

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

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*,

- (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.

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.

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

