

Proposal
of the
Foreign Trade Association, FTA,
for the Scheme of Generalised Tariff Preferences
as from 1 January 2006

1. Preliminary remarks

In accordance with its offer made within the context of the United Nations Conference on Trade and Development (UNCTAD), the European Community opened generalised tariff preferences, commencing in 1971, in respect of certain agricultural and industrial products from developing countries. With the abolition of tariff quotas and tariff ceilings an exclusive tariff solution was introduced on 1 January 1995 due to which the preferential scheme is much better foreseeable. On 1 July 1999 and 1 January 2002 further amendments of the scheme were made with the aim to differentiate more between the product specific and country specific preferential advantages. This also put more emphasis on development policy character of the scheme. At the same time, during the last revision the reduction of the product sensitivity grades from four to two - as requested by the FTA for quite some time - was effected.

Since a new scheme of generalised tariff preferences should have originally entered into force on 1 January 2005, the FTA already submitted a position paper in February 2003 in which the most important elements of a new scheme of generalised tariff preferences were indicated from the point of view of the importing trade. The present position paper is the updated version of the paper dated February 2003 in which new trade and development policy aspects are being taken into consideration

2. Elements and functioning of the present system

The present scheme of generalised tariff preferences is characterised by

- **a comparatively small preferential advantage** for products with relatively high Common Customs Tariff ad valorem duties;

- **removal of tariff preferences** when certain economic criteria are being reached (graduation mechanism);
- **additional tariff preferences** vis-à-vis countries which observe certain labour rights or which apply acknowledged standards and guidelines concerning a sustainable management of tropical forests as well as
- **special arrangements** to combat drug production and trafficking in connection with environmental and social policy aspects.

With a view to an as just as possible and balanced granting of preferential advantages there one can objectively not have any objections against their differentiation as a function of a product-specific competitiveness including also environmental and social aspects as well as, if necessary, further criteria. However, the question must be permitted if such a differentiation at an **average tariff rate which will soon be under four percent** is justified and also suitable to push the economic development of the benefiting countries.

From the point of view of the FTA the answer to this question is a clear no .But this does not mean that we are against the development policy objectives of the Doha Development Agenda. Typically enough, also within the framework of this agenda preferential tariffs are of minor importance; much more frequently the importance of **technical assistance** ('capacity building') is mentioned in order to create competitive export structures.

3. Requirements concerning a new preferential system

With a view to the facts given above, there are several basic requirements which a new preferential scheme has to meet which has to face a changing customs policy and economical sphere until the year 2015. Thus, the musts of such a scheme are:

- to fulfil as far as possible its **development policy task**,
- to provide an **as simple as possible handling** for the developing countries as well as for the importers,
- to ensure that the scheme is **transparent** and **foreseeable** for all parties concerned as well as
- to limit to a few elements that are **in conformity with the system** and to avoid an exaggerated graduation of the preferential advantages.

4. Proposal for the scheme of generalised tariff preferences as from 1 January 2006

a) Main characteristics

Based on the described profile of demands the **classification of the developing countries** so far – normal developed and least developed – should be maintained as well as the two **sensitivity degrees** for products – sensitive and non-sensitive. But apart from these there should not be any further differentiations.

Which countries – apart from the LDCs, the privileges of which will not be violated – will on principle benefit from the tariff preferences should be determined by means of the **GNP per capita**. For the granting of preferences the following is valid:

- Imports of all agricultural and industrial products from the LDCs take place irrespective of their sensitivity degree **without levying of duties and fees having the same effect**.
- On imports of sensitive agricultural and industrial products originating in the other developing countries **a duty amounting to 50 % of the most-favoured nation tariff rate will be levied**. If this leads to a duty rate of less than three percent it will be completely suspended.

b) Exclusions

The existing regulation according to which countries that have already exceeded a certain development level are completely **deleted from the list of the beneficiary countries** should be maintained as these countries can no longer be called developing countries. A period of one year should pass between the finding of this fact and the exclusion of the country concerned.

Moreover, the temporary **withdrawal of the granting of preferences due to gross misconduct** of the beneficiary country should be maintained. However, such a withdrawal should only take place following comprehensive consultations of the country concerned in order to maintain as far as possible the development policy approach of the preferential system.

In the interest of a simple handling and predictability, a complete **renunciation of sectorial exclusions** for the granting of preferences would be desirable. However, with a view to the enormous sectorial supply potential of a few developing countries it would not be understandable if, in addition, these countries were also granted preferential tariffs. In this case, the emerging tendency to initiate safeguard clause procedures would continue to increase. Therefore, the possibility to effect sectorial exclusions has to be accepted.

c) Special arrangements

The controversial special incentive arrangements in respect of countries that committed themselves to observe **labour rights** as well as the **Standards of the International Tropical Wood Organisation** shall not be incorporated into a new preferential scheme. Typically enough, these special arrangements so far were of no importance in practice.

Moreover, we are opposed to the idea to grant special tariff preferences for **products which were produced under particularly progressive social and ecological conditions**. What has to be said against this are not only fundamental reasons but also the fact that these characteristics can hardly be examined in practice and as a rule by looking at a product one cannot see under which conditions it was produced and from where the components and auxiliary products used in the production come. In case of irregularities this would mean a higher risk for the importer which from the point of view of the importing trade cannot be accepted.

We do not wish to be misunderstood: The European retail trade gives **top priority to the observance of environmental and social standards**. Trade declares its support in favour of the social responsibility of the enterprises and takes suitable measures to improve the social performance of its suppliers. To this effect, there is no need of an additional incentive in form of tariff preferences which would only complicate the system and increase the imponderables for the developing countries and importers.

d) Origin rules

A new scheme of preferences has to be accompanied by a **simplification of the rules of origin** which has already been demanded for years. The FTA considers the application of the non-preferential origin rules to be necessary which on principle require less working and processing steps than the present preferential origin rules in order to acquire the status of originating products. This would also offer the advantage that a cumulation of origin arrangement which easily leads to complications would become obsolete. Also in the course of an increasing division-of-labour and with a view to products which from the technical point of view are more and more sophisticated it is not to be seen why the developing countries have to set up for these products production plants of their own.

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