



# INTERNATIONAL TRADE POLICY DEVELOPMENTS

Q3 2022 Report



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# MAJOR DEVELOPMENTS

## U.S. SIGNS THE CHIPS AND SCIENCE ACT AND THE INFLATION REDUCTION ACT INTO LAWS

On 9 August, US President Joe Biden signed the CHIPS and Science Act into law (CHIPS standing for “Creating Helpful Incentives to Produce Semiconductors”). In the context of the global semiconductor shortage, the Act provides \$52.7 billion for American semiconductor research, development, manufacturing, and workforce development. The CHIPS act is part of a ‘friend-shoring’ strategy which aims at ensuring that the different links of the supply chain remain in the US or in close partners’ territories.

On 16 August, US President Joe Biden signed the **Inflation Reduction Act (IRA)** into a law.

The IRA extends and revises a number of incentives related to climate change and energy security, including a number of tax credits and funding to support the production of electric vehicles (EVs), renewable energy technologies, and critical minerals. The incentives have an estimated value of USD 369 billion. The act also contains a bunch of friend-shoring measures.

## EU-CANADA COMPREHENSIVE ECONOMIC AND TRADE AGREEMENT (CETA) RATIFICATION MOVING AHEAD

Germany and the Netherlands move ahead towards ratification. To date, only 16 out of 27 Member States have ratified the agreement.

## EU COMMISSION RELEASES PROPOSAL TO BAN PRODUCTS MADE WITH FORCED LABOUR ON THE EU MARKET

On 14 September, the Commission released a **proposal** for a regulation of the Council and of the European Parliament to prohibit products made with forced labour on the EU market. It covers all products, namely those made in the EU for domestic consumption and exports, and imported goods, without targeting specific companies or industries.

## KEMI BADENOCH BECOMES NEW UK INTERNATIONAL TRADE SECRETARY

Viewed as being on the political right of the Conservative party, she is expected to continue to push for an expansive programme of free trade agreements with non-European countries.

## EU TAKES LEGAL ACTION AGAINST THE UK OVER ALLEGED FAILURE TO IMPLEMENT THE NORTHERN IRELAND PROTOCOL

The EU initiated four separate lawsuits before the Court of Justice of the EU on 22 July, to go along with two others which were already under way. In essence, the Commission is accusing the UK of renegeing on pledges to set up the necessary infrastructure to control movements of goods into Northern Ireland.

### WHAT TO WATCH IN THE QUARTER AHEAD

- ▶ Continued disruptions to global trade flows and supply chains as a consequence of the Ukraine crisis
- ▶ 13th round of EU-Australia trade negotiations (October 2022)
- ▶ Transatlantic Trade and Technology Council (Q4 2022)
- ▶ G20 Leaders’ Meeting, Bali, Indonesia (15-16 November)

# UKRAINE CONFLICT & SANCTIONS

## UPDATE ON INTERNATIONAL SANCTIONS AGAINST RUSSIA

Compared with the previous quarter, Q3 2022 has been less active as regards sanctions imposed by western countries. The measures described below are based on the [sanctions tracker](#) published by Reuters.

On 26 July, the Council of the European Union decided to prolong sanctions against Russia by six months, until 31 January 2023. Moreover, on 21 July, the Council adopted new measures intended to tighten existing economic sanctions targeting Russia, perfect their implementation and strengthen their effectiveness. The EU Member States decided to introduce a new prohibition to purchase, import, or transfer, directly or indirectly, gold, if it originates in Russia and it has been exported from Russia into the EU. With a view to avoid any potential negative consequences for food and energy security around the world, the EU decided to extend the exemption from the prohibition to engage in transactions with certain state-owned entities as regards transactions for agricultural products and the transport of oil to third countries.

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“The European Union decided to prolong sanctions against Russia by six months.”

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On July 19, the United Kingdom sanctioned Russian oligarch Vladimir Potanin, described by London as Russia’s second-richest man, who is said to have been buying assets from firms exiting Russia.

## BLACK SEA GRAIN INITIATIVE

On 22 July the Black Sea Grain Initiative was signed by Russia, Ukraine, and Turkey. The deal provides for the safe export of grain and related foodstuffs and fertilizers, including ammonia from the Ukrainian ports of Odesa, Chornomorsk and Yuzhne. The ships will traverse the Black Sea in specially created corridors that are de-mined. All merchant vessels are required to go to Turkey for inspection. Following the deal, wheat prices dropped to pre-war levels.



As of 26 August, according to Ukrainian President Volodymyr Zelensky, about 1 million tonnes of grain have been exported by Ukraine. Some 44 ships have gone to 15 countries, with another 70 ships having applied to be loaded with grain. The stated aim, according to the Ukrainian President, is 3 million tonnes a month.

On 4 September, Ukraine dispatched 282,500 tonnes of agricultural products to eight countries in 13 vessels, the largest daily total to date. By 14 September 2022, three million tonnes of agricultural products had been dispatched to 23 countries.

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“Ukraine dispatched 282,500 tonnes of agricultural products to eight countries.”

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**G7 TRADE MINISTERS COMMITTED TO SUPPORT UKRAINE’S AGRICULTURAL EXPORTS**

On 14/15 September G7 trade ministers meeting in Germany declared that they “remain steadfast” when it comes to the sanctions imposed against

Moscow, including suspension of most-favoured nation treatment to products from Russia.

“Trade can be an important driver for economic recovery of Ukraine,” they said following the G7 meeting which included an exchange with the Ukrainian economy minister and deputy prime minister Yulia Svyrydenko.

“We stand by our commitment to keep food and agricultural markets open, transparent, and predictable and call on all partners to avoid unjustified restrictive trade measures,” ministers said.





# UNITED STATES



## INFLATION REDUCTION ACT (IRA) SIGNED

On 16 August, US President Joe Biden signed the **Inflation Reduction Act** into a law.

The IRA extends and revises a number of incentives related to climate change and energy security, including a number of tax credits and funding to support the production of electric vehicles (EVs), renewable energy technologies, and critical minerals. The incentives have an estimated value of USD 369 billion.

The IRA also included a provision that prohibited manufacturers from benefiting from a tax credit unless they satisfy critical mineral and battery component requirements. Specifically, manufacturers can claim a tax credit if 40% of critical minerals contained in batteries are extracted or processed either in the United States or in any country with which the United States has a free trade agreement in effect. Manufacturers must also carry out final assembly of EVs in North America.

The IRA is part of a ‘friend-shoring’ strategy which aims at ensuring that the different links of the supply chain remain in the US or in close partners’ territories. However, some concerns have been

expressed in the EU, South Korea and China with regard to the local content requirements for eligibility for EV tax credits. Questions are being raised (informally at this stage) as to WTO-compatibility.

## CHIPS AND SCIENCE ACT SIGNED

On 9 August, US President Joe Biden signed the **CHIPS and Science Act** into law (CHIPS standing for “Creating Helpful Incentives to Produce Semiconductors”).

In the context of the global semiconductor shortage, the Act provides \$52.7 billion for American semiconductor research, development, manufacturing and workforce development. The Department of Commerce is granted the power to allocate funds based on companies’ willingness to sustain research, build facilities, and train new workers.

The Act includes \$39 billion in tax benefits and other incentives to encourage American companies to build new chip manufacturing plants in the US. Companies are subject to a ten-year ban prohibiting them from producing chips more advanced than 28-nanometers in China and Russia if they are awarded subsidies under the Act.

The CHIPS act is part of a ‘friend-shoring’ strategy which aims at ensuring that the different links of the supply chain remain in the US or in close partners’ territories.

The White House claimed that signing the Act had already spurred companies (citing Micron, Qualcomm and GlobalFoundries) to announce nearly \$50 billion in additional investments in American semiconductor manufacturing.

### U.S.-EU TRADE AND TECHNOLOGY COUNCIL (TTC)

On 20 September, under the auspices of a TTC “Trade and Labor Dialogue”, senior trade and labour officials from the U.S. and EU met virtually with union and business leaders. Among the participating union and business representatives were the AFL-CIO, the European Trade Union Confederation, the U.S. Chamber of Commerce, IBM and BusinessEurope. Discussions touched on key concerns such as forced labour and supply chain due diligence.

According to BusinessEurope, this was a constructive first discussion which it was hoped would lead to concrete deliverables that can support the broader work of the TTC.

Another representative however characterized the meeting by saying that “there was a lot of spaghetti being thrown against the wall to see what sticks”. It is likely that an inaugural ministerial-level meeting of the Dialogue will take place later this year.

### U.S. TREASURY RUSSIAN OIL PRICE CAP GUIDANCE GIVES SAFE HARBOUR TO MARITIME SERVICE FIRMS

On 9 September, the U.S. Treasury issued new guidance on a proposed Western price cap on Russian oil exports, stating that maritime services providers would not be held liable for false pricing information provided by buyers and sellers of Russian crude.

The Treasury said in the **guidance** that those purchasing Russian crude at prices above the cap who knowingly provide false documentation could be subject to investigations for sanctions violations. It said governments participating in the cap would share such information to help police it.

The price cap plan agreed by G7 wealthy nations calls for participating countries to deny insurance, finance, brokering, navigation, and other services to oil cargoes priced above a yet-to-be-determined price cap on crude and oil products.

The Treasury said these service providers should retain records on Russian oil shipments for five years. It warns these firms to be “vigilant” about red flags indicating potential evasion or fraud, including evidence of deceptive shipping practices, refusal to provide requested price information, unusually favourable terms that could indicate a back-end arrangement to evade the price cap, or excessively high services costs.

Any signs of manipulated documents, newly formed companies and abnormal shipping routes should also raise concerns.



### Further Information

Explainer: The CHIPS and Science act, United States Studies Centre, 11 August 2022 ([link](#))

Wilson Center Expert Analysis of the Inflation Reduction Act, Wilson Center, 15 August 2022 ([link](#))

# EUROPEAN UNION

## EU COMMISSION'S PROPOSAL TO BAN PRODUCTS MADE WITH FORCED LABOUR ON THE EU MARKET

On 14 September, the Commission released a **proposal** for a regulation of the Council and of the European Parliament to prohibit products made with forced labour on the EU market. It covers all products, namely those made in the EU for domestic consumption and exports, and imported goods, without targeting specific companies or industries.

The proposal has been adopted in line with the **Communication on Decent Work Worldwide** presented in February 2022, which set out the internal and external policies the EU uses to implement decent work worldwide, including through international partnerships, trade, EU neighbourhood and enlargement, trafficking and public procurement. It is also a consequence of the **Strategy for an Open, Sustainable and Assertive EU Trade Policy** (Trade Policy Review) published in February 2021.

The Commission will issue guidelines within 18 months from the entry into force of this Regulation. The guidelines will include forced

labour due diligence guidance and information on risk indicators of forced labour. The new EU Forced Labour Product Network will serve as a platform for structured coordination and cooperation between competent authorities and the EU Commission.

## THE EU AIMS FOR YEAR-END CONCLUSION OF TRADE DEAL WITH CHILE

On 8 September, Paolo Garzotti, the European Commission's lead negotiator with Chile, told members of the European Parliament that he is confident that a political conclusion to the trade pillar of the bilateral association agreement is "within reach and can be achieved before the end of the year".

The parties concluded technical discussions on a modernised association agreement in October 2021. But following elections in November a new socialist government in Santiago came to power in March and wanted to review the text.

The agreement is critical for the EU since Chile's territory harbours a range of raw materials, notably lithium, which will enable Europe to achieve its climate and digital ambitions.





Chilean ambassador-designate to the EU Gloria Navarrete said that the points raised by Chile included the splitting up of the association agreement into two parts - trade-only and political - as well as “certain chapters which are of particular sensitivity to Chile”. The ambassador also pointed at a “limited number of areas where difficulties have been identified” which concern external trade policy areas, including those related to “Chile’s strategic and regulatory autonomy in important sectors such as SMEs and other areas which are important to the Chilean economy”.

#### PRECEDENT-SETTING RULING ON BILATERAL IMPORT SAFEGUARD UNDER ECONOMIC PARTNERSHIP AGREEMENT BETWEEN THE EU AND THE SOUTHERN AFRICAN DEVELOPMENT COMMUNITY

On 3 August, a panel of arbitrators appointed under the 2016 Economic Partnership Agreement between the EU and the Southern African Development Community ruled that a Southern African Customs Union (SACU) import safeguard on frozen chicken from European countries affecting €183 million worth of exports breached

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“SACU import safeguard on frozen chicken from European countries affecting €183 million worth of exports breached the treaty’s terms.”

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the treaty’s terms. The SACU members are Botswana, Eswatini, Lesotho, Namibia and South Africa. Nevertheless, Brussels’s request for financial compensation was rebuffed by the arbitrators. This is the third ruling established under a bilateral EU free trade agreement. It comes after a similar report under the EU-South Korea trade accord on issues related to labour rights in early 2021, and a report on the EU-Ukraine DCFTA. The ruling comes at a time when the World Trade Organization’s dispute settlement mechanism is seen as largely dysfunctional.

On the other hand, the EU using the bilateral agreement framework contrasts with a **case recently filed by South Africa** in the WTO. Indeed, on 29 July, South Africa requested consultations with the EU in Geneva regarding measures applied mid-July which add extra precautionary measures on EU citrus fruit imports.

### EU-CANADA COMPREHENSIVE ECONOMIC AND TRADE AGREEMENT (CETA) RATIFICATION MOVING AHEAD

CETA has been provisionally applied since September 2017. But the elements which come under national competence - notably its investment protection chapter - can only be implemented once all EU member states have ratified it. To date, only 16 out of 27 Member States have done so.

At an event on 21 September marking the fifth anniversary of provisional application, European Commission Director-General of Trade Sabine Weyand noted that, in the new geopolitical situation, the tide is turning and ratification is making progress.



On 5 July Germany took a significant step towards ratifying the EU-Canada Comprehensive Economic and Trade Agreement with the publication of a legislative proposal followed by a debate in the German parliament two days later.

Specifically, the proposal references a commitment by the government to a “binding interpretation of substantive legal investment protection standards in CETA to effectively limit abusive application of these standards”. It also aims for the role of the European Parliament to be strengthened “in the framework of regulatory cooperation” and for unanimity within the council to be guaranteed “in connection with certain decisions of the Joint CETA Committee”. Meanwhile, on 12 July, the Dutch Senate

approved a law allowing The Netherlands to sign and ratify the whole EU-Canada trade agreement CETA - including its investment protection part - after years of fierce national debate.

The main sticking controversial point in the debate was the Investment Court System (ICS), the dispute settlement provisions for disputes between investors and host states, which enable investors to bring claims against the CETA parties if they are expropriated or otherwise unfairly treated to obtain monetary compensation.

It was argued that the ICS was unnecessary since the Dutch courts are perfectly able to deal with investors and that ICS would in fact expose the Netherlands to claims by Canadian investors. Reference was also made to the recently concluded EU-New Zealand free trade agreement, which does not include any ICS or investment protection provisions.

In order to address these concerns, which were also present in Germany and other member states, the European Commission has introduced an additional complaints system: the single-entry procedure.



This allows civil society organisations from the EU to complain about violations of sustainable development commitments in CETA and in any other others EU free trade agreements.

### EU-INDIA FTA: FIRST ROUND OF NEGOTIATIONS' REPORTS AND TEXTS RELEASED BY THE EUROPEAN COMMISSION

On 11 July, The European Commission released its **report** on the first round of talks with India held recently in New Delhi. It also released eighteen texts as tabled to the Indian side so far.

At the round in the Indian capital the Commission tabled 18 draft chapters covering almost all aspects of the trade agreement except for the environment and labour (TSD) chapter, institutional provisions, exceptions, and final provisions.

The Indian side put forward a text on trade remedies, and it announced that it would put forward textual proposals at the next round, possibly including full alternative chapters.

There is little in the report that suggests any major disagreements at this early stage of the

talks. Yet, it is also not clear whether or when the parties will exchange their draft market access schedules.

According to the Commission, chapters for which “further deliberations” are needed include customs and trade facilitation”, whilst Indian negotiators “raised their concerns” on trade remedies and “questioned some important elements” of services and investment.

More positively, a “general understanding” was reached on articles related to anticompetitive conduct and merger control, which included areas where “further reflection is required”.

The EU also presented its draft chapter on sustainable food systems. The trade agreement with New Zealand had been the first to include such a chapter, and it remains to be seen how amenable India will be on this issue.

The second round of EU-India FTA negotiations will be held in Brussels from 3 to 7 October 2022.



**COMING UP**

**3-7 Oct 2022**  
2nd Round of EU-India trade negotiations

**Beginning of October**  
Commission negotiating team traveling to Chile

**October**  
Conclusion of EU-Angola investment facilitation agreement

**October**  
13th round of EU-Australia trade negotiations

### Further Information

War in Ukraine revives European interest in CETA, Borderlex (subscription), 22 September 2022 ([link](#))

EU to take time with forced labour ban enactment, Borderlex (subscription), 14 September 2022 ([link](#))



# UNITED KINGDOM



## KEMI BADENOCH BECOMES NEW UK INTERNATIONAL TRADE SECRETARY

Kemi Badenoch has been appointed UK International Trade Secretary in the government of Britain's new prime minister, Liz Truss. She replaces Anne-Marie Trevelyan, who had been in the post for the previous 12 months. Trevelyan has been moved 'sideways' in the government to become transport minister.

Badenoch has not previously held a senior role within government. She was minister of state for local government in Boris Johnson's administration until July. Badenoch was one of a large group of ministers who resigned early in that month, ultimately forcing Johnson out of office.

One of the 'outsider' candidates for the Conservative party leadership, she had only been an MP since 2017. Her campaign, although unsuccessful, undoubtedly raised her political profile.

Viewed as being on the political right of the Conservative party, she is expected to continue to push for an expansive programme of free

trade agreements with non-European countries. Her brief as international trade secretary does not cover trade relations with the EU.

Badenoch's leadership pitch focused on core Conservative principles. At her campaign launch, she advocated "free markets, limited government and a strong nation state", with a focus on straight talking. "For too long, politicians have said you can have your cake and eat it. I'm here to tell you that isn't true".

## FIRST ROUND OF TRADE NEGOTIATIONS WITH GCC

Between 22 August and 2 September, the UK and the Gulf Cooperation Council (GCC) engaged in a first round of negotiations to reach a trade agreement.

The UK is targeting lower tariffs for goods like machinery products, food and drink and renewable energy infrastructure, as well as the prize of a more stable and predictable business environment for UK companies operating in the GCC region.

## “UK businesses to supply vitamins and supplements to health food stores in Qatar”

As a ‘down-payment’ on progress in the latter area, the UK announced on Wednesday (24 August) that it had signed two new memoranda of understanding on trade and business cooperation with Qatar.

One of the two deals sets up a system of collaboration to give UK companies information on strategic investment opportunities and market entry options in Qatar, while the other authorises UK businesses to supply vitamins and supplements to health food stores in Qatar.

### DEPARTMENT FOR INTERNATIONAL TRADE SETS UP NEW DEVELOPING COUNTRIES TRADING SCHEME (DCTS)

On 16 August, the UK Department for International Trade announced that it would replace its Generalised Scheme of Preferences



(GSP) with a new **Developing Countries’ Trading Scheme (DCTS)**. It intends thereby to improve access to preferential rates of duty for least-developed and low-income developing countries, and for businesses importing from them. This will notably be done by liberalising rules of origin and by simplifying the process for demonstrating originating status for exported goods.

65 countries will be covered by DCTS, the same 65 that are currently covered by GSP. The new system is due to come into operation in early 2023.

### EU TAKES LEGAL ACTION AGAINST THE UK OVER ALLEGED FAILURE TO IMPLEMENT THE NORTHERN IRELAND PROTOCOL

The EU initiated four separate lawsuits before the Court of Justice of the EU on 22 July, to go along

with two others which were already under way. In essence, the Commission is accusing the UK of renegeing on pledges to set up the necessary infrastructure to control movements of goods into Northern Ireland - which de facto remains within the territory of the single market.

Specifically, it is taking legal action against the UK for four alleged misdemeanours.

Most importantly, the Commission claims that the UK is “failing to comply with the applicable customs requirements, supervision requirements and risk controls on the movement of goods from Northern Ireland to Great Britain”. The UK has obtained the EU’s agreement that it can ease the bureaucratic burden for Northern Irish businesses by using commercial data on goods moving into Great Britain rather than customs data. However, the EU alleges that this data is not being properly transmitted to EU authorities.

The other three cases relate to EU directives which the UK should have incorporated into the law of Northern Ireland under the terms of the Protocol - but has not done so.

**These involve:**

- ▶ the UK's failure to set up the EU's 'one-stop shop' for declaring VAT on e-commerce transactions.
- ▶ a failure to apply new EU rules on excise duties.
- ▶ a failure to apply specific EU rules designed to facilitate access for small and artisan producers of alcoholic drinks to lower excise duty rates for their products.

If the Luxembourg court finds in the Commission's favour, then it has the power, under Article 12 of the Withdrawal Agreement, to impose large fines on the UK.

**UK-INDIA FTA TALKS MAKE SOLID PROGRESS**

The UK and India are making good progress towards concluding at least an interim free trade agreement by the end of this year.

Little detail has been released so far about the progress of negotiations, although these have proceeded rapidly since their launch in January. According to International Trade Secretary Ann - Marie Trevelyan (July) the two parties have already provisionally closed 12 chapters (out of a scheduled 26 in total).

**COMING UP****Q4 2022**

NI Protocol Bill undergoes further examination in the UK Parliament

**Q4 2022 (tbc)**

UK to join CPTPP, according to British Government plans

**Q1 2023**

Entry into force of DCT's

**Further Information**

Trade high on the agenda as Parliament resumes - five key bills and reviews to look out for, Institute of Exports and International Trade, 20 June 2022 ([link](#))

Biography of Kemi Badenoch, Gov.UK, 2022 ([link](#))



# ASIA-PACIFIC



## INDO-PACIFIC ECONOMIC FRAMEWORK (IPEF) MOVES AHEAD

On 9 September, the United States and 13 Indo-Pacific partner countries agreed on parameters for negotiating closer trade, environment, and economic ties that U.S. Commerce Secretary Gina Raimondo said would boost investment and jobs.

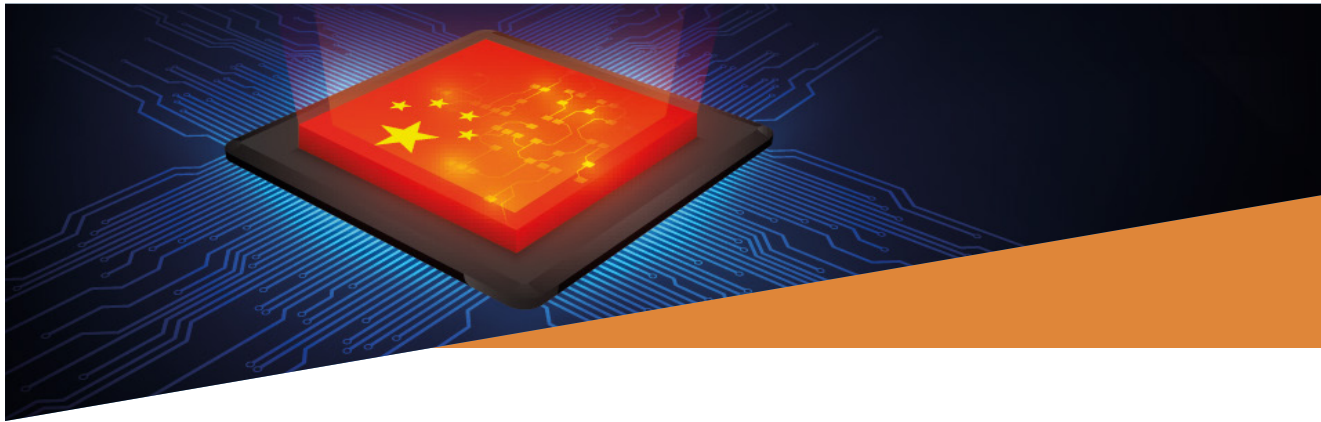
At the conclusion of a ministerial meeting in Los Angeles, the 14 countries agreed on the key outlines for negotiating four major “pillars” of a future agreement: the “connected economy”, meaning trade (including data flows and labor rights); supply chain resilience; the “clean economy” (green energy and environmental standards); and the “fair economy” (including anti-corruption and tax measures).

The Los Angeles talks included ministers from Australia, Brunei, Fiji, India, Indonesia, Japan, South Korea, Malaysia, New Zealand, Philippines, Singapore, Thailand, and Vietnam. Together with the United States, the participants represent some 40% of global GDP.

Thirteen out of the fourteen countries agreed to take part in IPEF negotiations under all four

pillars of the proposed agreement. However, India, while signing up to negotiations in three pillars, declined to take part in the trade pillar, on grounds that the “contours of the framework, particularly any commitments required on the environment, labour, digital trade, public procurement, are certain areas in which a broader consensus is yet to emerge” according to Indian Commerce Minister Piyush Goyal. Nevertheless, US Trade Representative Katherine Tai noted that she was discussing many of these issues bilaterally with her Indian counterpart outside IPEF.

IPEF will not be a traditional trade agreement since the Biden administration lacks Trade Promotion Authority from Congress and apparently has no intention to seek it. This means that the IPEF trade pillar negotiations will not cover customs duties (tariffs) which are within Congress’s authority. Some IPEF countries have expressed a preference for a more traditional trade agreement format but seem to have reconciled themselves to the Biden approach. Under IPEF, it should still be possible to address some issues related to market access such as trade facilitation and non-tariff barriers.



### ACCESSION WORKING GROUP TO CONSIDER CHINA'S APPLICATION TO JOIN THE DIGITAL ECONOMIC PARTNERSHIP AGREEMENT

On 18 August, members of the Digital Economy Partnership Agreement (DEPA) announced the formation of an accession working group to consider China's application to join it. Beijing submitted its bid to join the pact, which includes Chile, New Zealand and Singapore, in November. According to China's Ministry of Commerce, Chinese officials have already held more than 10 dialogues with DEPA negotiators as well as four technical informal consultations to discuss China's digital laws, regulations, and regulatory practices.

DEPA includes 16 modules designed to allow countries to adopt subsets of the pact or the deal in its entirety. One of those modules - module 4 - includes language aimed at ensuring the free flow of data across borders and preventing data localization requirements. However, some US companies have denounced Chinese data policies as untransparent; the Office of the U.S. Trade Representative routinely points to them as trade barriers in its annual National Trade Estimates. Although the U.S. itself is not a party to DEPA, this could still be a conflictive topic in the negotiations, unless China is able to negotiate a carve-out.

### EU HIGH REPRESENTATIVE JOSEP BORRELL VISITS CAMBODIA TO MEET ASEAN PARTNERS

From 3 to 5 August, High Representative/Vice-President Josep Borrell visited Cambodia for the annual Ministerial Meeting between the EU and the Association of Southeast Asian Nations (ASEAN), as well as the ASEAN Regional Forum (ARF) Ministerial Meeting, and for holding a number of bilateral meetings.

During his visit the [EU-ASEAN Plan of Action 2023-2027](#) was adopted. The two parties also plan to sign a far-reaching Comprehensive Air Transport Agreement (CATA) later this year. In Borrell's words 'These are not only concrete expressions of our Strategic Partnership on a wide range of cooperation areas, including pandemic recovery, trade, rules-based and sustainable connectivity, climate change, research, and security. In the face of today's security crises and economic challenges, it is also particularly important to be able to draw on partners who share the same attachment to multilateralism, free and fair trade, and a rules-based global order.'

## US-TAIWAN TRADE TALKS TO START IN THE COMING MONTHS

The United States and Taiwan have agreed to begin trade talks, set to start in early autumn.

The negotiations would encompass a range of areas, including agriculture, digital trade, good regulatory practices and removing trade barriers, the Office of the US Trade Representative said in a statement.

Taiwan's Office of Trade Negotiations on Thursday confirmed the planned start of formal talks, saying it hopes negotiations attract more US and other foreign investment and clears the road for Taiwan to be a part of international trade blocs like the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP).

China expressed its opposition to the new Taiwan-US trade initiative. "China will take resolute measures to uphold its national sovereignty and territorial integrity," Foreign

Ministry spokesperson Wang Wenbin said. "We advise the United States stop making misjudgements."

## AUSTRALIA-CHINA TRADE DISPUTE MAY CHART NEW PATH

China has launched dispute settlement proceedings at the WTO with respect to Australian anti-dumping and countervailing duties on certain Chinese steel products (including wind towers). However, in a positive sign that their troubled trade relationship may be subtly changing, the two parties have agreed in advance that, in the event of either of them wishing to appeal the first-instance panel ruling in the case, they will use the "Multi-Party Interim Arbitration Mechanism" (MPIA) of which they are both adherents. The MPIA was set up by 26 WTO members (including China, Australia and the EU, but not the U.S.) as a stop-gap measure in view of the lapse of the WTO's Appellate Body. The MPIA would essentially shadow Appellate Body procedures and the outcome of the arbitration would be binding.



### COMING UP

#### END 2022

Prospective entry into force of Australia-India FTA

#### Q4 2022

South Korea to submit application to join CPTPP

#### Q4 2022

Formal trade talks between the US and Taiwan

### Further Information

EU and the Asia-Pacific Region: Time to run together, Josep Borrell (EEAS), 8 August 2022 ([link](#))



## WTO

Following the limited success of its Ministerial Conference (MC12) in June, the WTO is now confronted with a number of thorny issues which were kicked down the road.

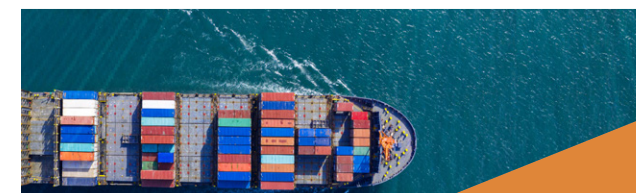
In particular, while MC12 agreed to a ‘waiver’ (or flexibility of interpretation) with respect to certain intellectual property rights for production of COVID-19 vaccines, the question of extending the waiver as proposed by India and South Africa to the production and supply of COVID-19 diagnostics and therapeutics was left over to be decided by the end of 2022. Negotiations will be contentious.

Most if not all WTO members broadly agree that the WTO needs to be reformed to make it more effective, and that its dispute settlement function needs to be revitalised. However there are vastly differing visions of what the results of the reform process, launched at MC12, should look like. Despite recent expressions of commitment by the G7 and others to reforming the WTO, progress is likely to be very slow.

Other difficult negotiations expected to resume in coming months include agricultural trade (on which there was no outcome at MC12), and expansion of the new Fisheries

Subsidies Agreement to cover harmful subsidies contributing to overcapacity and overfishing. The whole area of trade and the environment has also climbed rapidly up the agenda.

In short, the WTO survived MC12, which in itself might indicate that the institution is still valued and seen as necessary. However, in a world undergoing successive crises, with protectionism and autarky arguably coming back in fashion, the challenges ahead still look daunting.



## COMING UP

26 Oct, 28 Nov & 20 Dec  
Dispute Settlement Body

7-8 Oct  
General Council

17-18 Nov  
Technical Barriers to Trade Committee

23 Nov  
Trade Policy Review of Brazil

14 Dec  
Trade Policy Review of the United States

# GLOBAL VALUE & SUPPLY CHAINS

## GLOBALISATION “IS NOT DYING, IT’S CHANGING”

In a recent [article](#) in the Financial Times, Martin Wolf (the doyen of trade journalists), draws attention to Professor Richard Baldwin’s book ‘The Great Convergence’. Baldwin argues that, since the Industrial Revolution, we have seen three waves of opportunities to trade. First, industrialisation and the revolution in transport generated opportunities for trade in goods. More recently, new information technologies allowed “trade in factories”: it became profitable to move entire factories to where labour was cheap. Today, however, the broadband internet allows “trade in offices”: if one can work for one’s employer from home, someone in India can do so, too.

Moreover, an important difference between the first and second waves, which need movement of objects, and the third, which moves information virtually, is that obstacles to physical trade are far easier to impose than those to virtual trade. It is not impossible to impose the latter, but it requires great effort.

After two decades of accelerated growth, world trade in goods peaked in 2008.

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The financial crisis was a significant blow to trade in goods, which have not fully recovered.

Contrary to trade in goods, trade in services tells a different story. The ratio of trade in services to world output, though much lower than for goods, has continued to rise. Services are a very heterogeneous group of activities, some of which require movement of people (tourism, for example). But activities under the category of “other commercial services” (OCS) can mostly be supplied virtually. These include a highly diverse range of activities. The growth of trade in OCS is exceptional: between 1990 and 2020, trade in goods expanded fivefold while OCS multiplied 11-fold.

Yet, the expansion of trade in such services has little to do with trade agreements. The regulation of service activities focuses on final services, not intermediate ones. There exist, for example, strict rules on selling accounting services in the US, but there are only a few rules on the qualifications of the workers that do the paperwork behind the provision of such services.

The potential for this sort of technology-enabled trade is huge, but it can also be highly disruptive: the white-collar workers who provide these services in high-income countries are an important part of the middle class. But it will be hard to protect them.

The new services-driven globalisation is bringing as many opportunities as challenges. Innovative rules and decision-making will be necessary to face them.

### FRIEND-SHORING INITIATIVES IN THE US AND OTHER COUNTRIES

In recent years, there have been calls for onshoring, reshoring, and near-shoring of supply chains. A year ago, the Biden Administration first mooted ‘friend-shoring’, as a strategy to ensure



supply chain remains in the hands of either the US or “friendly” countries.

Despite some experts calling for caution on the possible inflationary and shortage implications that friend-shoring can bring about, the US, and others like Japan or the EU, have already started to put friend-shoring in practice.

When it comes to the US, legislation like the CHIPS and Science Act, or the Inflation Reduction Act establish friend-shoring conditionality for the companies to have access to the benefits foreseen in the acts. The IRA is very clear in stating that companies are subject to a ten-year ban prohibiting them from producing chips more

advanced than 28-nanometers in China and Russia if they are awarded subsidies under the act.

The US is not only encouraging friend-shoring through legislation, but also by means of international frameworks. As an example, on 14 June 2022, the United States together with ‘like-minded’ countries, established the **Minerals Security Partnership (MSP)** with the purpose of creating their own supply chains in critical minerals. The goal was to “ensure that critical minerals are produced, processed, and recycled in a manner that supports the ability of countries to realise the full economic development benefit of their geological endowments.”

On the other side of Atlantic, the EU has been utilising its **Important Projects of Common European Interest (IPCEI)** programme to strengthen its “strategic autonomy” and to pursue the goal of supply chain resilience. Furthermore, on 8 February 2022, the European Commission proposed adoption of a **European Chips Act**, seeking to mobilise more than EUR43 billion funds through to 2030 with an eye to strengthening semiconductor value-chains within the EU.



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## “We have also seen some friend-shoring initiatives in Asia.”

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Other legislations like the [proposal](#) for a regulation of the Council and of the European Parliament to prohibit products made with forced labour on the EU market also have friend-shoring implications.

We have also seen some friend-shoring initiatives in Asia. During the COVID-19 pandemic, Japan adopted a high-profile scheme that appeared to have a friend-shoring element. Indeed, a USD 2.2 billion fund was created for the relocation of production from abroad, particularly from China, back home or to Southeast Asian nations.

The Global Trade Alert at the University of St. Gallen in Switzerland has issued three short papers addressing questions such as: [what do its proponents mean by the term ‘friend-shoring’](#); [what policy steps have been taken so far](#); and [will friend-shoring deliver what its advocates want?](#)

One reflection is that factory relocation is a voluntary commercial decision and state largesse will have to cover the lifetime of cost and other disadvantages of moving production away from an efficient location. The \$52.7 billion headline number under the U.S.’s CHIPS and Science Act looks impressive until one realises that setting up an efficient semiconductor fab is a 10-digit dollar proposition. Similar considerations arise with the EU Chips Acts where the amounts involve pale when compared to the costs of establishing new plants. Furthermore, the more strings policymakers attach to these subsidies, the less likely they are to move the commercial needle towards friend-shoring.

### THE EUROPEAN COMMISSION PROPOSES A REGULATION FOR A SINGLE MARKET EMERGENCY INSTRUMENT (SMEI)

On 19 September, the EU Commission published the [proposal](#) for a regulation for a Single Market Emergency Instrument (SMEI).

The initiative would put in place a flexible and transparent mechanism to respond quickly to emergencies and crisis that threaten the functioning of the single market.

### In particular, it aims at ensuring:

- ▶ continued free movement of goods, services & people.
- ▶ smooth-running supply chains.
- ▶ availability and access to goods & services.

The SMEI will tackle future crises in the light of precedents such as the COVID 19 pandemic or the war in Ukraine, and interplay with other existing crisis response mechanisms, such as the [integrated political crisis response mechanism](#) or the [Union Civil Protection Mechanism](#).

The proposed Regulation provides a framework of measures consisting of [contingency planning](#), [vigilance mode](#), and [emergency mode](#) to anticipate, prepare and respond to impacts of crises on the Single Market, with the purpose of ensuring the availability of goods and services of strategic importance and crisis-relevant goods and services in the Single Market and of safeguarding the free movement of goods, services, and persons. It also establishes an advisory group to provide its opinion to the Commission regarding the risk assessment on the state of the Single Market and on potential disruptions that may affect its functioning.

The two main measures contained in the proposal are:

- ▶ An obligation for states to develop reserves of certain goods of strategic importance .
- ▶ Giving the EU Commission the capacity to ‘invite’ companies to **accept and prioritise certain orders** for the production or supply of crisis-relevant goods (**‘priority rated orders’**).

The proposal includes the possibility of **restricting the free movement of goods or persons**, including workers and service providers. Such measures should only be adopted if no other alternative is available, and under very restrictive conditions specified in the proposal. Any restrictions would be time-limited and removed as soon as the situation allows.

## SOME DEVELOPMENTS IN THE LOGISTICS SECTOR

### UPS surcharges for the peak season

On 26 August, UPS announced its surcharges for the 2022 peak season, which will impact high-volume shippers expecting elevated home delivery demand during the holidays.

Beginning 30 October, customers billed for more than 20,000 packages any week after October 2022 will see a “Peak/Demand Surcharge” applied to certain UPS Air Residential, Ground Residential, and SurePost shipments, according to the carrier. The fee will be active until 14 January 2023.

UPS’s surcharge follows fellow parcel delivery giants FedEx and the Postal Service, which both announced cost hikes of their own. Amazon is also rolling out its inaugural peak season fee on its fulfilment services for third-party sellers.

### Strategic alliance between Scoutbee and Promena

On 26 August, Scoutbee, the leading AI-powered supplier of intelligence, and discovery platform, and Promena, Turkey’s leading provider of strategic procurement software, announced a partnership to empower their customers to better navigate the growing shifts in the procurement landscape.

The adoption of digital processes has played a key role in responding to these challenges, as

has collaboration between all stakeholders in the supply chain. The new partners consider that, by working together, procurement organizations, solution providers, and suppliers can create agile and competitive supply chains.

### Kinaxis Acquires MPO

On 15 August, Kinaxis acquired MPO, a European headquartered company that offers a unified global cloud-based SaaS platform for multi-party orchestration of orders, inventory, and transport.

Kinaxis claims that its Rapid Response planning together with MPO’s Multi Party Orchestration execution will deliver a real-time track of the order’s lifecycle - from planned commitment through ultimate delivery.

### Further Information

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Building resilient supply chains, revitalizing American manufacturing, and fostering broad-based growth, The White House, June 2021 ([link](#))

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A large container ship is shown from a high-angle perspective, sailing on the open ocean. The ship's deck is filled with stacks of colorful shipping containers in shades of blue, red, yellow, and green. Several yellow gantry cranes are visible on the ship, extending over the containers. The sky is a mix of blue and white, suggesting a bright day. The water is a deep blue-green. A red vertical bar is visible on the left side of the image.

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