

Report on the Consultation on Global Trade Preference Reform

Jaipur, India, 22 June 2009 (evening)

Even though developed country tariffs have dwindled down to less than 4% on a weighted average basis and are likely to go down further in the ongoing trade negotiations in the WTO, tariff preferences provided by developed countries to developing countries are still an attractive option for developing countries and particularly least developing countries amongst them to overcome their competitive disadvantages. CUTS International, Jaipur, India and the Centre for Global Development, Washington, USA conducted a consultation in Jaipur on 22 June 2009 to explore suggestions to make global trade preference programs more effective. This was the first of a series of consultations soliciting suggestions to make trade preferences more meaningful.

The consultations were lively and rich. Participants felt that for now developed countries should apply these preferences to LDCs and make them more meaningful. Rules of Origin should be simplified and made less burdensome, and supply side constraints should be addressed alongside the preference grant so that capacity constraints do not come in the way of LDCs from benefiting from the preferences. While the tariff preferences should have 100% coverage, expansion of such commitments to services sector can follow once the sectors of interest to LDCs are clearly identified and modalities of extending preferences to services thought through. This and similar consultations elsewhere will eventually lead to recommendations to be made to the developed countries next year.

Introduction

The suboptimal utilization of the preferential market access provided by developed countries to developing countries during the last thirty years, due *inter alia* to capacity constraints in the latter and low developed country tariffs coupled with certain design issues in the schemes, calls for an assessment whether they still provide the scope to be used as a tool for development, and if so, how. The Centre for Global Development (CGD) has constituted a Working Group on Global Trade Preference Reforms in April 2009 that is examining ways to make preferences more meaningful. As part of the work intended to lead to a set of recommendations by the Working Group to the developed countries, a consultation was held at Jaipur, attended by 25 participants from a dozen countries from Asia and Africa on 22 June 2009. The consultation was conducted jointly by CUTS and CGD.

The consultation was chaired by Pradeep S Mehta, Secretary General CUTS International and moderated by Atul Kaushik Director of CUTS Geneva Resource Centre. Randall Soderquist of CGD was at hand to provide a background, introduce the work by the Working Group so far and to explain the following most important questions identified by them:

1. Should DFQF treatment be applied to LDCs prior to the completion of the Doha Round?
2. Should countries that receive DQF be expanded beyond LDCs?
3. How can Rules of Origin/cumulation be effectively improved and harmonized across trade preference programs (developed and emerging economies)?
4. What complementary and facilitating measures can be used to increase the utilization rate for trade preference programs?
5. Is there a concrete proposal to address supply-side constraints for trade preference programs?
6. Is there a concrete proposal to address safeguards for quota-controlled products?
7. Should sectors like services be included in recommendations for trade preference program reforms?

Discussions

Some participants raised issues they felt were not adequately captured in the set of questions identified by the Working Group. A core concern on the GSP scheme of the US in particular related to lack of continuity and an unpredictable competitive needs test. Such changes altered the conditions of competition for beneficiary industries midstream leading to wide criticism. Developed countries should identify and implement key financial and technical assistance alongside these schemes for them to be effective. Apart from being long term these schemes should have built in solutions to create capacities in recipient countries to utilize the preferences. There was a view that under current global rules the problem for LDCs was not market access but private as well as public sector related supply side constraints. Another view was to totally do away with conditionalities of any kind for the schemes to succeed. FTAs among larger developing countries and developed countries were a handicap for LDCs in the hinterland, even if cumulation provided an opportunity for them. Also, GSP type schemes may actually be marginalizing small and medium sector exporters in beneficiary countries.

There was a consensus that DFQF should be implemented early and without any concomitance expected with the conclusion of the Doha round. Rather, development countries were expected to have already implemented this commitment in 2008 as stated in the WTO's Hong Kong Ministerial Declaration. Some felt that DFQF schemes should be permanent for predictability and incentivizing adequate investment. Moreover, it should have 100% coverage, or at the least be a meaningful market opening by identification of products of export interest to the LDCs until 100% coverage is achieved. One suggestion was to consider DFQF as only one part of a larger package for LDCs that has clear and objective criteria for both providing and receiving countries.

For practical reasons, particularly the difficulties in identifying low-income and needy developing countries, DFQF should first be applied to LDCs. There was a comment on inclusion of non-LDCs in AGOA of the US already, and another on the need to include non-LDCs where

specific products like sugar were at issue. Still another suggestion was that while the scheme may initially be implemented for LDCs specific needs of non-LDCs in situations like calamities may be addressed through a DFQF type scheme. There were few takers for inclusion of small and vulnerable economies in DFQF scheme as even that category was not sufficiently clearly defined and accepted by the international community.

Rules of Origin were considered one of the biggest handicaps in effective utilization of trade preferences. Various situations and examples were discussed, and a general recommendation was to make RoOs simple, predictable, easy to implement and with minimal administrative costs. Views varied from making them simple enough for any product exported from an LDC to benefit from preferences, to make them strong enough to ensure that LDCs benefit from investments and capacity creation at the national level rather than becoming conduits for products from developing countries from the same regional trading arrangement or neighborhood. One participant characterized effective RoOs as those that are good and liberal. Canada's example was supported for cumulation across LDCs and across regions, unlike both the EU and the US schemes. One participant, however, found regional cumulation as harmful for LDCs of the region. More participants were against harmonization than for it.

Addressing supply side constraints was the chief complementary/facilitating measure suggested for effective DFQF implementation. While some developed countries already had awareness raising exercises as part of their programs which should be continued and emulated, administrative costs of compliance were still often prohibitive enough for exporters not to opt for the benefits offered. Examples of successful stories and failures were given to stress ease of implementation for schemes to be meaningful. Targeted assistance on non-tariff barriers like TBT and SPS and trade related infrastructure could ameliorate supply side constraints.

The issue relating to addressing safeguards for quota-controlled products received few suggestions.

Expanding coverage of DFQF to services was supported by the participants despite the difficulties in identification of commitments of specific interest to LDCs other than those relating to movement of natural persons. Suggestions varied from an affirmative action criteria to redefining preferences, but there was clear acknowledgement of the need for more work in order to have any meaningful preferences in the services sector. Tourism services and services related to enhanced needs arising from increased potential of benefits from tariff related preferences were some sectors with potential benefits for LDCs.

Conclusions

The discussion was quite rich and diverse, aided by the presence of participants from LDC and non-LDC countries from both Africa and Asia. It was clear that existing preference schemes leave much to be desired, and that DFQF needed to be implemented forthwith. However, even then unless rules of origin are made simpler, clearer and less burdensome and steps were taken to address capacity constraints in parallel and in a targeted manner, such schemes may still not be effective or meaningful. DFQF needs to be limited to LDCs at least for now and implemented irrespective of whether the Doha Round progresses or not. Services could be brought under the scope of DFQF only once there was clarity on how to design the preference regime for services as well as identification of clear benefits arising for LDCs from commitments in the sector.

In thanking the participants, CUTS and CGD suggested that participants could send their suggestions later through email also.