Customs Union Negotiations - a range of options

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UNECWA Workshop
18-19 October, Beirut

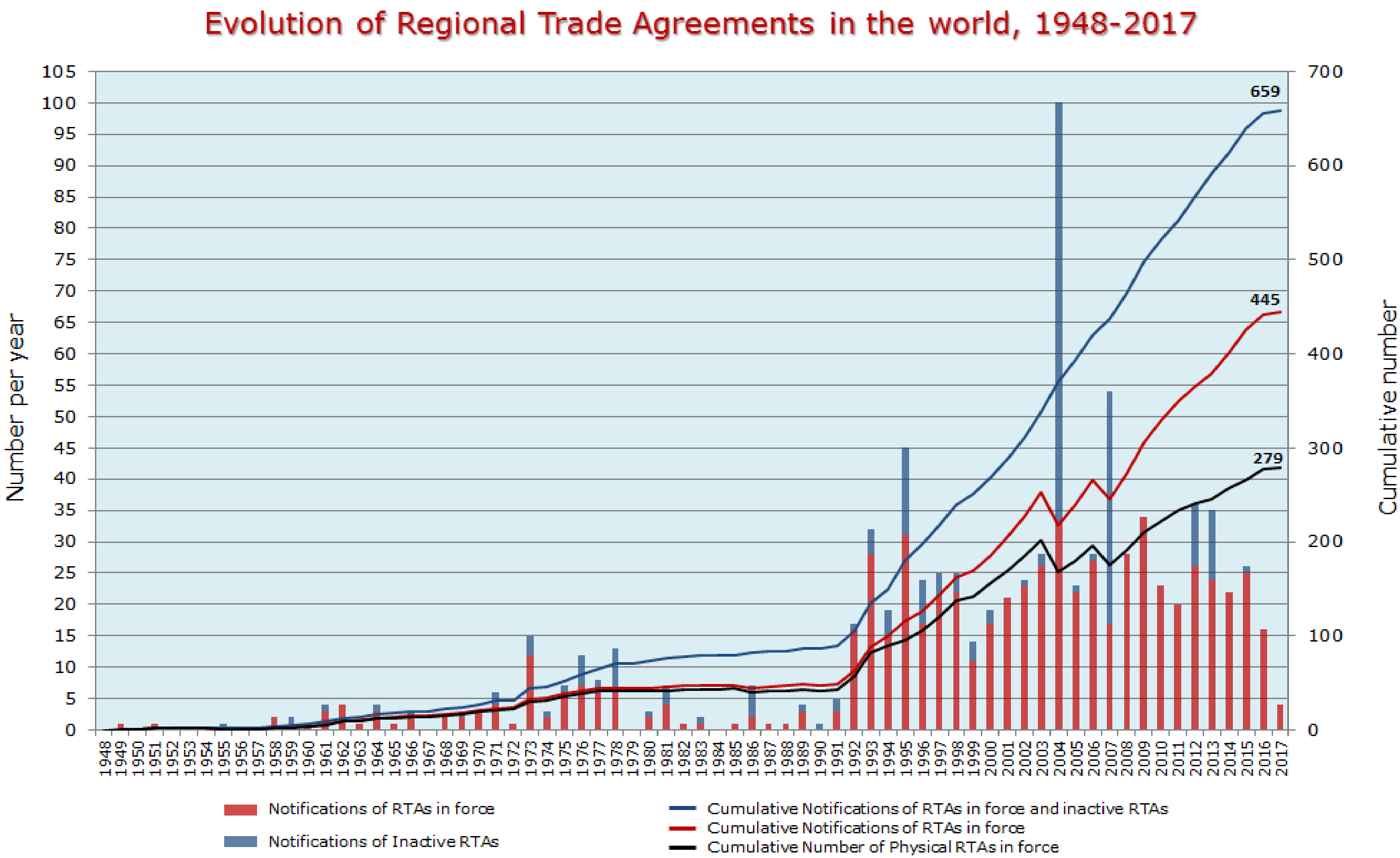
Outline

- Different kinds of Trade Agreements
- Status of RTA commitments made by members of League of Arab States and their implications for a Customs Union
- Basic elements of a Customs Union and how could a Customs Union benefit members of LAS
- Lebanon and International Trade
- A few suggestions for a Customs Union negotiation

Preferential vs. Regional Trade Arrangements

- Preferential Trade Arrangements (PTAs) are basically unilateral tariff preference agreements like GSP, Duty Free Quota Free (DFQF) for LDCs.
- Regional Trade Arrangements (RTAs) can be Regional Trade Agreements under Article XXIV of the GATT or the “Enabling Clause” of 1979 (in the latter case provided at least one of the partners is a developing country)
- A Customs Union is a special form of an RTA, distinguished by a Common External Tariff (CET) and zero tariff for trade among members of the Customs Union
- A Partial Scope Agreement (PSA) or a Preferential Trade or Access Agreement is an RTA covering only some products. They are normally under the Enabling Clause.

RTAs notified to the WTO



Note: Notifications of RTAs: goods, services & accessions to an RTA are counted separately. Physical RTAs: goods, services & accessions to an RTA are counted together.
The cumulative lines show the number of notifications/physical RTAs that were in force for a given year.
Source: RTA Section, WTO Secretariat, 20 June 2017.

Snapshot of RTAs/Customs Unions

- As of 17 October 2017, there are 279 active RTAs, of which 16 are Customs Unions (listed below):
- Andean Community, CARICOM, Central American Common Market (CACM), COMESA (including Egypt), East African Community (EAC), EU, Economic and Monetary Community of Central Africa (CEMAC), Economic Community of Western Africa (ECOWAS), EU- Andorra, EU- San Marino, EU-Turkey, Eurasian Economic Union, Gulf Cooperation Council, SACU, MERCOSUR, West African Economic & Monetary Union (WAEMU)

Other Customs Unions in line ?

- ASEAN- In 2014, **AEC** was collectively the third largest **economy** in Asia and the seventh largest in the world. The **AEC Blueprint** 2025, adopted by the **ASEAN** Leaders at the 27th **ASEAN** Summit on 22 November 2015 in Kuala Lumpur provides broad directions through strategic measures for the **AEC** from 2016 to 2025. Work proceeding at serious pace
- Even for such deeply integrated economies as the ASEAN, a 10 year time frame has been set for full integration.
- Other countries can draw inspiration from this and work with renewed vigour to move towards deeper regional integration

Taking stock- how many RTAs exist for League of Arab States (LAS)?

- EFTA-Egypt, EFTA-Jordan, EFTA-Lebanon, EFTA-Morocco, EFTA-Tunisia
- Egypt-Turkey
- EU-Jordan, EU-Morocco, EU-Syria, EU-Tunisia, EU-Lebanon
- Gulf Cooperation Council (GCC) Customs Union
- GCC-Singapore, GCC-Lebanon
- Jordan-Singapore
- Greater Arab Free Trade Area (GAFTA)
- Turkey-Jordan, Turkey-Morocco, Turkey-Syria
- US-Jordan, US-Morocco, US-Oman
- [Progress Unknown- Agadir Agreement- Agreement for Establishing a Mediterranean Free Trade Area]

Implications of these RTAs

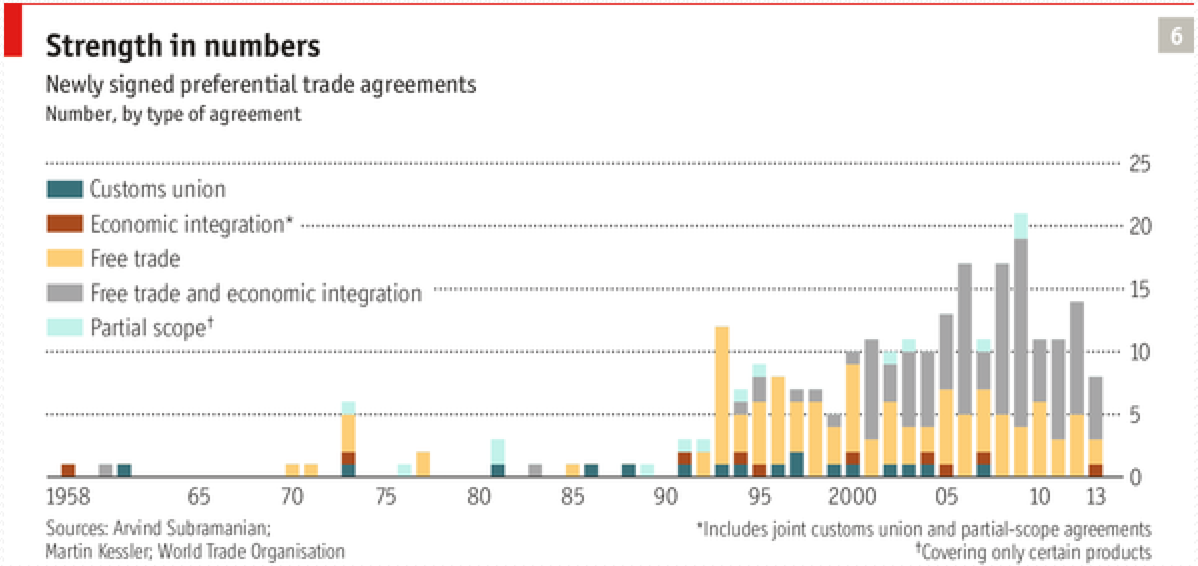
- If a League of Arab State (LAS) “A” is committed to allow entry of a product of non-LAS country “B” at “X” rate in terms of an RTA, the Common External Tariff (CET) ultimately worked out among LAS will have to factor this in.
- The EU has FTAs with Jordan, Morocco, Syria and Tunisia. These agreements would have to be studied to see whether there is a built in “Ratchet Clause” in them in line with the EU’s model Economic Partnership Agreement (EPA).
- The Singapore, EFTA and US FTAs with a few LAS countries also need to be examined thorougly in this light.

Stages of Economic Integration*

- Stage I- A limited Partial Scope Agreement
- Stage II- A complete Free Trade Area
- Stage III- A Customs Union
- Stage IV- A Common Market
- Stage V- An Economic Union
- Stage VI- A Monetary Union
- Stage VII- Complete or Full Economic Integration

* Source- UNESCWA, Beirut website

FTAs with Economic Integration



Core elements of a Customs Union

- A simple Customs Union pertains only to trade in goods. Its core elements are as below.
- Common External Tariff (CET) for all members
- Zero Tariff and Free Movement of goods across member country borders (ideally no border controls as in the EU) provided a good has "originated" in another member or members of the Customs Union
- Specialised Rules of Origin for goods to determine country of "origin" (required if CET is high)
- Harmonised regulations on Technical Barriers to Trade
- Harmonised Sanitary and Phytosanitary standards
- Fast Track Dispute Settlement Mechanism

Add-ons for a Customs Union

- Very rarely is a Customs Union negotiated with the provisions covering only trade in goods because the economic benefits in that case are not large. Normally, the agreement covers some or all of the areas listed below.
- Agreement on Services
- Harmonised Domestic Regulations in Services(if possible)
- Agreement on Investment(incl. ISDS)
- Agreements on Common Customs Procedures, Trade Facilitation, Labour Standards, Environment, Sustainable Development, Data Protection, Government Procurement, Competition Policy etc.

Why Customs Union for LAS?

- The LAS region has one of the lowest levels of intra-regional trade in the world (11%) despite preferential market access and significant cultural homogeneity*
- In comparison the EU has 60%, ASEAN has 23%
- The International Trade Centre's recent analysis shows that there is a potential to increase total trade of LAS members by 10% and create at least 2 million additional jobs

[* Source- Available at International Trade Centre, Geneva, website: "League of Arab States' Regional Integration- Opportunities for Trade and Employment: Executive Summary"]

Positives for an LAS Customs Union

- Trade within the 4 sub-groups like the Maghreb states (Algeria, Libya, Mauritania, Morocco, Tunisia), the Mashreq states (Egypt, Jordan, Lebanon, Syria), the Gulf states (Bahrain, Kuwait, Oman, Qatar, S.Arabia, UAE) and the others (Djibouti, Somalia, Sudan, Yemen) is significantly higher than in overall intra-Middle East and North Africa region (MENA)*
- A great beginning already made- Greater Arab Free Trade Area (GAFTA)- Work in Progress- Has the potential to help immensely in Customs Union negotiations

[* Source-The Institute for Domestic and International Affairs, Inc. (2007) document prepared for Rutgers Model United Nations 2007]

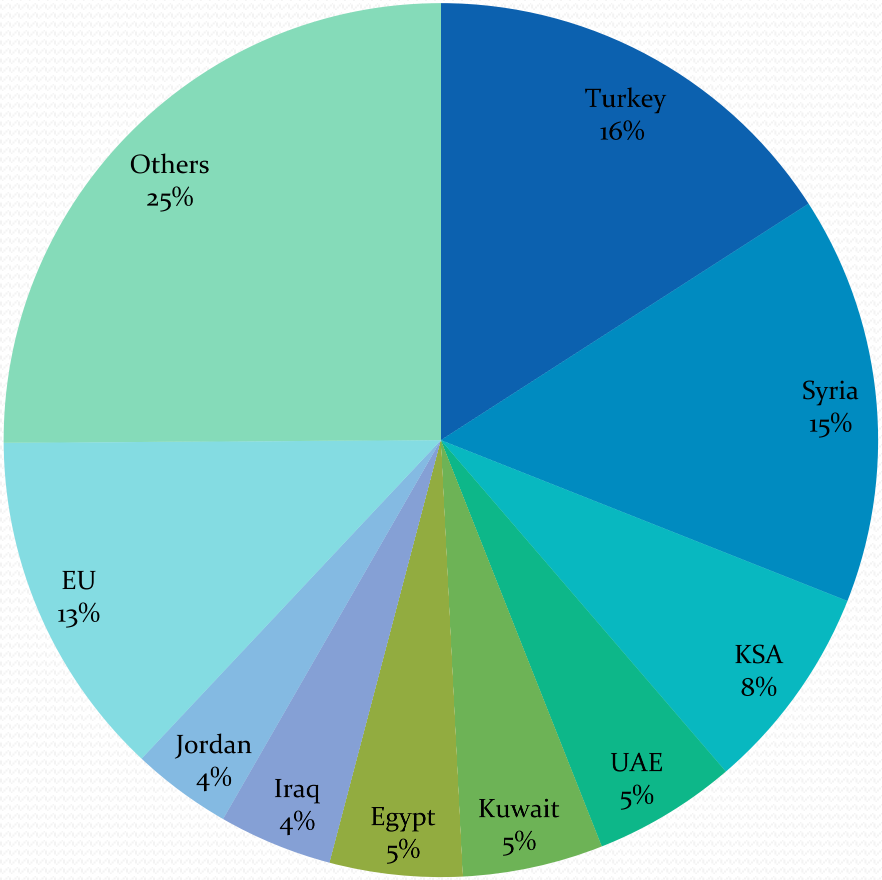
Lebanon and International Trade

- Trade liberalisation is a key element of Lebanon's comprehensive economic strategy to integrate the country further into the global economy.
- Lebanon has entered into FTAs with the EU, EFTA, GCC and has implemented the GAFTA fully in 2005.
- Unfortunately, its accession to the WTO has been pending for long.
- Lebanon's applied tariffs are negligible and one of the lowest among MENA countries. More than 84% of its customs tariff lines have duties equal to 0 or 5%.
- According to the latest Trade (MFN) Tariff Restrictiveness Index (TTRI), Lebanon is ranked 59th out of 125 countries, making it more open that that of an average Middle East and North Africa (MNA) or lower middle income country.
- Lebanon trade accounts for more than 40% of GDP and suffers from a huge trade imbalance.
- Being short on natural resources and machinery parts, Lebanon relies heavily on imports of raw materials and thus faces a grave imbalance that induces borrowing.

Merchandise Exports (2016)

- In 2016, Lebanese merchandise exports totalled US$2.98 billiion* with pearls, precious stones and metals (27.8%), food and beverages (15%), machinery and electrical equipment (11.2%) and chemical products (10.2%) being the main items of export.
- *Source: IDAL (Invest in Lebanon) Report 2017

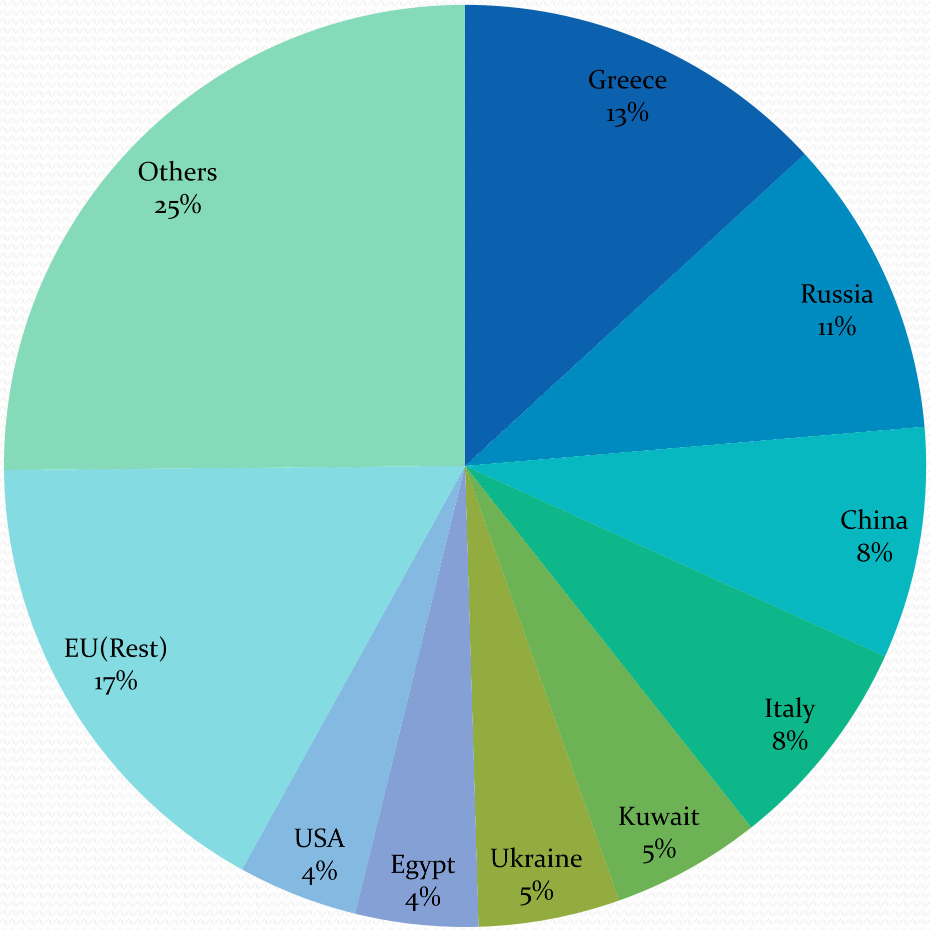
MERCHANDISE EXPORTS (2016)



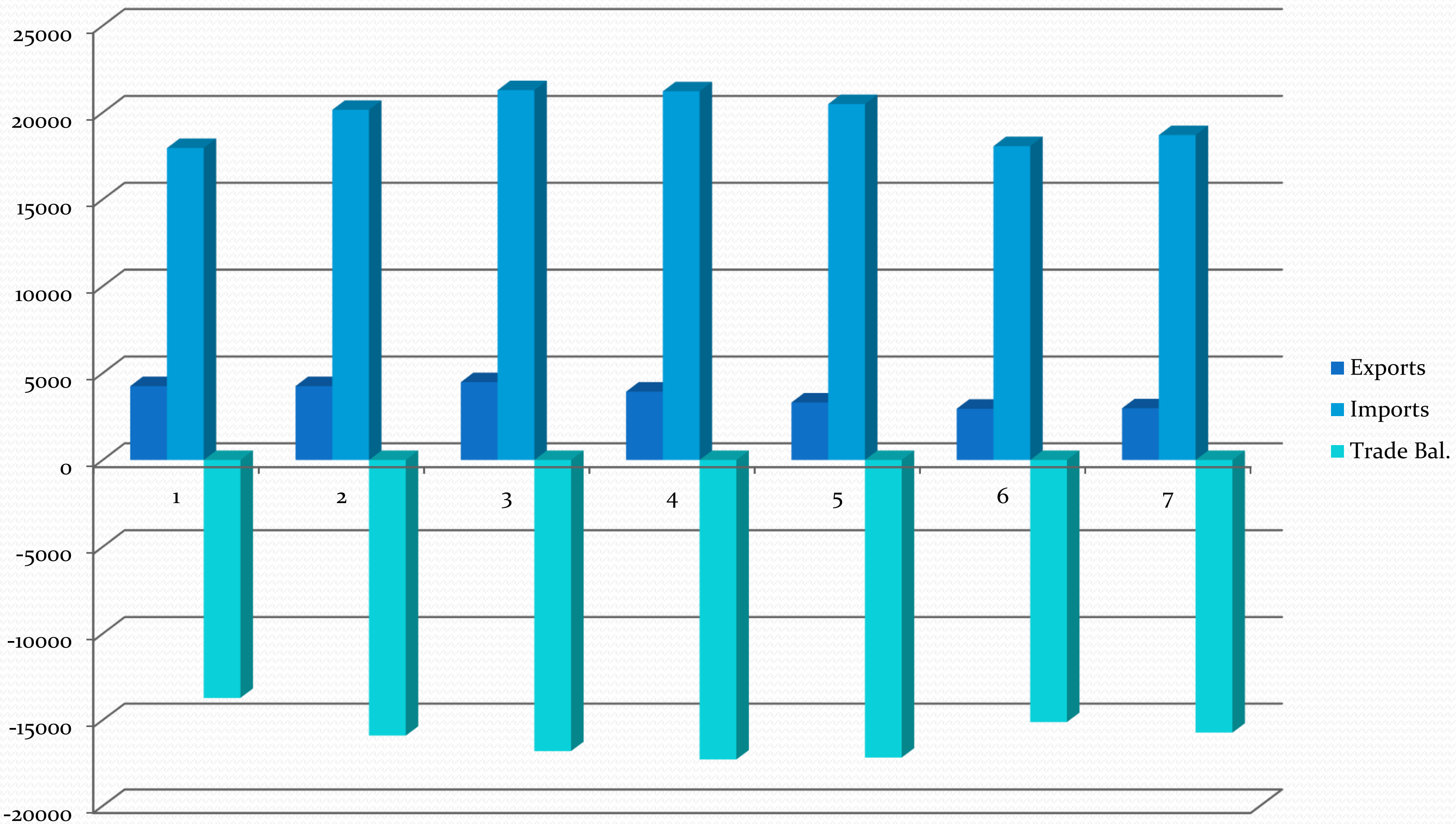
Merchandise Imports (2016)

- Lebanese imports in 2016 were worth US$18.7 billion*, the chief items being mineral products (20%), chemical products (10.9%), machinery and electrical equipment (10%), vehicles and other transportation equipment (9.5%), food and beverages (7.55), pearls, precious stones and metals (6.7%).

MERCHANDISE IMPORTS (2016)



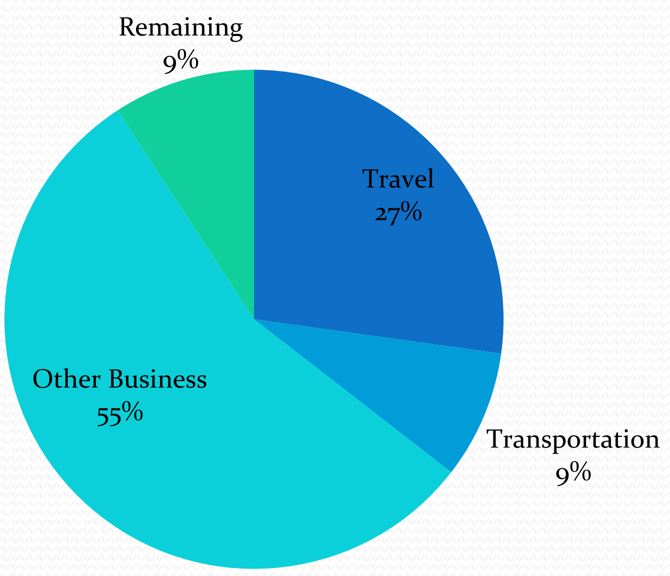
Merchandise Trade Balance (2010-16)



Importance of Services Trade

- Around 70% of Lebanon's GDP comes from Services.
- Banking, Tourism and Transportation account for a bulk of the exports of Services from Lebanon.

Services Exports Composition (2012)



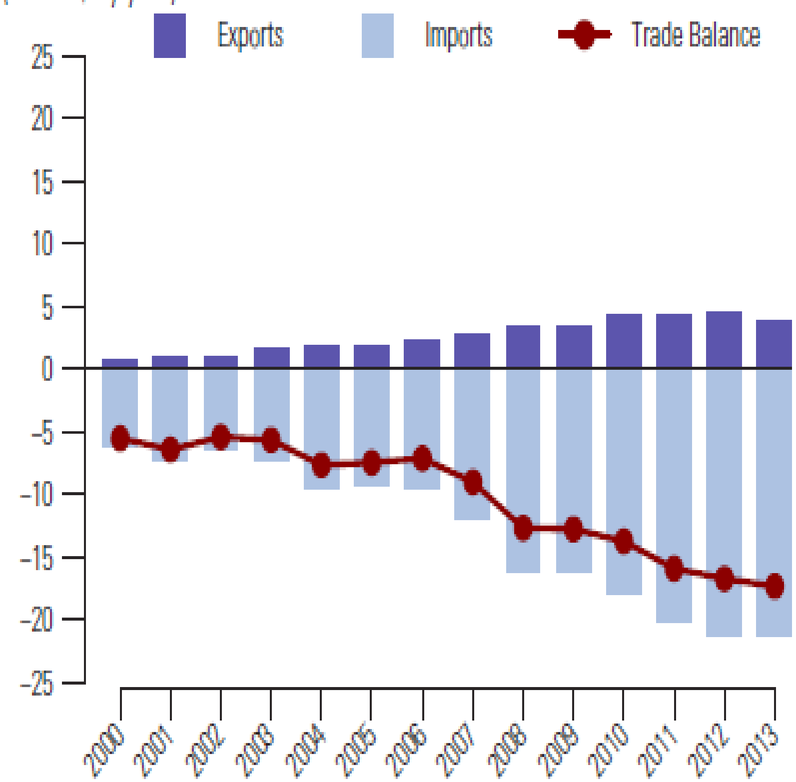
Trade Surplus in Services

- In 2012, the value of exports of services of Lebanon increased substantially by 12.9 percent, reaching $22.1 bln , while its imports of services decreased moderately by 5.0 percent and reached $12.3 bln. There was a moderate trade in services surplus of $9.9 bln*.
- The data for subsequent years could not be accessed but from 2002 to 2012, Lebanon has maintained a surplus in trade in services.

*Source UN Comtrade

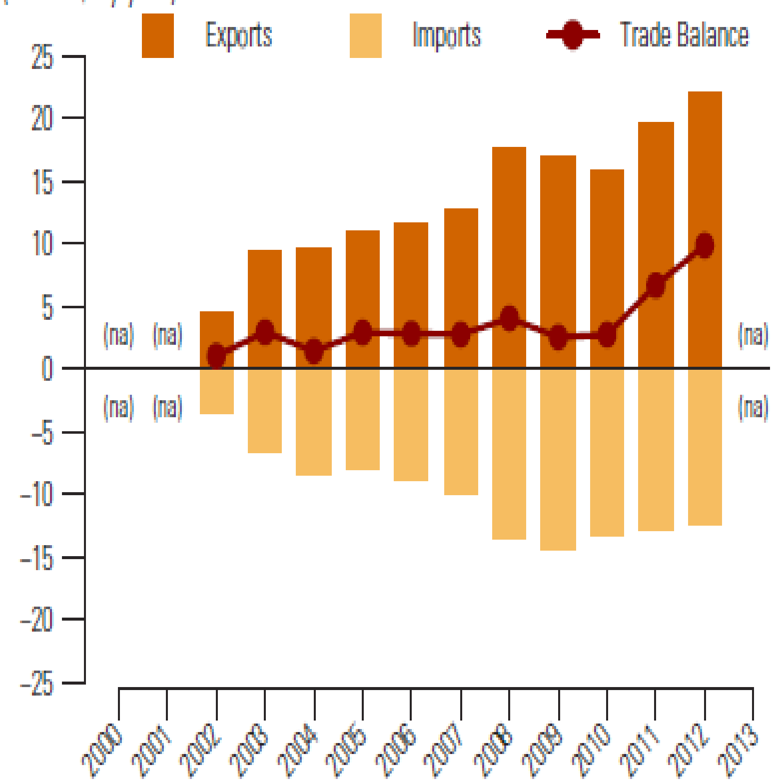
Graph 1: Total merchandise trade, by value

(Bln US$ by year)



Graph 2: Total services trade, by value

(Bln US$ by year)



Trade Balance for Lebanon (2000-2012)

Customs Union Negotiations- a few suggestions

- Strong Political commitment will be called for
- Lebanon has a comparative advantage in Services trade.
- It would benefit from an FTA, which includes both Goods and Services rather than Goods alone.
- In Goods negotiations, Lebanon would be in a favourable position because its tariffs are already low and its main export destinations are among EU and GAFTA countries.
- Deepening and broadening of GAFTA could be a good start to the Customs Union negotiations for Lebanon

Contd.

- Extensive domestic Industry consultations to ascertain the vulnerability of industries, especially labour intensive ones, to fix low CET. Import quotas intra-CU for vulnerable industry products could be considered.
- Detailed calculations for GATT Article XXIV(5)(a) stipulations
- Careful crafting of detailed Rules of Origin, so that goods primarily originating abroad do not harm nascent/labour intensive industries by minimal value addition within CU.
- Special attention to be paid to Agricultural tariff lines to ensure that distress in agriculture is avoided and agri-processing investment within the CU is encouraged.

Contd.

- Common Customs procedures (including Forms) need to be developed and adopted, even before the Customs Union comes into force. Forms already developed by the UN and WCO could be adopted.
- Special Trade Facilitation measures need to be introduced for products of partners. Fast track or Green Channel clearances for such products till complete removal of border controls
- Agencies to be designated, which would issue “Origin” certificates. They should follow common procedures so that unnecessary disputes are avoided.
- Transport infrastructure, especially at points through which partner country products enter, should be improved on priority basis

Removal of other charges and NTMs, Disciplines in DR in Services

- Discriminatory local taxes or charges should be identified and removed
- Sanitary and Phytosanitary standards and Technical Regulations have to be harmonised
- Mutual Recognition Agreements to be entered into for designated agencies for issuing sanitary and phytosanitary certificates and Conformity Assessment w.r.t. technical regulations
- Special Attention needs to be paid to Disciplining Domestic Regulations (DR) in Services, so that they facilitate rather than hinder the growth of services trade

Thank You