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CEI GLOBAL REPORT

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WORLD

Trade war: ruling against the US

The measures adopted by the United States to curb imports of steel and aluminium do not comply with the multilateral trading system rules. This is the conclusion of the WTO Panel Report requested by China (DS 544), Norway (DS 552), Switzerland (DS 556) and Türkiye (DS 564) against the United States for the additional tariff of 25% on imports of steel and 10% on imports of aluminium (of which Argentina, Australia, Brazil and South Korea were excepted).

The United States adopted these measures in March 2018, and cases before the WTO's Dispute Settlement Body (DSB) were initiated between April and October of the same year. The conclusions of the four cases have really coinciding arguments: i. the measure adopted is essentially a safeguard that lacks adequate substantiation and has had procedural errors; ii. the measures cannot be sustained as necessary for national security issues; iii. the tariffs exceed the bound ones; iv. there was discriminatory treatment in relation to other countries that were exempted from this measure; v. the United States did not uniformly, impartially, and reasonably apply its regulations and administrative provisions; and vi. the United States applied quantitative restrictions that were not compatible with GATT rules.

The Office of the United States Trade Representative (USTR) rejected these findings and stated that "national security issues cannot be reviewed at the WTO DSB." It also expressed that "the Biden Administration is committed to preserving US's national security by ensuring the long-term viability of our steel and aluminum industries."

It should be recalled that there were cases in which the United States reached "mutually agreed solutions": the agreement with the EU (DS 548) was presented in January 2022 after the change of government in the United States, with Japan in February 2022 (see CEI Global Report, March 2022); and the agreements with Canada (DS 550) and Mexico (DS 551) were presented in May 2019 within the framework of the NAFTA renegotiation.

The trade war continues. To the conflict over measures on steel and aluminium products a new presentation by China at the WTO must now be added, in which a request for consultations on certain export control measures for semiconductors imposed by the United States was made.

WTO report on protectionist measures

According to a recent report, since 2020 WTO members have been increasing the pace of imposing new trade restrictions, mainly on exports. At first this dynamic was due to the pandemic context, and then to the Russian invasion of Ukraine and the food security crisis that triggered thereof.

According to the report, since the onset of the pandemic, 197 trade-restrictive measures were applied, of which 79% had been abolished by October 2022. Regarding the war, since the invasion took place, the WTO Secretariat has identified 72 trade-restrictive measures, 72% of which were still in force as of October 2022.

Despite concern about the increase in trade restrictive measures, the WTO explained that during the period covered by the last trade policy review (mid-October 2021 to mid-October 2022), there were more measures aimed at facilitating trade than restricting it, with the highest monthly average of facilitation measures since 2012.

EUROPE

The European Union imposes a maximum price on Russian oil

In a further attempt to restrict Russian government funding sources to carry out the war in Ukraine, the EU authorities decided to ban the maritime transport of oil from Russia worth more than US$ 60 per barrel, a measure also joined by the G7 countries and Australia.

This cap is not intended for EU countries, since imports of Russian oil by ship are prohibited for EU countries, but it will affect third countries that want to import the fuel of that origin in ships of European flag or that wish to contract insurance offered by some company of the block or the rest of the countries that have decided to apply the measure.

The maximum price that EU carriers and insurers will have to respect will be updated every 60 days and the goal is that it will always remain at least 5% below the market value of Russian oil. This price was the reason for controversy between the partners, since countries such as Poland fought for the cap to be much lower than US$ 60 per barrel, while others such as Greece, Cyprus and Malta, for which the maritime transport of goods is very relevant, wanted the price to be higher than what was finally agreed upon.

Germany nationalises gas trading company

The German government announced the nationalisation of the energy company Uniper, the country's main gas importer. The agreement reached includes the payment of 500 million euros and the commitment to expand the company's capital by an additional 8 billion euros.

Uniper was controlled by a company in which the Finnish government is the main shareholder and before the war in Ukraine, it imported from Russia half of the gas it sold in Germany. When reductions and supply cuts began due to the war (see CEI Global Report, September 2022), the company had to increase gas purchases from more expensive suppliers than Russia to fulfill its contracts in Germany, which meant financial damage that left it on the verge of bankruptcy.

It is not the first time that Olaf Scholz's government intervenes in the energy market to guarantee supply to companies and homes. The German executive power had already taken control of the three refineries managed within its territory by the Russian state oil company Rosneft, whose subsidiaries are now under the trusteeship of the government.

A wave of strikes paralyses public services in the United Kingdom

The end of 2022 was marked by a series of strikes that UK workers went on to amplify their wage claims. Teachers, nurses –who decided to strike for the first time in more than 100 years of history of the union that brings them together–, railway workers, ambulance drivers, postal workers, airport customs agents, among others, have decided to carry out forceful measures to demand the backpay of their income.

The common demand is an increase in wages that is related to the rise in the cost of living that has occurred in recent months in the United Kingdom. In November, the last available data, the inflation rate reached 10.7% year-on-year, slightly lower than the October value, the month in which the highest rise of the last 41 years had been recorded.

The British government has refused to grant the increases demanded by the unions on the grounds that such rises would further boost the upward inflationary dynamics. Instead, the Conservative Party authorities, currently in government, are trying to tighten British labour laws in order to guarantee minimum services and make it harder for strikes to multiply in key sectors of the economy, such as transport. Volunteers and the military forces are also expected to replace striking workers and ensure the continuity of some public services.

SOUTH AND CENTRAL AMERICA

ECLAC forecasts slowdown in GDP and inflation in 2023

The Economic Commission for Latin America and the Caribbean (ECLAC) estimated that inflation in the region reached an average rate of 6.4% in 2022, while in 2023 it would fall to 4%, a slowdown that would keep it above pre-pandemic values. The main causes of this decrease would be the retraction in commodities' international prices, the moderation in the disruptions of global supply chains and the fall in demand.

In turn, GDP growth would continue its slowdown due to the exhaustion of the rebound effect in the post-pandemic recovery and as a result of restrictive monetary and fiscal policies, the fall in consumption and investment and the deterioration in the activity of the main partners in the region: The USA, the European Union and China. Thus, in 2023, the activity in Latin America and the Caribbean would grow 1.3%, 2.4 percentage points below the expected figure for 2022 (3.7%). Projections for Argentina climb to 4.9% and 1% in 2022 and 2023, respectively.

Argentina and Chile move forward in their energy integration

Thanks to the joint work of the governments of Argentina and Chile, the Chilean company exported renewable energy to Argentina for the first time. This not only means a breakthrough in energy transition for both countries, but it also makes it possible to take advantage of resources that would otherwise be lost due to their storage difficulty and it is a contingency support tool for both countries' electricity systems. In addition, the exchange allows Chile to replace energy generated from diesel, and thus reduce costs and emissions.

The exchange took place within the framework of an agreement between both countries through which Chile can export to Argentina up to 80 MW during the day; while Argentina can send to the neighboring country up to 200 MW during the night. This is done through the transmission line that extends between the Region of Antofagasta and Salta launched last month by said firm.

Costa Rica and Ecuador finalise the negotiation of a Trade Association Agreement

The governments of Costa Rica and Ecuador conducted the last round of negotiations for a Trade Association Agreement. Its entry into force is scheduled for mid-2023, after both countries comply with their respective processes of legal review and parliamentary approval. In addition to the exemption from tariffs that a large part of the goods will have, the Agreement creates a legal framework for investment promotion, new business opportunities and employment; and for the first time for Costa Rica, it includes provisions related to gender equality, good regulatory practices and support for micro, small and medium-sized enterprises.

During 2021, Ecuador had sent 0.1% of its total goods exports to Costa Rica, worth US$ 25.4 million. The main products exported were petroleum oils, canned fish and frozen fish. Likewise, it was the destination of 0.3% of Costa Rican exports (US$ 48.9 million), which consisted mostly of iron or steel scrap and medicines. Under the agreement, Costa Rica will enjoy a tariff exemption on 90% of the goods exported to Ecuador, and has special interest in entering the Ecuadorian market products such as roasted ground coffee, tires, electric batteries, vitamin supplements and fruit juices, among others. In turn, the percentage of Ecuadorian exports that will enter Costa Rica duty-free will be 96%, with the focus on products from the manufacturing sector such as paper, steel wire, textiles, white line, electrical appliances, and detergents, among others.

NORTH AMERICA

USMCA: Mexico presents proposal to resolve conflict in the energy sector

With the aim of speeding up the resolution of energy consultations and reconciling differences without the need to reach an arbitration panel, Mexican Economy Secretary Raquel Buenrostro presented a work plan to her US and Canadian counterparts, Katherine Tai and Mary Ng.

The plan includes the formation of a technical work team to clear doubts and substantiate the decisions that have been made in the energy sector. In this way, it seeks to thoroughly answer the third round of questions sent by the United States and Canada.

In addition, trinational working groups will be established to analyse the legal situation of the Electricity Industry Law, the protections presented by companies, the situation of operating permits, the transition to Ultra Low Sulfur Diesel (ULSD), and the setting up of pipelines in northern Mexico.

On the other hand, the Mexican government, together with other actors in the energy sector, have prepared and presented to the counterparts proposals for a solution according to the legal framework to resolve two of the four central points of the dispute (although it did not specify which ones). It should be remembered that the claims of the US and Canada focused on the fact that private enterprises have not been granted permits to operate; that the Electricity Industry Law benefits State companies; that the import of gas has been monopolised by State companies; and that Petróleos Mexicanos (PEMEX) has an undue advantage in not being forced to migrate to a less polluting fuel (see CEI Global Report, August 2022).

USMCA: The US requests consultations with Canada for dairy products

The US Trade Representative Katherine Tai announced that the United States has requested new dispute settlement consultations with Canada under the USMCA regarding dairy tariff-rate quota allocation measures.

With this new request, the United States expands its challenge to Canada's dairy tariff-rate quota allocation measures filed in May 2022 (see CEI Global Report, June 2022) to include the market share approach used by the Canadian government to determine the allocation of tariff rate quotas.

According to the US government, the methodology for calculating market share varies according to the type of applicant (processor, distributor or further processor) and would favour processors to the detriment of other applicants. It therefore does not give importers the opportunity to fully utilise quota quantities and undermines market access that Canada agreed to provide under the USMCA.

It should be recalled that the United States had previously requested a dispute settlement panel for these same measures, whose final determination, in which the court noted that the Canadian measure violated WTO rules, was known in January 2022 (see CEI Global Report, February 2022). In response to the panel's findings, Canada introduced changes to its tariff rate quota allocation measures, which in the view of the US would remain inconsistent with the commitments made under the USMCA.

First round of Indo-Pacific Economic Framework negotiations

Between 10 and 15 December, the first round of negotiation of the Indo-Pacific Economic Framework (IPEF) took place in Brisbane, Australia. Nearly 450 officials from the United States, Australia, Brunei, Fiji, India, Indonesia, Japan, South Korea, Malaysia, New Zealand, the Philippines, Singapore, Thailand and Vietnam participated in it.

USTR officials shared with IPEF partners a Pillar I (Trade) negotiating text on the following topics: trade facilitation, agriculture, national regulation of services, and transparency and good regulatory practices. In addition to text-based discussions, officials held detailed conceptual discussions on environment, labour, digital economy, competition policy, and inclusion. India, the only one of the 14 IPEF members not yet adhering to the trade pillar, acted as an observer in the discussions.

In turn, the Department of Commerce shared with the rest of the partners texts for Pillars II (Supply Chains) and IV (Fair Economy: taxation and fight against corruption), as well as a concept document for Pillar III (Clean Economy).

Negotiators also discussed Canada's bid to join the framework. The Canadian Minister of International Trade, Export Promotion, Small Business and Economic Development, Mary Ng, stated that the initiative largely complements Canada's strategy in the region and clarified that her country had the support of all IPEF members, one of the necessary requirements for accession.

ASIA AND OCEANIA

Estimates of economic growth for Asia

The Asian Development Bank (ADB) noted in its latest report "Asian Development Prospects" that there are three adverse factors that continue to hamper the economic recovery of developing countries in Asia: restrictions in the People's Republic of China due to COVID, the Russian invasion of Ukraine and the slowdown in global growth.

In this sense, the ADB revised downward the region's growth forecasts from 4.3% to 4.2% in 2022, and from 4.9% to 4.6% in 2023. East Asia growth forecasts were revised down to 2.9% in 2022 and 4.0% in 2023 due to the aforementioned mobility restrictions and economic problems in Hong Kong (SAR China). In South Asia, growth projections remain at 6.5% for 2022, but were revised downwards for 2023 from 6.5% to 6.3% following an economic growth deceleration in Bangladesh and flooding in Pakistan.

In contrast, growth projections for 2022 in Southeast Asia were updated from 5.1% to 5.5% thanks to the solid recovery in consumption and tourism in Malaysia, the Philippines, Thailand and Vietnam. Growth prospects in the Caucasus and Central Asia adjusted upwards from 3.9% to 4.8% in 2022, as the spillovers from the Russian invasion of Ukraine have been less damaging than expected. The growth forecast for the Pacific in 2022 was also revised upwards, from 4.7% to 5.3% in the face of a strong upturn in tourism in Fiji.

FTA between Indonesia and South Korea enters into force

Three years after the conclusion of negotiations and after being ratified by the parliaments of both countries, the Comprehensive Economic Partnership Agreement (CEPA) between South Korea and Indonesia will enter into force.

The CEPA is a trade agreement that will increase bilateral market access, by eliminating import tariffs on 95.5% of Indonesia's exports to South Korea and on 93% of South Korea's exports to Indonesia. In terms of market access, Indonesia will have a greater capacity to export fish and agricultural products to South Korea, while for South Korea it will improve the access conditions of its industrial products and the automotive industry, as well as providing greater protection for its investments.

South Korean exports of many steel products will benefit from the elimination of tariffs in Indonesia, which previously had rates of 5% to 15%, including steel-based automobile components, while automobiles and auto parts will enter tariff-free. South Korea will also remove import tariffs on a variety of fisheries, food and agricultural products from Indonesia. However, many of the major agricultural products were excluded from the tariff reductions, largely due to resistance from South Korean farmers, who argued that the trade agreement will have a negative impact on their productive activity.

CEPA negotiations began in 2012, were halted in 2014 due to disagreements and government changes, and were finally revived in 2019.

UAE initiates trade talks with Eurasian Economic Union

The countries of the Eurasian Economic Union (EAEU): Armenia, Belarus, Kazakhstan, Kyrgyzstan and Russia approved the start of talks to sign a free trade agreement with the United Arab Emirates (UAE).

The parties will hold the first round of negotiations in March this year. The UAE Working Group noted that a FTA with the United Arab Emirates could create the necessary conditions for the growth of its exports in more than 1,300 products in the industrial sector and the agro-industrial complex.

The EAEU's trade with the UAE increased 60.9% during 2021 (US$ 6.3 billion) with a decrease in imports of 6.8% (US$ 418 million) and an increase in exports to the Emirates of 69.4% (US$ 5.9 billion).

The EAEU signed an FTA with Singapore in October 2019 that has not yet entered into force, it is concluding negotiations with Egypt and plans to start talks with India and Indonesia.

Kenya moves forward with negotiation of three FTAs

The government of Kenya pointed out that negotiations with the US, South Korea and the United Arab Emirates to establish free trade agreements continue to move forward. It also revealed that there are talks for Kenyan products to have tariff-free access in the United States under the "African Growth and Opportunity Act," which is set to expire in 2025.

The government is working to strengthen existing partnerships within the framework of the East African Community, the Common Market for Eastern and Southern Africa, the African Continental Free Trade Area and with the United Kingdom.

Kenyan companies backed the push for a free trade agreement with the United States, ignoring concerns that goods offered at low prices by US factories could put some of them out of business. The Kenya Private Sector Alliance (KEPSA) stated the planned trade deal between the United States and Kenya would lead to greater export and import opportunities.

Algeria: record gas exports

The Algerian government reported that in 2022 the country registered a record number in gas exports, which reached 56 billion cubic meters. This level of sales is recorded against a global backdrop of rising demand for natural gas, particularly from European countries that began looking for alternatives to reduce their dependence on Russian fuel.

Algeria exports gas to Europe through two gas pipelines that cross the Mediterranean Sea and reach Spain and Italy, respectively. In 2022, the government signed new contracts with Italy and Slovenia and expects Algerian natural gas production and exports to double by 2023.

Likewise, the authorities of the African country expressed that they are willing to also export their surpluses of electric energy to the European countries that need it. To do this, they proposed the construction of a 270 kilometer-long cable linking it with Italy and, which, through the European electricity network, would allow the imports of electricity to countries with which Algeria currently does not have a connection through a gas pipeline.

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