III. EU Global Objectives in Trade with Commodities

1. Manufactured goods and non-agricultural raw materials

A) Trade liberalization: Thanks to the 8 Rounds of Multilateral Trade Negotiations under the umbrella of WTO, the average effective customs duty on non-agricultural goods in developed countries is below 5%, and in developing countries - 10-15%, with a downward trend.

Customs duties are gradually losing their protective functions and replaced by other more effective protection instruments – anti-dumping and countervailing duties, protection of intellectual property (TRIPs), elimination of technical barriers and international agreements on different aspects of the sustainable development.

HAIL, BRITANNIA!
(OPENING OF THE COLONIAL EXHIBITION, MAY 4.)

B) Tariff peaks – (TP)

➤ **Relatively high tariffs, usually on "sensitive" products, amidst generally low tariff levels. For the present situation in the world, tariffs of 15% and above are generally recognized as "tariff peaks".**

➤ **Sensitive products – outside the agricultural industry mostly textiles, metals, chemical products, porcelain, vehicles, some household goods.**

➤ **Increase in imports can cause social tensions due to high unemployment. Number of Tariff peaks increases during economic crises.**

➤ In developed countries most tariff peaks are in the agricultural industry but in developing countries they are something common in the manufacturing industries.

➤ **A lot of tariff peaks are In Brazil, South Africa, India, Malaysia etc.**
➤ **But now also in the USA?**

As part of his "America First" doctrine, Trump wants protections for US manufacturers from foreign competition and is tacking on a 25 percent tariff on steel and 10 percent on aluminum (Canada and Mexico are exempt).

	Average arithmetic duty (non-agrarian goods 2015,%)*	Non-agrarian imports with 0% duty (2015, % of the value)	Non-agrarian imports with 15% and above duty (2015, % of the value)
Japan	2,6	83,0	0,8
USA	3,3	50,3	4,9
EU	4,0	59,0	0,9
China	8,7	40,7	3,9
India	9,8	19,2	0,5
Brasilia	14,2	28,7	20,1
Russia	8,7	31,2	9,4
South Africa	7,5	69,3	17,9

* WTO Most Favored Nation Treatment

The EU proposal is a radical approach to the abolition of TP based on the so-called Swiss formula but with intervals

Swiss formula: $t_1 = \dfrac{a \times t_0}{a + t_0}$

Where t_1 1 is the rate of duty after the reduction, t_0 is the rate of duty before the reduction, "a" is the national coefficient to be negotiated. The higher the "a" factor, the lower the duty reduction.

The use of tariff intervals (or corridors) converts the linear function into non-linear and guarantees the complete elimination of tariff peaks.
With this approach the Swiss formula looks like this:

$$t_1 = B_1^L + \left(t_0 - B_0^L\right) \times \left[\frac{B_1^U - B_1^L}{B_0^U - B_0^L}\right]$$

where t_o is the rate of duty before the reduction, t_1 is the rate of the duty after the reduction, B_o^L and B_1^L are the lower limits in the respective tariff interval, and B_o^U and B_1^U are the upper limits in the same interval.

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Reduction of tariff rates using tariff intervals

	Before reduction		After reduction	
	$B^L_0 (\%)$	$B^U_0 (\%)$	$B^L_1 (\%)$	$B^U_1 (\%)$
Interval 1	**from** $0,0$	**to** $2,0$	**from** $0,0$	**to** $0,0$
Interval 2	**from** $2,0$	**to** $15,0$	**from** $1,6$	**to** $7,5$
Interval 3	**from** $15,0$	**to** $50,0$	**from** $7,5$	**to** $15,0$
Interval 4	**from** $50,0$	**to the largest rate**	**from** $15,0$	**to** $15,0$

Example: suppose there are two economies – developed (A) and developing (B). In the first economy customs duty (tariff rate) in imports of the given commodity is 13% and in the second economy is 20.0%. What reduced rates shall we have in these two economies, if we apply the formula of reduced intervals?

In the economy A the customs duty fall within Interval 2. Therefore the reduced rate shall be equal in % to $1,6 + (13,0 - 2,0) \times \frac{(7,5 - 1,6)}{(15,0 - 2,0)} = 1,6 + 11,0 \times 0,454 = 1,6 + 5,0 = 6,6\%$.

In the economy B the customs duty fall within Interval 3. Therefore the reduced rate shall be equal in percentage to $7,5 + (20,0 - 15,0) \times \frac{(15,0 - 7,5)}{(50,0 - 15,0)} = 7,5 + 5,0 \times 0,214 = 8,6\%$

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B) Textile features

A Textiles and Clothing Agreement has been adopted within the Uruguay Round of Multilateral Trade Negotiations. It removes the quantitative restrictions of developed countries as of 1.1.2005 and developing countries as of 1.1.2015.

But this has been mainly for China's benefit and has prompted the dissatisfaction of the ACP countries, India, Pakistan and some other Asian countries.

In 2007, the EU resorted to a special agreement with China, which limits the growth of exports for some textiles to below 7.5% per year. This is acceptable under the terms of China's accession to the WTO from 1.1.2003. The US has also introduced temporary quotas for imports of Chinese textile products.

A number of developing countries, including LDCs, rely on preferential and zero tariffs on imports of their textiles into the EU, the US, Japan and other developed countries in order to compete with China. Therefore, they are against the reduction and abolition of TA in textiles.

Key trading partners of the EU in textiles.

Countries	Imports 2000	Imports 2009	Balance 2009	Countries	Exports 2000	Exports 2009	Balance 2009
1. China	10.3bn	30.7bn	-29.7 bn	1. Switzerland	3.4 bn	3.9 bn	2.6 bn
2. Turkey	7.8 bn	9.9 bn	-8.0 bn	2. Russia	1.2 bn	3.0 bn	2.9 bn
3. India	4.1 bn	6.0 bn	-5.7 bn	3. USA	6.1 bn	2.8 bn	1.7 bn
4. Bangladesh	2.7 bn	5.4 bn	-5.3 bn	4. Turkey	1.8 bn	1.9 bn	-8.0 bn
5. Tunisia	2.7 bn	2.5 bn	-1.0 bn	5. Tunisia	1.9 bn	1.5 bn	-1.0 bn
6. Pakistan	1.7 bn	2.3 bn	-2.2 bn	6. Japan	2.3 bn	1.3 bn	1.25 bn
7. Morocco	2.5 bn	2.1 bn	-0.9 bn	7. Morocco	1.7 bn	1.2 bn	-0.9 bn
8. Switzerland	1.7 bn	1.3 bn	2.6 bn	8. Hong Kong	1.4 bn	1.2 bn	1.5 bn
9. USA	2.2 bn	1.1 bn	1.7 bn	9. Norway	1.1 bn	1.0 bn	0.9 bn
10. Russia	0.3 bn	0.06 bn	2.9 bn	10. Brazil	0.27 bn	0.24 bn	0.16 bn

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2 Objectives in agrarian goods

A) State of trade

According to Eurostat data in 1999, the balance was - €8.3 billion, in 2005 - €9.6 billion and in 2009 - €11.1 billion, but the crisis led to a decrease of the deficit in 2011 to €2.3 billion. This is due to the reduction of domestic demand in a number of EU Member States.

The EU has a traditionally negative balance in trade in agrarian goods precisely with those countries which are the largest exporters of such goods in the world.

In 2009, the negative trade balance of the EU in trade in agricultural products with Brazil amounted to - €11.2 billion, in 2005 it was - €6.2 billion. The negative trade balance for the EU in agri-food trade with Argentina in 2009 was - € 6.0 billion, in 2005 it was - € 4.2 billion.

The EU has a negative balance in trade in agricultural commodities with almost all developing countries. In fact, the EU is the largest consumer of agrarian products from developing countries and imports such goods more than the United States, Japan, Canada, Australia and New Zealand, taken together. Japan, Canada, Australia and New Zealand, taken together. For example, the EU is targeting 85% of Africa's agricultural commodity exports.

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	Average arithmetic duty (non-agrarian goods 2015,%)	Non-agrarian imports with 0% duty (2015, % of the value)	Non-agrarian imports with duty over 15% (2010, % от total imports)	Average arithmetic duty (agrarian goods (2011, %)*	Agrarian imports with duty over 15% (2010, % total imports)
Japan	2,6	83,0	0,8	23,3	23,1
USA	3,3	50,3	4,9	5,0	6,7
EU	4,0	59,0	0,9	13,9	26,4
China	8,7	40,7	3,9	15,6	19,2
India	9,8	19,2	0,5	31,4	65,6
Brasilia	14,2	28,7	20,1	10,3	15,3
Russia	8,7	31,2	9,4	14,3	33,1
South Africa	7,5	69,3	17,9	9,1	19,4

B) Tariff peaks in agricultural goods

Most of the peaks are in the import of agricultural goods, in developed economies including.
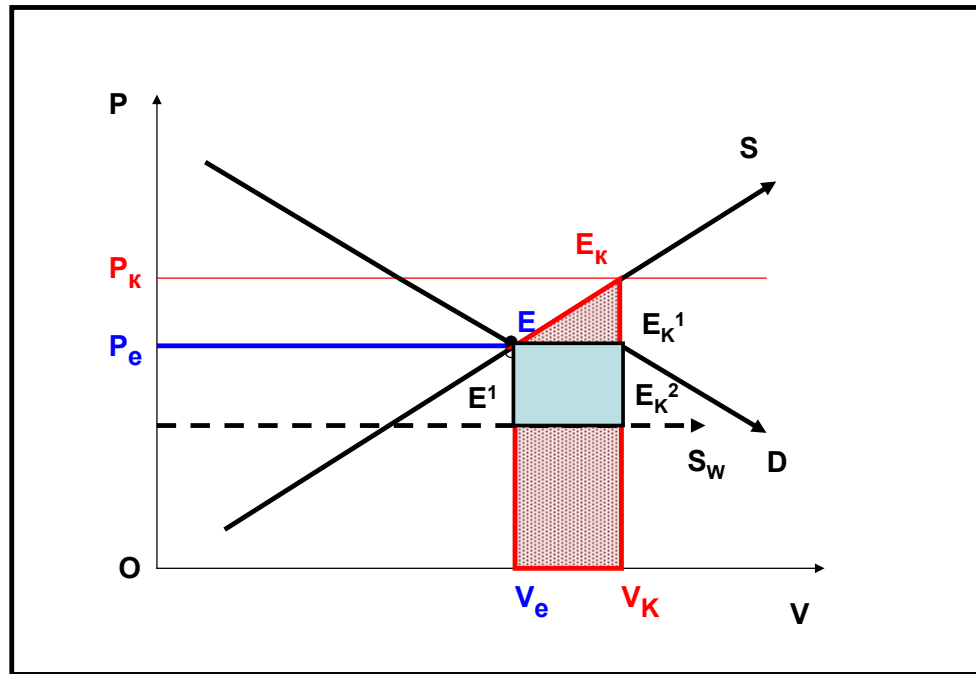
In Japan, for example, for agrarian goods, tariff peaks (TPs) are 80% of tariff positions, 53 TPs are over 100% and 22 are over 300%. In the United States, agricultural commodities account for 37% of all items, 15% are over 100% and 11% more than 300%. In the EU, agricultural products are 47% of all tariff positions, with 31 TPs over 100% and 2 over 300%.

In total, the average effective customs duty on imports of agricultural goods in developed economies is about 5 times higher than that for non-agricultural goods. This is causing serious discontent in a number of countries exporting agricultural products such as Brazil, Argentina, South Africa, but also in some developed countries such as Canada and Australia. These countries are united in the so-called (The Cairns Group**) in the framework of multilateral trade negotiations under the auspices of the WTO.**

The European Union considers the liberalization of global trade in agricultural commodities as part of a package deal, which should include mutual concessions of developed and developing economies to achieve broad tariff reductions for both groups of goods - industrial and agricultural goods.

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C. Agricultural export subsidies

Compensating the difference between the actual market price and the guaranteed compensation price generates subsidization.

Excess (VE - VK) should be removed from the market. Traders have to receive export subsidies - the rectangle $EE_K^1E_K^2E^1$. The lower the world P_W, price on which the supply is realized S_w the larger the area of the rectangle.

In a constant situation, the export subsidy is directly proportional to the compensatory price and inversely proportional to the world price of an agricultural commodity. **In a constant situation, the export subsidy is directly proportional to the compensatory price and inversely proportional to the world. price of an agricultural commodity.**

Agricultural compensations and export subsidies

D) Tarrif quoata issues

The Banana dispute

It began in the mid-1990s and practically is not over yet. Claimant - producers from Central America (Honduras, Panama, Ecuador, Guatemala, etc.) supported by the United States. In 1999, a decision of the WTO Arbitration in favor of the plaintiff. The US introduces import duties on certain European goods. The US introduces import duties on certain European goods.

In a voluntary agreement between the EU and the US in 2001, the EU is committed to gradually introducing for the Central American countries and the ACP countries the same banana import regime, i.e. to cancel the tariff quotas. In 2000, the EU-ACP Agreement (Cotonou Partnership Convention). AKT countries receive more technical assistance as compensation.

The EU starts from 1.1.2006 to apply only the customs duties on imports of bananas. tariff quotas for duty-free imports are abolished. As the WTO banana ruling can be seen as a precedent, the EU is taking a course of gradual abolition of the remaining ACP tariff quotas

However, this process has not yet come to an end and has some resistance from the ACP countries. Therefore, a special regime is introduced for so-called least developed countries (52 NRCs out of a total of 70 ACP countries). The result is a zero duty for LDCs instead of tariff quotas.

Recently, the Central American countries have declared in the WTO that they are satisfied with the new conditions for the export of their bananas to the EU and that the banana dispute can be considered as closed.

3. Reducing technical barriers to trade

A) Traditional barriers to trade

Adaptation of companies to mandatory technical requirements or standards is a prerequisite for the admission of their goods to the relevant export market. When these mandatory requirements are exaggerated or are only the result of local traditions, the costs of their compliance by exporters can become technical barriers to exports.

The lack of adequate information can also lead to a significant increase in export costs, as well as a failure of the export transaction. Therefore, the lack of information or the excessive difficulties in obtaining it can also be seen as technical barriers to trade.

Considerable costs for exporters can also arise from the need to demonstrate compliance of exported goods with technical requirements and mandatory standards. Proof of conformity includes: sampling, laboratory analysis and testing, performance of inspections, conformity assessment, verification of results, certification of compliance, accreditation of certifying bodies, approval of the certification procedure. In cases when the procedure on proving compliance and access to the market are artificially complicated this is also a kind of technical barrier to trade.

C) Achievements

➢ **Agreement on Technical Barriers to Trade.** Article 14.1 of this agreement allows for in case of unjustified export difficulties through technical requirements and standards to seek the rights of the State concerned in the WTO Arbitration.

➢ **Global WTO pre-notification procedure for the adoption of new technical requirements for market access and changing conditions for demonstrating compliance with these requirements. This is done through a statement (notification) of the forthcoming changes in the WTO Secretariat.**

➢ **Establishment of Notification and Information Points (NPOs) as required by the TBT Agreement and the Sanitary and Phytosanitary norms. At present, the relevant NSAs have been set up in all 27 EU Member States. In addition, such a point was created at the European Commission (EC - TBT Inquiry Point).**

➢ **It is particularly important to create a good scientific basis for protecting European technical requirements. One of the steps in this direction was the creation in 2003 of the The European Food Safety Authority – EFSA. The EU is working to create a similar global institution.**

➢ *Agreements on mutual recognition of certificates to prove compliance. The EU has such agreements with countries of the OECD and Israel but they do not cover all commodity sections.*

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