailing duties on Chinese electric vehicles.

The EU imposed an additional duty ranging from 17.4% to 37.6% on Chinese electric cars –which previously paid 10% (see CEI Global Report, July 2024)– since it considered that these products benefit from state subsidies. The measure is provisional and will be in force until November, when the European authorities will have to make a final decision.

For the Chinese government, the measures taken by the EU represent "a serious violation" of WTO rules and undermine international cooperation in the fight against climate change, for which reason they decided to initiate the actions planned to settle such a conflict in the organisation's Dispute Settlement Body.

Activity in the Panama Canal normalised

One of the disruptions affecting world trade and which increased the cost of maritime freight throughout the year (see CEI Global Report, February 2024) seems to have come to an end. The authority of the Panama Canal announced on 15 August that as of 1 September, the total number of daily vessels authorised to do the interoceanic crossing would go back to the figure of 36 and that the maximum allowed draft would once again be 50 feet (15.24 metres).

This measure, which means returning to normal traffic and draught values, comes after an expected increase in the level of Lake Gatun, from which the water used in the canal's locks is extracted, and which at the same time supplies the drinking water consumed by a large part of the Panamanian population.

Since last year, the Panama Canal has been adapting its operations due to the prolonged drought undergone, forcing the authorities to reduce the authorised draft and the transit capacity to 18 vessels per day (see CEI Global Report, December 2023). This brought about delays in the interoceanic crossing and higher fares resulting in losses to shipping companies, which were forced to operate on other more costly routes.

EUROPE

The European Artificial Intelligence Law comes into force

On 1 August, the European Artificial Intelligence Act (AI Act) came into force, being the first global regulation on this matter. The standard seeks to promote the adoption of AI and protect the fundamental rights of people. This aims at avoiding the conflict between the goal set to improve productivity and the risk of increasing inequality (see CEI Global Report, February 2024).

The law divides AI systems into four categories based on the risk to people's rights and safety: 1. Minimal risk: including spam filters and recommendations. No mandatory rules are required; 2. Specific transparency risk: it is the case of chatbots, which tell users that they are interacting with a machine. 3. High risk: including systems to hire people and decide to grant a loan (they are authorised, but must meet requirements on user information and human supervision); and 4. Unacceptable risk: including systems that manipulate human behaviour, carry out predictive policing and emotion recognition.

Most of the rules will apply as of August 2026, but those of unacceptable risk will apply in six months' time.

The influence of the gas market on European inflation

The rise in the price of energy, especially gas, has played an important role in the growth of inflation in the euro area. This is stated in a working paper from the European Central Bank, which notes that the effect has been accentuated after the invasion of Russia into Ukraine in February 2022. It is concluded that a 10% rise in the price of gas is transferred to inflation by 0.1 percentage points after one year. Another conclusion is that the indirect impact via gas consumption as an input in production predominates in relation to the direct impact it has as a consumer good for heating homes.

The pass-through calculation assumes that consumers and businesses had time to substitute gas, in part or in whole, both in its household use and as production input. With this calculation, the 200% increase in the price of gas in Europe during the first half of 2022 was transformed into a 2 percentage point increase in inflation.

On the other hand, if the relationship between the variation in the price of gas and inflation were calculated, without considering the substitution of gas with other goods or supplies, it would be appropriate to take the former into consideration within the consumption basket and multiply its participation by the variation of the price of gas. Taking into account that the share of gas accounts for 2.2% of spending, according to this calculation, a 200% increase would contribute 4.4 percentage points to inflation.

Accession of the United Kingdom to the Trans-Pacific Partnership Agreement ratified

With Peru's ratification of the Protocol of Accession of the United Kingdom to the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), the latter country will be part of the bloc as of 15 December.

In June 2021, the accession negotiations began, concluding in July 2023 with the signing of the Protocol by the United Kingdom. Six countries needed to ratify it by the end of this year for its entry into force, which occurred after Peru's signing, following Japan, Singapore, Chile, New Zealand and Vietnam.

With this free trade agreement, 99% of UK's trade with other countries will pay no tariffs. The exceptions vary according to each case. For example, entry into Australia will be liberalised in 11 years' time for cheese and steel products; Canada will apply tariff-rate quotas for beef with an increasing quota volume; Chile will make use of specific duties on wheat and sugar and *ad valorem* tariffs on food; Japan will apply agricultural safeguards; Mexico, in turn, will use tariff-rate quotas on dairy products and sugar.

According to an impact study, UK trade with CPTPP members will be 4% higher in 2040 than in the no-deal scenario. This will be based on a decrease in trade regulations and tariff reductions. The services and industrial sectors are expected to grow the most.

SOUTH AND CENTRAL AMERICA

Bolivia announces measures to boost agricultural production

The government of Bolivia announced that it will implement import tariff exemptions on agrochemicals and agricultural machinery in order to strengthen its agricultural production. In the case of the imports of agricultural machinery, the measure adds to the exemption from payment of Value Added Tax (VAT) in force since 2021 (Law 1391), so that its purchase abroad can be made free of tax charges.

The suspension of the payment of tariffs, which affects 77 tariff subheadings, will be in force from 2 September 2024 until 30 June 2025. It encompasses a wide range of products in the agrochemical industry, including insecticides, herbicides, fungicides, disinfectants, parasiticides, germination inhibitors and others. As for agricultural machinery, the measure includes harvesters, threshers, fumigators, shakers, grain polishers, forage presses, machines for grinding, cleaning, sorting or screening seeds, grains or dried pod vegetables; machines for cleaning or sorting eggs, fruits or other agricultural products, germinators with built-in mechanical or thermal devices, poultry incubators and breeders and other equipment.

Along the same lines, the government approved other two decrees. The first one eliminates import duties on inputs and active ingredients for the production of medicines, vitamins, antibiotics, and others, and will be in effect until 31 December 2024. It seeks to mitigate the impact of the increase in the costs of these inputs in international markets, and thus facilitate access to essential medicines for the Bolivian population. The second creates Bolivia's Single Window for Foreign Trade (VUCE-BOL, for its name in Spanish), a platform that aims to simplify, modernise and harmonise foreign trade operations, by streamlining processes for both imports and exports. The VUCE-BOL seeks greater connectivity between the different systems used by the actors involved in foreign trade and a reduction in operating times and costs. The platform deployment will be done gradually, although the system is already designed and operational.

Finally, the Bolivian government approved a new fiscal incentive to boost biodiesel production in the country, in order to progressively reduce dependence on fuel imports. By means of a decree, the import of biodiesel plants was exempted from the tariff payment. The zero tariff rate will be valid until 31 December 2024. These incentives allow the private sector to import industrial machinery and equipment duty-free and without VAT application, which facilitates setting up new biodiesel production facilities. The decree is also aimed at expanding soybean production, through new crops or increases in productivity, as a raw material intended to obtain biofuel.

Argentina and Brazil achieve new export authorisations

The Federation of Malaysia authorised Argentina to resume exports of live equines, operations that were suspended since November 2023 due to the detection of the Western equine encephalomyelitis virus in our country. In 2022, Malaysia ranked seventh among live horse export destinations from Argentina.

In turn, the National Service for Agri-Food Health and Quality (Senasa) certified the first exports of blueberries with quarantine treatment at origin: more than 4,000 kg of fruits were produced at facilities located in Concordia, province of Entre Ríos, to be exported to the United States.

Quarantine treatment at origin refers to a specific process that applies to the blueberries before they are exported, aimed at ensuring that fruits are free of pests and diseases that could affect the agriculture of the importing country. The operation started in the 2024 blueberry campaign, which has Argentina as one of the ten most important producers worldwide and Entre Ríos as the main exporting province.

According to industry data, 95% of domestic blueberries are exported as fresh fruit, while 2% is reserved to the local market and the remaining percentage is used for industrialisation in the production of raisins, frozen fruits, juices, jams and frozen bases for ice cream, yogurt, and pastries.

In turn, the Brazilian government received a series of announcements of authorisations to export various agricultural products to several countries. First, Costa Rica authorised the exports of avocados from Brazil. The European Union, the second most important destination for Brazilian agricultural products, approved the imports of live horses. The Egyptian government also approved the imports of boned bovine meat from Brazil. Panama authorised the imports of poultry and pork meat and viscera, and Angola approved the imports of live sheep and goats for reproduction and genetic material. Indonesia approved the imports of Brazilian yerba mate, a key product of the states of Rio Grande do Sul, Santa Catarina and Paraná. The Turkish government authorised the imports of bovine raw heparine, used in the manufacture of medicinal products and medical devices. Saudi Arabia authorised the imports of live birds from Brazil and, finally, Mexico authorised the imports of live zoo birds for exhibition and reproduction.

Colombia announces end of vehicle import agreement with Brazil

The Colombian government, through the Ministry of Trade, notified Mercosur of its intention to terminate the agreement between Colombia and Brazil, which allowed the duty-free import of cars from the latter country. This commitment, known as the Economic Complementation Agreement (ECA) No. 72 with Mercosur, was signed in 2017 and established a tariff-free quota scheme for the imports of vehicles from Brazil to Colombia.

In a letter sent to the South American bloc, the Colombian Ministry of Trade expressed the interest of the Republic of Colombia in ceasing to apply the agreement between the governments of the Federative Republic of Brazil and the Republic of Colombia, which deepened bilateral tariff preferences in the automotive sector, a decision that marks a significant change in automotive trade relationships between both countries.

Sixty days after this notification is filed, Colombia will deposit within the General Secretariat of ALADI the official statement of its decision not to continue with the application of the understanding. This step will formalise the termination of the agreement and modify the conditions for importing vehicles from Brazil.

NORTH AMERICA

Canada increases tariffs on Chinese electric cars, steel and aluminium

The government of Canada announced that it will impose a 100% tariff surcharge on Chinese electric vehicles starting on 1 October, in line with what was established by the US government last May (CEI Global Report, June 2024).

The tariff will add to the most favoured nation tariff, which is currently 6.1%, and will be applied both to electric and hybrid cars, as well as lorries, buses, and delivery vans.

In turn, eligibility for the Zero-Emission Vehicle (iZEV) Program, the Medium and Heavy-Duty Zero-Emission Vehicle (iMHZEV) Program, and the Zero-Emission Vehicle Infrastructure Program (ZEVIP) will be limited to products manufactured in countries with which Canada has free trade agreements.

Likewise, the federal government would apply an additional 25% tariff on imports of steel and aluminium products from China, starting on 15 October 2024. The initial list of goods includes just over 180 tariff positions, and will be subject to public consultation. The final listing will be announced by 1 October.

According to official statements, these measures are aimed at protecting Canadian workers from China's unfair trade policies and preventing trade diversion resulting from measures recently adopted by Canadian trading partners (in particular, the US and the EU).

The measures will be reviewed within one year of their entry into force, may be extended for a new period of time and could be completed with additional measures.

Finally, the Canadian government announced the launch of a second public consultation, covering other sectors critical to the country, such as batteries and their components, semiconductors, solar products and critical minerals.

US signs memorandum of cooperation on critical minerals with Argentina and Peru

Within the framework of the inauguration of the Energy Security Dialogue between the US and Argentina, the Argentine Foreign Minister, Diana Mondino, and the Under Secretary for Economic Growth, Energy and the Environment of the US Department of State, José Fernández, signed in Buenos Aires a memorandum of understanding on cooperation in critical minerals, including lithium, of which Argentina is the fourth world producer.

The memorandum aims at strengthening bilateral cooperation on critical mineral resource supply chains and promoting trade and investment in the sector, regarding exploration, extraction, processing and refining, and recycling and recovery of critical mineral resources, in order to increase awareness of investment opportunities and identify potential co-financing opportunities to carry out investments.

The US official also visited Peru –where he signed another memorandum of understanding of similar characteristics– and Ecuador –where he recognised Ecuador's entry into the Minerals Security Partnership (MSP) Forum. Bringing together 14 countries and the EU, the Forum seeks to accelerate the development of diverse and sustainable critical mineral supply chains, working with host governments and industry to provide targeted financial and diplomatic support for strategic projects along the value chain.

USMCA: US versus Canada for digital services tax

On Friday 30 August US Trade Representative Katherine Tai announced that her government had requested dispute settlement consultations with Canada under the United States-Mexico-Canada Agreement (USMCA) regarding Canada's digital services tax (DST).

These consultations relate to the Canadian Digital Services Tax Act, which is set forth in Bill C-59, enacted on 20 June, 2024. The tax consists of paying a 3% rate on revenue related to online marketplaces, online targeted advertising, social media platforms, and user data. It applies to companies or groups of companies with annual global revenues equal to or greater than 750 million euros (approximately US$ 830 million) and digital services revenues in Canada higher than 20 million Canadian dollars (approximately US$ 15 million). Companies will start paying the tax –retroactive to 1 January 2022– on 30 June 2025.

According to the US government, Canada's DST is inconsistent with the country's commitments under the USMCA's Cross-Border Trade in Services and Investments chapters, as it treats US companies less favourably than their Canadian counterparts.

On the other hand, the US stated that it will continue to support the OECD/G20 global tax negotiations to reach a multilateral agreement that addresses the challenges posed to the international tax system by an increasingly digitised global economy and prevents the proliferation of unilateral digital taxes.

If both governments fail to solve US concerns through consultations within 75 days, the United States may request the establishment of a USMCA dispute resolution panel to examine the matter.

ASIA AND OCEANIA

China launches an investigation into subsidies on EU dairy products

China has launched an investigation into subsidies for dairy products from the European Union (EU). The investigations will mainly focus on products imported between April 2023 and March 2024 and the effects on that sector in China in those years. Products such as fresh cheese, hard and semi-hard cheese, blue cheese, milk and cream, among others, will be reviewed. Likewise, the effects of subsidies to the dairy industry in Ireland, Austria, Belgium, Italy, Croatia, Finland, Romania and the Czech Republic will also be analysed. The investigation is based on the assumption that the products might have received grants from the EU and the aforementioned governments.

The process originated in the application filed in July by the China Dairy Association and the China Dairy Industry Association. China's anti-subsidy investigation into dairy products imported from the EU will be addressed based on Chinese laws and regulations, and following the rules of the World Trade Organization, as expressed by officials of the Ministry of Commerce of the People's Republic of China. They announced the investigation a day after the European Commission adjusted its proposed countervailing duties on the imports of electric vehicles from the Asian country.

Saudi state oil company increases investments in the petrochemical sector

The CEO of Saudi state oil company Aramco –the world's largest crude oil exporter– said the company intends to increase its investments in the petrochemical sector in China and, potentially, also in India and South Korea, throughout this and the coming year. The initiative builds on the understanding by Saudi authorities that demand for hydrocarbons for the production of plastic goods will extend longer than the demand for fuels due to the energy transition.

Aramco currently allocates two million barrels of oil per day to its petrochemical business unit, but aims to double that amount. At the same time, it is in the process of increasing the petrochemical capacity of its facilities in Saudi Arabia. It is the company's best belief that from the energy transition and the increase in demand for plastic to produce batteries and solar panels, the demand for petrochemical products will also be on the rise.

In this sense, the Saudi company intends to release up to one million barrels of crude oil per day that are currently destined for the production of electricity in Saudi Arabia. The goal is to increase natural gas production to 60% by the end of this decade and replace oil with the latter to generate electricity. In this regard, the company also indicated that it will seek to further its share in the global liquefied natural gas (LNG) business and to do so it will buy export terminals outside the country.

South Korea and Indonesia promote use of local currencies in trade

In a joint press release, the Bank of Indonesia, the Bank of South Korea and the Ministry of Economy and Finance of that country announced the launch of a cooperation framework to promote the use of local currencies for cross-border trade transactions between both countries. This initiative is the follow-up to what was agreed upon in the memorandum of understanding (MOU) signed in May 2023 and in the agreement on the Operational Guidelines for the June 2024 framework, preparatory to this action.

The framework allows designated distribution banks to facilitate bilateral transactions. This includes, but is not limited to, promoting direct exchange between the Indonesian rupee and the South Korean won, as well as relaxing relevant rules and regulations to improve the use of local currencies. The statement assumes that the initiative will help promote trade between Indonesia and South Korea, reduce exposure to currency risks and promote transactions at a lower cost between the two countries. Effective implementation of the agreement will begin on 30 September 2024.

AFRICA

African Union and Japan debate funding and access to vaccines

Ahead of the Tokyo International Conference on African Development (TICAD), a Ministerial Meeting was held in said city on 24 and 25 August under the theme “Co-create Innovative Solutions with Africa”. Officials of the Japanese government and the African Union (AU) convened the meeting alongside representatives of the United Nations Office of the Special Adviser on Africa, the United Nations Development Programme and the World Bank.

Despite the multiplicity of topics addressed, many of them linked to the expansion of trade and investment in Africa, various media have highlighted –in line with the Vaccine Alliance (Gavi), a global public-private partnership also present at the meeting– Japan’s commitment to address the most dire health issues in Africa, including international financing and coordination with the Japanese private sector to boost investment and mass access to vaccines.

This rush is part of the recent declaration by the World Health Organization (WHO) of public health emergencies of international concern (PHEIC) due to the new outbreak of mpox on the African continent. According to WHO information, the outbreak recorded in the east of the Democratic Republic of the Congo has spread with alarming speed to several countries on the continent and can be fought with an effective vaccination plan.

Thus, the issue of equitable production and access to vaccines has become key to the African agenda as well as to the international one. The WHO foresees an immediate need of USD 15 million to finance the most urgent surveillance and response activities to the epidemic; however, this figure could exceed USD 130 million in the next six months to set a medium-term strategy.

Within this framework, several European countries, including France and Germany, have arranged the immediate donation of vaccines against mpox, while reinstating on the agenda the possibility that the African Union reaches the mid-term objective of local production of vaccines for this and other diseases that affect the continent. This was recently stated by a spokesman for the German Ministry of Defence, in line with the initiative proposed a few months ago by the French government during the Global Forum for Vaccine Sovereignty and Innovation, jointly organised with the AU and Gavi, and held in Paris in June.

However, this goal is not exempt from controversy. One of the main global producers of mpox, a Danish laboratory, rejected these days the possibility of directly marketing vaccines with African governments and expressed the option of doing so through donors (Gavi or developed economies' governments, for example).

This laboratory also anticipated that it is ready to give response to the current demand for vaccines, with a stock to date of 500,000 doses and the capacity to produce up to 10 million doses by 2025, which increased the value of its shares in the Danish stock exchange in the days after the declaration of emergency by the WHO.

Ghana and Nigeria strengthen trade and investment ties with Nordic countries

With a view to exploring joint alternatives to increase trade and investment, a Nordic delegation composed of the Foreign Ministers of Denmark, Finland, Iceland, Norway and Sweden made the first joint official visit to Ghana and Nigeria in mid-August.

With an eye on young local entrepreneurs and the creation of an inclusive development atmosphere, the objective of the visit focused on identifying investment opportunities in innovation, technology and sustainable development and minimising the risks associated with the access of foreign capital to the aforementioned African countries.

Said initiative was carried out within the framework of Sweden's presidency of the Nordic Council of Ministers (N5), a non-formal area of cooperation between the five European members on security and international trade.

During the visit to Nigeria and Ghana, considered by the N5 as stable democracies and important trading partners in Africa, strategies for trade diversification and issues in connection to cooperation in multilateral areas were addressed, as well as issues related to the digital transition, the green economy and climate change.

The meeting was regarded by the European and Nigerian authorities as a "historic" initiative and a window of opportunity for the Economic Community of West African States (ECOWAS), based in Abuja.

With the mission of promoting economic integration in the region to achieve a customs union among its members, ECOWAS was established in 1975 in Nigeria by the governments of 15 West African countries: Benin, Burkina Faso, Côte d'Ivoire, Gambia, Ghana, Guinea, Guinea Bissau, Liberia, Mali, Mauritania, Niger, Nigeria, Sierra Leone, Senegal and Togo.

Union of the Comoros signs deal on WTO accession

WTO Director-General, Okonjo-Iweala, announced on 21 August the accession of the Union of the Comoros to the agency, after 17 years of negotiations. It is the 165th State to become member of the main multilateral trade organisation, and the 10th Least Developed Country (LDC) to have done so through negotiations.

This country has an area of 1862 square kilometres, a population of around 850,000 inhabitants, a GDP per capita of around USD 1,485, according to World Bank figures for 2022, and an economy focused on services (55% of GDP), mainly linked to tourism, and agriculture (32% of GDP), concentrated on scarce products (mainly vanilla).

Comoros' accession to the WTO was considered by the archipelago's President, Azali Assoumani, a contribution to "our country's trade diversification and association efforts, as well as its integration into regional, continental and global value chains".

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