



PAKISTAN WINS TRADE DISPUTE WITH EU AT WTO

By
Shahroo Malik
Research Associate

Edited by
Najam Rafique

May 30, 2018

(Views expressed in the brief are those of the author, and do not represent those of ISSI)



Recently on May 16, 2018, the supreme dispute settlement body of the World Trade Organization (WTO) in Geneva, the appellate body, ruled in favor of Pakistan and rejected the appeal of European Union (EU) by declaring that EU's countervailing duties (CVDs) on Polyethylene Terephthalate (PET) are not consistent with its Subsidies and Countervailing Measures (SCM) agreement.¹ This has an immense symbolic value and is being termed as a diplomatic success of Pakistan by trade experts which will help in protecting Pakistan's exports globally.

PET is a bottle grade polyester chip which is used to produce mineral water bottles.

In 2010, the EU imposed a crippling countervailing duty on Pakistan's PET exports to Europe. Pakistan's exports of PET were on the rise, but after the levy of duty they started shrinking at an increasing rate. According to the statement provided by the Ministry of Commerce, conservative estimates indicate that Pakistan's chemical industry has endured a loss of about €300 million due to the unfair trade protection measures imposed by the EU seven years ago.²

In July, 2017 the WTO panel had ruled in favor of Pakistan stating that EU had not properly demonstrated that Pakistan is providing subsidies to its PET producers. EU appealed certain elements of this ruling but lost its case again as the appellate body has now upheld certain key parts

¹ Mubarak Zeb Khan, "WTO rules in favour of Pakistan, against EU," *Dawn*, May 28, 2018, <https://www.dawn.com/news/1408418>.

² "Restrictions on PET imports from Pakistan by EU violated rules: WTO." *Dawn*. July 08, 2018. <https://www.dawn.com/news/1343843>.

of a first-level panel ruling issued in July 2017.³ The EU had imposed duties on Pakistan's PET exports by treating all amounts of duties rebated under Pakistan's Manufacturing Bond Scheme (MBS) duty drawback scheme as subsidies. In March 2015, Pakistan filed a case of unfair practices against EU. Both the panel and the appellate body then ruled in favor of Pakistan that the EU could not automatically treat all of the rebated duties as a subsidy and impose high CVDs on that basis.⁴

Pakistan's Ambassador to WTO Dr. Syed Tauqir Shah stated, "In an era when protectionism is looming large on the global trade horizon, this decision strengthens global trading community's trust in multilateral trading system. A developing country like Pakistan getting a decision from the highest adjudicating body against economic giant like EU is a triumph of global rule of law and invaluable institution called WTO."⁵ He further added, "There are no winners or losers, every dispute decided at the WTO is a victory for the rule-based global system called the WTO, this is about global rule of law, wherein multilateral systems guarantee the rights of developing countries through fair, impartial and transparent procedures."⁶

Although the share of PET exports in Pakistan's total exports is negligible, but this win against EU at WTO is quite significant where economic diplomacy is concerned. The ruling has significantly reduced the CVDs on PET exports items to EU which will encourage Pakistani PET exporters to regain their lost market in EU. This decision will have far reaching impact; it will restore confidence of developing countries (that form 80% of the WTO's membership) in WTO's dispute resolution mechanisms considering that they generally perceive WTO to be dominated by big powers that pursue their own interests at the stake of developing countries' interests. It will also encourage other developing countries to file cases against unfair trade practices of economic powers and trading blocs. Furthermore, this ruling will prevent other countries from imposing similar duties on Pakistan's exports and has sanctified our schemes such as Manufactured Bond Scheme (MBS).

³ Mubarak Zeb Khan, "WTO rules in ...," *Dawn*, May 28, 2018.

⁴ Ibid.

⁵ Tariq Butt, "Landmark judgment: WTO 'Supreme Court' rules in Pak favour," *The News*, May 17, 2018, <https://www.thenews.com.pk/print/317649-landmark-judgment-wto-supreme-court-rules-in-pak-favour>.

⁶ Ibid.