

II. WTO and EU Objectives in Global Trade

1. Objectives in manufactured goods and 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:
$$t_1 = \frac{a \times t_0}{a + t_0}$$

Where t_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:

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

where t_0 is the rate of duty before the reduction, t_1 is the rate of the duty after the reduction, B_0^L and B_1^L are the lower limits in the respective tariff interval, and B_0^U and B_1^U are the upper limits in the same interval.

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 $7,5 + (20,0 - 15,0) \times \frac{(15,0 - 7,5)}{(50,0 - 15,0)} = 7,5 + 5,0 \times 0,214 = 8,6\%$

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 textile agreement with China (TA), which limits the growth of exports for some textiles to below 7.5% per year. This was acceptable under the terms of China's accession to the WTO until 2018. **China implements the TA even after 2018.**

Key trading partners of the EU in textiles.

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 tariffs in textiles in trade EU-China

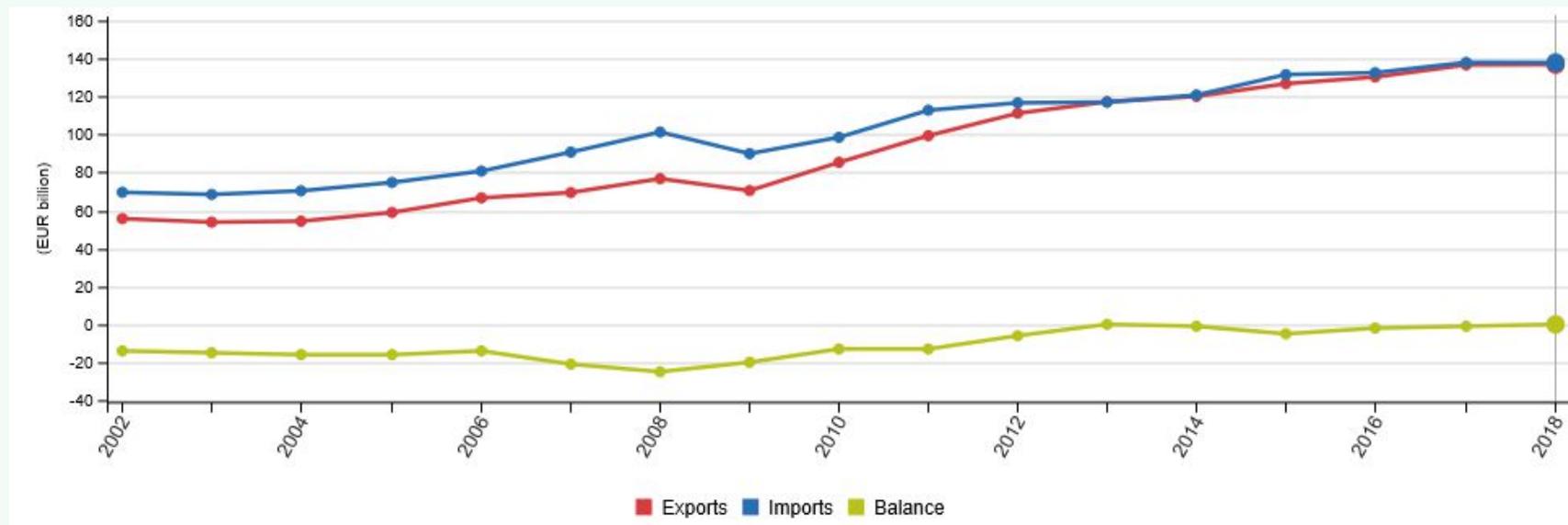
| Countries | Imports 2000 | Imports 2009 | Balance 2009 | Countries | Exports 2000 | Exports 2009 | Balance 2009 |
|----------------|--------------|--------------|--------------|----------------|--------------|--------------|--------------|
| 1. China | 10.3bn | 30.7bn | -29.7 bn | 1. Switzerland | 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 |

2 Objectives in agrarian goods

In 2018, exports and imports of agricultural products between the EU and non-member countries accounted for 7.0 % of total EU international trade

Between 2002 and 2018, EU trade in agricultural products doubled, equivalent to an average annual growth of 5.0 %

In 2018, the USA (16 %) was the main recipient of EU exports of agricultural products, while the USA and Brazil (both 9%) were the main origin of EU imports



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.

France is the main factor for the positive trade balance of the EU.
 In 2018 France agricultural exports were about €14 billion.

Lately, the EU has been increasingly advocating the liberalization of trade also in agricultural products, but the situation remains very difficult.

| | Average arithmetic duty (non-agrarian goods,%) | Non-agrarian imports with 0% duty (% of the value) | Non-agrarian imports with duty over 15% (% of total imports) | Average arithmetic duty (agrarian goods (%)) | Agrarian imports with duty over 15% (% 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.

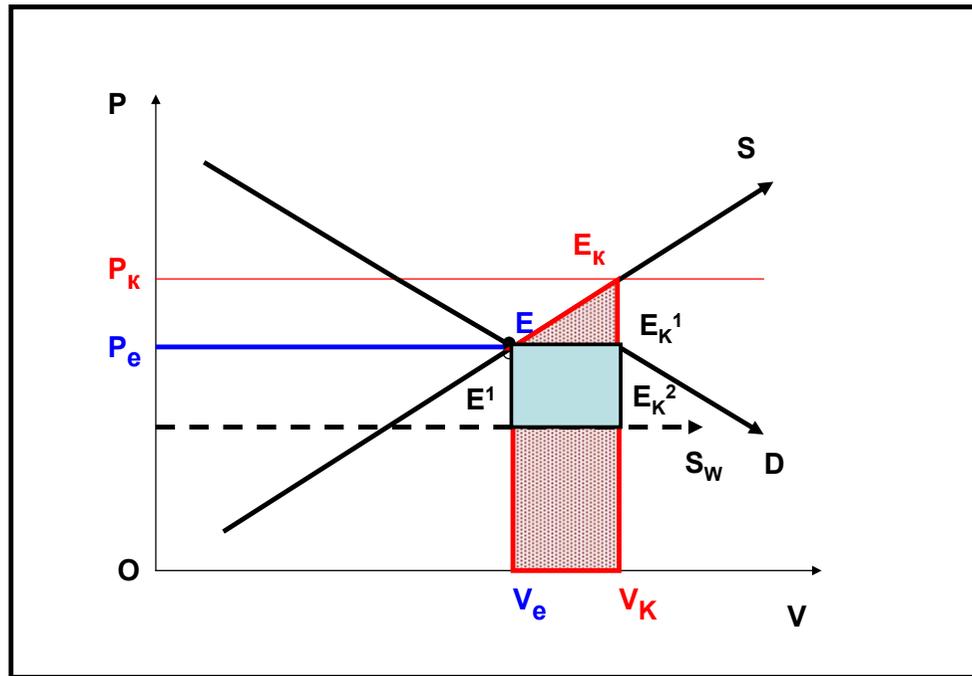
In Japan, for example, for agrarian goods, tariff peaks (TPs) are 80% of tariff positions, 53 TPs are over 100% and 22 are over 300%. In the United States, agricultural commodities account for 37% of all items, 15% are over 100% and 11% more than 300%. In the EU, agricultural products are 47% of all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

C. Agricultural export subsidies

Agricultural compensations and 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.**

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.

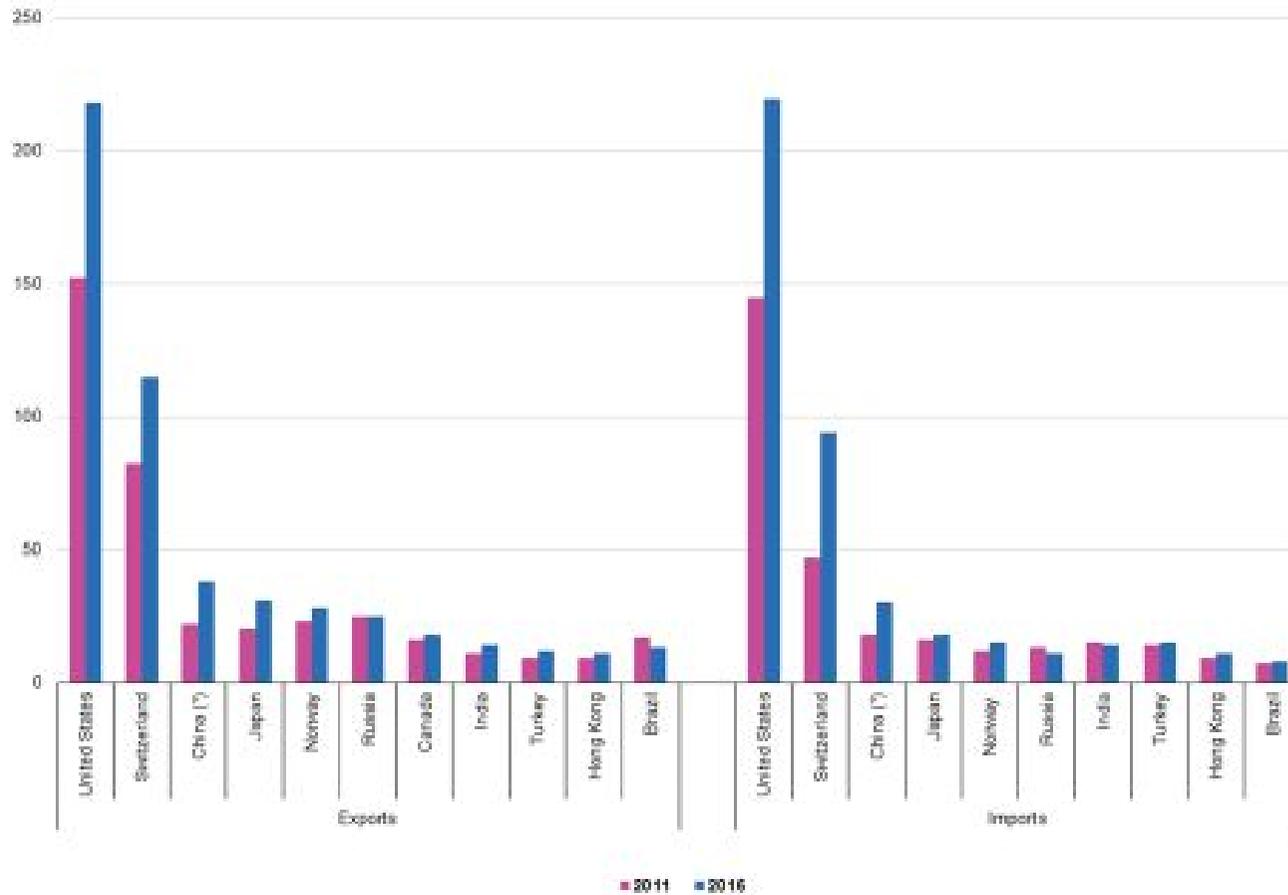
The EU starts from 1.1.2006 to apply only the customs duties on imports of bananas. Tariff quotas for duty-free imports are abolished. As the WTO banana ruling can be seen as a precedent, the EU is taking a course of gradual abolition of the remaining ACP tariff quotas

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. Objectives in trade in services

Trade in services with non-member countries (extra-EU), main partners, EU-28, 2011 and 2016
(billion EUR)

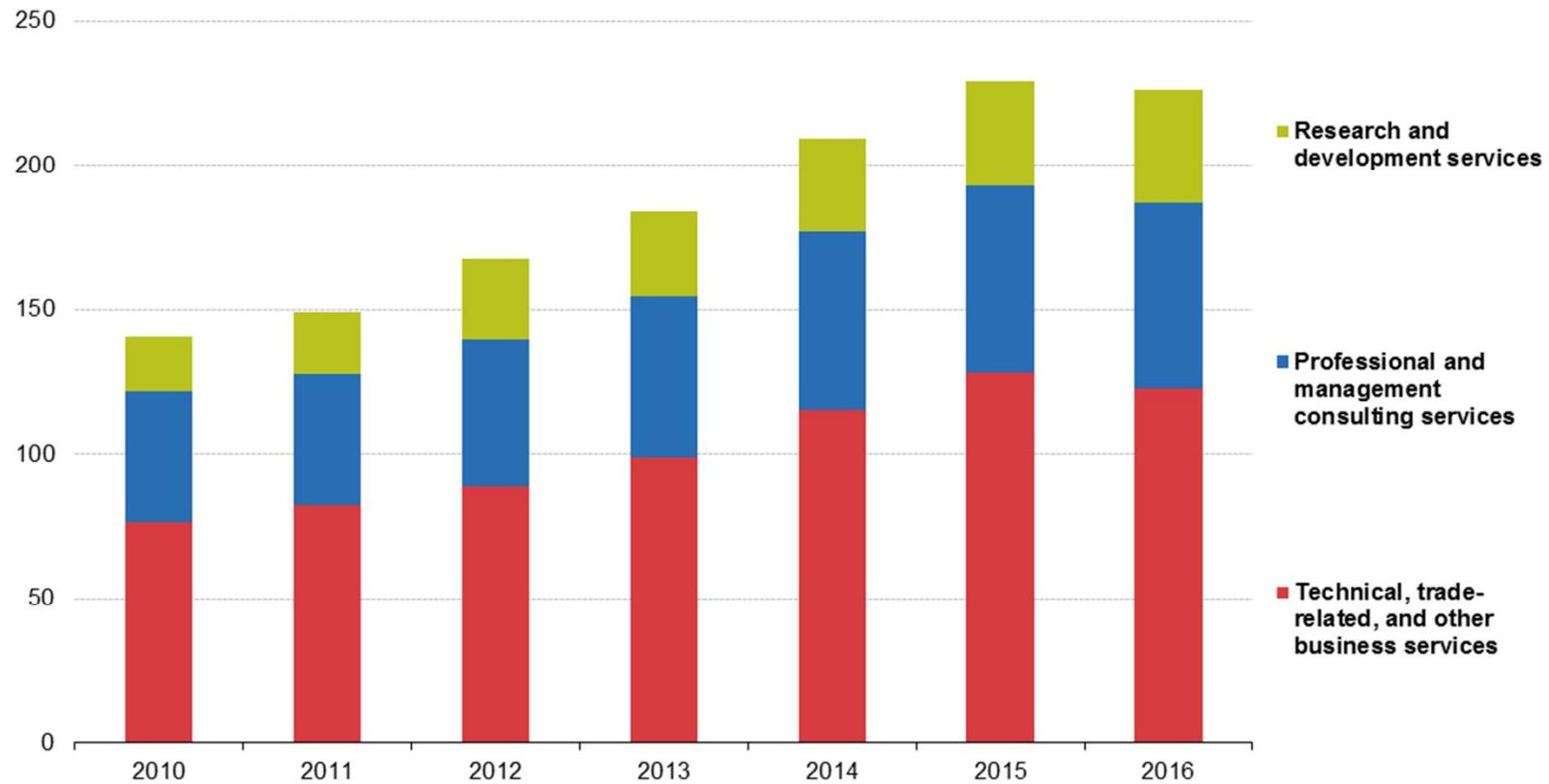


Note: Ranked on the average of exports and imports in 2016.

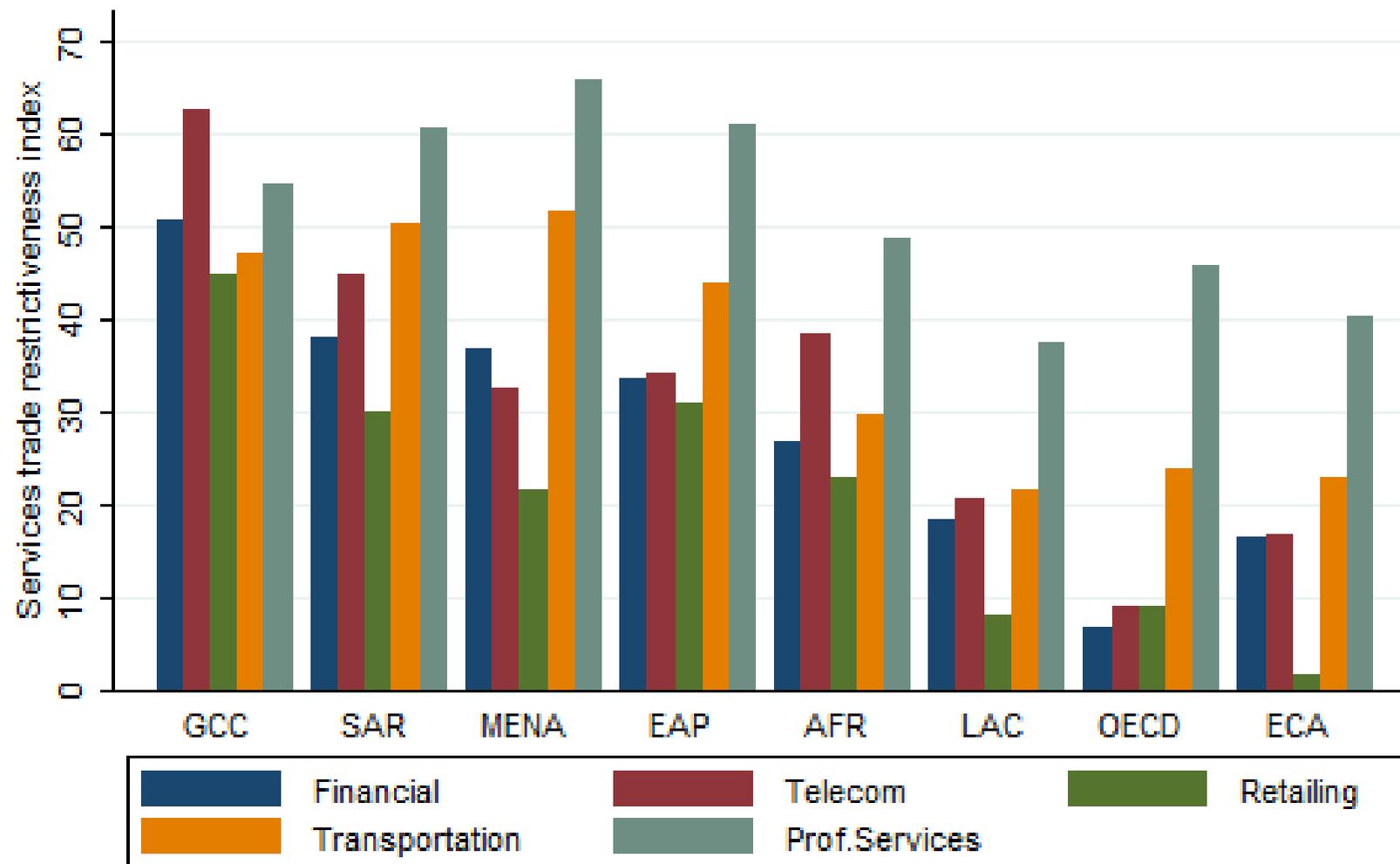
(?) Excluding Hong Kong.

Source: Eurostat (online data code: bap_srv6_det)

Contributions of other business services sub-categories to exports of EU-28, 2010-2016 (EUR 1 000 million)



Source: Eurostat (online data code: bop_its6_det)



Note: 103 countries included.

Gulf Cooperation Council – GCC, South Asia Region – SAR, Middle East and North Africa – MENA
 Eastern Partnership – EAP, Africa – AFR (without North Africa), Latin America and the Caribbean – LAC₁₄
 Europe and Central Asia – ECA

4. 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 (MRA).** *The EU has such agreements with USA, Canada, Japan, Australia, Switzerland and Israel but they do not cover all commodity sections.*
- **What will happen after Brexit?**

Mutual recognition agreements lay down the conditions under which one Party (non-member country) will accept conformity assessment results (e.g. testing or certification) performed by the other's Party (the EU) designated conformity assessment bodies (CABs) to show compliance with the first Party's (non-member country) requirements and vice versa.

MRAs include relevant lists of designated laboratories, inspection bodies and conformity assessment bodies in both the EU and the third country. Links to existing lists are provided on this website.

EU – USA and Canada MRA on GMP (Medical Products)

| Covered Products | Currently Not Covered Products <i>Currently in Discussion at Joint Sectoral Committee</i> | Currently Not Covered Products |
|---|--|--------------------------------|
| Marketed finished pharmaceuticals for human use | Vaccines for human use | Human blood |
| Marketed biological products | Veterinary products | Human plasma |
| In process materials and intermediates | | Human tissues and organs |
| Active pharmaceutical ingredients (APIs) or bulk drug substance | | Veterinary immunologicals |
| Investigational products | | |