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NEWSLETTER** **SEPTEMBER 2006**

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## VAT ASPECTS OF THE SUPPLY OF GOODS IN THE EU

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Value Added Tax ("VAT") is levied on the supply of goods and services and on the importation of goods in the European Union. In this contribution to the newsletter, I will discuss some of the highlights of the levy on the supply of goods in the EU. The rules for the levy of VAT in the EU is based on a Directive from the European Commission. As a result, the VAT legislation in all of the EU Member States is similar.<sup>1</sup>

The VAT implications of the supply of goods depend on the location of the goods when they are sold and their destination. VAT legislation contains several rules as to where a supply is considered to be located. In the event that goods are transported because of a transaction, the supply location is the place from which the transport starts. When the goods are not transported, the place of supply is where the goods are located at the moment of the transaction.

There are three different types of supplies of goods. The first one is the domestic supply. In this situation the goods remain within a country. The supply is VAT taxable at the standard or the reduced VAT rate that is applicable in the country where the goods are located.

The second type is the so-called "intracommunity transaction." This is a supply in which the goods are transported because of the transaction from one EU Member State to another EU Member State and supplied to an entrepreneur for VAT purposes. In this situation two taxable events take place. First, there is an intracommunity supply in the Member State of dispatch. The dispatch starts in this Member State so the supply takes place there. This supply is taxable at the zero percent rate. The second taxable event is a so-called "intracommunity acquisition" by the buyer in the Member State where the dispatch ends. This acquisition is taxable at the applicable VAT rate in that Member State. The buyer has to report the VAT due on its periodical VAT return. It can deduct the VAT as input VAT when the goods are used to make VAT taxable supplies. The system of intracommunity supplies is supposed to be a transitional system. With the forming of the internal market in the EU in 1993 the custom procedures regarding goods that are transported within the EU are no longer applicable. By the end of 1996, there should have been a system in place in which the VAT at the applicable rate of the Member State of dispatch would be charged by the supplier. The buyer would then be able to deduct the foreign input VAT on its local VAT return. A clearing system would compensate the Member States for the foreign input VAT that they refund to entrepreneurs. Up until now Member States have not been able to come to an understanding regarding such a clearing system.

The third type of supply is an export supply. In this situations goods are transported to a location outside the EU because of the transaction. This supply is taxable at the zero percent rate.

In either the situation of an intracommunity supply or an export supply, the seller has to be able to prove that the goods are dispatched to another EU Member state or to a place outside the EU. If he cannot prove that, the zero percent rate is not applicable. There are no specific rules on how to prove the

transportation of goods. In a ruling, the Dutch Supreme Court defined a safe haven. If the administration contains the following information the entrepreneur is considered to have fulfilled its obligations towards the proof of intracommunity supply or export. These documents are the invoice, a CMR consignment note, a packing list, a proof of payment such as a bank statement, a copy of the invoice with a signature for receipt of the goods and a statement from the transport company regarding the location of the goods.

Currently there is a lot of discussion going on regarding the system of intracommunity supplies. This system makes fraud very easy -- and, consequently, it takes place on a large scale. The principle is simple. Company A sells goods to Company B. In this transaction there will be no transportation VAT due. Company B sells the goods to Company C in another EU Member State. On this transaction the zero percent rate applies. Company B files a VAT refund request, which is granted because it is an entrepreneur making Vat taxable supplies. The problem is that Company A, which has to pay VAT to the tax authorities, does not fulfill its obligations. The result is that VAT is refunded which was never paid to the tax authorities. It is estimated that this fraud adds up to \$100 billion each year. One of the suggestions to prevent this fraud is to change the VAT system. Currently, a supplier charges VAT to its customer. The suggestion is to introduce a system of reverse charges, in which there is no VAT charge but the recipient must report the VAT due on the transaction -- a VAT return by way of self-assessment. Given the difficulty the EU Member States are having in coming to a unanimous standpoint, eliminating the fraud is probably a long way off.

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<sup>1</sup> VAT rules in all the EU Member States should be the same, but it turns out that there are still a lot of differences.

# REVISIONS TO THE EXPORT ADMINISTRATION REGULATIONS BASED ON THE 2005 MISSILE TECHNOLOGY CONTROLS REGIME PLENARY AGREEMENTS

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## I. BACKGROUND

The Missile Technology Control Regime ("MTCR") is an export control arrangement among 34 nations,<sup>1</sup> including the world's most advanced suppliers of ballistic missiles and missile-related materials and equipment. The MTCR was originally created to prevent the spread of missiles capable of carrying a nuclear warhead. In January 2003, the MTCR expanded its original mission to also stem the flow of delivery systems for chemical and biological weapons.

The regime establishes a common export control policy based on a list of controlled items known as the "Annex," and on the "Guidelines" that member countries follow to implement national export controls. MTCR members voluntarily pledge to adopt the regime's export Guidelines and to restrict the export of items contained in the regime's Annex. Member countries most recently agreed to certain changes to the MTCR Annex during the September 2005 MTCR Plenary Session in Madrid, Spain.

As part of its responsibilities as an MTCR member country, the United States has amended its domestic export control regulations to reflect these most recently agreed upon changes to the MTCR Annex. On July 31, 2006, the U.S. Department of Commerce's Bureau of Industry and Security ("BIS") published amendments to the Export Administration Regulations<sup>2</sup> ("EAR").

## II. AMENDMENTS TO THE EAR

Commodities, software or technology included on the Commerce Control List ("CCL")<sup>3</sup> require a license to export or must be eligible for export under a specific license exception. Items included on the CCL are assigned a five-digit alpha/numeric code, or Export Control Classification Number ("ECCN"). Certain ECCN controlled for export as a result of the United States' responsibilities as an MTCR member country are designated with an "MT."

### A. Amendments to Specific Parts of the EAR

#### I. Part 740.2 -- License Exceptions

BIS has amended paragraph (a)(5) to Part 740.2 (Restrictions on all License Exceptions), which includes a general restriction on using license exceptions for MT controlled items. Paragraph (a)(5) prohibits the use of license exceptions for items controlled for MT reasons, but exempts certain listed ECCN<sup>4</sup> from this prohibition. ECCN 2A001 is added as one of the ECCN for which certain license exceptions are available.

**2. Part 772 -- Definitions of Terms as Used in the EAR**

BIS has added a new definition for the term "repeatability"<sup>5</sup> as used in the context of MTCR controls on accelerometers. This new definition is meant to aid the public in understanding the two new parameters known as "scale factor repeatability" and "bias repeatability" that have been added to ECCN 7A101. These new parameters are discussed in detail below.

In addition, BIS has added a new definition for the term "production facilities."<sup>6</sup> Due to a previous inadvertent omission, the definition of "production facilities" was not included in Part 772.

**B. Category 1: Materials, Chemicals, Microorganisms and Toxins****1. ECCN 1C101 -- Materials for reduced observables such as radar reflectivity, ultraviolet/ infrared signatures and acoustic signatures (i.e., stealth technology)**

ECCN 1C101 is amended to remove the quotation marks around the word "missile." The term "missile"<sup>7</sup> is defined under Part 772 of the EAR by certain payload parameters. BIS amended ECCN 1C101 because the MTCR Annex does not contain specific payload parameters for similarly controlled items. Therefore, the use of the word missile in the description of the items controlled under ECCN 1C101 no longer corresponds to the definition of "missile" in Part 772.

**2. ECCN 1C107 -- Graphite and ceramic materials**

BIS has amended this ECCN to clarify for the public and for BIS licensing officers that graphite pieces and/or shapes are still controlled by this ECCN when they are larger than the minimum dimensions specified under ECCN 1C107. In addition, the word "recrystallized" has been deleted from ECCN 1C107 as this is an obsolete term that is no longer used by industry.

**C. Category 2: Materials Processing****1. ECCN 2A001 -- Anti-friction bearings and bearing systems, and components therefor**

License Exceptions TMP (Temporary imports, exports and reexports) and RPL (Servicing and replacement of parts and equipment) are now available for MT-controlled commodities controlled under ECCN 2A001. However, these license exceptions are only available for those commodities being exported or reexported as one-for-one replacement for equipment previously legally exported or reexported (i.e., with prior U.S. Government authorization). BIS anticipates that the availability of License Exception RPL will result in a decrease in license applications.

**D. Category 7: Navigation and Avionics****1. ECCN 7A101 -- Linear accelerometers, other than those controlled by ECCN 7A001**

ECCN 7A101 is amended by revising the control parameter in this ECCN. Specifically, the current parameters of "threshold" and "linearity error" are deleted in favor of two new parameters known as "scale factor<sup>8</sup> repeatability" and "bias<sup>9</sup> repeatability."<sup>10</sup> These two new parameters will result in a more focused control on accelerometers of concern for "missiles."

This amendment brings ECCN 7A101 in line with current industry practice for characterizing accelerometers. This focused control for accelerometers will also result in a decontrol of accelerometers that are not usable for "missiles." The change to the control parameters of this ECCN is expected to result in a decrease in license applications for approximately 29 different types of accelerometers.

**2. ECCN 7A102 -- Types of gyros & ECCN 7A103.b -- Instrumentation, navigation equipment and systems**

ECCN 7A102 controls all types of gyros, other than those controlled by 7A002, usable in missiles, with a rated "drift rate"<sup>11</sup> "stability"<sup>12</sup> of less than 0.5/ (1 sigma or rms) per hour in a 1g environment and specially designed components therefor. ECCN 7A103.b controls integrated flight instrument systems, other than those controlled by 7A003, which include gyrostabilizers or automatic pilots, designed or modified for use in missiles.

ECCNs 7A102 and 7A103.b are amended to remove the quotation marks around the word "missile." As discussed above, the term "missile" is defined under Part 772 of the EAR by certain payload parameters. BIS amended these ECCN because the MTCR Annex does not contain specific payload parameters for similarly controlled items. Therefore, the use of the word missile in the description of the items controlled under ECCNs 7A102 and 7A103.b no longer corresponds to the definition of "missile" in Part 772.

**E. Category 9: Propulsion Systems, Space Vehicles and Related Equipment**

**1. ECCN 9A103 -- Certain liquid propellant tanks**

ECCN 9A103 has been added to the CCL and outlines export controls on certain liquid propellant tanks specially designed for the propellants controlled in ECCNs 1C011, 1C111 or other liquid propellants used in "missiles." BIS amended the EAR to include the addition of ECCN 9A103 to make the public aware that these liquid propellant tanks are subject to the export licensing authority of the U.S. Department of State, Directorate of Defense Trade Controls ("DDTC") under the International Traffic in Arms Regulations<sup>13</sup> ("ITAR"). These liquid propellant tanks are being added to the EAR and also to the ITAR to diminish opportunities by countries involved in missile proliferation activities from acquiring these types of tanks for their missile programs.

**2. ECCN 9A120 -- Complete unmanned aerial vehicles not specified in ECCN 9A012**

ECCN 9A120 is amended to clarify that the control captures only those unmanned aerial vehicles incorporating, or designed or modified to incorporate, aerosol dispensing systems/mechanisms, to add specific Technical Notes to describe what is meant by an aerosol dispensing systems/mechanism and to note that 9A120 does not control model aircraft specially designed for recreational or competition purposes.

### 3. ECCN 9B106 -- Environmental chambers and anechoic chambers

ECCN 9B106 is amended in favor of only listing the control parameters in terms of metric measurements because BIS has found that metric measurements are more commonly used by industry. In addition, a new technical note has been added to ECCN 9B106 to clarify the meaning of the term "bare table" in the context of MTCR-controlled environmental chambers. Specifically, in the context of ECCN 9B106, the term "bare table" means a flat table, or surface, with no fixture or fittings.

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<sup>1</sup> A listing of the current MTCR member countries is available at: <http://www.mtcinfo/english/partners.html>

<sup>2</sup> 15 C.F.R. Parts 730-799 (2006).

<sup>3</sup> EAR Part 774.

<sup>4</sup> Items described in ECCNs 6A008, 7A001, 7A002, 7A004, 7A101, 7A102, 7A103, 7A104, 7B001, 7D001, 7D002, 7D003, 7D101, 7D102, 7E003, or 7E101 may be exported as part of a manned aircraft, land vehicle or marine vehicle or in quantities appropriate for replacement parts for such applications under Part 740.9(a)(2)(ii) (License Exception TMP for kits consisting of replacement parts), Part 740.10 (License Exception RPL for replacement parts), Part 740.13 (License Exception TSU for unrestricted technology and software), or Part 740.15(c) (License Exception AVS for equipment and spare parts for permanent use on a vessel or aircraft).

<sup>5</sup> Part 772 defines "repeatability" as: In the MTCR context only, according to IEEE Standard 528-2001 as follows: "The closeness of agreement among repeated measurements of the same variable under the same operating conditions when changes in conditions or non-operating periods occur between measurements."

<sup>6</sup> Part 772 defines "production facilities" as: In the MTCR context only, equipment and specially designed software therefor integrated into installations for development or for one or more phases of production.<sup>7</sup> VAT rules in all the EU Member States should be the same, but it turns out that there are still a lot of differences.

<sup>7</sup> Part 772 of the EAR defines missiles as: Rocket systems (including ballistic missile systems, space launch vehicles, and sounding rockets) and unmanned air vehicle systems (including cruise missile systems, target drones, and reconnaissance drones) "capable of" delivering at least 500 kilograms payload to a range of at least 300 kilometers.

<sup>8</sup> Part 772 defines "scale factor" as: The ratio of change in output to a change in the input intended to be measured. Scale factor is generally evaluated as the slope of the straight line that can be fitted by the method of least squares to input-output data obtained by varying the input cyclically over the input range.

<sup>9</sup> Part 772 defines "bias" as: An accelerometer output when no acceleration is applied.

<sup>10</sup> A Note is added to ECCN 7A101 to explain that bias and scale factor are determined by calculating the statistical average of repeated measurements over a one-year period.

<sup>11</sup> Part 772 defines "drift rate" as: The time rate of output deviation from the desired output. It consists of random and systematic components and is expressed as an equivalent input angular displacement per unit time with respect to inertial space.

<sup>12</sup> Part 772 defines "stability" as: Standard deviation (1 sigma) of the variation of a particular parameter from its calibrated value measured under stable temperature conditions. This can be expressed as a function of time.

<sup>13</sup> 22 C.F.R. Parts 120-130 (2006).

## **GSP RENEWAL COULD BE PART OF LARGER TRADE PACKAGE**

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The Generalized System of Preferences (“GSP”), which provides for duty-free entry for qualifying articles from eligible countries, is scheduled to expire on December 31, 2006. With a limited number of legislative days remaining in this session of Congress, trade legislation, including the renewal of GSP, remains very much in doubt. House Ways and Means Committee Chairman Thomas has indicated that the House could still vote on a trade package that would contain an extension of trade programs, including GSP, that would otherwise expire. He indicated that such a package would be limited to “non-controversial” issues so that it could be passed under the suspension of House rules that require a two-thirds majority vote. Left unclear is whether such a package would include proposals to modify the GSP to exclude certain beneficiary countries or limit competitive need limits. With the House set to adjourn September 29th, there will undoubtedly be a flurry of activity before the last word is written on trade issues for this session of Congress.



## **IMPORTS OF DUMPED AND SUBSIDIZED LINED SCHOOL SUPPLY PAPER PRODUCTS INJURES DOMESTIC INDUSTRY**

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On September 6th, the ITC found that a U.S. industry was materially injured or threatened with material injury by imports of certain lined paper school supplies from India and Indonesia that Commerce had determined were subsidized and by imports of these products from China, India and Indonesia that Commerce had determined were sold in the United States at less than fair value. The Commerce Department will now issue countervailing duty orders on imports of these products from India and Indonesia and antidumping duty orders on imports of these products from China, India and Indonesia.

Earlier this year, the Commerce Department had determined that certain lined paper school supplies from India had been dumped with margins ranging from 3.91 percent to 23.17 percent and had received subsidies ranging from 1.67 to 10.24 percent. Commerce found that these products imported from Indonesia had been dumped with margins ranging from 97.85 to 118.63 percent and had received subsidies of 46.55 percent. Commerce also found that the lined paper school supplies from China had been sold in the United States at 76.70 to 258.21 percent less than fair market value.

As a result of the ITC's final injury determination, Commerce will now issue antidumping and countervailing duty orders against certain lined paper products from these countries and importers of these products will have to pay cash antidumping and countervailing duty deposits with CBP at the time of entry.

## **COMMERCE DEPARTMENT INITIATES AN ANTI-CIRCUMVENTION INQUIRY INTO CERTAIN TISSUE PAPER PRODUCTS FROM THE PEOPLE'S REPUBLIC OF CHINA**

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On September 12, 2006, the Commerce Department announced that it was initiating an anti-circumvention inquiry to determine if imports of tissue paper from Vietnam produced from jumbo rolls of tissue paper produced in China was circumventing the antidumping duty order on certain tissue paper from the PRC (71 FR 53662 – 53666). In accordance with 19 CFR 351.225(i)(2), if Commerce issues an affirmative preliminary determination that the tissue paper from Vietnam is circumventing the antidumping duty order on tissue paper from China, Commerce will instruct U.S. Customs and Border Protection to suspend the liquidation and require a cash deposit of estimated duties on such imported merchandise. The estimated dumping margin for tissue paper from China is currently 112.68 percent. At this time, Commerce is focusing its analysis on a single processor identified by the petitioner, namely Vietnam Quijiang Paper Co., Ltd. If it receives a formal request from other interested parties to expand its inquiry to other Vietnamese companies involved in processing jumbo rolls produced in China for export to the United States, it will consider conducting additional anti-circumvention inquiries.

## **REORGANIZATION AT U.S. CUSTOMS AND BORDER PROTECTION**

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U.S. Customs and Border Protection (CBP) recently announced the formation of a new office designed to spearhead its national trade policy. The new office, the "Office of Trade," will consolidate its trade policy, program development and compliance measurement functions into a single office. The Office of Trade will commence operations on October 15, 2006. In announcing the reorganization CBP Commissioner Ralph Basham stated, "This is a significant event in the evolution of Customs and Border Protection, which always had twin goals of preventing terrorism and terrorist weapons from entering our country, while, at the same time facilitating the flow of legitimate trade and travel. The reconstituted Office of Trade will further reinforce our commitment to the trade component of these goals."

The functions of trade policy and program development are currently split among three offices within CBP; the Office of Strategic Trade, the Office of Regulations and Rulings, and the Office of Field Operations. The new Office of Trade will consolidate the trade policy, program development and compliance measurement functions of CBP into a single office without creating dual reporting mechanisms, overlapping or redundant management structures. The Office of Trade will be responsible for developing national trade policies and programs. However, managing and carrying out cargo processing operations on a day-to-day basis will remain the responsibility of CBP's Assistant Commissioner of the Office of Field Operations, working within the established chain of command. In announcing this reorganization, CBP Commissioner Basham announced the selection of Dan Baldwin as the Assistant Commissioner for the new Office of Trade. Mr. Baldwin is currently the Assistant Commissioner of CBP's Office of Strategic Trade and will assume leadership in the new office upon its establishment. In announcing the reorganization, CBP emphasized that the reorganization should have only a minimal impact on CBP employees, with minor changes to existing offices, divisions and branches.

## PAN EURO-MEDITERRANEAN CUMULATION OF ORIGIN

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When one speaks of the origin of a product, one basically refers to the economic “nationality” of the product in question. Two types of origin are provided for in European customs legislation: preferential origin and non-preferential origin.

Within the rules of origin, various types of cumulation are known. Simply put, cumulation means that products that have obtained originating status in one partner country may be used with products in another partner country without prejudice to the preferential status of the finished product. Some varieties of cumulation are bilateral cumulation, full cumulation and diagonal cumulation. The latter refers to a situation in which more than two countries are involved that have concluded agreements with each other, and each operates identical origin rules. In that situation, one country can apply diagonal cumulation in its trade with the two other countries as long as their agreements provide for such cumulation.

Pan Euro-Mediterranean cumulation is the phrase used to describe diagonal cumulation between the EU and a number of European and Mediterranean (non-EU) countries. Basically, it is an extension of a previous system of Pan European cumulation. The inclusion of Mediterranean countries has effectively increased the number of countries from which manufacturers will be able to regard materials as originating. The Pan Euro-Mediterranean system provides for diagonal cumulation between the EU, Algeria, Bulgaria, Egypt, the Faroe Islands, Iceland, Israel, Jordan, Lebanon, Morocco, Norway, Romania, Switzerland (including Liechtenstein), Syria, Tunisia, Turkey and the West Bank and Gaza Strip.

It is noted that diagonal cumulation is only possible between those countries of the Pan Euro-Med zone that have fulfilled the necessary requirements, meaning that a country can only apply cumulation with those countries with which it has an origin protocol providing for such cumulation and containing identical origin rules. This is referred to as “variable geometry.” Materials originating in a country in the zone which has not yet concluded a free trade agreement with the countries of final manufacture/destination must be treated as non-originating. Periodically, a matrix is published in the Official Journal of the European Communities, outlining the latest status concerning the date of application of the protocols on rules of origin. The latest matrix was published on September 13th of this year. In sum, the EU concluded free trade agreements with most of the “MED” countries, whereas other countries in the zone still have to conclude free trade agreements with each other.

Determining the origin of a product can be a highly complex matter. It requires thorough analysis of origin protocols and the origin rules that may differ per product category. The application of Pan Euro-Mediterranean cumulation could be an interesting planning opportunity. Besides carefully reviewing the agreements on a case by case basis, it is also crucial to utilize the matrix which sets out the agreements in force between the different partner countries operating Pan Euro-Mediterranean cumulation rules of origin.

If you have any questions regarding this article and/or opportunities for your company, please do not hesitate to contact Greenberg Traurig’s Amsterdam-based Global Trade, Customs & VAT Practice.

## FREE TRADE AGREEMENT UPDATES

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### Possible Canada-Korea Trade Deal Threatens Manufacturing Jobs, Auto Union Leader Says

The Canadian government should drop its consideration of a free trade agreement with South Korea because it could cost as many as 33,000 manufacturing jobs in the domestic economy, Buzz Hargrove, president of the Canadian Auto Workers union, said Sept. 19th. Trade with East Asian economies, including Japan, China, and Korea, is already costing the Canadian economy as many as 180,000 jobs, and although much of that is a result of growing trade levels with China, a significant number of jobs have been lost due to imports from Korea.

### France to Push EU for Bilateral, Regional Trade Deals as WTO Talks Founder

The breakdown of global trade talks will see France push its European Union partners to negotiate new bilateral trade pacts with countries in Asia, the Persian Gulf, and across the Mediterranean, France's Foreign Trade Minister Christine Lagarde said. Lagarde told a gathering of French business leaders that the collapse of the World Trade Organization's Doha Development Round represented a new opportunity for the 25-member European Union to move forward on bilateral trade negotiations with key partners worldwide. The EU should focus trade talks on a group of rapidly growing economies that have expressed strongest interest in bilateral or regional agreements, led by the Association of Southeast Asian Nations (ASEAN), whose members include Indonesia, Malaysia, Thailand, and Vietnam, Lagarde said. Other priority areas for future bilateral or regional talks include global trading giants like India and South Korea, as well as the booming economies of the Persian Gulf and developing nations across the Mediterranean, Lagarde said.

### Japan, Philippines Sign Free Trade Agreement After Differences Resolved

Japan and the Philippines signed a bilateral free trade agreement paving the way for eliminating tariffs on much of 1,668 billion yen (\$14 billion) in bilateral trade. Under the bilateral FTA, 97 percent of Japanese exports to the Philippines will be tariff-exempt, and 92 percent of Philippine exports to Japan will be free of Japanese tariffs.

### Senate Backs Resolution on Treaty For Uruguay-U.S. Bilateral Investment

The Office of the USTR announced that the Senate approved a resolution of advice and consent for the U.S.-Uruguay Bilateral Investment Treaty. The BIT will take effect 30 days after the exchange of instruments of ratification.

### Despite Rise in FTAs, Doha Remains Top Priority, Asian Trade Officials Say

A recent rush by Asian governments to seal bilateral and regional free trade agreements does not signal a lack of confidence in the multilateral trading system, officials told a seminar. Speaking at a seminar held on the sidelines of the annual meetings of the International Monetary Fund and the World Bank, Indonesian Minister of Trade Mari Pangestu said a lack of progress in the Doha Round of trade negotiations, as well as the rise of China and India, had provided a "stronger incentive" for Asian countries to strengthen links with their key trading partners. Nonetheless, "Doha isn't dead," and concluding the round remains "the best way to go" for developing countries, she added.

## MISCELLANEOUS TRADE NOTES

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### Thailand to Seek WTO Panel Ruling on U.S. Shrimp Duties

Thailand will request the establishment of a World Trade Organization dispute panel to determine whether U.S. antidumping duties on imports of Thai shrimp are in line with global trade rules. Thailand's request will be considered at a Sept. 28th meeting of the WTO's Dispute Settlement Body (DSB). Thailand argues that the U.S. Commerce Department used an illegal methodology known as "zeroing" to determine the margin of dumping on Thai shrimp. Zeroing, which has already been condemned in a number of previous WTO proceedings, artificially inflated the margin of dumping or created margins of dumping where none would have been found, Thailand charges.

### EC Presents New Aid Scheme to Align Banana Subsidies With Market, WTO Rules

The European Commission submitted proposals to reform the bloc's domestic subsidy program for banana producers in order to put the scheme more in line with other European Union agriculture reforms and also help boost its position in the World Trade Organization Doha Round trade negotiations. In addition, the Commission is hopeful the proposals, if approved, would help fend off complaints by a host of developing country producers, including Ecuador and Colombia, whose imports face hefty EU tariffs and are expected to file a case against the EU in the WTO in the near future. The key component of the Commission's proposed changes, which must be approved by the EU member states, would eliminate the price support mechanism and replace it with an increased amount of aid money designed to help locally produced agriculture in remote regions.

### U.S., Canadian Officials Sign Bilateral Softwood Lumber Deal

The United States expects the bilateral softwood lumber agreement to restore long-term trade peace in the North American softwood sector, USTR Susan Schwab said. The agreement ends a 20-year history of disputes over softwood lumber trade that has caused instability within the industry and considerable political tension between the U.S. and Canadian governments.

### Russia Needs to Do "Much More" Before U.S. Will Sign Off on WTO Accession Agreement

John K. Veroneau, the president's nominee to serve as a deputy U.S. trade representative, said that Russia needs to do "much more" in terms of protecting intellectual property and keeping its market open to U.S. agricultural products before the United States will be able to sign off on an agreement clearing the way for Russia to join the World Trade Organization. "They've made some efforts [and] they've made some progress," he said, "but frankly I think there is much more that they need to do..." Veroneau, speaking at a confirmation hearing of the Senate Finance Committee, said that "hopefully" President Bush's decision in July not to close a bilateral accession agreement with Russia had sent a "strong message" to the Russian government.

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