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CEI GLOBAL REPORT

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IMF reduces surcharges to debtor countries

The executive board of the International Monetary Fund (IMF) decided to cut, as of 1 November, the surcharges it applies to countries that have debts to the organisation that exceed the maximum they can obtain based on the quotas assigned that reflect their relative importance in the world economy.

The approved reforms are expected to reduce surcharge costs by an average of 36% and the number of countries paying surcharges is expected to fall from 20 to 13 as of 2026. This is because, among the relief measures for debtors, the agency raised the floor above which members will have to pay surcharges (from 187.5% of the quota to 300%).

In the case of Argentina, USD 2.3 billion is the estimated saving in the interests it will have to pay by August 2034 for the loan taken from the organisation; half of these savings are concentrated in the 2025-2027 period.

Major mining company increases its share in the lithium market

London-based mining company Rio Tinto has reached an agreement to begin the process of buying US-based Arcadium Lithium for around USD 6.7 billion. Rio Tinto is the world's second largest mining company, with operations in 35 countries and 57,000 employees. Following the acquisition of Arcadium, it will also become one of the largest lithium producers globally.

Arcadium Lithium is a company created at the beginning of this year as a result of the merger between the Australian company Allkem and the US company Livent. Among its many operations around the world are those in Argentina, in the provinces of Catamarca and Jujuy.

Rio Tinto's purchase comes in the context of a sharp fall in international lithium prices, which the company sees as an opportunity thanks to the "substantial long-term uptrend potential of the market". The deal was approved by the boards of directors of both companies and still needs to be approved by Arcadium's shareholders' meeting. The purchase process is expected to be completed by mid-2025.

G7 countries agree on new financial assistance to Ukraine

G7 member states agreed on how they will implement the financial assistance to Ukraine decided upon at their June meeting in Italy. The funds –around USD 50 billion– can be used to pay for the Ukrainian army's military expenditures and the country's financial deficit, thereby underpinning its macroeconomic stability.

The distinctive feature of the loans to Ukraine is that both interest and principal payments will be covered by the interest generated by Russian funds frozen by the European Union (EU) under sanctions against Moscow following the February 2022 invasion (see CEI Global Report, March 2022).

Under this umbrella, US Treasury Secretary Janet Yellen and Ukrainian Finance Minister Serhiy Marchenko signed an agreement in which Washington pledges to provide Ukraine with USD 20 billion, which is expected to be available to the Kiev government by the end of 2024.

In turn, the EU approved a financial assistance package for Ukraine of up to 35 billion euros to comply with the G7 commitment. This loan, which will also be repaid with flows from Russian funds withheld in the EU, will be available to Ukraine before the end of the year and will have a maximum repayment horizon of 45 years.

EUROPE

EU imposes definitive countervailing duties on electric vehicles from China

On 29 October, the European Commission imposed definitive countervailing duties for five years on imports of battery electric vehicles (BEVs) from China. The measure entered into force on 30 October. The level of duties varies according to the exporting company: 7.8% for Tesla, 17% for BYD, 18.8% for Geely, 20.7% for other smaller companies that cooperated with the Commission, and 35.3% for SAIC and non-cooperating companies. In all cases, this is an additional tariff on top of the 10% that cars pay when entering the EU.

The investigation of subsidisation and injury had been initiated in October 2023. In the Regulation imposing these duties, the Commission stressed that it "carried out the current investigation in full compliance with WTO and Union rules".

The mutual dependence between the EU and China adds to the complexity of this dispute. The EU relies on electric cars to pursue its climate policy, and China became dependent on the EU to place its electric cars after the US and Canada *de facto* closed their market to Chinese electric cars following the additional 100% tariff placed by both countries this year (see CEI Global Report, June and September 2024). If unable to export to Europe, which is the destination of 40% of its BEV sales, China's auto industry could be left with significant idle capacity.

The measure taken by the Commission met with criticism from China and Europe. The Ministry of Commerce of China stated that it was a measure of "protectionism under the guise of fair competition". The China Association of Automobile Manufacturers argued that it violates basic WTO rules on subsidies and that the increase in car prices, thanks to the additional duty, reduces the purchasing power of European consumers and affects cooperation for the necessary low-carbon vehicle manufacturing.

On the European side, there are differences between the various members of the bloc. The German carmakers –which see China as an important market for their large combustion-engine cars and fear possible retaliation– are against the measure. On the other hand, France and Italy have favoured the measure arguing that there is a risk of low-priced cars harming European industry. These differences were evident in the vote on the imposition of the countervailing duties: 10 countries voted in favour, including France, Italy, Poland and Denmark; five against, including Germany, Hungary and Slovakia; and 12 abstained, including Belgium, Spain and Sweden.

Despite the imposition of the measure, both sides expressed that consultations still continue in order to find alternative solutions to this issue.

Preferential trade agreements improve EU's export performance

EU trade with countries with which the bloc has a preferential trade agreement (PTA) performed better than trade with those with which it has not signed an agreement, according to the European Commission's Fourth Report on the implementation and enforcement of the EU trade policy.

The document states that in Asia, trade with South Korea, Japan, Singapore and Vietnam remained stable, with a share of around 9% of imports from these countries (of EU origin) between 2008 and

2022, while this figure fell from 9.6% to 6.5% in purchases from the non-PTA Asian bloc. In Latin America, meanwhile, the share of PTA partners' imports from the EU fell from 10% to 8% in the last 25 years, while that of non-partners' imports from the EU fell from 35% to 18%.

These agreements also sustained the share of agri-food exports. Between 2022 and 2023, agri-food sales to partner countries grew by 2.3%, while those to non-partners decreased by 3.5%. Likewise, these PTAs favoured the ratification of environmental agreements and the implementation of trade and sustainable development provisions included in 12 PTAs totalling 18 partners.

The EU's PTA universe comprises 42 agreements with 74 partners and covers 45.8% of the bloc's foreign trade at the end of 2023. Measured as a share of the EU's preferential trade, the main agreement is that with the United Kingdom (22% of preferential trade), followed by that with Switzerland (14%) and Türkiye (9%).

SOUTH AND CENTRAL AMERICA

New markets for products from Argentina, Brazil and Chile

South Africa notified Argentina regarding the compliance with the sanitary requirements for the export of bovine and porcine haemoglobin powder, which opens up a valuable trade opportunity for the country. In 2023, South Africa was the fourth destination for Argentine exports to the African continent and bilateral trade between the two countries is historically favourable for Argentina.

Brazil, in turn, expanded its access to several foreign markets. Cuba authorised the exports of Brazilian sheep and goat genetic material, Japan approved the imports of various products such as cassava bran, hay, dehydrated citrus fruit pulp and macadamia nuts. In addition, Qatar authorised the entry of goat and sheep meat after it obtained the International Health Certificate.

Likewise, the five countries of the Eurasian Economic Union (Russia, Belarus, Armenia, Kazakhstan and Kyrgyzstan) reported the opening of their markets for the import of yerba mate and Brazilian cocoa beans, while Saudi Arabia opened its market for flowers and it simplified the approval procedures for the imports of cotton products (such as fibre, seeds, waste and oil) from Brazil.

Finally, after overcoming the avian influenza emergency, China announced the reopening of its market for Chilean poultry, which ended the suspension imposed in March 2023 after the first outbreak of the virus in Chile. Before that, China had been the third most relevant destination for Chilean poultry exports, accounting for 15% of the total with more than 34,300 tonnes shipped between January 2022 and March 2023. Exports, which in 2022 reached USD 107.5 billion, mainly included by-products such as legs, claws and frozen meat.

Tariff reductions in Argentina and Bolivia

The government of Bolivia issued a decree setting a 0% tariff for the import of rice for a period of three months, from November to January 2025. This measure responds to the drought and fires that affected local production of the cereal. Approximately 60,000 tonnes are expected to be imported during the time the measure is in force, which will guarantee the supply of rice in the country, after the fall of between 34% and 40% in Bolivian rice production.

Argentina, in turn, reduced import tariffs on 89 products. According to Decree 908/2024, tyre tariffs drop from 35% to 16% (in three stages) and motorcycle tariffs from 35% to 20% (in two stages). Import duties on small appliances, coffee and sunscreens, which ranged between 25% and 35%, were adjusted and are now between 9% and 30%. Tariffs on inputs such as PET plastic and copper tubes and on 38 types of machines such as industrial furnaces and boilers were also reduced, and they will drop from a range of 12.6%-35.0% to a range of 2.0%-12.6%.

All these products are included in the national list of exceptions to the common external tariff, which allows up to 100 products to have import duties different from those set by Mercosur. These measures seek to facilitate foreign trade and benefit both industries and consumers, in line with other reductions implemented in May, which included products such as refrigerators and fertilisers.

EU ratifies trade agreement with Colombia, Peru and Ecuador

The European Union (EU) has completed the ratification process of the bloc's Trade Agreement with Colombia, Peru and Ecuador, a commitment that includes the gradual opening of the parties' markets and other obligations in the areas of services, intellectual property, public procurement and human rights.

The agreement had been provisionally applied since 2013 with Colombia and Peru and since 2017 with Ecuador (it signed the Protocol of Accession in November 2016). As of 1 November, it has been fully in force between the EU and the three countries.

According to what was reported by the EU, the bloc represents the third largest trading partner of the Andean countries in order of importance and it is one of their main investors. In 2023, European countries' trade with these Andean nations reached 33 billion euros.

NORTH AMERICA

Lithium: huge potential estimated in a deposit in Arkansas

Researchers from the US Geological Survey (USGS) and the Arkansas Department of Energy and Environment estimated that there are lithium deposits in the southwest of that state that, if commercially exploitable, could far exceed the global demand for the mineral for the production of electric car batteries expected by 2030.

Using a combination of water sample analysis and machine learning models, the researchers calculated the amount of lithium present in brines (high-salinity waters associated with deep saline deposits) located in the Smackover Formation. This geological structure extends under regions of Arkansas, Louisiana, Florida, Mississippi, Alabama and Texas, and is known for being rich in oil and bromine deposits.

Based on estimates there are between 5 and 19 million tonnes of lithium reserves, which would allow more than replacing US lithium imports, and would turn the country into one of the world's leading producers and exporters of this critical mineral.

According to the USGS, although there are vast lithium deposits in the US, it is currently only produced on a commercial scale in the states of Utah and Nevada. In turn, the US imports more than 25% of the lithium it consumes, mainly from Chile and Argentina. In 2023, the main producers worldwide were Australia (accounting for approximately 50% of global production), Chile and China.

US seeks to foster the relocation of critical mineral production

As a result of a recent regulatory change by the US Department of the Treasury, US producers of critical minerals will be able to benefit from Inflation Reduction Act (IRA) tax credits for extraction costs associated with the production of critical minerals.

This becomes evident from the final rules for the IRA's Advanced Manufacturing Production Credit (known as Section 45X), published by the Treasury at the end of October. This programme seeks to level the playing field for US companies, and onshore the production of clean energy technologies. The rule – unlike December 2023's proposal– stipulates that costs related to the extraction of minerals or the acquisition of mineral raw materials may be considered as production costs for the purposes of the tax credit.

In this way, the 10% tax credit for materials and extraction costs can be used by producers of critical minerals and manufacturers of active mineral materials for electrodes. However, the incentive will only be available to producers who extract and refine the raw materials into usable products, but not to those mining companies that only sell the raw minerals.

The new regulations will come into force on 27 December.

US and India sign memorandum on critical minerals

Within the framework of the sixth US-India Commercial Dialogue ministerial meeting, held in Washington, US Secretary of Commerce Gina Raimondo and Indian Minister of Trade and Industry Piyush Goyal agreed to strengthen critical minerals supply chains.

The "Memorandum of Understanding to Expand and Diversify Critical Minerals Supply Chains" aims to leverage the complementarities and strengths of both countries to ensure greater resilience in the critical minerals sector. Priority areas of focus include identifying equipment, services, policies and best practices to facilitate mutually beneficial business development of the exploration, extraction, processing and refining, recycling and recovery of critical US and Indian minerals.

This Memorandum adds to that signed in March 2023 in New Delhi, during the fifth US-India Commercial Dialogue, regarding the establishment of a partnership for semiconductor supply chain and innovation, with the aim of building a more resilient semiconductor ecosystem and creating economic opportunities for both countries.

ASIA AND OCEANIA

China files claim against Canada over electric vehicle tariffs

China requested consultations at the WTO regarding tariff surcharges imposed by Canada on certain products of Chinese origin, including electric vehicles and steel and aluminium products.

According to the Chinese government, the tariffs would be inconsistent with the most-favoured-nation principle enshrined in the General Agreement on Tariffs and Trade (GATT) 1994 and Canada's schedule of customs duty concessions and commitments under the GATT.

Canadian Prime Minister Justin Trudeau had announced in August the imposition of a 100% tariff on the import of Chinese electric vehicles, as well as a 25% tariff on steel and aluminium from the Asian country (see CEI Global Report, September 2024). The measure seeks to counteract Chinese subsidies, which may be harming its Western competitors, an argument similar to that used by other actors such as the US and the European Union. It should be noted that China also sued the EU and Türkiye for the measures set on the import of Chinese electric cars.

The parties have 60 days to find a satisfactory solution and not go ahead with the litigation. After this period, if the dispute has not been resolved, the complainant may request the constitution of a panel.

Russia proposes the creation of an international grain exchange

Under the theme "Strengthening Multilateralism for Just Global Development and Security", BRICS members met at their 16th Summit in Kazan, Russia. It was attended by representatives of both its original members (Brazil, Russia, India, China and South Africa) and of the new ones that joined in January 2024 (Iran, Egypt, Ethiopia and the United Arab Emirates), who also acknowledged other thirteen nations as associated states: Algeria, Belarus, Bolivia, Cuba, Indonesia, Kazakhstan, Malaysia, Nigeria, Thailand, Türkiye, Uganda, Uzbekistan and Vietnam.

Among the main issues discussed, the summit addressed the group's objective of preserving international food security and its commitment to minimise disruptions and measures contrary to the World Trade Organization rules in agricultural and fertiliser trade. In this regard, the members welcomed the Russian proposal to create a BRICS grain, leguminous crops, and oilseed exchange "in order to ensure efficient, uninterrupted, and transparent cross-border trade in raw materials". This tool would allow the countries of the group to have a sphere in which they can determine the price of cereals, and no longer depend on the operations of the Chicago Stock Exchange.

During 2023, Brazil, Russia and India were, along with the United States and Australia, among the top five grain exporters in the world, with more than 20% share. In particular, Russia was likely the main exporter of wheat, the fourth of rye and the sixth of barley; Brazil was the second largest exporter of corn and India the main exporter of rice. In terms of imports, China and Egypt were among the main buyers of cereals during 2023 and accounted for 15% of global demand. Both were the main importers of wheat and in the case of the Asian country, it also led the demand for barley, corn and sorghum.

Vietnam encourages domestic solar power generation

Within the framework of the eighth Energy Development Plan, which aims to achieve 30% renewable energy by 2030, the Vietnamese government launched new measures for rooftop solar (RTS) power generation in buildings, industrial parks and other production and business facilities. The norm stipulates that, if the self-production capacity of energy is greater than 1 MW, its owner can sell the surplus to the national grid, provided that it does not exceed 20% of its total capacity and upon request of a licence. On the other hand, if they are not connected to the national electricity grid, there will be no limitations set or electrical exploitation licences required. RTS energy production will also benefit from tax incentives and simplified procedures, and the installation of energy storage systems will also be encouraged to ensure the safe and stable operation of the electricity system.

On the other hand, the measure aims at creating opportunities and favourable conditions for foreign investment. New generation solar technologies and the rest of the infrastructure necessary for their implementation present possibilities for growth for companies and investors. Similarly, installation and maintenance services companies, as well as those offering software platforms that monitor and optimise the use of solar energy, grid connectivity and load management, would benefit.

Sub-Saharan Africa: progress and vulnerability

According to the latest regional report for sub-Saharan Africa published by the IMF on 25 October, the region is currently going through a complex scenario, marked by expectations of progress in the medium term, but also by persistent macroeconomic vulnerabilities. With a landscape that varies from country to country, about half of the region still exhibits strong external and internal economic imbalances and faces growing social discontent.

According to the document, the growth of the economies that make up the sub-Saharan Africa region, projected at 3.6% by 2024, in general terms remains weak and unstable, although a slight recovery is expected by 2025, with projected growth that could reach up to 4.2%. On the other hand, the complexity generated by the interrelationship between scarcity, institutional weakness, poverty and the increase in the cost of living represents one of the main stumbling blocks that governments face when it comes to neutralising social discontent.

The report also highlights –among other geopolitical factors– the impact of political fragmentation and social instability in the region as the reason behind much of the credit crunch suffered by sub-Saharan African countries, despite recent announcements on financial aid made by China in the framework of the last summit on FOCAC (see CEI Global Report, October 2024).

Finally, along with the presentation of the report, the IMF also underlined the importance of deepening job creation policies in the region, especially in the most vulnerable areas, as a way of contributing to greater social peace, in a marked context of population growth (in the same line, read statements by the President of the African Development Bank in CEI Global Report, July 2024).

African market fragmentation, one of the challenges of the AfCFTA

The African Continental Free Trade Agreement (AfCFTA), which turned three at the beginning of 2024 (see CEI Global Report, February 2024), currently represents the largest free trade agreement in force in the world, based on the number of countries: it has been signed by fifty-four nations, out of a total of fifty-five that make up the African continent, although not all have yet ratified it. The Agreement comprises four main areas: trade in goods, trade in services, dispute settlement mechanism and trade facilitation.

Although the process of negotiation and entry into force of the AfCFTA exceeded global expectations, in the opinion of its Secretary General, South African Wamkele Mene, there is still an extensive list of challenges to overcome in order to turn Africa into a single market, as proposed in the agreement.

In an interview given during October, in anticipation of the AfCFTA Business Forum, a meeting place for the public-private sector linked to the agreement, Mene reviewed the main obstacles to the consolidation of the common market in Africa. One of these hurdles is the fragmentation of the internal market due to its diversity: there are more than forty legal tender currencies, different levels of development and a wide variety of geographies (coastal and landlocked countries), among other issues. Moreover, the deficiency in infrastructure and logistics also stands out along with the delays in the coordination of policies to favour the free movement of people and goods in contexts that are sometimes complex due to political conflicts in the region.

These statements coincide with the observations made by experts, who also refer to the diversity of languages, the difficulty to access reliable information and the high energy costs as additional obstacles to the unification of the African market and to the industrial development of the region. Currently, intraregional trade in Africa is low. In this regard, the WTO's latest report on global trade, published in October this year, indicates that intraregional trade in Africa has been growing more slowly than extra-regional trade since the pandemic.

In view of this, the Secretary General of the AfCTA responds with optimism regarding the potential of the agreement, noting, in the aforementioned interview, that the outlook for intraregional trade in Africa is to double in five years' time.

CEI GLOBAL REPORT

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