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# GLOBAL REPORT

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OCTOBER 2019



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# WORLD

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## TRADE CONFLICT BETWEEN THE U.S. AND THE EU COMES ALIVE AGAIN

The WTO Dispute Settlement Body authorizing the U.S. to impose countermeasures against the EU, and the clear likelihood that the European bloc can act accordingly against the U.S. poses the risk of reviving a huge conflict with high impact.

On the one hand, the DS 316 case initiated by the U.S. at the end of 2004 refers to the subsidies to the Airbus company, which, apparently, caused some prejudice against the North American aircraft manufacturers. After the successive reports by WTO's Panel and Appellate Body rulings against the EU, at the end of 2011 the U.S. requested authorization to impose countermeasures. However, after some months, both parts requested to cease the investigation. In July 2018, and in the face of a new global outlook, the U.S. requested the WTO arbitrator to resume his actions. The decision by the arbitrator was made public on 2 October. It was determined that countermeasures could amount to US\$ 7,496 yearly until the aid given by the EU to Airbus, incompatible with the WTO standards, is suppressed.

On the other hand, the EU has "revived" the DS 353 case that it had started in 2005 against the U.S. for the subsidies the latter granted to the Boeing company. This situation virtually mirrors the previous one: the WTO issued favourable reports to the EU, in November 2012, both parties requested that the arbitrator suspended its work and, in May 2019, the UE requested that actions were reinitiated. It would be worth assessing

the reach of countermeasures in this particular case.

The EU Trade Commissioner, Cecilia Malmström, has suggested that this issue should be dealt with at a bilateral level without applying the sanctions. So far, the U.S. has not accepted the suggestion.

## ARE THERE SIGNS OF WILLINGNESS BETWEEN CHINA AND THE UNITED STATES?

As a sign of disposition, China and the United States have suspended some of the additional tariff measures they had announced in 2018. On the one hand, China withdrew 16 products (animal foods, chemicals and petroleum) from the 25% tariff applied in 2018 and granted no additional tariff taxation for soybean imports. On the other hand, the U.S. postponed from 1 to 15 October the increase of the 25% to a 30% tariff that had been fixed a year ago for Chinese products for a value of US\$ 250 billion.

## CLAIMS RESULTING FROM TRADE TENSIONS REACH THE UN

Trade tensions were a key component in leaders' speeches at the 74th General Assembly of the United Nations. On the one hand, the U.S. President Donald Trump expressed that trade must be fair, just and reciprocal, and stated that the future does not belong to "globalists" but rather to patriots. At the same time, he also restated his critical point of view of China since he considered it wrong to have decided to admit it at the WTO since it has failed to liberalize trade, has exported at dumping prices and

forced technology transfer and trade secrets. Besides, he was also critical of the fact that it had accessed as a developing country. In turn, Chinese Foreign Minister, Wang Yi expressed that unilateralism and protectionism pose clear threats to the international order and that trade disputes must be solved in a cooperative manner and respecting negotiation rules.

On the other hand, President of Brazil, Jair Bolsonaro, criticized those who promoted trade sanctions to his country as a result of the Amazon fires. He thus expressed that the sanctions proposed come from European

countries that allocate a larger portion of their territories to farm production than Brazil, partly derived from past deforestations.

### **NEW POOR PROGNOSIS FOR TRADE TENSIONS**

The increasing trade tensions that have taken place so far this year account for the overtly revised downward of the outlook for growth in global trade elaborated by the WTO: the 2.6% for 2019 that had been anticipated in April was reduced to 1.2% in the 1 October Outlook.

## **EUROPE**

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### **UNCERTAINTY OVER BREXIT STILL LURKING**

A month before the materialization of the Brexit, British Prime Minister Boris Johnson seeks support of his peers at the annual Congress of the Conservative Party that sits in sessions until Wednesday, 2 October. Likewise, he insists on an exit on 31 October and announces a set of measures to reactivate the economy and lessen the effects of the transition.

In September Johnson suffered several setbacks in the likelihood of realizing his project. On the one hand, the Supreme Court of the United Kingdom ruled that the Parliamentary waiver promoted by the Prime Minister since 9 September and during five weeks was “illegal, null and had no effect” since it was aimed at preventing, without reasonable justification, the Parliament from performing its constitutional

activities. Consequently, the sessions were resumed a few days after the measure.

On the other hand, before the parliamentary waiver entered into force, 21 legislators withdrew their support to Johnson and enabled the passing of a law that makes him either come to an agreement with the EU before 19 October or request a new prorogation from said body. Since it is highly doubtful whether Johnson will respect that law, the Labour Party and the Scottish National Party also partially reached an agreement to submit a non-confidence motion against him in October, taking advantage of the fact that conservatives would be attending their annual Congress. The final objective would be to obtain a deferment at the EU and succeed in obtaining a call to anticipated elections in said term.

## **THE EC APPOINTS NEW COMMISSIONERS: DIGITAL AND ENVIRONMENTAL ASPECTS IN THE SPOTLIGHT**

President-elect of the EC, Ursula von der Leyen, has officially announced the new team of 26 commissioners that will accompany her in office. The commissioner designates, who guarantee a balance of responsibilities in relation to gender, country and political affiliation, will be examined by the European Parliament in coming weeks, so as to make the appointments effective as of next 1 November.

Even though the future of Brexit will definitely be one of the immediate challenges to be faced by von der Leyen in her office, the digital and environmental issues will be also on the spotlight. In this sense, the nominations to the positions of executive vice-president for the Dutch Frans Timmermans, who will lead the new European Green Deal, and for Margrethe Vestager, who will be in charge of the “Europe adapted to the digital era” project can be highlighted. Vestager has been the European Commissioner for Competition since 2014 and has become famous for leading the cases against digital companies like Google, Apple, Qualcomm or Facebook.

In turn, Paolo Gentiloni, former Prime Minister of Italy for the Democratic Party, has been nominated for the Ministry of Economy. One of his main mandates is to apply the Stability and Growth Pact “using all the flexibility permitted by the standards”, and to lead efforts to implement a new tax on digital services. Although the ultimate goal is to contribute to the implementation of a common regulation at the level of the OECD and/or the G20, Gentiloni will also

have as a mandate to progress towards implementing a tax of the same type in Europe.

Phil Hogan is nominated for the office of Trade and Josep Borrell for the position “a stronger Europe in the world”. If the Eurochambers confirms their appointments, they will have to deal with the aspects derived from trade tensions and the Brexit, respectively.

## **AUSTRIA APPROVES VETO MOTION TO THE EU-MERCOSUR AGREEMENT**

The Austrian Parliament approved a motion obliging the government to veto at the EC the approval of the EU-Mercosur Agreement. This implies that the Council will start with negotiations that could pose a risk to the entry into force of the agreement.

Austria’s coalition government that will constitute itself as a result of the legislative elections of 29 September could revert this veto with a new Parliament motion. However, the results of the elections do not seem to show *a priori* a change in position; the Christian-Democratic Austrian People’ Party led by ex-Chancellor Sebastian Kurz remained as a majoritarian bloc with 37.1% of the votes, at the same time that the extreme right-wing Freedom Party of Austria (FPÖ) lost 10 points and the Greens Party (Grüne) won similarly, compared to the 2017 Parliament elections.

## **VAT GAP REMAINS HIGH AT THE EU**

The EC 2019 Report on the VAT Gap –the difference between the expected incomes and those actually collected– expresses that the countries in the EU lost € 137.5 billion in

2017 as a result of tax evasion, bankruptcies or miscalculations. In percentage, the European average of the gap is 11.2%. The countries with the worst tax efficiency in 2017 were Romania (36%), Greece (34%), Lithuania (25%) and Italy (23.8%). The most efficient, with percentages lower than 1%,

were Cyprus, Luxembourg and Sweden. Although the countries of the European bloc as a whole have managed to narrow the gap in the last five years, the EC states that it still remains very high. The VAT is the main source of incomes in matters of tax collections in the EU.

## SOUTH AND CENTRAL AMERICA

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### ARGENTINA AND BRAZIL REDESIGN AUTOMOTIVE AGREEMENT AND POSTPONE FREE TRADE

The governments of Argentina and Brazil agreed on delaying until June 2029 the entry into force of the free trade of automotive vehicles that the Economic Complementation Agreement No. 14 (in its forty-second additional protocol) had established for June 2020.

The new protocol increases the trade deviation ratio -flex system– which had so far been 1.5, retroactively and in steps. The new values of the coefficient will be: 1.7 for the July 2015 - June 2020 period; 1.8 until 2023; 1.9 until June 2025; 2 until June 2027; 2.5 until June 2028 and 3 until June 2029, when the trade will finally be liberalized.

A new aspect in this commitment, also present in the Mercosur-EU agreement, is the establishment of quotas along with a lower index of regional content for the exchange of last generation vehicles. Likewise, auto parts will be imported tariff-

free when they are not manufactured in any of the two countries, always subject to the fact that the terminal contributes with 2% of the value of those imports to a fund for the development of the local auto part industry.

### BRAZIL WOULD OBTAIN RECORD GRAIN HARVEST

The Brazilian Institute of Geography and Statistics estimated that the 2019 grain harvest (cereals, leguminous plants and oilseeds) would be 5.9% higher than in 2018 and the largest in the history of Brazil. This production, which would reach 239.8 million tonnes, would have been driven both by a larger cultivated area (3.2%) and by greater productivity, favoured by the good weather conditions. The crop with the greatest growth would be maize, with a record harvest of almost 100 million tonnes. In fact, the exports of said product to the countries that are supplying China –affected by the swine flu– would go up 21.5% compared to 2018. An important rise in the production of cotton (32.4%), sorghum (13.9%) and wheat (9.5%) is also expected.

## NORTH AMERICA

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### THE U.S. AND JAPAN SIGN AGREEMENT ON DIGITAL TRADE AND TRADE IN GOODS

Within the framework of the UN General Assembly, on 25 September, the U.S. and Japan signed a treaty on digital trade and an initial agreement to reduce agricultural and industrial tariffs. Besides, both countries expressed their intention to substantiate in the future a global agreement that also includes aspects like non-tariff barriers and restrictions to the trade in services and investments.

In agricultural matters, Japan will make concessions for US\$ 7 billion. The package anticipates the immediate elimination of the tariffs for almonds, nuts, bilberries, sweet maize, sorghum, prunes, broccoli, dietary supplements, and the staggered elimination of tariffs for cheese, processed swine meat, poultry, edible meat offal, ethanol, wine, frozen potatoes, oranges, fresh cherries, egg products and tomato paste. The Japanese government also agreed to reduce import duties to beef and swine meat (fresh and frozen) and to give a specific preferential quota to imports of U.S. wheat and its by-products, malt, glucose, fructose, potato starch, cornstarch and inulin.

On the other hand, markets in the United States will open for 42 agricultural goods, amounting to a value of US\$ 40 million. Said products include perennial plants and flowers, persimmons, green tea, soybean sauce and gums. The tariff rate quota for beef will also be modified. The U.S. will also reduce or eliminate tariffs on certain industrial products, such as tool machines,

steam turbines, bicycle pieces and musical instruments.

The Agreement on Digital Commerce sets standards similar to those of the USMCA. It bans the imposition of customs duties on electronically transmitted digital products, guarantees free cross-border data flows, prevents data localization requirements and arbitrary access to computer source code and algorithms, and gives flexibility to companies to use innovative encryption technology in their products.

### UNCERTAINTY OVER USMCA RATIFICATION

The ratification by the U.S. and Canada of the USMCA is uncertain. Since the treaty was signed in September 2018, only Mexico has accomplished its ratification.

The announcement made last September of the opening of a formal investigation into impeachment against the U.S. president has cast doubt on the approval of the trade deal that the U.S. expected for November. As a result, Donald Trump doubted whether the Congress could ratify the agreement before the 2020 elections. However, Richard Neal, president of the Ways and Means Committee of the U.S. House of Representatives, announced that the negotiations will accelerate in October, without prejudice to the possible political impeachment.

In Canada, the members of the Parliament have already started analysing the Bill C-100 "An Act to implement the Agreement between Canada, the United States of America and the United Mexican States".

Nevertheless, the Parliament is currently recessing and will resume sessions after the federal elections of October 2019.

### **THE U.S. WILL REVISE ANTIDUMPING MEASURES AGAINST THE ARGENTINE BIODIESEL**

The U.S. Court of International Trade asked the U.S. Department of Commerce to revise the reasons behind their ratification of an average 74% tariff to the imports of Argentine biodiesel in April 2018.

In 2016, due to reclamation of the American producers of biodiesel, grouped under the National Biodiesel Board (NBB), Donald Trump's administration imposed compensatory and antidumping measures to the Argentine biodiesel, giving rise to a virtual closing of the market. Till then, exports of said product to the U.S. amounted to approximately US\$ 1.1 billion, 25% of the value of Argentina's total exports to that destination. In July this year, due to a change in circumstances derived from the increase in exports rights in our country, the U.S. reduced the countervailing measures from 72% to a level ranging from 0% to 10%.

However, the antidumping measure remained unaltered.

A possibility under analysis in Argentina is that the U.S. accepts a solution similar to that recently agreed upon with the EU regarding another countervailing measure to the Argentine biodiesel, which contemplates a purchase agreement at a minimum price (see Global Report, February 2019).

### **MEXICO EVALUATES TAX ON DIGITAL SERVICES**

In its Draft on Revenues for the year 2020, the Secretariat for Finance and Public Credit of Mexico analyses to include taxes to digital services in its tax scheme. In particular, audio or video streaming (like Netflix or Spotify), transport (like Uber or Cabify) and temporary accommodation services (like Airbnb) would be reached by said duty. If the Mexican Congress approves the tax, it would enter into force as of 1 April 2020.

Argentina, Colombia, Ecuador and Uruguay have already applied similar charges, while Chile, Brazil and Peru are also prepared to move forward in the same agenda of digital service taxation.

## **ASIA AND AFRICA**

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### **NIGERIA BLOCKS TRADE WITH BENIN**

The president of Nigeria Muhammadu Buhari ordered the partial closure of the border with Benin so as to restrain the smuggling of rice and other products that takes place in the area. Buhari justified the measure for reasons of "food security": apparently, Benin imports rice from Southeast Asia and it

enters Nigeria illegally, where it competes at smaller prices with the local product. The blockade has had a strong impact on the economic activities on the border and part of West Africa, since Benin is a key transit route in the area.

Buhari's decision enters into conflict with what was stipulated by the Economic



Community of West African States (ECOWAS) and it takes place two months before Nigeria's access to the AfCFTA, the African Continental Free Trade Agreement (see [Global Report, July 2019](#) ).

### **SOUTH KOREA CONFRONTS JAPAN BEFORE THE WTO IN RELATION TO EXPORTS RESTRICTIONS**

On 11 September, South Korea asked the [WTO](#) to hold consultations regarding Japan's restrictive measures on exports of products used in the war and electronic industries. South Korean Minister for Trade Yoo Myung-hee, considered said restrictions to exports a direct discriminatory act against her country, politically driven by the history of conflicts between both nations (see [Global Report, September 2019](#)).

### **CHINA PROGRESSES IN PROCEDURES TO IMPORT ARGENTINE BEEF AND SOYBEAN**

After 20 years of negotiations, the governments of Argentina and China formalized the Protocol of sanitary and phytosanitary requirements for the exports of soybean to the Asian country. Argentina is the main global exporter of this product, which it sells to more than 50 destinations, among them, the EU, Vietnam, Indonesia, Algeria, Malaysia and Australia. On the other hand, China imports 92% of the soybeans produced in Argentina, it is the second

largest trade partner and the main destination for Argentine agricultural products.

In turn, within the framework of the simplified mechanism of approval that Argentina and China agreed on in April this year, the General Administration of Customs of China authorized the registry of eight new Argentine bovine meat facilities, which, together with those already approved, amount to 34 authorized plants. According to INDEC data, during the first seven months of 2019, the exports of Argentine bovine meat to China rose 110%, reaching US\$ 870 million.

### **INDIA WELCOMES FIRST EXPORTS OF ARGENTINE LEMONS**

The Ministry of Agriculture, Livestock and Fisheries [announced](#) the arrival of the first container of Argentine lemons to Mumbai, India. The 24-tonne cargo belongs to the Argentine multinational corporation San Miguel, which closed an agreement for the sale of lemons with company I.G. International, one of the greatest India's importers of fruit. To date, Argentina is the first global exporter of lemons and its main destination is Europe. The Indian market of lemons opened in February and it became operative in July of 2019 with the signing of the corresponding sanitary protocols. Along with these, the protocol for the exports of Argentine chia is also operative.



Ministry of Foreign Affairs and Worship  
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