

## **Report on the Consultation on Global Trade Preference Reforms Programme**

**New Delhi, India, 25 June 2009**

The Centre for Global Development, Washington DC has constituted a Working Group on Global Trade Preference Reforms to come up with policy recommendations and proposals for the reform of trade preferences. This consultation with selected Indian stakeholders was organised by CUTS International whose Secretary General Pradeep S. Mehta is a member of this Working Group.

Opening the consultation, Bipul Chatterjee of the CUTS Institute for Regulation & Competition stated the purpose of this meeting – that is to understand the views and concerns of Indian stakeholders on the effectiveness of various trade preference programmes and also to know their positions on India's duty free tariff preference scheme which has been offered to least developed countries. Elaborating on a set of six questions prepared by the Working Group to steer its work, he urged the participants to focus on “what works” rather than just stating problems. Those questions are as follows:

1. Should DFQF treatment be applied to LDC's prior to the completion of the Doha Round? Should DFQF treatment also include 100% product coverage and be permanent?
2. Should countries that receive DFQF treatment be expanded beyond LDCs? As an example, given their current economic situation, should a sub-set of SVE's also be included?
3. Are there approaches that would allow rules of origin/cumulation to be effectively improved and harmonized across countries? Are global cumulation, regional cumulation, or mutual recognition schemes viable candidates?
4. What complementary or facilitating measures can be used to overcome obstacles created by preference-giving countries -- examples being SPS and other such NTBs -- to increase the utilization rate for trade preference programs by preference receiving countries?
5. Are there approaches that could address in an effective and sustained way the supply-side constraints that now limit the effectiveness of trade preference programs?
6. Should services or other sectors be included in policy recommendations given their potential relevance to effective use of trade preference programs by preference-receiving countries?

Randall Soderquist of CGD stated that this project started three to four years ago when they got an idea to harmonise various preference programmes in the US and then those offered by other countries. The main aim is to provide a set of viable recommendations about existing and potential preference programmes. For this, CGD would like to have an objective discussion on how to make the preference programs work.

Nitya Nanda from The Energy Resources Institute stated that trade is important for development but we should not over emphasise its importance because it has side effects. Duty Free Quota Free (DFQF) access was not an issue before the Hong Kong Ministerial Conference of the World Trade Organisation. Lack of 100 percent DFQF means that certain tariff lines can be blocked such as those which are important for the economic development of a particular country. India cannot give 100 percent access to textiles from LDCs because many of them are a competitor of the former. Even though DFQF is desirable, what is important is the extent of its utility for other countries.

Another issue that Nanda raised was that if all LDCs supply the same type of products to the developed countries then there will be supply glut and prices would crash. Thus, LDCs must diversify their products. Most LDCs and even India import agricultural products. Thus LDCs cannot export agricultural products because they need to feed their population. Moreover LDCs must use their land to cultivate crops that will feed their population and not those which are useful for export such as flowers, etc. Food prices are rising despite agricultural subsidies in developed countries. Since food prices are rising while that for commercial crops such as cotton is not, what would African LDCs do? Therefore, production pattern in any country cannot always be export-oriented but should also be for their domestic consumption too and preferences should be aligned to this.

K. Murali from the Centre for WTO Studies said that enabling LDCs towards producing a particular type of products amounts to export-led industrialisation but this should not happen. Production should not be with the sole aim of exporting but also to satisfy domestic needs. For better utilization of preferences, countries should allow more Mutual Recognition Agreements (MRAs) and there should be more capacity building.

Pallavi Kishore from the CUTS Institute for Regulation & Competition said that preferences aim at granting market access and that international community cannot ensure what the government of a country does. It is the policy of a national government as to what it wants to do internally. Randall said that it was important to ensure diversification so that all the countries did not do the same thing. Saloni Jha from the Federation of Indian Chambers of Commerce and Industry also stated that preferences should respond both to domestic and export needs.

Chandrima Chatterjee from the Apparel Exports Promotion Council brought up the issue of compliance with preferences which she termed time consuming and difficult especially due to lack of harmonisation of standards. Pallavi Kishore said that standards applied to preferences making them less useful. Randall said there were different ways to harmonise standards such as at regional or global level. Canada has global harmonisation but others argue on regional harmonisation. We cannot do anything unless we harmonise standards but this is politically difficult. According to Chandrima, harmonisation can come later; at the moment an important issue is that of clarity among different standards. Given the differences in cost structure in different countries, regional and not global harmonisation is possible. One participant stated that there are private standards and that the European Union (EU) was now coming up with European standards. Another participant said that different importers use different private standards. According to Nanda, it was an individual's preference to have standards of her choice and could not be controlled by the government. Bipul Chatterjee from CIRC wondered how exports were going on despite these problems and there comes the importance of networking within a global supply chain. Randall said that governments can agree to a bottom line and can recognise it mutually.

One participant said that even though preferences were mainly for LDCs, they could not export the requisite products. Ankur Mahanta from the Confederation of Indian Industry said that trade facilitation is a key for better utilization of preferences. He also said the Global System of Trade preferences was an agreement between developing countries to provide preferences to each other and that developing countries are competing with each other in the Generalised System of Preferences (GSP). Since South South trade is rising, this issue is important.

In this respect, Randall wanted to know how to create a better preference programme that India can implement. Ankur Mahanta said that Indian industry would not want zero percent tariff preferences for other countries unless it is bilateral. Snigdha Moitra of the Centre for WTO Studies said that India was offering zero percent tariff to 17 LDCs but it had a sensitive list in the interest of domestic producers. Pallavi Kishore said that India had to face sensitive lists elsewhere and was making other countries face such lists in the Indian market. According to Randall, DFQF treatment should include 100 percent product coverage. Bipul Chatterjee stated that producer and consumer interests should be balanced while giving preferences.

Shaju Mangalam from the Centre for Indian Textile Industry said that textiles exports from India were going down because China was taking advantage of preferences given to Bangladesh, etc by manipulating rules of origin provisions. Therefore, he wanted to know if there was any effective approach for improving the implementation of rules of origin provisions. Randall responded that such circumvention is not taking place in case of imports to Canada because it allowed 60 percent cumulation and 40 percent value-addition for all LDCs.

Navneet Sharma from CIRC said that GSP has to be a subset of trade as an instrument for welfare. But does it lead to development of competitive capacity? Since there is no agreed definition of vulnerability, there is no definition of Small and Vulnerable Economies (SVEs) in the WTO. According to Bipul Chatterjee, it is better not to have such a definition in the WTO. Navneet Sharma said that there has to be objective criteria to give DFQF treatment to SVEs. Randall Soderquist made an important point when he said that the criteria of the United Nations can also be arbitrary and it has to be decided on a case-by-case basis. Bipul Chatterjee suggested that preferences should first be decided commodity-wise keeping in mind consumer welfare in importing countries and then they should be offered to those countries who can accrue maximum welfare (employment, etc) from producing such goods. This approach would help preference programmes gaining more political buy-in in importing countries.

Navneet Sharma said that awareness of preference entitlement along with market intelligence such as knowledge about demand pattern is also an important issue. A large part of the solution has come from private actions. So the preference-giving countries should interact more intensively with the preference-receiving countries. Randall said that unfortunately that is not the case. R. S. Ratna clarified that in India's DFTP Scheme there is scope for consultation with preference-receiving countries and they can make requests.

R. S. Ratna raised the perennial question regarding the utility of trade and trade preferences for development. He said that case studies are needed to prove that preferences lead to development.

He went on to say that DFQF should be made operational before the Doha Round is concluded. Developed countries should give 100 percent product coverage to LDCs but developing countries need flexibility otherwise no developing country will come forward to offer any DFQF at all. A single DFQF scheme with one rules of origin should be devised for all developed countries as that would bring transparency. Preference erosion should also be a part of this programme because preference receiving countries would lose their preferences in a few years. He also stated that the LDCs will not benefit at all if the debate on SVEs continues. Therefore, LDCs should be catered to first and SVEs can be catered to later. Cumulation can be done according to each agreement. Also a commitment is required from the developed countries to provide technical assistance currently lacking in GSP schemes. He also said that constraints were not only on the supply side. In fact there is deliberate delay in providing market access to products being produced in large quantities. He also highlighted the fact that transfer of technology is not being addressed in any forum. Bipul Chatterjee said that a preference programme should have provisions for graduation and that should be linked with an obligation on the part of preference-giving countries to provide technical assistance for skills and technology development in preference-receiving countries.

As regards services and preference programmes, Randall explained the issue with the help of an example – can the agricultural sector of LDCs be made more competitive through better coverage and use of telecommunications? According to Ratna, this is a decision to be taken by the LDCs because merely opening a sector is not the solution. These sectors are already open but there is not much foreign/domestic investment in them. Bipul Chatterjee wondered why there is not investment on services in LDCs. An investor invests only if expected returns are high and that will happen if there is an expanding market; demand creation is a key and if such demands can be created through trade preferences then that will be a good indicator for the success of such a programme

Randall suggested that there should be continuous and comprehensive dialogue between preference-giving and preference-receiving countries to encourage diversification in the latter. Bipul Chatterjee remarked that the consumption basket in developed countries is not increasing and is expected to decrease in future. There are changes in consumption patterns as individual income increases. If one country gets more access to the US market, then another country will have less market access and may need compensation. All these factors are to be taken into account while determining a trade preference programme and such programme should change over time to take into account economic dynamics. Randall said that diversification cannot be an important element in a trade preference programme but it is an important issue for a country's national development strategy.

At the end of the meeting, Randall Soderquist explained how this initiative would be taken forward. The Working Group would have another round of consultation in October 2009. Then a report will be drafted and a final meeting will be held in February 2010. Countries such as UK, Canada, Sweden are interested in this work which would help in getting support to a critical mass of recommendations. The US position is not clear. According to Bipul Chatterjee, some key LDCs and developing countries need to be taken on board with respect to those recommendations so that they can buy those recommendations and put pressure on developed countries; otherwise it may be termed as another donor-driven initiative and may not be looked upon favourably in some developing countries.

Bipul and Randall thanked the participants for their time and thoughts, and requested them to remain in touch as this work progresses.