



TRADE MATTERS

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The Weekly Newsletter of the National Foreign Trade Council

TRADE NEWS

Global:

- **Mexico to Impose Sanctions on US Exports**

By: Alan Beattie and Adam Thomson, The Financial Times

March 17, 2009 - A long-simmering trade-dispute boiled over into sanctions yesterday when Mexico said it would raise tariffs on \$2.4bn of US exports in retaliation for the ending of a pilot programme to allow Mexican trucks on US roads.

The announcement marks one of the first big tests for trade policy under Barack Obama, who has sought to tread a fine line between assuaging his domestic - constituencies and upholding the US's international obligations.

Mexico said it would increase tariffs on 90 industrial and agricultural goods, likely to include politically sensitive farm products such as wheat and beef, after Congress last week killed a pilot programme allowing a limited number of Mexican trucks on US roads. Mexico obtained a judicial ruling in 2001 under the North American Free Trade Agreement (Nafta) allowing it to impose such sanctions, but has held off since the US introduced the pilot scheme.

The sanctions, which Mexican officials say will be imposed this week, will be one of the largest acts of retaliation against US goods. US exports to Mexico totalled \$151.5bn last year. Gerardo Ruíz Mateos, Mexico's economy minister, yesterday said: "We believe that the action taken by the US is wrong, protectionist and in clear violation of Nafta."

The White House said yesterday it would seek to create a new programme that would address what it called the "legitimate concerns of Congress" while meeting the US's Nafta commitments. But Mexican officials said they would not be bought off with promises.

The pilot programme has been opposed by many lawmakers and by the Teamsters Union, which says that Mexican trucks are unsafe. Because they are largely restricted to short-run hops over the border, most Mexican trucks entering the US are run by so-called "drayage" operations that use older vehicles more likely to fail inspection tests.

However, a study funded by the US department of transportation found that when comparing like with like, Mexican trucks were often safer than their US counterparts.

Full Story:

<http://www.ft.com/cms/s/0/70969d16-1294-11de-b816-0000779fd2ac.html>

- **Dallas Ex-Mayor Confirmed as Trade Representative**

By: Maria Recio, McClatchy Newspapers

March 19, 2009 - The Senate on Wednesday easily confirmed former Dallas Mayor Ron Kirk as the U.S. trade representative, making him the ambassador for a new, more limited Obama administration approach to free trade.

Kirk, the first African-American to hold the post, faces his first test on the U.S. border with Mexico, where the Obama administration's cancellation of a pilot trucking program last week has prompted retaliation by Mexico, which has imposed trade tariffs on 19 U.S. goods.

President Barack Obama plans to visit Mexico next month, the White House said on Wednesday.

Speaking on the Senate floor Wednesday in support of Kirk's nomination, Sen. Kay Bailey Hutchison, R-Texas, warned of the dangers of a trade war with Mexico and said that Kirk had the best experience to diffuse the standoff.

"The person who understands it best is Ron Kirk," Hutchison said.

The Senate approved the nomination 92-5.

Kirk's nomination came under some scrutiny when the Senate Finance Committee discovered his failure to properly pay some federal taxes. After Kirk corrected his returns and paid \$10,000, leaders of both parties said the mistake wouldn't hurt his nomination.

Kirk takes his post as the U.S. economy is in recession. The Obama administration wants to ensure that workers are buffered from the impact of trade agreements, offering such benefits as a beefed-up retraining and trade impact compensation program.

"It is true that cheaper foreign products help squeezed American families stretch their dollars, and the sale of our goods and services abroad support American jobs," Kirk said at his confirmation hearing last week before the Senate Finance Committee. "But it is also true that the overarching benefits of trade are difficult to appreciate when a plant closes in a small community because of increased foreign competition."

There are three free-trade pacts pending before Congress — Panama, Colombia and South Korea — but Kirk made clear that he's going to review the negotiated deals before moving on them, giving a special emphasis to labor and environment protections.

Full Story:

- **Energy Chief Says U.S. Is Open to Carbon Tariff**

By: Ian Talley and Tom Barkley, The Wall Street Journal

March 18, 2009 - Energy Secretary Steven Chu on Tuesday advocated adjusting trade duties as a "weapon" to protect U.S. manufacturing, just a day after one of China's top climate envoys warned of a trade war if developed countries impose tariffs on carbon-intensive imports.

Mr. Chu, speaking before a House science panel, said establishing a carbon tariff would help "level the playing field" if other countries haven't imposed greenhouse-gas-reduction mandates similar to the one President Barack Obama plans to implement over the next couple of years. It is the first time the Obama administration has made public its view on the issue.

"If other countries don't impose a cost on carbon, then we will be at a disadvantage...[and] we would look at considering perhaps duties that would offset that cost," Mr. Chu said.

Li Gao, a senior Chinese negotiator from the National Development and Reform Commission, told Dow Jones Newswires Monday that a carbon tariff would be a "disaster," would prompt a trade war and wouldn't be legal under World Trade Organization agreements

Mr. Chu's comments came amid other signs of concern among U.S. trading partners about protectionist rhetoric and legislation from Washington. On Monday, Mexico announced it would put tariffs on \$2.4 billion of U.S. goods in retaliation for a measure to limit the access of Mexican truckers to U.S. roads. "Buy American" provisions tied to the recent stimulus package have prompted concerns from some U.S. trading partners, and trade issues are expected to be prominent on the agenda at meetings next month among leaders of the Group of 20 leading nations.

European Union Trade Commissioner Catherine Ashton said in an interview in Washington Tuesday that she hopes the Obama administration will give strong backing to relaunching talks on the WTO's stalled Doha round at the G-20 meeting. Ms. Ashton said U.S. support for completing a new global trade deal would boost confidence in world markets.

The carbon tax issue is important to energy-intensive U.S. industries -- including paper, cement, fertilizer, steel and glass manufacturers -- that worry that costs imposed by climate-change laws will put them at a disadvantage to rivals in nations that aren't bound by similar requirements.

European Union officials are considering a similar tariff, prompting some developing nations to caution that trade restrictions run the risk of retaliatory action.

China is seeking to require importers of its carbon-intensive goods to bear the emission costs, concerned that targets such as those proposed by the U.S. would cripple the nation's growth as an industrializing nation.

The U.S. does agree with China that an international agreement should be based on a principle of "common but differentiated responsibilities" that allows a less-stringent and longer-term flexibility for developed countries. Obama administration officials also agree that developed countries need to help to finance the technology transfer for low carbon energy and efficiency measures.

Full Story:

http://online.wsj.com/article/SB123733297926563315.html?mod=googlenews_ws
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- **U.S.-Europe Trade War Heats Up**

By: Mike Hughlett, Tribune Newspapers

March 13, 2009 - Like to sip a classic Italian mineral water with a pleasant bruschetta appetizer? Get ready to pay double for your drink. Big fan of the French cheese Roquefort? Its price increase will raise more of a stink than the famously pungent cheese.

Both items are caught in a long-running trade war between the United States and the European Union. The battle will intensify this month when a new round of U.S. tariffs land on a bevy of European gourmet foods, from truffles to certain kinds of chocolate bars.

The tariffs are payback for the European Union's ban on imports of U.S. beef containing hormones, which Europeans say pose a potential health hazard. The World Trade Organization says the EU is free to make that claim, even though it hasn't been scientifically proven.

On the other hand, the WTO, arbiter of global trade, ruled in October that the U.S. has the right to hit the Europeans with tariffs over the beef issue. That's exactly what President George W. Bush did just before leaving office.

But European nations may have gotten at least a ray of hope late Thursday when the Office of the U.S. Trade Representative delayed for a month the implementation of the tariffs, which were slated to take effect March 23. The trade office said in a press release that it's in discussions with the European Commission on a possible interim solution that would provide benefits to U.S. beef producers. "These discussions have made progress, although several important issues remain to be resolved," the press release said.

The beef over beef exports originally sparked the U.S. to slap tariffs on several European imports in 1999. In January, the U.S. dropped tariffs on 10 items, but penalized 45 new foods.

They were all slapped with a 100 percent tariff, effectively doubling their costs. The U.S. hit Roquefort cheese with a 100 percent tariff 10 years ago. Yet it has remained popular here, so the tariff was hiked to 300 percent in January.

The French say the increase will cripple Roquefort exports. Jeff Babcock, chief cheese buyer at Chicago-based European Imports Ltd., went a step further and said, "It's going to be the death of Roquefort."

Consumers already pay \$20 to \$40 per pound for the venerable cheese

compared with \$10 to \$12 a pound for French Brie.

Italian mineral water is a different story. The S. Pellegrino brand, owned by global food giant Nestle, is commonly served in U.S. restaurants—particularly Italian eateries—and at upper-scale food retailers. "That stuff is everywhere," Bown said.

A small bottle of S. Pellegrino at a downtown Chicago Starbucks cost \$1.60 Thursday. If the tariff is passed through the supply chain and on to the consumer, that bottle would cost \$3.20, prohibitively expensive for some, the Italians worry.

Alessandro Motta, the Italian consul general in Chicago, said Italy is being hit disproportionately by the new tariffs. Based on European Union calculations of the tariffs' effects, he said Italy will bear 37 percent of the burden. Plus, the new tariffs are bad for the spirit of world trade, Motta said. "From a psychological point of view, it gives the perception that protectionism is growing."

But Bown said the new tariffs "aren't really protectionism." That's because the U.S. is acting within the framework of the global trade system, he said.

Full Story:

<http://www.chicagotribune.com/business/chi-tc-biz-fri-wto-0313-mar13,0,6634146.story>

NATIONAL FOREIGN TRADE COUNCIL:

www.nftc.org

- **NFTC Urges Congress to Abide by NAFTA Commitments and Restore U.S.-Mexico Cross Border Trucking**

Following Mexico's announcement that it will increase tariffs on some U.S. products in response to the United States reneging on its commitments under the North American Free Trade Agreement (NAFTA) to maintain the Cross Border Trucking Pilot Program, the National Foreign Trade Council on Tuesday urged Congress to take the necessary steps to abide by our international commitments.

"At a time when the U.S. economy is in limbo and our exports are essential to maximizing our recovery and growth, it is critical for Congress and the Administration to act in accordance with our international commitments under NAFTA," said NFTC President Bill Reinsch. "By failing to honor the agreement, the United States is putting at risk economic and diplomatic relations with one of our largest trading partners and a key ally in the region. Backtracking on our promises provokes retaliation, as is evidenced by Mexico's announcement."

In December 2008, the NFTC and more than 60 other trade associations and individual companies warned in a letter to Members of Congress that halting the program would likely lead Mexico to retaliate, and could cost the United States as much as \$2 billion per year. They argued that the U.S. industries vulnerable to Mexican retaliation include agriculture, consumer electronics, and textiles.

"Mexico is a critically important export market for U.S. businesses and manufacturers, and increased tariffs on U.S. products make our companies and

the goods they produce less competitive,” said Chuck Dittrich, NFTC Vice President for Regional Trade Initiatives. “If we hope to grow our economy and create jobs, the United States cannot afford to take actions that provide ammunition for our trading partners to retaliate, and in turn restrict our competitiveness.”

“We call on Congress to take the appropriate actions to honor our commitments under NAFTA, and work with the Administration to swiftly resolve this dispute,” Reinsch concluded.

Today U.S. Representative Jeff Flake (R-AZ) introduced H.R. 1611, legislation that would repeal the language in the FY09 Omnibus Appropriations Act, which prohibits funding for the Mexican Commercial Trucking Demonstration Program.

For a copy of the December 2008 letter, please visit: www.nftc.org.

- **U.S. Representative Henry Cuellar Launches Pro-Trade Caucus**

In an effort to bring pro-trade issues to the forefront of the 111th Congress, U.S. Representative Henry Cuellar (D-TX) yesterday invited his colleagues to become members of the newly launched bi-partisan Congressional Pro-Trade Caucus. In a Dear Colleague letter, Rep. Henry Cuellar wrote:

“I invite you to become a member of the bi-partisan Congressional Pro-Trade Caucus.

“The Obama Administration recently announced their trade policy agenda, and it is important to retain a bipartisan contingency in this Congress to push for pro-trade policies. The Caucus will strive to forge consensus from both sides of the aisle working closely with the Department of Commerce and USTR in order to produce strong free trade agreements.

“With Chinese trade issues, leftover trade agreements, growing protectionist sentiment and the continued expansion of globalization it is more important than ever to promote trade and keep America competitive in the world. Exports remain one of the few strong sectors of our economy and the Caucus will focus on pushing forward pending trade agreements left from the 110th Congress with Colombia, Panama and South Korea, in addition to developing and supporting legislation that will assist those affected by past and future trade agreements.

“The Caucus will use its position to advocate for free trade and educate other Members of the benefits that a reduction of barriers will provide for the United States,” Representative Cuellar concluded.

- **Senate Confirms USTR Nominee Ron Kirk**

The U.S. Senate on Wednesday overwhelmingly approved the nomination of United States Trade Representative (USTR) designee Ron Kirk as the nation’s 16th trade representative. As USTR, Kirk will serve as a member of President Obama’s Cabinet and as the President’s principal trade advisor, negotiator and spokesperson on trade issues. He is the first African American to serve in the post.

Kirk draws upon more than 25 years of diverse legislative and legal experience on local, state and federal levels. As the mayor of Dallas from 1995 – 2002, he earned a reputation for bringing together diverse coalitions to achieve results and expanded Dallas' reach to the world through a range of trade programs, including numerous trade missions.

The office of USTR is responsible for the development and oversight of U.S. trade policy, including strategy, negotiation, implementation and enforcement of multilateral, regional, bilateral and sector-specific trade agreements. In his role USTR Kirk will oversee the ongoing Doha Development Agenda multilateral trade negotiations, as well as seventeen Free Trade Agreements (FTAs) to which the United States is currently a party.

- **President Obama Hosts Brazilian President Lula da Silva; Meeting Highlights Need for Strengthened U.S.-Brazil Trade Relations**

President Barack Obama last Saturday hosted Brazilian president Luiz Inácio Lula da Silva at the White House, where they discussed strengthening ties between the two countries in areas such as energy and biofuels as well as expanding trade relations.

During a press availability following the meeting, President Obama said:

"I think it is very important for all countries to recognize that trade is an important engine for economic growth. I think there's a natural tendency at a time of economic difficulty – people losing their jobs, businesses closing – to want to focus inward and ensure that any sacrifices are taking place somewhere else, as opposed to here at home, because people are already going through tremendous hardships. That's true in Brazil, that's true here in the United States.

"But I think that it is important for us to understand that ultimately U.S. businesses will benefit from our exports, that imports from Brazil can actually provide us access to products and services that consumers want here in the United States. I think the same is true in Brazil, and the same is true worldwide. Our goal should be to at least not go backwards.

"So, for example, the "Buy American" provision that was in our stimulus bill, my administration worked actively with our Congress to make sure that any provision in there did not violate WTO and will not be interpreted in a way that violates the WTO. And I'm sure that President Lula is going to be taking similar steps in Brazil to make sure that we are not moving in reverse when it comes to world trade.

"It may be difficult for us to finalize a whole host of trade deals in the midst of an economic crisis like this one, although we have committed to sitting down with our Brazilian counterparts to find ways that we can start closing the gap on the Doha Round and other potential trade agreements," concluded President Obama.

To read the full remarks from Saturday's meeting, please visit:

http://www.whitehouse.gov/the_press_office/Remarks-by-President-Obama-and-President-Lula-Da-Silva-of-Brazil/

- **USTR Announces Modified Trade Action in Beef Hormones**

Dispute

The Office of the U.S. Trade Representative last Thursday announced that it is delaying by one month the additional duties on a modified list of EU products in connection with World Trade Organization (WTO) dispute settlement rulings in the EU – Beef Hormones dispute. The additional duties were to go into effect on March 23, 2009. Under the delay announced last Thursday, the additional duties are scheduled to go into effect on April 23, 2009.

“The purpose of the modified trade action announced earlier this year was to encourage a resolution of the longstanding Beef Hormones dispute that would offer a fair outcome for the U.S. beef industry, while also addressing the economic impact of the prior trade action on U.S. interests,” explained USTR spokesperson Nefeterius McPherson. “USTR is currently in discussions with the European Commission on a possible interim solution that would provide benefits for U.S. beef producers. These discussions have made progress, although several important issues remain to be resolved. USTR has decided to delay the trade action in order to give this process every possibility of success.”

Links:

- National Foreign Trade Council www.nftc.org
- Office of the U.S. Trade Representative www.ustr.gov/
- U.S. Department of Commerce www.doc.gov/
- U.S. Foreign Agricultural Service www.fas.usda.gov/
- International Trade Administration www.ita.doc.gov/
- Federal Trade Statistics www.fedstats.gov/
- U.S. Census www.census.gov/
- U.S. Department of State www.usinfo.state.gov/
- U.S. Export Portal www.export.gov/cnusa/
- California Institute for Federal Policy Research www.calinst.org/
- California Chamber of Commerce www.calchamber.com/
- Public Policy Institute of California www.ppic.org/
- CalTrade Report www.caltradereport.com
- United States District Export Council www.us-dec.com
- DEC Issues Website www.decissues.com



1625 K Street, NW, Suite 200 Washington, DC 20006 Tel: 202.887.0278 Fax 202.452.8160 www.nftc.org

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For further assistance e-mail: mrusso@nftc.org

Editor

Michael Russo