EU renews US sanction threat over trade law

REUTERS, *Brussels*

The United States must do more to scrap a disputed system of tax breaks for exports if it wants to avoid up to $4.0 billion of European Union sanctions by the end of this year, the European Commission said Thursday.

The World Trade Organisation let the EU impose the sanctions after it ruled the tax breaks, called the Foreign Sales Corporation (FSC), illegal. The US Senate Finance Committee on Wednesday passed a bill aimed at meeting the EU demands.

But Arancha Gonzalez, spokeswoman for EU Trade Commissioner Pascal Lamy, said the proposed law still had holes in it as it included a three-year transition period to end the FSC system.

"We have already waited for three years to get the legislation repealed and therefore an extra three year period could not be acceptable to us," she told a news conference.

The EU was encouraged that the process to repeal the disputed law was moving ahead in Congress, but she added: "We would impose sanctions if and when the illegal FSC is not replaced by the end of the year."

The launch of the sanctions, the biggest awarded by the WTO, would hurt US exporters and damage trans-Atlantic trade ties, already strained by other disputes and seeking new direction after the collapse of world trade talks in Cancun last month.

Lamy has given Washington until autumn to change its tax laws or he will launch the EU internal legislative process that would result in the sanctions, in the form of punitive duties on a wide range of US goods, from January 1.

President George W Bush proposed repealing the FSC system, which grants tax breaks for giants such as Boeing and Microsoft, in his budget for 2004.

But Congress has come under pressure from industry not to hastily scrap the scheme. Boeing said last year such a move could put 10,000 jobs at risk.

The bill approved by the Senate Finance Committee would use the $50 billion generated by repealing the FSC tax breaks to cut taxes for manufacturing in the hope of savings jobs at a time when companies have been shedding millions of employees.

The bill would lower the corporate tax rate for manufacturers from 35 per cent to 32 per cent.

But according to documents in the Senate Finance Committee's Web site, the bill also provides for a three-year transition period, keeping up to 80 per cent of the benefits of the scheme.

PHOTO: JAMUNA BANK

Md Atiqur Rahman, chairman of Jamuna Bank Ltd, formally inaugurates the Dhanmondi branch of the bank on Wednesday. SA Chowdhury, managing director of the bank, was also present.

PHOTO: SOUTHEAST BANK

Azim Uddin Ahmed, chairman of Southeast Bank Ltd, formally inaugurates the operation of the Uttara branch of the bank at its own building recently. Vice Chairman Ragib Ali, directors and President and Managing Director Syed Abu Naser Bukhtear Ahmed were also present.

Japan hopes to sign FTA with Mexico soon

AFP, *Tokyo*

Japan's trade minister said Friday he believed a free trade agreement (FTA) with Mexico could be concluded when President Vicente Fox visits later this month.

Closing an FTA with Mexico "is very significant. I believe the agreement can be reached when President Fox visits Japan on October 15," Trade Minister Shoichi Nakagawa told a press briefing.

Japan and Mexico started free trade talks last November after Koizumi met Fox at an Asia-Pacific Economic Cooperation summit in October in the Mexican resort city of Los Cabos.

The sensitive issue of agricultural trade delayed signing of the deal, however.

If concluded, the agreement would be Japan's second free trade pact after the signing of an accord with Singapore in January last year, removing import and export tariffs on 98 per cent of goods traded between the two nations.

Fox will pay a state visit to Tokyo and the second city of Osaka from October 15 to 18.

World Bank for effort to restart trade talks

REUTERS, *Brussels*

A senior World Bank official Thursday urged the European Union and the United States to express strong commitment to world trade talks as part of steps to help relaunch negotiations which failed in Cancun.

The World Trade Organisation is trying to pick up the pieces after the failed meeting in the Mexican resort. The EU has launched what it calls a period of reflection before deciding what its trade priorities will be.

"First we have to get over the period of shock and mourning which is evident in capitals, Brussels in particular," said Uri Dadush, head of the World Bank's international trade department.

"We needed small confidence-building steps, for example, a statement from the key negotiators that they are eager to get back into the process, he added to Reuters.

The EU in particular has been a key force behind the global trade talks, insisting on the need for broad trade rules and agreements rather than a patchwork of bilateral deals.

The United States has broadly backed the WTO talks, but also pursued bilateral agreements.

The EU has also suggested that the Cancun failure meant the WTO needed to overhaul its decision-making procedures, which EU Trade Commissioner Pascal Lamy has lambasted as medieval.

Dadush said such discussions should not prevent the negotiations from restarting as soon as possible, hopefully before a meeting of senior trade officials which the Cancun meeting agreed should take place on December 15 in Geneva.

He also said that world leaders needed to express more support for the talks.

The round of negotiations was supposed to finish at the end of 2004, but the Cancun collapse meant this deadline has become very difficult to achieve.

Dadush said getting agreement on bringing down barriers to trade in agricultural products was the key factor to make the trade talks a success. But this was a big problem ahead of Cancun, with rich nations unwilling to cut subsidies to farmers.

"Agriculture is the single most important element of moving these negotiations forward," Dadush said.

PHOTO: LOYEDS INS

Fazlur Rahman, chairman of Loyeds Insurance Company Ltd, hands over a crest to Md Zakir Hossain, senior general manager and in-charge of Rajuk Avenue branch of the company, for his remarkable business procurement, in Dhaka recently. Managing Director Mosleh Uddin Ahmad, Adviser M Ahsanullah and Company Secretary Salim Ahmed are also seen.

PHOTO: CITYCELL

MM Ruhul Amin, general manager of BRB Cables Industries Ltd, and AKM Shafiul Azam, senior vice president (Sales and Marketing) of CityCell phone's owning company Pacific Bangladesh Telecom Ltd, shake hands after signing an agreement recently. Under the deal, BRB Cables has become a corporate client of CityCell.

Weekly Currency Roundup

September 27 October 2, 2003

Local FX Market

The U.S. dollar was stable against Bangladeshi taka this week. Dollar remained steady in the beginning of the week. But ended slightly weaker by the end of the week due to increased flow of remittances.

Money Market:

Bangladesh Bank borrowed BDT 5,108 million by the Treasury bill auction held on Sunday, compared with BDT 12,432 million in the previous week's bid. The weighted average yield of 28-D T-bill was down by 3 bps from the previous rate to 5.08 per cent. The yield 5-Y T-bills dropped by 5 bps to 8.85 per cent.

The call money rate was steady this week. In the beginning the week the rate remained steady and ranged between 4.00 and 6.00 per cent. The rate increased slightly by the end of the week and ranged between 5.00 and 7.00 per cent.

International FX Market

In the beginning of the week, the dollar reversed early losses against the yen and climbed half a cent on the euro on Monday as market reassesses last week's steep fall and anticipated US data this week. Analyst said investors were heavily short of dollars after last week's fall close to three-year lows against the yen. Euro continued to feel the heat of yen gains.

The dollar slid to a 3-year low against the yen in the middle of the week in volatile trade that prompted talk that Japan had resumed intervention 10 days after G7 ministers called for more currency flexibility. The dollar fell to 110.30 yen, even as talk revived that Japanese authorities had revived their policy of selling yen to curb its strength. The euro also surged and reached almost near $1.1700, first time since June.

The dollar rose against the yen on the end of the week on suspected intervention by the Japanese authorities but was otherwise broadly weak, dipping to three-month lows against the euro on worries about the U.S. economy. The Euro rose to three-month highs above $1.1760, up a quarter cent on the day, amid worries about the health of the U.S. economy. Despite a two-percent rally in the Dow Jones industrial average, traders said recent data suggesting a soft labor market were raising concerns about an eventual impact on personal consumption, the main engine of U.S. economic expansion. Traders said, the focus was on Friday's non-farm payroll figures.

At 1600 hours on Thursday, euro was at 1.1693/95, GBP at 1.6656/61 and yen at 111.02/05 against dollar.

--Standard Chartered Bank

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