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EDITORIAL: LOOKING FORWARD
TOWARDS 2005

As the end of the year 2004 begins to draw to its close, the FTA can look back on a demanding yet successful year. As we start to approach 2005, we look forward to three main challenges in international trade.

The first is the current round of trade negotiations in the World Trade Organisation (WTO). The Doha Development Round has finally regained momentum thanks to the agreement on the so-called "July package". Though the package only provides a framework for the coming negotiations, it was a major step forward and has opened the door for substantive content. Our hopes are that the next WTO Ministerial, planned for December 2005 in Hong Kong, will lead to a successful conclusion to the Doha Development Agenda. We will continue to contribute with our input into the process and make the positions of European commerce clear.

Another highly significant challenge is the end of the Agreement on Textiles and Clothing (ATC), which will expire by the end of this year. The main topic at a recent FTA conference in Brussels was whether we can look forward to real liberalisation or whether we are facing new forms of protectionism. The liberalisation of the textile sector provides great opportunities for consumers, retailers, supplier countries, and even for the European textile and clothing industry as it greatly increases the chances for improved global market access. Even so we are not expecting a straightforward development, but rather one which implies restrictive trade measures. The FTA is now preparing to protect the interests of European commerce in case of a new protectionist climate.

The third challenge the FTA has to look forward to is securing the fundamentals of the Business Social Compliance Initiative (BSCI). After having been involved in the discussion on corporate social responsibility (CSR) for quite some time, the FTA set up the BSCI to monitor social standards in the supply chain. The BSCI has now been put to practice, and the project is steadily growing in members, recognition and support. Even so, the FTA looks to broaden its base. It is crucial to find allies in the supplier countries who are willing to take over the improvement process for social standards in the long run. The cooperation on international level with similar initiatives also has to be developed.

It is thus with a mixture of optimism and concern that we view the coming months. We will continue to exchange our views and experiences with our members and friends, and look forward to a constructive dialogue on the challenges to come.

Jan A. Eggert
Secretary General

THE JULY PACKAGE DOES NOT WRAP WTO NEGOTIATIONS UP, BUT OFFERS HOPE FOR THE FUTURE

In the last twelve months, the WTO has proved that the participation of more than 140 countries in multilateral trade liberalisation is difficult, but not impossible. Despite the uncertainty and extended time-schedule caused by the failed ministerial in Cancún, European traders are optimistic that the current round will lead to a new WTO agreement.

As early as in October 2003, shortly after Cancún, the FTA voiced the European traders' continued expectations of the round:

- The WTO members must stick to multilateralism, as bilateralism leads to fragmentation and uneven development.
- Trade liberalisation must continue but not by any means; a minimum set of rules must find its way into the WTO agreements.
- Plurilateralism could be possible in some areas and under special conditions, such as the Singapore issues of investment and competition.
- A system of preferences for some developing countries and least developed countries should be maintained as a form of development aid.

Throughout the spring of 2004, when prospects looked bleak, the FTA pushed for a continuation of the Doha Development Agenda. It was obvious that an absolute precondition for further negotiations was that consensus was reached on the question of agricultural liberalisation. The FTA made its position clear in March (see the FTA position paper "Reviving the DDA after Cancún" on www.fta-eu.org), in which it advocated the removal of trade-distorting export subsidies in the agricultural sector. We therefore wholly supported the EU offer in May 2004 to phase out all export subsidies for agricultural products.

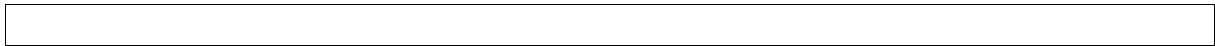
The EU offer turned out to be decisive for continued negotiation. Even though the prospects for success initially seemed doubtful when the WTO General Council met in Geneva in July, the Council finally agreed on the so-called "July Package". The Package, which together with the 2001 Doha Declaration serves as the basis for the future negotiations, provides a framework agreement on some of the most important issues for the round such as agriculture, market access for non-agricultural products (NAMA), liberalisation of services, the Singapore issues and development aspects.

Many aspects of the July Package correspond to the FTA position such as the agreement to cut down tariffs for non-agricultural products via a general, non-linear formula (see "FTA position on the 5th Ministerial Meeting in Cancún" on www.fta-eu.org). The liberalisation of services – including the distribution sector - is of particular importance for FTA members ready to sell and invest in third countries. The FTA fully supports the demands in the July Package that call on WTO members

to table and improve their services offers by May 2005. Another main item for FTA members, promoted by the FTA, is the agreement to take up negotiations on trade facilitation, especially the reform of customs procedures.

Though the FTA regrets that the other three Singapore issues of investment, competition and government procurement will not become part of the DDA, we realise that this setback for European business could not be avoided considering the difficult negotiation climate after Cancún. The FTA therefore supported the EU to make this move (see “Reviving the DDA after Cancún”).

The July Package was really a last-minute agreement to save the DDA, and it has momentarily diverted the threat of a complete breakdown of the round. A failure would not only have halted the negotiations for at least one year, it would have seriously undermined the credibility of the WTO as an institution. The Package has not wrapped up the negotiations, but once again, WTO members have proven their continued commitment to further liberalisation on a multilateral basis. Though it is far too early to predict any outcome of the round, the Package offers a glimmer of hope for the future. The FTA will continue its efforts to ensure that real trade liberalisation occurs, so that the Package does not end up an empty box.



EXPORT LICENCES AFTER THE REMOVAL OF QUOTAS

In connection to the phasing-out of the Agreement on Textiles and Clothing, the question arose as to how long authorities of supplier countries have to grant an export licence for the export of textile and clothing products subject to quotas. We asked the EU Commission to take measures to ensure that goods shipped before the end of the year and put into free circulation in the EU after 31st December 2004 should not be subject to any more export licences.

Nevertheless, the Commission demands export licences for goods that have been shipped until the 31st December 2004. In practice this will lead to the necessity for import licences for the first months of 2005. FTA believes that this approach will lead to many complications for both administration and business. Moreover, FTA is still waiting for a precise proposal of the Commission for an amendment of regulation (EEC 3030/93), which would give us at least certainty about what's going to happen.

THE EU ORIGIN MARKING SCHEME CONSULTATION PROCESS – THE DISSATISFYING RESULTS

The EU Commission has terminated the consultation process concerning an EU origin marking which was initiated at the beginning of this year and published it in a Paper with the title "Consideration of an EU origin marking scheme, consultation process, analysis and next steps".

A remarkable aspect of this Paper is that although half of the 27 federations and NGOs included in the consultation process - among them the FTA - advocated the maintenance of the status quo, the Commission has continued to pursue the subject in an undeterred manner. It prefers the approach of a voluntary marking of EU goods and a compulsory origin marking for certain imported consumer goods.

This decision clearly shows once more that the Commission pays much more attention to partial interests of European producers which are in a competitive weak position than to the equally legitimate interests of the trade sector and other circles interested in global trade liberalisation. Moreover, the question arises as to the point of pursuing such costly consultation processes with stakeholders if the results of the consultation are not taken into consideration in the decision-making process. We shall make this clear to the Commission which in a next step will confront the Member States with this paper.

REACH – NOW ON A PARLIAMENTARY STRETCH

Since its presentation by the Commission in October 2003, the REACH proposal has started a difficult institutional decision-making process. The Commission had originally hoped to get its controversial proposal through first reading in Parliament before May 2004, but this failed because of internal wrangling between the EP's environment and industry committees over who should take the lead on this dossier.

Attempts by industry to delay the adoption of REACH or water down its content were denied by recent developments in Parliament and by the Dutch Presidency's determination to press ahead with the proposed chemicals legislation

Meanwhile, the environment committee has been confirmed as the lead parliamentary committee in charge of REACH, confirming the Italian Socialist [Guido](#)

[Sacconi](#) as the main rapporteur. He will be shadowed by Ms [Lena Ek](#) (Sweden, ALDE) in the industry committee and by Mr [Hartmut Nassauer](#) (Germany, EEP-ED) in the internal market Committee. A report will also be drafted in the new Committee on International Trade by Ms Godelieve Quisthoudt-Rowohl (Germany, EEP-ED).

Many studies have been published within the last months, trying to determine the financial impact REACH would have on industry. The results differed to a big extent and the credibility of these studies is highly questioned. A new impact study, launched by the European Commission, shall now assess the workability of REACH for special sectors, one of these sectors being the textiles industry. The FTA has the impression that detailed discussions within the EP Committees will only start after the publication of these sector studies.

The Dutch Presidency will organise a workshop in October to summarise the impact studies made on REACH to date. A common public hearing gathering the three committees in Parliament in charge of the REACH dossier (Environment, Industry, and Internal market & Consumers) is to be held in October too.

Opinions within the European Council are split. Some countries promote the principle “One substance – one registration” (instead of “one producer/importer – one registration”). The FTA called for this principle already in its second position paper on REACH dated September 2003 (see www.fta-eu.org) and still supports this approach. Others promote the «Risk-and-exposure principle» instead of the tonnage-based approach. This principle could already be implemented for importers of substances in articles (in combination with the tonnage-threshold) but not for the producers and importers of chemical substances.

The Council wants to discuss REACH until the end of this year and is aiming at a political agreement with the European Parliament next year. A common position of these two institutions is expected for the second half of 2005.

At present the WTO is examining the compatibility of REACH with the WTO Agreement on Technical Barriers to Trade (TBT).

The FTA is focussing on the impact of REACH on importers of articles. This issue is being neglected by the institutions, as REACH concerns primarily the chemical industry. The achievements made in the past by the intervention of the trading sector still need to be improved and the FTA will actively take part in the further discussions.

**BSCI - THE FTA SOCIAL
STANDARDS INITIATIVE
ENTERS INTO PRACTICE**

The Business Social Compliance Initiative (BSCI), initiated by the Foreign Trade Association (FTA), has made further progress. The development phase of this European monitoring system for social standards has been achieved in March of this year. Now the practical implementation is being pushed forward by 26 members from the Netherlands, Germany, Switzerland, Sweden and Spain. New members from Finland will join at the beginning of 2005.

The BSCI provides various management instruments which are used for information of the parties involved and the steering of the process. Besides a comprehensive manual and a database there are also an audit questionnaire, audit report and audit guidelines ensuring an equal conduct of audits and assessment of audit results made by different independent audit companies.

The BSCI promotes a development oriented approach with suppliers' information about the system and the functioning as a first step. This is followed by audits and a qualification phase with support from the BSCI Members or service providers aiming at an improvement of their social performance.

First awareness raising measures were conducted in Tirupur end of August and more workshops are being planned. Also the auditing companies entitled to conduct BSCI audits – all accredited at Social Accountability International (SAI) – have been involved in the system. Audits following the BSCI scheme will be issued now.

At the first official meeting of the BSCI Members Board at the end of September, the directives for the activities of the next months were discussed. The FTA leads discussions with numerous companies to enlarge the level of participation in the BSCI. Further discussions have been started with development aid organisations aiming at involving these in the process and to help ensure the sustainability of the system.

All interested retailers, importers and manufacturers can join BSCI regardless of FTA membership. Further information will be available on a website soon. For questions regarding membership, functioning and the state of play contact Lorenz Berzau (email: Lorenz.berzau@fta-eu.org) and Jan A. Eggert (email: jan.eggert@fta-eu.org).

SUSTAINABILITY IMPACT ASSESSMENT AND DISTRIBUTION SERVICES

SIA stands for a special kind of study, launched and paid by the European Commission. The so-called 'Sustainability Impact Assessments' accompany negotiations on trade liberalisation and are linked to bilateral or multilateral agreements

- by analysing trade negotiation issues with respect to sustainable development.
- by informing negotiators of the possible social, environmental, and economic consequences of a trade agreement.
- by providing guidelines to help in the design of possible flanking measures, whose sphere of activity can exceed the commercial field (internal policy, capacity building, international regulation), and which makes it possible to maximise the positive impact and to reduce the negative impact of the trade negotiations in question.

When this new instrument came up, the FTA emphasized that SIA must not become the source for new barriers to trade liberalization. They should not be a "conditio sine qua non" for start and process of international negotiations (see www.fta-eu.org).

Fortunately, the European Commission meanwhile takes the same approach by stating on its homepage

http://europa.eu.int/comm/trade/issues/global/sia/index_en.htm :

"The objective of an SIA is not to assess the desirability of further liberalisation overall (the tool is not able to tackle so broad a strategic question) but rather

- to provide elements of information on the possible range of the impacts, thus making it possible to ensure the final decisions are the optimal ones.
- to accompany and optimise their implementation, which is often essential for the sustainability of agreement. "

The FTA supports this instrument and is actively involved in the discussions on the details of the overall methodology as well as on the content of some individual studies.

The outcome of the SIA on the distribution sector is of great interest for FTA members. The consultant in charge is assessing the impact of investments in developing countries. Some of the questions concern the effects of European retailers opening stores in third countries. Does the local economy improve through the creation of new jobs and efficient supply-chains or will it suffer from small local retailers falling out of business? To what extent does the quality of consumer goods improve and how big is the influence of the European company's social standards on the local working conditions?

The Mid-term-report highlights these and other aspects (see <http://idpm.man.ac.uk/sia-trade/DraftMTRDist30July.pdf>).

The FTA welcomes the emphasis the report puts on the different activities of FTA members in the field of social responsibility. The mentioning of several sustainability reports as well as the FTA-BSCI project shows the thoroughness with which the consultant aims at drawing an objective scenario. The positive impact of investments in the distribution sector has good chances to be taken into consideration. This is important as NGOs are closely monitoring the SIAs and hope to find arguments against globalisation.

The final report is expected for the end of 2004. It will be based on specific country studies for Malaysia, Kenya and Brazil. Advantages and disadvantages of foreign investments in the distribution sector will be highlighted. However, it will hopefully not contain any political advice to the European Commission on how to proceed within the negotiation procedure. Political questions must be reserved to the institutions and cannot be prepared or taken by free-lance consultants. The FTA will continue to contribute data and information and will monitor the development closely.



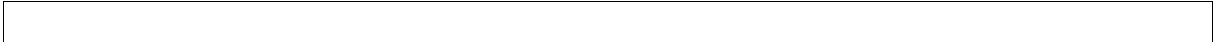
A DEFINITE
PREFERENCE AGAINST
COLLECTIVE
PREFERENCES

The FTA is highly concerned by the idea, proposed by Trade Commissioner Pascal Lamy, that so-called “collective preferences” should be allowed into the multilateral trading system. Collective preferences can in sum be described as societal preferences or values. According to Lamy, the interaction between cultures that results from multilateral trade may sometimes cause a collision of societal values. In his view, in order to be able to pursue trade liberalization, governments must take responsibility for these collisions. One of the ways in which to justify globalization would thus be to allow for collective preferences to bar certain goods, the existence of which are not deemed to be compatible with a society’s collective preferences. This could be done by introducing a special safeguard clause into the multilateral trading system.

Though the FTA agrees with Lamy that responsibility must be taken for the social effects globalization has on different communities, we completely disagree with the introduction of collective preferences. We see the allowance of such preferences as the opening of Pandora’s Box – rather than justifying globalization such an act may actually serve to undermine the multilateral trading system; rather than protecting free trade, collective preferences may well lead to an increased protectionism.

Apart from the huge theoretical problems that arise in connection with collective preferences, such as clearly defining what “societal values” are, the concept poses many practical problems. The first is whether such a concept is actually doable; how would such a regime be administered? The second is whether the introduction of collective preferences would be at all compatible with international trade law, particularly regarding the extraterritorial effects of such a regime.

The FTA considers it highly unfortunate that the Commission has brought collective preferences onto the agenda. Though we welcome discussion on globalization, we believe that the concept is dangerous and would lead to increased uncertainty in multilateral preference. Therefore our strong preference – collectively with a huge part of the business community – is that collective preferences are scrapped as soon as possible.



A NEW
SIMPLIFIED GSP? – FTA
COMMENTS ON THE
COMMISSION’S
COMMUNICATION

The FTA has made an initial assessment of the Commission’s Communication on its considerations for a new system of preferences. Though the Communication has the honourable intention of simplifying the existing complex scheme with a simpler GSP, the Communication raises some questions.

The Commission proposes to primarily grant preferences to the countries considered most in need of tariff advantages. Besides the 49 least developed countries (LDCs) the proposed GSP will apply to land-locked countries, low income countries, countries with logistical difficulties as well as countries with completely undiversified economies. This approach would mean that right from the beginning countries like Brazil, China, India, Indonesia and Pakistan are excluded from the GSP. From a development policy perspective this might not be opportune.

Another question is whether the Commission approach on determining beneficiary countries is practicable. For example, Bolivia, a country that presently still benefits from the drug regime would be able to get preferences as it is a land-locked country. Countries like Peru, however, would not be able to benefit from the GSP as it has access to the sea. Moreover, it must be considered that most of the land-locked and low income countries are LDCs anyway, and that many of them also benefit from the ACP preferences.

The repeated comment that in future there will only be three GSP arrangements in place of five is de facto misleading. The “Everything-But-Arms” initiative was above all a slogan geared towards the media to advertise a fact that had been true for quite some time, as the LDCs already benefited from duty exemption. Only agricultural products were added, of which, however, the most important ones – sugar, rice and bananas – were excluded.

The so-called GSP+ arrangement has been created to replace the current special incentive-based arrangements. This contributes toward the simplification of the scheme. We have advocated an abolition of all special arrangements, a position

which seems to be impossible to convey politically. The decisive point is now what form the GSP+ arrangement will take concretely, as well as the extent to which it is used. GSP+ also brings with it a range of definition problems, as it is difficult to clearly define a difference between sustainable development and governance.

In the modified version of the FTA position paper of April 2004 we advocated that graduation should be maintained, despite the fact that we had some fundamental reservations. The Commission also recognises the necessity of such an arrangement. Instead of the current graduation criteria, which are extremely complex, the Commission proposes that the share of the preferential imports into the EU should be the only criterion. By doing this the Commission complies with the request to simplify the scheme, yet such a proposal would be to the disadvantage of the undiversified economies. It remains to be seen how far these economies benefit from their special status.

If the ideas of the High Level Group on Textiles and Clothing were taken into consideration, the preferences should already be abolished if a preferential import share of 2 % is exceeded. This share is too low to be seriously contemplated – it must at least be quadrupled.

The replacement of the 34 sectors especially created for GSP by the 21 sections in the Combined Nomenclature is surely a step in simplifying the GSP. However, such a simplification greatly decreases the possibility of differentiation. For example, Section XI comprises textiles as well as textile articles which at present belong to different sectors. Section XX “Miscellaneous Manufactured Articles”, which is also of relevance to us, comprises varying goods such as furniture on the one hand and toys on the other hand.

The Commission wishes to maintain at least the present preference margin of 3,5 percentage points below the most-favoured-nation tariff. From our point of view a reduction of at least 4,5 percentage points would be necessary in order to achieve real tariff advantages. This general arrangement should also be applicable to textile and clothing products, whose preference margin presently only amounts to 20 % of the most-favoured-nation tariff.

Without the points made above, a final judgement of the ideas of the Commission is only possible when the respective draft law is available. The FTA eagerly awaits this draft, and continues to be prepared to contribute with its views.