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ECONOMIC NEWS UPDATE

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If you are the sort who thinks that the free movement of goods, capital and people enriches all the world's nations, you are probably worried because the Doha Round of trade talks is on life support, and the plug is about to be pulled. And if you are the sort who worries when another nation's laws seem to take precedence over your own, and affect the business community, you can't be happy that some loony magistrate in, say, Spain, can issue a valid arrest warrant for a British citizen, or perhaps even for a US citizen residing in the United Kingdom, and have him whisked off to jail without an extradition hearing. Or that EU regulators can fine US firms for practices that American regulators have found unexceptionable.

The bad news is that there is a lot more to worry about than you might think, as the markets realized when American lawmakers attached to the Safe Ports bill a provision that will bar the 12 million American online bettors who placed about \$6 billion in bets last year from using credit cards, bank checks and electronic fund transfers.

The American Gaming Association estimates that 4% of Americans gambled online last year, using some 3,000 websites. That's relatively few, at least when compared with the 25% of Americans who visited casinos, but the number using online sites has been growing rapidly, fueled by expert poker players who are said to make a more-than-decent living separating what are known as "fish" -- amateurs -- from their stakes.

By making payment very difficult the new law will, in effect, end internet gambling in the US: such gambling has long been illegal, but nevertheless flourished because of the difficulty of enforcing the law. It has already wiped about \$8 billion off the value of an industry that started the day valued at an estimated \$12 billion. Industry leader PartyGaming, which counted on Americans for 80% of its revenues, saw \$5 billion of value disappear in a matter of minutes. Online gambling companies will now have to try to rebuild their businesses by concentrating on attracting Asian bettors, while US bettors will have to find ways around the

new law foisted on them by congressmen and a president eager to appease social conservatives who are angry about high spending and, lately, the House leadership's failure to act promptly against former congressman Mark Foley, who used the internet for purposes far more reprehensible than trying to fill an inside straight. Use of the internet to place a bet or two apparently offends House Speaker Dennis Hastert more than its use to engage in sexual conversations with teenagers.

The new law is a good example of conservatives, dedicated to minimizing government interference in private lives, outlawing an activity that they find personally offensive. The fact that the companies offering the service are not US-based was no deterrent. But remember: the process of passing national laws that affect foreign companies is not unknown in countries other than America. The Chinese have a variety of ways of restricting the activities of Google, Yahoo and other such firms, restraining trade every bit as much as if they told the World Trade Organization never to darken their nation's doorstep again.

The Russians, who are clamoring for admittance to the WTO on the grounds that theirs is a market economy eligible to sit at the table of free-trading nations, are currently using environmental regulations and national legislation to wring concessions from international oil companies. The Putin government now contends that Total's license to explore in the Arctic Circle, and Royal Dutch Shell's contract to develop natural gas in Sakhalin, on an island in Russia's Far East, violate its environmental regulations, and that Exxon's contract in Sakhalin doesn't convey the rights the company believed

it did. Besides, the terminal through which Exxon's oil would pass on its way to market suddenly seems to the safety inspectors less safe than when they first approved it.

Only the churlish would contend that Vladimir Putin is unhappy with these deals, signed when Boris Yeltsin was president, Russia was desperate for foreign investment, and oil was selling at less than \$20 per barrel. No matter: still another example of a country using its own laws in a way that harms the companies of other nations, France (Total) the Netherlands (Shell), and the US (Exxon),

Then there is the EU, probably the world's leading practitioner of the art of using national rules to stifle the activities of foreign companies while appearing to have no such object in mind. Last week the WTO finally made available to the public its 1,000-page report holding that the EU violated WTO rules by banning genetically modified (GM) products from 1998 until 2004. The EU knew this was coming, and so substituted a product-by-product review process for the general ban, which allows it to contend that it is testing the safety of each of the foods that Americans consume quite happily and with no ill effects. US Trade Representative Susan Schwab points out that the EU has approved only a handful of biotech applications, and that some such applications "have been pending for 10 years or more and applications for many commercially important products continue to face unjustified, politically motivated delays." Indeed, Austria, Germany, France, Belgium, Italy and Luxembourg have gone further, and continue to ban even those GM crops that have been approved by the EU. What America's

social conservatives have done to UK gaming companies, and Russia's siloviki are doing to international oil companies, EU protectionists are trying to do to American farmers.

All of this means that there is more going on in world markets than we usually consider. Yes, China hurts American companies by keeping its currency undervalued. Yes, EU and US agricultural protectionism mightily affect farmers in poor countries. And yes, decisions by the Federal Reserve Board's monetary policy gurus affect the value of the dollar and therefore the competitiveness and fortunes of companies the world over. In all of these and other cases, decisions by one country have profound effects on others.

But there is more to the story of international interdependence than most people tend to realize. A nation's legislation and regulations can have serious knock-on effects, some intended, some not, far beyond its own borders. If you doubt that, just ask a pension fund manager who holds shares in a UK gaming company, or an American farmer, or Microsoft, now engaged in a battle with EU antitrust watchdogs. Interdependence can bring the benefits of efficient division of labor, each country specializing in what it does best; but it also means a loss of sovereignty that at times can be quite upsetting.



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