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Building the capacity of ACP Countries in Trade Policy Formulation, Negotiations and implementation ("Hub and Spokes") Project

WTO panel begins hearing on Antigua/US gaming dispute

A three-man panel established by the World Trade Organisation's Dispute Settlement Body (DSB) began two days of hearing here on Monday on a challenge mounted by Antigua and Barbuda to the unilateral claim by the United States that the latter is in compliance with the DSB's rulings and recommendations on the Internet gaming dispute between the two countries. "This is just another step in our ongoing efforts to ensure that the United States complies with its obligations under WTO agreements and implement the rulings and recommendations of the DSB," said Antigua and Barbuda's Minister of Finance and the Economy, Dr Errol Cort. "We believe that, notwithstanding the size of its economy, every WTO member has an obligation to play by the rules and accept and implement the outcomes of an established judicial process all members agreed to for resolving their trade disputes," he added.

The panel hearings are a culmination of a process that began earlier this year when Antigua and Barbuda and the United States informed the DSB that they disagreed as to the existence or consistency of measures taken by the United States to comply with the recommendations and rulings of the DSB. "This fundamental disagreement led us to request consultations under Article 21.5 of the DSU," said Dr John Ashe, Antigua and Barbuda's Ambassador to the WTO. "This in turn led us to call for the establishment of an Article 21.5 panel and we were pleased that the DSB decided to refer the matter to the original panel, if possible," he added.

Ashe also cited the fact that China, the European Communities and Japan continue to participate as "third parties," and on the second day of the hearings they will be given an opportunity to present their views on the USA's claims of compliance. "This has truly been an uphill battle, a long slog," said Mark Mendel, Antigua and Barbuda's Legal Adviser. "It began in 2003 when we requested consultations with the US regarding measures applied by central, regional and local authorities in the US which affect the cross-border supply of gambling and betting services from Antigua and Barbuda. We made it clear then, as we do now, that the cumulative impact of the US measures is to prevent the supply of gambling and betting services from another WTO Member (in this case Antigua and Barbuda) to the United States on a cross-border basis," he said

Kaye MacDonald, Director of Gaming, concurs and notes that "we have, in the context of the negotiations for a mutually agreed solution to the present dispute, gone to great lengths to find a solution with the US, including calling for a suspension of the panel proceedings on two previous occasions. Only when it became obvious that the US was not interested in arriving at a mutually agreed solution did we call for a resumption of the panel proceedings. "The current chain of events was set in motion by the decision of both parties to appeal the original panel's findings on certain issues of law and legal interpretations to the WTO's Appellate Body. That Body subsequently ruled that, among other things, the original Panel's finding that an alleged "total prohibition" on the cross-border supply of gambling and betting services cannot, in and of itself, constitute a

"measure" subject to dispute settlement under the GATS, while upholding the finding, albeit for different reasons, that the United States' Schedule includes a commitment to grant full market access in gambling and betting services.

After the adoption of the Appellate Body's report, the United States stated its intention to implement the DSB's recommendations and indicated that it would need a reasonable period of time to do so. Both parties could not agree on what constituted "a reasonable time period," and Antigua and Barbuda requested that the reasonable period of time be determined through binding arbitration pursuant to Article 21.3(c) of the Dispute Settlement Unit (DSU). An Arbitrator was appointed and he determined that the reasonable period of time for implementation was 11 months and 2 weeks from 20 April 2005, expiring on 3 April 2006. At the end of that period, the US issued the unilateral declaration that it needed to do nothing since it was in compliance all along. This led Antigua and Barbuda to request for the establishment of the current panel, which is expected to issue its rulings and recommendations in late January or early February 2007.

Source: Reuters, WTO, Geneva, 29 November 2006

China targeted by WTO anti-dumping moves

China was the target of over one third of new anti-dumping investigations launched by its trading partners over the first six months of this year, the World Trade Organisation (WTO) said on Monday. Chinese exports were by far the most hit by measures imposed by countries around the globe to limit what they have determined is dumping of goods on their markets – selling at prices lower than the cost of production, the WTO said in a statement. But China also applied more final anti-dumping measures – actions imposed after investigations reach the conclusion that unfair trading is taking place – than any other country, reaching a total of 15, all in the chemicals' sector.

Since it joined the trade body in 2001 after some 15 years of negotiations, China has regularly emerged as prime victim of anti-dumping action, according to reports issued by the trade body every six months. But the latest figures showed the country, now one of the world's trading superpowers, facing more anti-dumping procedures at a time when such actions in general are on the decline. The WTO said a total of 87 investigations were launched by its 149 member countries between January and June this year, compared with 105 in the same period of 2005. However, this year 32 of these was directed against China against 23 – or well under a quarter of the total – last year.

Behind China as targets for new investigations in the first half of the year were the United States and Taiwan with six. Investigations – often accompanied by talks between the two countries involved – do not always lead to final measures. But when they do, the measures normally come in the form of additional duties pushing up the cost to consumers of the goods hit and reducing their potential to undermine the position of domestic producers of similar items. Chinese goods accounted for 15 of the 71 such measures – which under WTO rules must be reported to the trade body – imposed during the first half of the year. Far behind were goods from India and South Korea, with six each.

Main initiator of new investigations was India, which started 20 against suspect imports, followed by the European Union, which started 17 and Australia, which started 9. China itself started 3, the same as Mexico and Brazil.

Source: Reuters, Geneva 29 November 2006

US suggests bilateral approach to trade with India

The Bush administration has suggested a bilateral approach to sorting out issues with India that are preventing market access in both countries rather than waiting for the World Trade Organisation (WTO) to conclude its negotiations.

A bilateral approach in dealing with issues of market access as was done in the case of mango could speed up market access and give a fresh impetus to Indo-US trade, deputy US trade representative Karan Bhatia said on the sidelines of a conference organised by CII. The Doha round of world trade talks remains stalled on agriculture subsidies and tariffs. The US had in-principle agreed to allow import of Indian mangoes, which were earlier restricted due to sanitary and phyto-sanitary regulations, during President Bush's visit to India.

He, however, wanted greater openness on the part of India to spur its growth and economic engagement with US. Bhatia emphasised on opening up sectors like satellite communication, financial services and agriculture. India, meanwhile, said there are "strategic flaws" in the global trading system and these need to be corrected for resumption of the Doha Round of WTO talks, which are suspended since July.

There should not only be "relaxation" but also "justice" in the global trading system, commerce minister Kamal Nath said in the Lok Sabha in reply to questions, adding the government was proceeding in the WTO talks with this objective in mind. India has been engaged in the WTO negotiations to ensure its "core concerns and interests" continue to be adequately addressed, he said, adding that India's accession to the WTO regime has overall been beneficial for the country

Source: Reuters, Mumbai 28 November 2006

New anti-dumping investigations continue declining trend

The WTO Secretariat reported on 27 November 2006, based on the latest available figures, that in the period 1 January—30 June 2006, the number of initiations of new anti-dumping investigations continued its recently-reported declining trend, while the number of new final measures increased relative to the corresponding period of 2005.

The WTO Secretariat reported, based on the latest available figures, that in the period 1 January — 30 June 2006, the number of initiations of new anti-dumping investigations continued its recently-reported declining trend, while the number of new final measures increased relative to the corresponding period of 2005. During January-June 2006, 20 Members reported initiating a total of 87 new investigations, down from 105 initiations in the corresponding period of 2005.

A total of 15 Members reported applying 71 new final anti-dumping measures during January-June 2006, compared with 55 new measures applied during January-June 2005 (a 29 per cent increase)

Thirty-one of the 87 new initiations were opened by developed Members, and nine of the 71 new final measures were applied by developed Members, during the first half of 2006. This compares with 22 new initiations opened and 20 new measures applied by developed Members during the first half of 2005.

Source: WTO Updates, Geneva, 27 November 2006

Top WTO powers to meet in January

Ministers from the WTO's most influential powers will meet early next year to make their first joint attempt at reviving global trade talks since their collapse last summer, officials said Monday.

Top representatives of the United States, the European Union, Japan, Australia, India and Brazil are among those expected to gather on the sidelines at the World Economic Forum's annual four-day Bhatia, Washington's deputy trade representative, said Monday in New Delhi that the U.S. is willing to make an improved offer on farm subsidies, but only if other nations also concede ground.

Source: AFX, Associated Press, New Delhi, 29 November 2006

EU cautious on US plan to milk cloned cows

Debate on whether to approve milk from cloned cattle for general consumption in the US is unlikely to be replicated in Europe in the near future, because consumers would reject the products. The European Dairy Association said there were no plans to get dairy foods from cloned animals approved for consumption in the EU. Its comments follow a statement from America's Food and Drug Administration (FDA) that it hoped to draft regulations on milk and meat from cloned animals in the US in the next few months.

Joop Kleibeuker, secretary general of the European Dairy Association (EDA), told DairyReporter.com: *“This is a new development and something that may offer possibilities to improve milk production by cows, but there's no intention as far as I know to have this introduced into the EU in the short or medium term.”* He said the EDA had so far not considered the issue in any detail, and was hesitant to jump into a debate that remained highly emotional – bound up with fears over genetically modified foods. *“From a purely scientific point of view, the FDA might be right, it may be safe. But for the time being we don't see acceptance of this from EU citizens, and we are producing products for our consumers.”* Consumers groups in the US have already lambasted FDA plans to approve milk and meat from cloned cattle. One, the Center for Food Safety, has called for a nationwide moratorium. The strong reaction reveals the dilemma dairy firms everywhere might face: do cloning's advantages to breeding outweigh the potential consumer storm such practices could whip up? One main study published last year, and cited by the FDA, said it found no difference in milk quality, including protein, fat, antibody and lactose content, from cloned cows. *“We are confident in our results,”* Xiangzhong Yang, who led the study at the University of Connecticut, told DairyReporter.com. He said the FDA *“is interested in our study for sure”*.

More large studies will be important to assess the effects and feasibility of using cloning technology in the dairy industry, he added. Some believe the potential for premature death and abnormalities in cloned animals means the technology does not yet make economic sense for dairy firms. Still, FDA scientists have repeatedly decided over the last four years that milk and meat from cloned animals is safe for consumption. And their entry into the US food chain was deemed likely at some stage, according to a report published for the European Commission last year, something the authors warned Europe should watch closely.

Other countries, including the US, Japan, China and Australia were reportedly ploughing research into animal cloning, said the report, completed by the Danish Centre for Bioethics and Risk Assessment as part of the Commission's 'Cloning in Public' project. *“These countries will probably use cloning and allow sales of clone-derived products in their home markets. This will present a challenge to [the] World Trade Organisation (WTO). “Efforts by EU countries to prevent these products from entering the European*

common market, with the stated aim of protecting consumer interests, will probably depend on WTO's interpretation of the precautionary principle, and on what the WTO sees as a "legitimate concern".

EU countries have already been forced to abandon a moratorium on genetically modified foods after the WTO ruled the ban was illegal.

Denmark is the only EU member state with specific legislation governing farm animal cloning. EU guidance on the issue draws on a body of indirect regulations and directives, such as those addressing food safety and animal health, the Danish report said.

Source: DairyReporter News, 28 November 2006

Dumping of goods to hit local industry: Too many FTAs criticised

Pakistan's policymakers unending appetite for signing free trade agreements (FTAs) with many countries was criticised at a WTO seminar on Tuesday organised by the directorate of Research and Training, Customs, at the Federation of Pakistan Chambers of Commerce and Industry. "We have hardly ten items to offer for export and all of these are primary commodities and semi-processed goods," Engineer M A Jabbar, a former vice-president of FPCCI remarked while pointing out that FTAs will provide opportunities to other countries to dump their goods at zero or low rate of duty. "This hurts our industry whatsoever it is," he said while making a specific reference to the recently concluded FTA with China. He identified about ten items — all primary commodities and semi- processed goods — which constitute about \$400 million segment of Pakistan's export to China when all varieties of Chinese goods have literally flooded Pakistani markets.

In another context Jabbar pointed out that for last several years "our complaint" was that national resources were being eaten up by losing public sector entities — KESC, Wapda, Steel Mills — but now almost Rs100 billion is being provided to textiles and other private sector concerns not only to keep them afloat but to make these entities profitable. Ms Musarrat Jabeen, Member Sales Tax, Central Board of Revenue, endorsed the view that the government's subsidy to keep private sector business afloat was not sustainable and "it kills the competitive spirit of the business concern."

She informed the businessmen that the officials involved in FTA negotiations with China took all care to safeguard Pakistan's business interest and that the FTA should offer a way ahead for investment. Engineer Jabbar, who heads the WTO cell in FPCCI, spoke at length on the difficult road taken by all the successive governments since 1995 to comply with all conditions of WTO but pointed out emphatically that Pakistan does not have a predictable economic model as it has to struggle to comply with the WTO, IMF and World Bank conditions at the same time. Recalling, he said that Pakistan's import-export trade virtually stagnated during 1995 to the year 1999 while the GDP was on downslide and unemployment was on the rise and the ratio of people living below the poverty line reached 40 per cent. Under the WTO, some 150 countries were expected to synchronise their laws in conformity to global requirements. After the year 2000, the Pakistan government enforced TRIPS and TRIMS related laws and did other legislative work in the form of ordinances rather than through debates and discussions in the Parliament. The automobile sector and vendors managed to pressurise the government to circumvent WTO condition for two years after the year 2002.

A direct impact of the WTO, he said, is the widening of Pakistan's trade imbalance from about \$2 billion about five years ago to about \$10 billion last year. Mohammad Ashfaq, an official of the Customs, explained the structure and working of the WTO and the mechanism of dispute resolution.

Source: Reuters, Karachi, 28 November 2006

Solve market access issues on bilateral basis, says US

While the US has ruled out the possibility of a Free Trade Agreement (FTA) with India, it is prepared to sort out market access issues with the country on a bilateral basis.

US deputy trade representative Karan Bhatia said that market access issues could be resolved through bilateral discussions just like the recent clearance given to import of Indian mangoes by the US. Speaking at a seminar organised by CII, Mr Bhatia said that his country was open to adopting a bilateral approach for dealing with specific problems faced by India in gaining market access in the US. Bilateral talks to smoothen trade issues between the two countries gain increased significance in the absence of substantial progress in the multilateral Doha talks at the World Trade Organisation. He, however, clarified that an FTA between the US and India was not in the offing. During the visit of US President George Bush to India, the US had agreed in-principle to allow import of Indian mangoes, which were earlier restricted due to sanitary and phyto-sanitary regulations. India is still awaiting actual clearance.

Mr Bhatia also warned that the US was likely to withdraw the duty concession to the Indian gems and jewellery sector when the General System of Preferences (GSP) comes up for review. "The GSP provides duty concessions on imports from some sectors of industry in developing countries to improve their competitiveness. The Congress has expressed its concerns on gems and jewellery, whether it is appropriate to give it concessions as the sector has become competitive," he said. Earlier, speaking at the CII economic summit, Mr Bhatia expressed the US' willingness to negotiate further on the reduction of domestic subsidies in agriculture in a bid to move the stalled Doha round of multilateral trade negotiations ahead.

The country, however, is clear that it will not make any 'unilateral' offers in agriculture and its additional offers will be subject to reciprocity from other members. The WTO talks were suspended in July this year following the failure of key members including the US, the EU, India and Brazil to arrive at modalities for liberalising markets for trade in agriculture and industrial goods. The primary reason for the talks getting stuck was the US' refusal to undertake commitments for undertaking real cuts in agriculture subsidies. Mr Bhatia said that the US was ready to engage with other WTO members on all issues including agriculture subsidies. "We hope that Doha is reinvigorated immediately. However, to expect us to offer something in agriculture unilaterally is wrong," he said

Source: Times News Network, New Delhi, 29 November 2006

Cameroon Holds talks with EU official over WTO Negotiations

The Minister of State for Agriculture and Rural Development received in audience the WTO Director for Africa last Thursday.

Cameroon is stepping up negotiations with the World Trade Organisation in view of the coming into force of free trade which will see trade barriers broken down. The Minister of State for Agriculture and Rural development, Jean Nkuete on Thursday November 23, received in audience, the EU Director of development and Management of free trade and economic partnership agreements with ACP countries, Latin America, GCC and Iran, Peter Thompson.

Speaking to the press after the audience, Peter Thompson said the visit falls within the framework of on going negotiations to bring development to ACP countries. He revealed that Jean Nkuete was leading the WTO negotiations from the Central African sub-region and since he was new in the office, needed to be briefed on the level of negotiations. "He was leading the negotiations on the other side and I am the new kid on the block", he said. He said Cameroon was very important in these negotiations because the country was leading producer of banana which benefits from privileged access to the European market. He further said there is the risk of falling into the GSP system if negotiations don't succeed. Which means the preference will not be maintained. "We (The European Union) are trying to reach an agreement which is WTO compatible which forms a genuine partnership between the EU and Africa which will lead to the maintenance of that access to the European market by Cameroon banana", he said. Beyond that, he said, there is an ongoing project to construct a regional market, which the European Union is also supporting.

Mr Peter Thompson was accompanied on his visit to the Ministry of Agriculture and Rural Development by the Delegate of the European Commission in Cameroon, Puyol Javier Pinuela.

Source: Cameroon Tribune, Yaoundé, November 27, 2006

Brown attacks protectionism, says economic growth is best secured through fair trade

Economic growth is best secured through free trade, Treasury Chief Gordon Brown told business leaders as he attacked protectionism on the day another British company agreed to be taken over by a Spanish utility.

Despite the recent series of takeover approaches by foreign companies on British ones, Brown said the government should maintain its tradition of openness and not intervene to prevent such activity. "It is for us to be evangelists for globalization, taking on the anti-globalization and protectionist forces who fail to recognize the great economic truth that free trade, open markets and flexibility are the precondition of modern economic success across our global economy," Brown said in remarks delivered to the annual conference of the Confederation of British Industry. Brown was accompanied at the conference by U.S. Treasury Secretary Henry Paulson, who was making his first public visit to Britain since taking the job in July. Paulson and Brown have called for the resumption of stalled World Trade Organization talks, known as the Doha round. Both leaders have warned that failure to reach a deal would reverse hard-won gains in competition around the world and that disputes over agriculture should not hamper a final deal.

Paulson described the Doha agreement as Washington's top trade priority, and called it "crucial to the success of the WTO." "Closer economic ties between nations promote international peace and prosperity by creating common interests and raising the costs of conflict," he said. "In fact, the greatest threat today is not from conflict between states, but from instability within states and from those states like North Korea and Iran which are not prepared to abide by international standards of conduct including weapons of mass destruction proliferation and terrorism." Brown's defense of free trade comes despite several takeover proposals and deals, such as U.S.-based NASDAQ Stock Market's bid for the London Stock Exchange Group PLC and Spanish utility Iberdrola SA's agreement announced Tuesday to acquire Scottish Power PLC for 11.6 billion pounds (US\$22.5 billion; €17.1 billion). Spanish construction company Grupo Ferrovial SA won a fight to take over British airports operator BAA earlier this year, while Dubai port operator DP World purchased Britain's P&O.

Source; The Times, London, 28 November 2006.

National Assembly ratifies Vietnam's WTO membership

Vietnam's legislature ratified the country's entry into the World Trade Organization on Tuesday, paving the way for the communist nation to become the global trade body's 150th member. Vietnam's membership will take effect Dec. 28, 30 days after the National Assembly vote, opening the gates to increased foreign investment and trade in Southeast Asia's fastest-growing economy.

The move was approved by a 444-3 vote, with 2 abstentions.

Despite the overwhelming vote, lawmakers urged the government to ease the challenges that globalization will pose to Vietnam. "Once the opportunities emerge, the weaknesses of the economy will also be exposed," said legislator Vu Tien Loc, who is also president of the Vietnam Chamber of Commerce and Industry. Loc said the government must speed up its efforts to reduce bureaucracy and improve Vietnam's infrastructure so that the country's businesses can compete against an influx of foreign competition.

Legislator Nguyen Ngoc Tran from southern An Giang province expressed concern that the gap between the rich and the poor could widen as a result. "The government should pay more attention to this problem," he said. Over the last two decades, communist Vietnam has gradually implemented free-market reforms, winning praise from foreign investors whose interest in the country has been growing. Foreign investment has surged by nearly 50 percent in the last year, rising to more than \$8 billion so far this year. In its WTO negotiations, Vietnam agreed to lower many tariffs and open previously protected economic sectors to foreign investors, such as banking, financial services and telecommunications.

The country's WTO membership "marks an important milestone in our international economic integration, and international recognition of the success of Vietnam's economic reforms," President Nguyen Minh Triet said in a televised address before the assembly vote. Trade Minister Truong Dinh Tuyen told lawmakers that WTO membership will bring both benefits and costs. Increased trade and investment will boost the economy, he said, but fierce foreign competition is likely to bankrupt some companies and cause social dislocation. "Some people and businesses will face difficulties," Tuyen said, pointing out that jobs will inevitably be lost. "There could be risk of creating complicated social problems."

Joining the Geneva-based WTO will provide Vietnam with a neutral broker in trade disputes, he said, assuring that its disagreements with trade partners will be resolved fairly. Vietnam has faced dozens of antidumping cases brought by the United States and the European Union, which have accused the country of selling goods at unfairly low prices. Vietnamese officials have complained that its bigger, more powerful trade partners have issued unfair rulings against them in disputes over seafood and shoe exports. Vietnam's economy has grown by an average of more than 7 percent a year for the last decade, one of the fastest rates in the world.

Source: Associate Press, Hanoi, 28 November 2006

EU takes Canada to WTO over wine, beer tax breaks

The European Commission said it is requesting WTO consultations with Canada over the country's tax breaks for domestic wine and beer. The commission said the planned measures -- applied on a provisional basis since July 1, but yet to receive approval from the Canadian parliament -- leave the excise tax on imported EU wine and beer intact. 'These measures are contrary to the letter and the spirit of WTO rules,' EU trade commissioner Peter Mandelson said. 'I hope we will be able to use the WTO consultation process to agree an amicable resolution to the problem,' Mandelson said. Consultations are the first step in the WTO dispute settlement process. If they prove unsuccessful after 60 days, the EU will be entitled to ask for a WTO Panel to be set up to rule on the legality of the Canadian measures.

Source: AFX, Brussels, 29 November 2006

Paulson Says Democrats Won't Alter U.S. Commitment to WTO Talks

Treasury Secretary Henry Paulson said Democratic control of Congress won't change the commitment of the U.S. government to completing global trade talks. "I can assure you that this month's elections have not altered the U.S. commitment to achieving a successful outcome of the Doha round," Paulson said in prepared remarks for a conference hosted by the Confederation of British Industries in London today. "The round continues to be our top trade priority." The Democratic Party captured majorities in both the House of Representatives and the Senate for the first time since 1994 in a vote Nov. 7. Many of the winning candidates campaigned on taking a harder line on trade issues.

Yesterday, Paulson joined U.K. Chancellor of the Exchequer Gordon Brown in calling for the U.S. and Europe to reinvigorate global trade talks. In a joint letter published in the Wall Street Journal, they said "further trade liberalization led by our continents could encourage others to follow." Global trade talks aimed at agreeing on \$96 billion in tariff reductions stalled earlier this year. World Trade Organization Director General Pascal Lamy said in July that the talks were suspended because of clashes among the U.S., European Union, Japan, Brazil, India and Australia. Paulson, making his first trip to the U.K. since taking over the U.S. Treasury in July, said the U.S. could learn from innovations in capital markets from London, Hong Kong and other parts of the world.

These markets are "developing their own standards and protocols for regulating commercial activity," Paulson said. "A number of these approaches are excellent, and in the U.S., we will be open-minded about how ideas implemented by other might prove beneficial to us." Paulson last week joined the growing chorus of executives, academics and politicians expressing concern about regulatory risks to the U.S. allure as the world's biggest financial center, announcing plans to host a conference on the issue early next year.

In only his third formal speech since taking over at Treasury in July, Paulson said in New York on Nov. 20 that the aggressive application of the Sarbanes-Oxley corporate governance law, the risk of lawsuits and the lack of competition in the accounting industry may be combining to choke an important engine of the U.S. economy. "Our capital markets remain strong and competitive, but they face significant challenges," Paulson told the Economic Club of New York. The U.S. accounted for 20 percent of global initial public share offerings last year, down from 35 percent in 2001, according to the Financial Services Forum, a Washington-based association that represents the country's largest banks and insurers.

A group of academics and executives led by Glenn Hubbard, the dean of Columbia University's business school and former top economic adviser to President George W. Bush, and John Thornton, a former president of Goldman Sachs Group Inc., is scheduled to release a report on the subject this week. "Unless we improve our corporate climate, we risk allowing New York to lose its preeminence in the global financial services

sector," New York Mayor Michael Bloomberg and Charles Schumer, a Democratic Senator from New York, wrote in the Wall Street on Nov. 1. New York's mayor is the founder and majority owner of Bloomberg News and parent Bloomberg LP. The focus of much of Wall Street's concern is the 2002 corporate governance rules drafted by House Financial Services Committee Chairman Michael Oxley and Democratic Senator Paul Sarbanes in the wake of corporate scandals at Enron Corp., which wiped out more than 5,000 jobs and \$1 billion in employee retirement savings, and WorldCom Inc., which cost shareholders and bondholders as much as \$40 billion.

Companies will spend \$6 billion this year complying with the rules, according to a study by Boston-based AMR Research released in March. The Business Roundtable, which represents executives from the U.S.'s biggest companies, says 40 percent of its members will spend more than \$10 million each complying with Sarbanes- Oxley. "While necessary," the Sarbanes-Oxley accounting rules "are being implemented in a way that may be creating unnecessary costs and introducing new risks to our economy," Paulson said in his speech last week. "Section 404 should be implemented in a more efficient and cost-effective manner."

Section 404 requires companies to hire an independent auditor to verify how well their systems for publishing accurate financial statements work. These "internal control audits" have been interpreted very broadly by accounting firms so they are scrutinizing issues such as how many employees have keys to the building. That makes the audits very expensive. Barney Frank, the Massachusetts Democrat in line to take over the House Financial Services Committee next year, said in an interview this month that the law can be "relaxed" without hurting its integrity. "Let's see if we can reduce the burdensome aspects without in any way interfering with its good points," he said.

Source: Bloomberg, US, 29 November 2006