CEI Centre for International Economy

GLOBAL REPORT

DECEMBER 2020

WORLD

Pandemic, economic crisis and the environment at the core of the G20 meeting
Growing concerns over future EU carbon tax
The WTO seeks to facilitate trade in medical products to tackle COVID-19
RCEP: the second mega trade agreement
Trade recovery and facilitation measures

EUROPE

Brexit: the end of the year and no trade agreement in sight
Hungary and Poland block EU budget
European expectations for Biden's triumph
EU-Mercosur Agreement: divergent positions within the European bloc
Ongoing dispute between the EU and big technology companies

SOUTH AND CENTRAL AMERICA

Brazil exercises suspension right against Costa Rica, and Canada warns it would follow suit
Brazil to make use of tariff quota for wheat imports again
Dominican Republic: rice producers warn about the effects of DR-Cafta
Argentina calls for Bolivia's definitive accession to Mercosur

NORTH AMERICA

Boeing case: agricultural producers call for elimination of EU tariffs
Digital Services Tax: U.S. companies receiving invoices
Canada and the United Kingdom agree on trade treaty continuity
USMCA: Mexico joins marine waste initiative

ASIA

Results of the 37th ASEAN Summit
APEC sets new long-term vision
BRICS countries define a strategy for the 2021-2025 economic partnership
Reasons for India's refusal to sign the RCEP

AFRICA

Egypt becomes world's largest orange exporter
Launch of Buy Africa Build Africa initiative
Experts urge biotechnology promotion to boost agricultural development

WORLD

PANDEMIC, ECONOMIC CRISIS AND THE ENVIRONMENT AT THE CORE OF THE G20 MEETING

Committed to a "strong, sustainable, balanced and inclusive" post-COVID-19 world, the leaders of the G20 countries pledged to support developing and least developed countries in addressing the health, economic and social effects of the pandemic. In this regard, they stated that they will ensure access to specific vaccines and therapies for all the people and confirmed their commitment to implement the Debt Services Suspension Initiative (DSSI) by which the payment of bilateral official debt services would be suspended until June 2021, while encouraging private creditors to join the initiative. Likewise, they stressed that the climate for trade and investment should be "free, equitable, inclusive, non-discriminatory, predictable and stable" and provided political support for the WTO reform.

With regard to the environment, they joined the Platform for a Circular Carbon Economy, while the signatories to the Paris Agreement emphasised the importance of providing financial assistance to developing countries in their efforts to adapt to and mitigate climate change. It should be noted that in early November, the United States formalised its withdrawal from the Paris Agreement. However, President-elect Joe Biden plans to re-enter the multilateral agreement.

GROWING CONCERNS OVER FUTURE EU CARBON TAX

In the WTO, concerns have already emerged about the commercial impact that border payments levied on carbon emissions of the goods seeking to enter the EU would have. This payment is part of the European Green Deal (see CEI Global Report, August 2020). At the November meeting of the Committee on Market Access, questions were raised about whether this tax constitutes a disguised restriction on trade (GATT Article XX: exceptions) and whether a similar charge would be applied to European products (GATT Article III: national treatment). In the EU, the stage of public consultation was completed; the next step is to propose the Directive and adopt it in the second quarter of 2021, after assessing the impact and compatibility with WTO rules.

THE WTO SEEKS TO FACILITATE TRADE IN MEDICAL PRODUCTS TO TACKLE COVID-19

Two types of initiatives are being discussed at the WTO to facilitate trade in medical products necessary for the diagnosis, treatment and prevention of COVID-19: reducing barriers to trade and temporarily suspending patents on pharmaceutical products.

Regarding trade barriers, the Ottawa Group, made up of the European Union, Australia, Canada, Japan and nine other countries, agreed to present a proposal to the WTO promptly with the aim of suspending import tariffs on essential medical products during the pandemic crisis, as well as avoiding export restrictions and implementing trade-facilitation measures of customs procedures. The Deputy Director-General of the WTO, Alan Wolff, considers that this could be done by expanding and updating the Agreement on Trade in Pharmaceutical Products of 1994, by which a group of countries eliminated tariffs on a set of pharmaceutical products and active ingredients.

In relation to intellectual property, the debate revolves around the suspension of obligations related to patents and other rights to favour access to medical products necessary to face the pandemic. The trigger for the debate has been a proposal by India and South Africa presented to the TRIPS Council (see CEI Global Report, November 2020), which so far has aroused opposition from developed countries such as the United States, Canada, Japan, Switzerland and the EU, and the support of China, Chile, Egypt, Indonesia and Mexico, among others.

RCEP: THE SECOND MEGA TRADE AGREEMENT

On 15 November, the Regional Comprehensive Economic Association (RCEP) was signed, a free trade agreement made up of the ten ASEAN countries plus Australia, China, South Korea, Japan and New Zealand. It comprises a market of 2,200 million inhabitants (30% of the world's population), 30% of global GDP and 28% of world trade. In chronological order, it is the second mega trade agreement after the Comprehensive and Progressive Agreement for the Trans-Pacific Partnership (CPTPP) that entered into force at the end of 2018. Without the participation of the United States or India, their commercial influence is reduced, while that of China, South Korea and Japan increases.

It is a broad "WTO-plus" type agreement, which in addition to the usual chapters includes rules on new issues such as electronic commerce, competition policy, SMEs and public procurement. However, it does not include provisions on the environment labour issues and state enterprises. Although most of the tariffs are eliminated at the beginning of the agreement or a few years later, some products have liberalisation schedules of up to 20 years, in particular agricultural products.

TRADE RECOVERY AND FACILITATION MEASURES

World trade in goods showed signs of growth in the third quarter, after the decline in the second quarter. This arises from an estimate by the WTO based on the evolution of a set of indicators that make up the "Goods Trade Barometer". The rebound is linked to the easing of lockdown measures, as shown by the recent WTO report on the trade measures of the G20 countries adopted between May and October.

Likewise, in terms of trade measures related to COVID-19, two thirds were trade facilitation and one third (were) restrictive (ones). Regarding the measures concerning trade in services, most were facilitation measures –telecommunications and telemedicine– and a few were restrictive –movement of people–. Measures were also taken to help sectors affected by the crisis, such as air transport and tourism.

EUROPE

BREXIT: THE END OF THE YEAR AND NO TRADE AGREEMENT IN SIGHT

Although negotiations between the United Kingdom and the EU continue, British officials already anticipate the magnitude of the losses that will be caused without a free trade agreement reached with the European bloc before the end of this year, when the transition period scheduled in the exit agreement of November 2018 comes to an end.

In this sense, the British Finance Minister, Rishi Sunak, and the Governor of the Bank of England, Andrew Bailey, have spoken out within days of each other. While Sunak stated that COVID-19 will do more damage to the economy than not agreeing with the EU, Bailey said that, in the long run, the most serious problem will be the lack of a trade agreement with the European bloc.

In any case, the end of the transition period is approaching and the main disagreements (see CEI Global Report, November 2020) remain. In this regard, the only optimistic words were expressed by the President of the European Commission, Ursula von der Leyen, who said that after weeks of slow progress, the pace of negotiations on the most conflicting issues was sped up.

HUNGARY AND POLAND BLOCK EU BUDGET

The Prime Ministers of Hungary and Poland have expressed in a joint statement their decision to veto the budget agreed by the EU as well as the recovery fund established to deal with the economic difficulties resulting from the COVID-19 pandemic.

The decision is a response to the unrest caused by the EU initiative to condition the receipt of the funds on the respect of the rule of law (for which both Hungary and Poland had previously been challenged).

The veto of both countries jeopardises the EU's multiannual budget (amounting to 1,074 trillion euros), but also hinders the recovery fund of 750 billion euros (to the extent that it prevents the issuance of debt needed). Until this problem is resolved, none of the union countries could have these funds available at the beginning of next year as stipulated.

EUROPEAN EXPECTATIONS FOR BIDEN'S TRIUMPH

Following Joe Biden's triumph in the U.S. presidential election, several European officials have made statements expressing optimism about the possible improvement in relations with that country.

In a recorded message to EU ambassadors, the President of the European Commission, Ursula von der Leyen, listed the main topics around which the bloc must establish its new agenda with the United States: the coronavirus crisis, environmental protection and the regulation of large technology companies.

The European official proposed that the bloc take the lead and was confident that the new president-elect of the United States would fulfil his promise to return to the Paris Agreement on Climate Change.

EU-MERCOSUR AGREEMENT: DIVERGENT POSITIONS WITHIN THE EUROPEAN BLOC

Political representatives from the different EU countries continue to express divergent positions on the free trade agreement with Mercosur.

In this regard, on 11 November, the Foreign Trade Ministers of Spain, Italy, Czech Republic, Denmark, Estonia, Finland, Latvia, Portugal and Sweden sent a letter to the Executive Vice-President and Trade Commissioner of the European Union, Valdis Dombrovskis, to express their support for the signing of that agreement.

However, some days later, at an informal meeting of Agriculture and Fisheries Ministers, the Austrian delegation, together with those of Bulgaria, Luxembourg, Romania and Slovakia, expressed their opposition to the agreement and pointed at the contradictions existing between the environmental policies held by the European Commission and the signing of the agreement.

ONGOING DISPUTE BETWEEN THE EU AND LARGE TECHNOLOGY COMPANIES

The European Commission accused Amazon of failing to comply with the bloc's antitrust rules. According to the European authorities, the company has systematically used the information obtained from independent sellers working within its platform to improve the position of their own distribution network, which competes with those same independent sellers.

The European Competition Commissioner Margrethe Vestager said in this regard: "We must ensure that platforms like Amazon do not distort competition. The conditions of competition on the Amazon platform must be fair; its rules must not artificially favour Amazon's own retail offers, or advantage the offers of retailers using Amazon's logistics and delivery services."

In turn, the European Court of Auditors pointed out in a recently published report that besides investigations such as that mentioned against Amazon and others currently underway on companies such as Google, Apple or Facebook, the union competition authority "has not yet fully addressed the complex new enforcement challenges in digital markets, the ever-increasing amount of data to be analysed or the limitations of existing enforcement tools".

SOUTH AND CENTRAL AMERICA

BRAZIL EXERCISES RIGHT OF SUSPENSION AGAINST COSTA RICA, AND CANADA WARNS IT WOULD FOLLOW SUIT

Last August, Costa Rica established a definitive safeguard measure on imports of hard and granulated sugar. This set additional tariffs of 27.68% to the existing tariffs of 45% and a progressive reduction of 9.23% for three years until it returns to the initial rate. The countries affected so far are Brazil and Canada, since they are the only ones whose share of Costa Rican imports exceeds 3% –in 2019 they totalled more than 95%–.

In response, Brazil decided to exercise its suspension right: it withdrew tariff concessions to that country and raised the aliquots of four goods by 27.68%, with the same duration and reduction scheme as those of sugar. These products are animal substances for the preparation of pharmaceuticals, chocolates and food preparations with cocoa, extracts and preparations based on tea, and seasonings and spices in containers of up to 1 kg.

In turn, Canada, whose exports are more affected in relative terms than Brazil's, notified the WTO Council for Trade in Goods that it could also impose retaliatory measures.

BRAZIL TO MAKE USE OF TARIFF QUOTA FOR WHEAT IMPORTS AGAIN

Brazil will re-impose the tariff quota that allows importing 750,000 tonnes of wheat exempt from the Common External Tariff (10%), after the expiry of the quota implemented last year. This quota, which can only be used by countries with which Brazil does not have free trade in this cereal, will be valid annually and indefinitely, from November 2020.

It should be recalled that, in July 2020, Brazil had already expanded its quota by 450,000 tonnes, due in November this year (see CEI Global Report, August 2020).

DOMINICAN REPUBLIC: RICE PRODUCERS WARN ABOUT THE EFFECTS OF DR-CAFTA

Rice producers in the Dominican Republic warned the government of the damages that trade liberalisation on said cereal can cause to its economy and food sovereignty. With this aim, they requested a revision of the Free Trade Agreement with the United States and Central America (DR-Cafta), signed in 2007, which establishes its progressive reduction to 0% by 2025.

The concern of the rice sector is that, due to the U.S. export capacity and the incentives it grants to its producers, the country will put Dominican producers out of competition and cause them to go bankrupt, as it happened in Haiti. This would have a major impact on the Caribbean economy by putting 80,000 direct and 320,000 indirect jobs at risk. It would also turn them into net importers of a basic product in their food diet.

ARGENTINA CALLS FOR BOLIVIA'S DEFINITIVE ACCESSION TO MERCOSUR

After the presidential elections in Bolivia, Argentine representatives to the Parlasur called for Bolivia's definitive incorporation into Mercosur hoping that this could enhance the integration process at the economic, productive and commercial levels, as well as political. Even though the bloc's member countries signed Bolivia's Protocol of Accession in 2015, it remains to be ratified by Brazil.

NORTH AMERICA

BOEING CASE: AGRICULTURAL PRODUCERS CALL FOR ELIMINATION OF EU TARIFFS

On 9 November, EU member states approved the imposition of tariffs on U.S. goods worth US$ 4 billion as countermeasures for subsidies to Boeing. Consequently, aircraft will have to pay additional 15% import tariffs, while some U.S. agricultural and industrial goods –including fish, cheese, spirits, cotton and tractors– will be subject to extra duties of 25%.

U.S. Trade Representative Robert E. Lighthizer argued that the measures taken by the EU were unfounded, as the alleged subsidy to Boeing had been repealed seven months ago. However, the EU affirms that the U.S. has not provided the basis for a negotiated agreement, which requires the elimination of U.S. tariffs on European products in the parallel case of Airbus.

In this context, various groups of U.S. agricultural and food producers, as well as trade associations, expressed that EU countermeasures will further impact the competitiveness of U.S. agricultural industries –already hit by the COVID-19 crisis– and urged both sides to strengthen the debate to resolve the dispute and allow the elimination of tariffs.

DIGITAL SERVICES TAX: U.S. COMPANIES RECEIVING INVOICES

Several U.S. technology companies began to receive invoices for the French digital services tax. The levy is equivalent to 3% of the revenue from digital services obtained in France by companies with revenues greater than 25 million euros in the country and 750 million euros around the world.

Although France had suspended the tax collection earlier this year (see CEI Global Report, February 2020), Finance Minister Bruno Le Maire confirmed that his government had decided to move forward with the collection of the tax due to the failure of the OECD talks.

It should be recalled that OECD members had set December 2020 as a deadline for agreeing on the new international tax rules that would apply to digital enterprises. However, in October, after the U.S. withdrew from the talks, they decided to continue negotiating until mid-2021.

It is now expected to see whether the USTR will apply 25% tariffs on imports of certain French products (such as handbags and cosmetics) worth US$ 1.3 billion, as it was announced in July (see CEI Global Report, August 2020).

CANADA AND THE UNITED KINGDOM AGREE ON TRADE TREATY CONTINUITY

On 21 November, the governments of Canada and the United Kingdom successfully concluded the talks on the Trade Continuity Agreement between the two countries, which consists in an interim treaty to be implemented while they continue to work on negotiating a more ambitious and permanent free trade agreement.

As a result of the Brexit, the Comprehensive Economic and Trade Agreement between Canada and the EU (CETA) will cease to govern in the UK from 2021. The transition agreement will allow continuous access to CETA's benefits to both countries, including the elimination of tariffs on 98% of exported products.

After the negotiations are concluded, the agreement must be approved by both governments. In the case of Canada, it must be debated in Parliament before it can enter into force.

USMCA: MEXICO JOINS MARINE WASTE INITIATIVE

The government of Mexico adhered to the Global Ghost Gear Initiative (GGGI) to advance ocean protection and meet the specific commitments made in the USMCA environmental chapter.

The GGGI is a multisectoral alliance that drives solutions to the problem of lost, abandoned or otherwise discarded fishing nets, known as "ghost nets". The initiative – of which the U.S. and Canada are already part– seeks to improve the situation of marine ecosystems, protect wildlife from the damage caused by these nets and contribute to the health and livelihoods of human communities.

ASIA

RESULTS OF THE 37TH ASEAN SUMMIT

Between November 12 and 15, under the presidency of Vietnam, the 37th Summit of the Association of Southeast Asian Nations (ASEAN) took place, during which a number of measures were taken in response to the COVID-19 epidemic. They were aimed at helping member countries improve their competitiveness, restore interrupted supply chains and services and recover gradually sustainably in the medium and long term.

Under the title "Striving For Full Integration of ASEAN: A Prosperous, Caring and Peaceful Community", the leaders of the bloc approved the Comprehensive Recovery Framework and its Implementation Plan, which will serve as a community exit strategy to recover from the pandemic, and the Declaration on an ASEAN Travel Corridor Arrangement Framework, with a commitment to maintain the necessary interconnection in the region by facilitating the essential movement of people, including business travel, without neglecting public health.

Also, within the framework of the Summit, the signing of the Regional Comprehensive Economic Partnership (RCEP), composed of the ten ASEAN members plus Australia, China, Japan, New Zealand, South Korea, was finalised, after eight years of negotiations.

ASEAN was founded in Bangkok, Thailand, in 1967, when founding members: Indonesia, Malaysia, the Philippines, Singapore and Thailand signed the ASEAN Declaration. Since then, it has been expanded with the inclusion of Brunei Darussalam, Cambodia, Laos, Myanmar and Vietnam.

APEC SETS NEW LONG-TERM VISION

Under the theme "Optimising Human Potential towards a Resilient Future of Shared Prosperity", the 27th Asia-Pacific

Economic Cooperation Forum (APEC) Summit, chaired by Malaysian Prime Minister Muhyiddin Yassin, was held on 20 November.

In this context, a new long-term vision was defined, called "APEC Putrajaya Vision 2040", which envisages an open, dynamic, resilient and peaceful Asia-Pacific community by 2040. It advances Bogor's 1994 objectives and economic integration and considers the strengthening of the Asia-Pacific Free Trade Area (FTAAP) agenda. It also promotes seamless connectivity, resilient supply chains, and responsible business behaviour. This initiative reaffirms the support for agreed WTO rules to foster a well-functioning multilateral trading system that promotes the stability and predictability of international trade flows.

On the other hand, the "Kuala Lumpur Joint Declaration" was agreed upon, reflecting APEC's commitment to cooperate in the fight against the pandemic, restore economic growth, seize the new opportunities provided by the digital economy, as well as promote sustainability and innovation.

It should be noted that some days after the signing of the RCEP, within the framework of the 37th ASEAN Summit, China's President Xi Jinping, noted that China will continue to promote trade and investment liberalisation and facilitation, and will sign high-standard FTAs with more countries, while actively participating in multilateral and bilateral mechanisms for regional cooperation in trade and investment. The overall aim would be for China to develop a higher-level open economy, thus considering the possibility of joining the CPTPP of which several countries of the Pacific Basin are part.

BRICS COUNTRIES DEFINE A STRATEGY FOR THE 2021-2025 ECONOMIC PARTNERSHIP

Within the framework of the 12th BRICS Group Summit Meeting (Brazil, Russia, India, China and South Africa), which took place on 20 November and was headed by Russian President Vladimir Putin, the representatives of the five countries agreed to the "Moscow Declaration", which includes, among other points, the launch of the Strategy for BRICS Economic Partnership for the 2021-2025 period, and a title dedicated to the fight against terrorism.

The Declaration devotes particular attention to the pandemic and recognises the need for international cooperation to address it, given the negative consequences for the global economy, health systems, finances and the situation of the most vulnerable groups of the population. The representatives pledged to increase their efforts to ensure dynamic, stable, balanced and inclusive development after the pandemic.

The Strategy for BRICS Economic Partnership for the period 2021-2025 provides a roadmap for the economic and trade cooperation of its member countries, in trade, investment, finance, the digital economy and sustainable development. The strategy also includes cooperation objectives in the areas of connectivity, innovation and technology in supply chains.

Highlights include the contribution of the BRICS New Development Bank (NDB), which allocated US$ 10 billion to the assistance programme created to provide loans to address COVID-19. On the other hand, the opening of an NDB regional office in Russia was announced, following openings in South Africa and Brazil.

The BRICS countries as a whole account for about 42% of the world's population, 23% of GDP, 30% of the territory and 18% of trade.

REASONS FOR INDIA'S REFUSAL TO SIGN THE RCEP

The Indian government found in its decision not to sign the Regional Comprehensive Economic Association (RCEP) the support from the rest of India's political spectrum, which it had not managed to reap earlier on issues related to trade, labour and the management of the country's economy.

The support argument, both from the incumbency and the opposition, is based on defending India's national interests. It should be recalled that India abandoned the RCEP negotiations in November 2019 after participating in 28 of the 31 rounds of talks over a six-year period. India's withdrawal, announced last year in a joint statement at the end of the ASEAN summit in Bangkok, noted that India had "significant outstanding issues, which remain unresolved".

India's decision was largely due to concerns that its accession to the RCEP would expose Indian producers and manufacturers to an avalanche of cheap and mainly Chinese-made imports, an uneven trade flow that Indian officials say would have jeopardized millions of local businesses, industries and jobs. The textile industry, agriculture and the dairy sector, which employ millions of workers, are seen as the most vulnerable sectors to imports from China and other RCEP signatory countries.

Currently, according to Indian statistics, China has a trade surplus with India of US$ 48.6 billion (for fiscal year 2019/20). However, the latest armed clashes between the two countries on the Himalayan border caused a year-on-year fall in bilateral trade of 7%, the steepest drop since 2012/13 fiscal period.

India's Foreign Minister noted that the fact that his country had not signed the RCEP does not mean that the interest in deepening trade ties with ASEAN countries has been abandoned.

AFRICA

EGYPT BECOMES WORLD'S LARGEST ORANGE EXPORTER

The production of oranges in the Egyptian desert reached a record by placing the country as the world's leading exporter of this product, measured by volume, as recorded by official sources.

In this way, Egypt overcame its main competitors, Spain and South Africa. In 2019, Egypt exported 1.8 million tonnes of oranges worth US$ 600 million. According to the Citrus Committee in the Egyptian Agriculture Export Council, the country was able to attract some of the global growth in orange consumption thanks to the competitiveness of the Egyptian currency (pound) and the improvement of farmers' incomes, which increased the cultivation of this fruit.

LAUNCH OF BUY AFRICA BUILD AFRICA INITIATIVE

The initiative launched seeks to encourage local companies to adopt the #BuyAfricaBuildAfrica approval logo for products "made in Africa" as a form of construction of a continental production identity.

Five criteria were established within the initiative for the classification of an "African brand": (1) that it is a brand created in Africa, (2) that it is registered and trading in Africa, (3) that it pays taxes in Africa, (4) that it serves African consumers and has global projection and (5) that it is a registered brand with at least one employee in addition to the owner.

In these ten years since the start of the "Brand Africa 100" survey on the best brands with the largest presence on the continent, African brands have fallen behind their non-African counterparts. African brands fell to an all-time low of 13% share among the top 100 brands in the 2020 survey.

The COVID-19 pandemic changed the preferences of African consumers as, according to the latest surveys, 63% prefer to buy African brands where possible, as a way to support community values and local production.

The #BuyAfricaBuildAfrica initiative is aligned with support for the African Union's Agenda 2063 on promoting the continent's economic development under the Continental Free Trade Agreement.

EXPERTS URGE BIOTECHNOLOGY PROMOTION TO BOOST AGRICULTURAL DEVELOPMENT

African agricultural experts gathered together at the Continental Consultative Roundtable on Agricultural Biotechnology (organised by the African Union) in Nairobi, Kenya, in early November, called on the continent's governments, development agencies and regional economic agencies to add biotechnology to Africa's agricultural development.

Experts urged the governments of African countries to generate mechanisms that strengthen and harmonise biotechnology and biosecurity policies to create the proper environment for the development of this sector.

The African Agricultural Technology Foundation (AATF) noted that government leaders should promote a critical mass of knowledge that allows countries on the continent to exploit the benefits of technology to improve agricultural productivity. According to African experts, less than 30% of the continent's nations have biosecurity frameworks.