EU, US farm deal seen leaving big subsidy loophole

REUTERS, *Brussels*

The European Union and the United States have moved in the right direction with their deal on farm trade reform but the proposals still allow hefty degrees of subsidy and market protection, analysts said Thursday.

Both sides have presented their framework deal, announced on Wednesday, as a breakthrough that should kick-start stalled world trade talks in the little time remaining before a key meeting of the World Trade Organisation (WTO) next month in Cancun, Mexico.

But some analysts and development agencies disagree, saying the paper's lack of detail makes it very hard to judge the true scope of the proposals, while the flexibility on offer allows EU and US farm subsidies to continue with little real change.

"We've got rid of the initial standoff between the United States and the European Union, which is better than nothing. Getting those two to move was an achievement," said farming analyst Brian Gardner at Food Policy International.

"But the general level of protection will be sustained with an agreement like this. Subsidisation will be maintained and the EU will still be a menace to world markets -- they're not giving much away," he said.

The framework paper thrashed out between the world's two major trading blocks, the largest providers of subsidies to domestic farmers, covers the three key areas of agricultural trade domestic support, export subsidies and market access.

But it avoids putting figures on its call for reforms. The absence of real detail, say some, strips the paper of meaning.

"As it stands, significant subsidies will still be permitted and the concerns and priorities of developing countries have, once again, been largely ignored," said Tim Rice, trade policy analyst at international development agency ActionAid.

The EU-US deal comes halfway through the WTO's current Doha Round on World Trade liberalisation and less than a month before Cancun. Agriculture continues to be the sticking point that has blocked progress to date in the Doha talks.

On tariffs, the deal contains a hybrid formula marrying the gentle across-the-board cuts used in previous farm agreements with a call for a harsher capping of duties in some areas.

Under the proposal, so-called sensitive products would be subject to an average tariff cut with a minimum to be applied, combined with volume-based tariff rate quotas (TRQs).

For the EU, the most sensitive products are beef, dairy products, sugar and some fruit and vegetables, while existing bilateral TRQ deals largely take care of the cereals sector.

A similarly mixed approach would apply to export subsidies and the export credit system used by the US, although this commitment would be confined to certain sectors.

This idea has irritated developing countries, who say rich state farm subsidies running at more than $300 billion a year -- prevent them from competing on equal terms in global markets.

"The EU and US are moving inches when they have miles to go," Celine Charveriat of international development agency Oxfam said in a statement.

"It seems they are satisfied with restating vague aims and renaming existing subsidies instead of committing to any meaningful reform. This is more about show than substance."

PHOTO: **STAR**

Managing Director of GrameenPhone Ola Ree speaks at a press conference organised to mark notching up of one million subscribers in Dhaka on Thursday. Mehboob Chowdhury, director (Sales and Marketing), Intekhab Mahmud, additional general manager (Marketing), and Syed Yamin Bakht, general manager (Public Relations), are present.

Bankruptcies fall in HK

REUTERS, *Hong Kong*

Bankruptcies fell in Hong Kong in July to their lowest level in 17 months, a further sign that the economy is slowly recovering from the impact of the SARS epidemic.

The number of people filing for bankruptcy fell to 1,899 from 2,066 in June.

Earlier this week the government said social welfare claims rose at their slowest in five months in July, while restaurants and tourism-related businesses have reported a strong rebound in sales since SARS was contained in June.

But the recovery has been patchy.

Hong Kong is expected to report on Monday that its unemployment rate rose to a fresh record in the three months to end July and could go higher.

Sri Lanka cuts interest rates to boost recovery

AFP, *Colombo*

Sri Lanka's central bank on Friday reduced its key interest rates by 75 basis points, saying the move was aimed at strengthening the recovery of the economy.

The central bank's reverse repurchase rate was reduced from 10.25 per cent to 9.50 per cent, while the repurchase rate was reduced from 8.25 per cent to 7.50 per cent.

The latest cut in the rates at which commercial banks borrow and deposit with the central bank is the third this year resulting in a total reduction of 225 basis points.

"According to all available indicators, inflation and inflation expectations have been declining," the bank said. "Monetary expansion up to end June has been within the target set at the beginning of the year.

PHOTO: **AGORA**

Niaz Rahim, managing director of Rahimafrooz Superstores Ltd, and Yahia A Zahed Khondker, CEO of Ultra Corporation, distributor of Black & Decker home appliances, jointly inaugurate the Black & Decker Corner at Dhanmondi Agora in Dhaka on Wednesday. Agora Dhanmondi Store Manager Shamsul Alam, Shahana Panni of Ultra Corporation, and Zahidul Huda of Marketing Department of Rahimafrooz Superstores Ltd were present.

Jobs, trade data bolster US economic recovery hopes

REUTERS, *Washington*

Signs the erosion in the US jobs market may have drawn to a close and a surprisingly sharp narrowing in America's trade gap offered fresh hope on Thursday the economic recovery was gaining steam.

Initial claims for jobless benefits edged up slightly last week, but for a fourth straight week were below the 400,000 level many economists see as a dividing line between jobs growth and losses, the Labour Department said.

A separate report showed the US trade gap at a smaller-than-expected $39.5 billion in June, down from $41.5 billion in May on the biggest surge in exports in three years.

The government also said wholesale prices inched higher last month, helping keep deflation fears at bay without sparking inflation concerns.

Analysts said the data added to a brightening outlook and the trade numbers implied the economy grew faster than the 2.4 per cent annual rate the government reported last month.

"Recent data show plenty of evidence that economic growth is picking up pretty sharply," said Charles Lieberman, chief economist at Advisors Financial Center in Suffern, NY.

The show of strength has pushed bond yields up and the benchmark 10-year Treasury yield hit a new one-year high before easing late in the day.

Higher market interest rates have kept a lid on stocks. The blue chip Dow Jones industrial average closed up 38.8 points at 9310.56 while the tech-laden Nasdaq Composite Index gained 13.7 points to end at 1700.34.

Economists said the stability in jobless claims was perhaps the most hopeful sign in Thursday's slew of data, even though they edged up 2,000 to 398,000 last week.

The four-week moving average of claims, which offers a more reliable labour-market guide by smoothing weekly volatility, fell 4,250 to 394,250, the lowest level since mid-February. The four week average has now dropped for five straight weeks.

"The numbers finally provide reasonably solid evidence that labour demand is turning," said Jade Zelnik, chief economist at RBS Greenwich Capital.

The economy has shed jobs for six straight months and has lost nearly 2.7 million jobs since sinking into recession in March 2001. Analysts said the claims data hinted at least a little employment growth in August.

Weekly Currency Roundup

Aug 09-Aug 14, 2003

Local FX Market

The US dollar mostly remained stable against Bangladeshi taka as supply of dollar boosted by remittances matched import related demands.

Money Market

Bangladesh Bank borrowed BDT 10,880 million by the Treasury bill auction held on Sunday, compared with BDT 8,387 million in the previous week's bid. The weighted average yield of 28-D t-bill was almost unchanged at 6.75 per cent. The yield of 1-Y t-bills was down by 5 bps to 9.67 per cent from 9.72 per cent.

The call money rate was steady through out the week. In the beginning the week, the rate ranged between 4.00 and 4.25 per cent. The rate remained stable for the rest of the week and ended the week at 3.75-4.25 per cent

International FX Market

In the beginning of the week, the yen hit three-week highs against the dollar and euro, extending last week's gains as expectations grew for yen-positive flows including talk of sizable treasury coupon-related repatriation by Japanese. Market was eying on rate decision by Fed on Tuesday, which was expected to remain steady at one per cent.

The dollar rose across the board in the middle of the week, reaching one and a half week highs on the euro and Swiss franc as the Federal Reserve's indication of keeping interest rates low for some time boosted hopes of a US recovery. The US central bank left the interest rates unchanged at 1.00 per cent. Sterling had mixed fortunes, falling a third of a per cent against the dollar to 1.5972, but edging higher against the euro to 0.7026. US retail sales data was to be very important to influence the currency movement across the board. In Europe the focus was on the interest rate decision by Norway's central bank at 1200 GMT.

At the end, the dollar moved in ranges against the euro and other majors as investors debated whether a recent string of strong US economic data was enough to drive the greenback substantially higher. The US currency did not benefit from economic figures from the euro zone, which showed the Netherlands and Germany stuck in recession during the second quarter of this year and underscored lingering problems in Europe. However, analysts warned the poor showing in the two euro zone economies signaled GDP may have contracted in the entire 12-nation bloc, potentially weighing on the single currency. Euro zone GDP data were due at 1000 GMT. Dealers noted that holiday-thinned trade was contributing to choppy intra-day price moves, even though broader trading bands remained intact.

--Standard Chartered Bank

STOCK