

## Briefing on International Development issues for the customs bill 2nd reading

Trade can be a vital tool for countries and people to work their way out of poverty. It can support job creation, production of higher value added goods and clean industrialisation. As the UK begins to develop an independent trade policy we have an opportunity to develop a gold standard for development, to put sustainability and rights at the heart of what we do and to ensure that there is coherence between our trade agenda and our world-class development work.

The Taxation (Cross-border trade) Bill, also known as the customs bill, placed before parliament on 20th November 2017 and due for second reading on the 8th January is a fundamental plank in the development of an independent UK trade policy. It sets out the process through which Government will set our baseline tariffs and establish a unilateral preference scheme for developing countries.

### Points to raise at second reading

There are a number of important issues to highlight during the second reading debate.

- The principle of sustainable development should be a core consideration alongside consumer interests, productivity, competition and UK interests when determining tariff rates and broader trade policy.
- To show support for measures to allow the Government to operate a preference scheme and for the proposed step of enshrining preferences for the poorest countries in primary legislation.
- We should seize the opportunity to build in flexibility so that a future scheme can be offered to a wider group of countries based on improved methods of analysing economic vulnerability, as well as improving product coverage, other technical matters and removing barriers.

### Principle of sustainable development

Environmental sustainability and poverty reduction have become key global issues. The Government has a responsibility to ensure that our trade policy works for everyone, including the poorest in society and how tariffs are set has an important bearing on this. As this inevitably involves compromise and trade-offs with significant implications for businesses, consumers and workers it is vital that clear guiding principles are established in primary legislation. The UK has an opportunity to establish itself as a leader in relation to embedding environmental protection, action on climate change, human rights, tackling inequality and delivery of the Sustainable Development Goals (SDGs) in its trade policies. There's a real danger that these are the areas where regulatory standards might be compromised in order to secure quick trade deals.

The appeal of British businesses and goods is that the UK is viewed as a country that trades in a fair and sustainable way, protecting workers, consumers and the environment. This adds value to brand UK when businesses are trying to market themselves abroad and must be protected in future trade policy.

### The opportunity to develop a world-leading preference scheme

The bill will grant the Government powers to introduce a non-reciprocal preference scheme for developing countries. These schemes have proven to be vital to enable developing countries to integrate into global supply chains and increase their share of trade. By reducing or waiving the import taxes due on goods imported from developing countries, they become more competitive and demand is stimulated.

Most developed economies operate a preference scheme including the USA, Australia, New Zealand, Canada, the EU, Japan, Norway and Switzerland. The UK has an opportunity to build on these schemes to develop a world-leading preference scheme and fulfil a government pledge to improve trading arrangements with developing countries.

WTO rules allow members significant flexibility in the design of their preference schemes as long as they can be justified on development grounds<sup>1</sup>. To establish a world-leading scheme the Government should address 3 key areas:

- **Country eligibility criteria to receive duty-free market access.** This should be extended beyond Least Developed Countries (LDCs) to other economically vulnerable countries.
- **Product coverage.** This should be as wide reaching as possible to enable developing countries to move away from reliance on exporting low-value, primary goods.
- **Rules of origin and cumulation.** Modern value chains cut across borders. If developing countries are to integrate into global trade, increase their productive capacity, share of processing and export of value added goods they must be able to utilise inputs from other developing countries without being penalised. The UK could operate simple rules of origin with flexible cumulation to maximise the impacts of a preference scheme.

The Government has outlined in the bill's supporting documentation that preference schemes are important tools to enhance the ability of countries to trade their way out of poverty. Given the clear benefits of improving on the existing model operated by the EU, and doubts about whether it will be possible for the UK to transition existing EU agreements in time, the Government should move as quickly as possible to ensure its improved scheme is in place from day 1 of Brexit.

At an absolute minimum the Government must ensure that has a clear vision about its future trade policy and ensure that no decision taken during the transitional phase will be detrimental to developing countries or close off future options.

#### Proposal for amendments for consideration at committee stage

- Add sustainable development to the list of issues for consideration when setting duties
- Add 'least developed regions' to clause 10 and include a definition in Schedule 3
- Supplement reference to World Bank and UN classifications in schedule 3 with objective development criteria including economic vulnerability

We can provide detailed proposals for amendments to incorporate these principles.

#### Further info

- Norway's 'GSP zero' scheme includes 54 countries both LDCs and a wider group that are 'treated as LDCs'.
- There are 32 GSP or other preferential trade schemes notified at the WTO
- The WTO's Enabling Clause was agreed in 1979 and permits members to discriminate in favour of developing countries on a non-reciprocal basis
- Traidcraft briefing on post-Brexit trade and development <http://bit.ly/2jbXAhF>
- Traidcraft response to trade bill white paper consultation <http://bit.ly/2CzS8gj>
- Detailed Traidcraft report with analysis of tariff line data <http://bit.ly/2CWuDPD>

**More detail on both the Trade and Customs Bills is available at [www.traidcraft.org.uk/policy](http://www.traidcraft.org.uk/policy) or from Matt Grady, Senior Policy Adviser on 020 3752 5714 or [matt.grady@traidcraft.org](mailto:matt.grady@traidcraft.org).**

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<sup>1</sup> In a ruling under the Enabling Clause countries can grant developing countries more favourable treatment as long as the scheme is based on "particular development, financial or trade needs and [preferences] are made available on the basis of an objective standard to all countries that share that need."