

Chair's Reference Paper¹

LONG-STANDING PREFERENCES AND PREFERENCE EROSION

Background

Paragraph 9 of the Hong Kong Ministerial Declaration (WT/MIN(05)/DEC) states, *inter alia*, that:

"We reaffirm that nothing we have agreed here compromises the agreement already reflected in the Framework on other issues including...long-standing preferences and preference erosion."

Paragraph 44 of the Agreed Framework (Annex A of WT/L/579) states that:

"The importance of long-standing preferences is fully recognised. The issue of preference erosion will be addressed. For the further consideration in this regard, paragraph 16 and other relevant provisions of TN/AG/W/1/Rev.1 will be used as a reference."

¹ The headings used in this reference paper are indicative only.

Structure for Discussion

Introduction

1. Minister's have acknowledged the importance of long-standing preferences/preference erosion. At the outset I think there are four general reflections that might be worth making.

2. First, I think the core of what we are addressing is the issue of preference erosion as it relates to long-standing preference schemes. I would have to say that, as the Chair, I don't see the July 2004 Agreed Framework as necessarily a model of analytically rigorous clarity on how the two concepts relate. But I think it is at least fair to say that the yoking together of the two elements is surely significant. Or, to put it more clearly, I think we would be right to see our task as focussing on the issue of preference erosion as it relates to long-standing preference regimes. It's pretty clear from the context that that is what we are to address and that we are not engaged in anything more academic than that.

3. Second, I think that when we actually look at the issue from a practical perspective we are dealing with a relatively narrow set of product-specific issues. I by no means seek to understate the importance of the issue but my sense is that we should be clear that while the issue is difficult, its scope is not to be overstated.

4. Third, I think it bears emphasis that nobody is trying to read things out of the framework and that there is an inherently constructive zone to work on. Nobody is rejecting the view that preference erosion is to be addressed. And, on the other hand, those who are concerned about the impact of preference erosion are not – at least not to my ears – actually arguing that there should be no further liberalization of products which receive long-standing preferential market access. Conversely, I have heard beneficiaries of long-standing preferences indicate that despite the benefits that they receive from the existence of these schemes (and thus what they may lose), they recognise that these benefits will be eroded as a result of further tariff liberalization and they are looking at how this process can be effectively managed to smooth the transition. This leads me to believe that no Member is seeking to use the issue of preference erosion as a means to avoid further liberalization, which puts us in a reasonable zone to work from. I see that there are significant gaps to be bridged, but it is important not to overstate them.

5. Fourth, it is a fact of life that we cannot expect to properly resolve the issues at stake here independent of how we deal with other elements of the modalities. Most fundamentally, that means the tariff cuts to be applied, although there are clearly other elements that impinge, at least in principle if not in practice, whether those be sensitive products, tropical products, tariff escalation, commodities etc. That is not an argument for neglecting to address preferences in a timely way – as indeed we can. But it is just to underline that we simply have to be cognisant of the reality that these issues will need to be coordinated at a certain point and some things cannot be expected to be settled unless, and until, other things progress so that one can see, if not the whole picture, something at least that is a navigable contour.

Scope of Preference Erosion

6. In developing our approach to addressing preference erosion, I believe it is important to realistically scope the issue at hand. Once we have a better understanding of the scope we will be in a better position to determine the appropriate approach. A recent WTO Staff working paper² notes, in the context of non-reciprocal trade preferences in the Quad countries, that the risk of preference erosion is small, but some countries are particularly affected in particular product lines. The paper reports that the risk of preference erosion for agricultural products is concentrated on a relatively

² Non-Reciprocal Preference Erosion Arising From MFN Liberalization in Agriculture: What Are The Risks? – WTO Staff Working Paper (Low, Piermartini and Richter), ERDS-2006-02, March 2006.

small range of products, with much of the impact in fact occurring in one export market (see Annex 1).

Possible Means of Addressing Preference Erosion

7. The question before us then is: how do we address the erosion of long-standing preferences? We have been given a degree of orientation by Ministers on this question – we are to use, as a reference, paragraph 16 and other relevant provisions of TN/AG/W/1/Rev.1 (see Annex 2). We cannot read this form of words out of the Agreed Framework as if they are meaningless. They are clearly meant to be something we need to work on. That does not mean that these provisions constitute, *a priori*, the approach we are to follow: if Ministers had meant that they would have said it unambiguously in so many words – that would have been our Agreed Framework text. It falls short of that. But they have told us that we are not to ignore that paragraph. On the contrary we are pretty clearly directed to go quarrying in it. The way I see it is that in searching for an agreed approach we should be re-examining these provisions and identifying what elements, if any, may indeed serve as a useful basis for our discussions. We are not meant to do that by just saying “oh well, I don’t accept that particular element” and leaving it at that. The logic of something being a “reference” as opposed to a piece of old wallpaper is that it should act as a testing ground. We should approach the specifics in it by testing whether there is in fact a coherent rationale, consistent with the overall July 2004 Framework itself, to modify or vary the more precise approaches laid down there.

8. It has been pointed out that addressing preference erosion does not necessarily limit the solution to being trade-based. Indeed non-trade-based solutions, or combinations of trade-based and non-trade-based solutions, may present the most appropriate means of addressing preference erosion. I would note that elements of paragraph 16 of TN/AG/W/1/Rev.1 indicated both possible trade and non-trade solutions. As such, I think, we need to keep an open mind to all the possible options that may be available to us.

9. The following list presents a number of possible options which have been suggested in the past. I am not at all arguing for a theoretical approach in the abstract. In that regard, the list below is of limited practical value: it simply notes what has been placed on the table or suggested. All I would want to underline is that we will not practically resolve this issue by debating approaches – whether on this list or not – in the abstract. It will come down to what concrete measures could, or should, be applicable to concrete liberalisation options, and as regards the latter, we are not at this point in the deal-making zone.

- (i) a longer implementation period for the tariff reductions affecting such products. In this regard we have the paragraph 16 expression of this idea on the table;
- (ii) a deferral of the start of the implementation period for such products. In this regard, we have the paragraph 16 expression of the idea on the table;
- (iii) more effective utilisation of existing preference schemes;
- (iv) expanded market access for products which are of vital export importance to preference-receiving Members;
- (v) targeted technical assistance programmes and other appropriate measures, provided by the preference-granting Member, to assist long-standing preference-receiving Members to diversify their export base. This is in paragraph 16;
- (vi) additional financial assistance and capacity building to address supply constraints, promote diversification and assist in adjustment and restructuring;
- (vii) the maintenance, to the maximum extent technically feasible, of the nominal margins of tariff preferences and other terms and conditions of preferential arrangements. This is in paragraph 16;
- (viii) lower tariff reductions for affected products;

- (ix) affected products to be selected as sensitive products by the preference granting Member, with the treatment for these particular sensitive products being modified so as to take account of the impact of preference erosion and development objectives;
- (x) the elimination of any in-quota duties; and
- (xi) any MFN tariff quota expansion not to be at the detriment of existing ACP tariff quotas.

10. There is also the idea in paragraph 16 of having a filter for what products would “count” for any deferred / extended implementation treatment.

11. Be all that as it may I think the most significant point to underline at this stage is a sentence from Annex 1 to this note, which is flatly empirical in its nature: "Chart A.1 shows that almost 85 per cent of losses (across the most affected Members) come from sugar and fruits and vegetables (most of which is due to bananas). A small proportion of losses also come from animals and products thereof (which is mainly beef) and beverages and spirits."

12. This the reality of what we have to deal with – and it is not to be settled in the abstract. It is not easy in its own right to resolve these issues but the important thing now is at least not to compound the practical problems with abstract ones.

Annex 1

The information presented in this annex is taken from the recent WTO Staff Working Paper, "Non-Reciprocal Preference Erosion Arising From MFN Liberalization in Agriculture: What Are The Risks?" As such, the data presented below represent the potential risk from preference erosion based on a number of factors and assumptions which are set out in the paper. While Members are completely free to debate the validity or otherwise of the results presented in the paper, this to me would be a futile exercise and only distract us from the task at hand. In fact, I am sure that the results of the study are roughly along the lines of people's own thinking anyway. I don't believe that there is any great surprise here. But I believe it does help to indicate where certain problems lie with respect to our mandates to address preference erosion and to effectively address the implementation of the long-standing commitment to achieve the fullest liberalisation of trade in tropical agricultural products and products of particular importance to the diversification of production from the growing of illicit narcotic crops.

The results of the paper indicate that in terms of the risk of preference erosion as it relates to non-reciprocal preferences in agriculture, it is highly concentrated amongst a few products. Chart A.1 shows that almost 85 per cent of losses (across the most affected Members as a percentage of agricultural exports) come from sugar and fruits and vegetables (most of which is due to bananas).³ A small proportion of losses also come from animals and products thereof (which is mainly beef) and beverages and spirits.

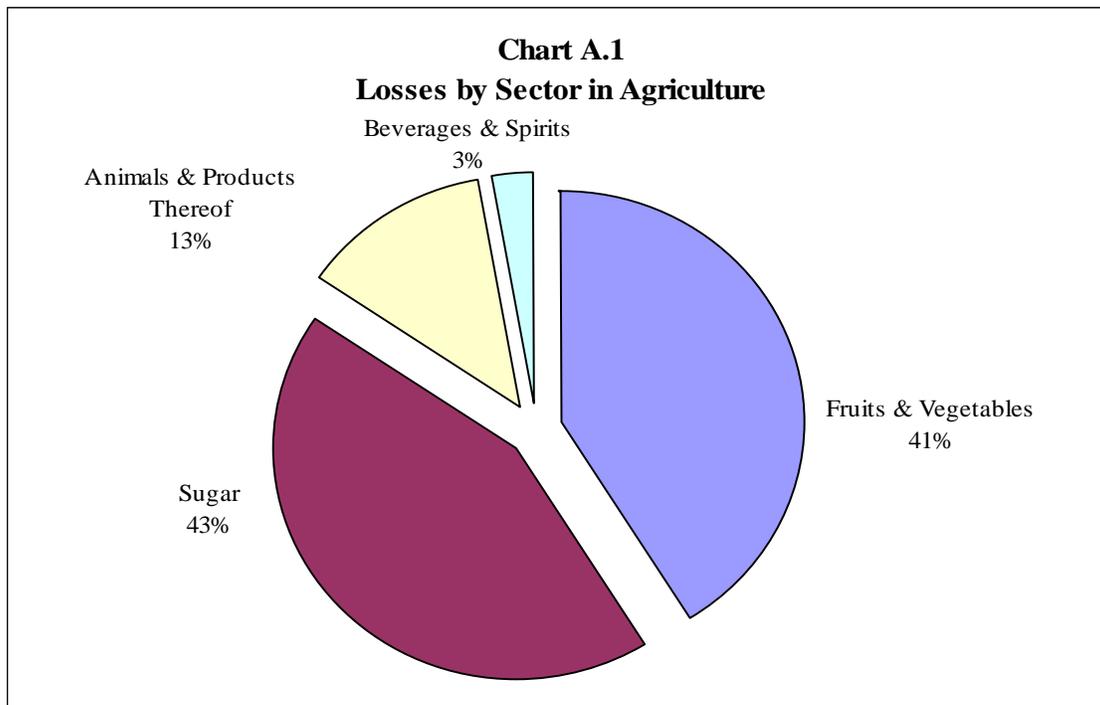


Table A.1 provides a breakdown of the 12 Members who are expected to lose the most from further MFN tariff reductions, in terms of risk of preference erosion, and the main products and markets from

³ The information contained in this chart is for the 12 Members represented in Table A.1 and is based on the data used in the analysis contained in the WTO Staff Working Paper, "Non-Reciprocal Preference Erosion Arising From MFN Liberalization in Agriculture: What Are The Risks?".

which these potential losses would arise.⁴ The Members included in the table are those for who it is estimated that losses, relative to the percentage of total agricultural exports, exceeds four percent (column 3). That is to say, it is still possible that another Member may lose more in absolute value terms, but this higher absolute loss represents a smaller than four percent share of total agricultural exports. Also, although the main products and markets where the losses occur are listed, the information is not intended to indicate that losses will only occur in these markets. Indeed the contrary is true. For example, it is estimated that Fiji would also lose through preference erosion of sugar into the United States, though the loss is estimated to be much less than that which might occur in the European Communities. Also, Fiji's sugar exports to the United States represent a much smaller proportion of their total agricultural exports to the US (11 per cent compared to 95.8 per cent in the EC).

Table A.1: Most Affected Members, Products and Markets

(1) Member	(2) Value Ag Exports to Quad (US\$ million)	(3) Loss as Percentage of Ag Exports to Quad	(4) Main Products Where Loss Occur	(5) Main Market Where Loss Occurs	(6) Product as Share of Ag Exports to Loss Market (%)	(7) Change in Preference Value in Loss Market (US\$ million)
Botswana	38	15.5	Beef	EC	99.2	-5.8
Saint Lucia	25	12.1	Bananas	EC	94.5	-3.0
St. Vincent & the Grenadines	16	11.9	Bananas	EC	95.8	-1.9
Namibia	69	9.5	Beef	EC	71.6	-6.6
Dominica	11	8.9	Bananas	EC	74.4	-1.0
Belize	117	8.1	Bananas Beverages & Spirits	EC US	50.4 39.7	-5.4 -2.0
Mauritius	336	7.0	Sugar	EC	33.1	-1.4
Cameroon	612	4.9	Bananas Other Fruits & Vegetables	EC EC	91.0 1.8	-23.2 -0.1
St. Kitts & Nevis	10	4.7	Sugar	EC	97.5	-0.5
Swaziland	130	4.3	Sugar Other Fruits & Vegetables	EC EC	66.2 26.6	-4.1 -0.3
Fiji	157	4.3	Sugar	US	86.2	-0.7
Guyana	162	4.1	Sugar Beverages & Spirits	EC EC	95.8 6.0	-6.2 -6.1 -0.3

In line with the information shown in Chart A.1, Table A.1 indicates that in terms of the risk of non-reciprocal preference erosion, for the top 12 affected Members, the losses are highly concentrated in sugar and banana trade into the EC (columns 4 and 5). Thus, in terms of our mandate to address preference erosion there is clearly going to be some overlap with the need to effectively address the implementation of the long-standing commitment to achieve the fullest liberalisation of trade in tropical agricultural and alternative products.

⁴ Using the cut-off point of losses being equal or greater than four per cent of agricultural exports to the Quad, the Members selected are the top 12 based on the WTO Staff Working Paper, "Non-Reciprocal Preference Erosion Arising From MFN Liberalization in Agriculture: What Are The Risks?".

Annex 2

Paragraph 16 of TN/AG/W/1/Rev.1 states that:

"In implementing their tariff reduction commitments, participants undertake to maintain, to the maximum extent technically feasible, the nominal margins of tariff preferences and other terms and conditions of preferential arrangements they accord to their developing trading partners. As an exception to the modality under paragraph 8 above, tariff reductions affecting long-standing preferences in respect of products which are of vital export importance for developing country beneficiaries of such schemes may be implemented in equal annual instalments over a period of [eight] instead of [five] years by the preference-granting participants concerned, with the first instalment being deferred to the beginning of the [third] year of the implementation period that would otherwise be applicable. The products concerned shall account for at least [20] per cent of the total merchandise exports of any beneficiary concerned on a three-year average out of the most recent five-year period for which data are available. Interested beneficiaries shall notify the Committee on Agriculture, Special Session accordingly and submit the relevant statistics. In addition, any in-quota duties for these products shall be eliminated. The preference-providing Members shall undertake targeted technical assistance programmes and other measures, as appropriate, to support preference-receiving countries in efforts to diversify their economies and exports."