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UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

**Report of the Commission on Trade in Goods and  
Services, and Commodities  
on its seventh session**

held at the Palais des Nations, Geneva,  
from 3 to 6 February 2003



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## **Chapter I**

### **AGREED RECOMMENDATIONS ADOPTED BY THE COMMISSION AT ITS SEVENTH SESSION**

#### **Export diversification, market access and competitiveness**

##### **Trade in services and development implications**

##### **Trade, environment and development**

#### **Implementation of agreed conclusions and recommendations of the Commission, including the post-Doha follow-up**

1. The Commission takes note with appreciation of the high-quality documentation prepared by the secretariat for its seventh session. It recognizes and commends the secretariat's research on and analysis of international trade issues and their development dimension, and the technical cooperation and capacity-building activities. It calls on UNCTAD to continue and to intensify, as required, its work and activities, particularly in the follow-up to the post-Doha work programme, taking into account the special needs of the least developed countries. The Commission reiterates its request to the UNCTAD secretariat to regularly monitor the progress on the Doha work programme from the point of view of development issues and, upon request, provide substantive support to various bodies of the World Trade Organization and the members.

2. UNCTAD should also continue its policy-oriented analysis and capacity-building activities, and undertake work on commodities in the following areas:

- Analysing and assessing the impacts of possible outcomes of multilateral negotiations and preferential arrangements, particularly with respect to their implications for the competitiveness of commodities produced and internationally traded by developing countries;
- Analysing the distribution of value added along the supply chain for specific commodities of export interest to developing countries, whenever appropriate in cooperation with other relevant international and regional organizations, and identifying policies for increasing the value added retained in these countries;
- Analysing the opportunities for, and the impact of, the diversification of the commodity sector in developing countries, identifying the local support systems that are lacking and proposing ways of filling these gaps;
- Studying the practicality of policy options for dealing with imbalances in commodity markets, and their negative impact on development and disadvantaged groups;
- Continuing its efforts in assisting developing countries in formulating policies which enable them to diversify their exports and increase their competitiveness.

3. UNCTAD should also continue its policy-oriented analysis and capacity-building activities, and undertake work on services in the following areas:

- Assessment of the service sectors in developing countries, and continuing the improvement of the statistics and data on services production and trade;

- Sector-specific studies to identify export opportunities in sectors of interest to developing countries, with particular attention to the impact of liberalization and privatization on access to essential services. The analysis should include cross-cutting issues, such as domestic regulation, emergency safeguard mechanisms and subsidies;
- Identification and analysis of modalities and specific measures to effectively operationalize Article IV in the context of the negotiations under the General Agreement on Trade in Services (GATS);
- Analysis of ways and means of facilitating exports of labour-intensive services through further commitments in relation to movement of natural persons within GATS Mode 4;
- Assistance to developing countries to strengthen their negotiating capacities in multilateral and regional negotiations, particularly in the GATS requests and offers process.

4. Furthermore, UNCTAD should continue its policy-oriented analysis and capacity-building activities in the areas of trade, environment and development, and in particular it should:

- Explore the possibility of the creation of a consultative group on environmental requirements and international trade, which should closely coordinate and collaborate with relevant work and initiatives in other bodies and involve the private sector, as a project-based activity;
- Promote the UNCTAD/FAO/IFOAM (International Federation of Organic Agriculture Movements) Task Force on Harmonization and Equivalence in Organic Agriculture as a concrete follow-up to the recommendations of the Commission at its sixth session;
- Facilitate access to scientific and technical advice on issues relating to environmental and sanitary and phytosanitary measures and the impact and applications of new technologies, particularly in the context of the UNCTAD Science and Technology Diplomacy Initiative;
- Strengthen work carried out by the Capacity-Building Task Force UNEP/UNCTAD and projects aimed at building capacity for improved policy-making and negotiation on key trade and environment issues in the post-Doha context;
- Strengthen its work under the BIOTRADE programme, in particular in the follow-up to partnerships launched at the World Summit on Sustainable Development, to promote trade, export diversification and investment in support of the sustainable use of biodiversity;
- Continue work on standard-setting and harmonization of environmental and health regulations, taking into account the development dimension;
- Continue analysis of the trade and investment implications of multilateral environmental agreements.

5. The Commission encourages member Governments to support UNCTAD's work on commodities and its application in developing countries through the provision of extrabudgetary resources for expanded research, country-level activities and technical cooperation.

## Chapter II

### OPENING STATEMENTS

1. The **Secretary-General** said that international trade had been faltering in the recent past, despite the trends towards rapid growth in that trade which had manifested themselves over the long term. The growth of trade in 2003 would depend largely on the strength of the United States' recovery. In the light of this, success in the major multilateral trade negotiations initiatives was badly needed. He expressed concern that regional and bilateral trade agreements were adding new discriminatory rules that had not existed previously, instead of, as was often claimed, bridging gaps or addressing issues on which there was little progress in multilateral negotiations. He did not believe that such initiatives served as building blocks for multilateral trade liberalization. The essence of the world trading system was non-discrimination, i.e. the most-favoured-nation principle. The proliferation of discriminatory treatment under the guise of preferential treatment in regional and bilateral trade agreements, particularly in areas such as rule of origin, was adding difficulties.

2. He stressed the importance of the Commission on Trade in Good and Services, and Commodities as a unique forum for policy consultations and consensus-building on three major dimensions of the trade and development paradigm: (a) the strategic and long-term issues in the international trading system (including systemic issues such as special and differential treatment and the interface between the multilateral trading system and regional, transregional, bilateral and plurilateral processes that competed with and threatened to overshadow the multilateral trading system; (b) those issues being negotiated or prepared for possible negotiations in the WTO (market access, rules, services, trade-related aspects of intellectual property rights, trade-related investment measures, competition, environment and dispute settlement); and (c) those issues that reflected the reality with regard to the conditions that developing countries faced in increasing their benefits from and participation in international trade (issues relating to market entry, rules of origin, technical barriers to trade and sanitary and phytosanitary measures).

3. The three key themes being considered in the Commission, i.e. (a) export diversification, market access and export competitiveness; (b) trade, environment and development; and (c) trade in services and development implications, encompassed all those dimensions. UNCTAD had an important and unique role to play in elucidating those and other related policy issues, facilitating consensus-building, evolving consultative mechanisms and bringing out strongly the development dimension, which the international community should take into account. He would await the outcome of the post-Doha discussions and negotiations before deciding whether the current round would indeed merit the term "Development Round".

4. UNCTAD's consideration of export diversification, market access and competitiveness required a clear understanding of the changing conditions under which commodity trade took place, including those determined by the international trading system and the characteristics of international supply chains. This understanding was crucial for the identification of the critical points where action was needed so as to escape the "poverty trap"

discussed in UNCTAD's last LDC report. Even if market access were ensured, market entry would only be achieved if developing country exporters could enhance competitiveness, position themselves effectively in the international supply chains, and improve their influence and power therein.

5. The issues at the interface of trade, environment and development were increasingly important on the international agenda. After the Doha meeting, for the first time in the WTO, negotiations on trade and environment issues had begun. Developing countries were keen to take advantage of market opportunities for environmentally preferable products created by growing consumer environmental awareness. At the same time, as highlighted in recent UNCTAD meetings and analysis, they wished to ensure that the ever-increasing environmental and health requirements in these markets did not create new barriers to their market entry and penetration. It was also important to ensure that domestic trade and environment policies were mutually supportive and reflected development objectives.

6. The approach to services hinged on two dimensions: how services trade and its progressive liberalization could support the attainment of the development objectives, and how to promote development of services-related capacities in individual developing countries. Within this context, an even greater challenge was to identify conditions under which developing countries might beneficially increase their participation both as importers and as exporters of services. UNCTAD's work had drawn on insights gained at a series of Expert Meetings which had highlighted the trade and development dimension in the areas of health, environment, tourism, air transport, construction, energy and audiovisual services. Assistance to developing countries in their multilateral trade negotiations on services remained a priority for UNCTAD and was an area where it was acknowledged to have made a historic contribution.

7. The UNCTAD Technical Assistance and Capacity-Building Programme had been launched in February 2002 in the context of the Commission. Based on extensive consultations with delegations, this umbrella plan reflected what the developing countries expected from UNCTAD's technical assistance. The secretariat was deploying all the resources at its command and he acknowledged and commended the donor Governments – those of Belgium, Finland, France, Italy, Japan, the Netherlands, Norway, Sweden, Switzerland and the United Kingdom – that had specifically provided funds for post-Doha assistance and UNCTAD's trade programme. However, he noted that the needs of developing countries were burgeoning, and that to meet their increasing demands for the kind of technical assistance and capacity-building which only UNCTAD was able to provide, resources would need to be augmented.

8. He noted that the preparatory phase for UNCTAD XI was commencing. He hoped that the Commission's deliberations at this session and the next one would contribute to and in turn be shaped by a collective vision for trade and development, one that was just, fair, sensitive to fulfilling basic social and human needs, accommodated differences in the development stages and capacities of individual countries, and was stable and rules-based, democratic and participative, liberal and open, enabling countries to leverage their respective comparative and competitive advantages.

9. The representative of **Thailand**, speaking on behalf of the **Group of 77** and **China**, acknowledged the unique role played by UNCTAD in the United Nations system with regard to issues related to trade and development, and commended the secretariat's research, technical assistance activities and database development in the area of international trade, including integration into the world trading system. The work of the Commission had special significance, particularly in the light of the recent summit decisions on sustainable development and the slow progress on the development dimension under the Doha work programme, vulnerability of global markets, new barriers to exports of developing countries, coupled with decreased aid and foreign direct investment, and the vicious cycle of debt and poverty prevailing particularly in the LDCs. While recognizing the benefits deriving from liberalization, the Group of 77 and China stressed the importance of sequencing the reforms and the need to carefully examine the content of liberalization in order to design reform programmes that minimized social costs, achieved gains more rapidly and put in place social programmes to minimize or offset the negative impact of the reforms on the poor. In this connection, the issues to be examined under "Export diversification, market access and competitiveness" were important to the Group of 77 and China, since promotion of export diversification would contribute to reducing the economic vulnerability of commodity-dependent developing countries. The aim should be to strengthen the commodity sector so as to make it a positive factor that would generate a virtuous circle of development. Market access was a precondition for diversification, while improvements had also to be made in the competitiveness and supply capacities of developing countries.

10. With regard to trade in services and development implications, the key concern of the Group of 77 and China was the limited participation of developing countries as a whole in the fastest-growing sector of world trade. At the same time, developing countries remained important markets for imports of services. This imbalance in services trade had to be addressed, and the Group of 77 and China would seek to ensure that the development promise in the Doha agenda was fully reflected in the negotiations under the General Agreement on Trade in Services (GATS). Overall, as the GATS negotiations advanced, the common goals of the Group of 77 and China continued to include assessment of the impact of services liberalization; concrete measures to build supply capacity and promote increased participation of developing countries in trade in services through commercially meaningful market access commitments, with special priority given to LDCs; special consideration for developing countries' small and medium-sized enterprises; and respect for national policy objectives, level of development and size of economies within the process of liberalization.

11. Another key area to be discussed by the Commission was the linkage between trade, environment and development, and how it could be addressed effectively within the context of development. It was important that environmental requirements not create unnecessary barriers to exports from developing countries. In that connection, the Group of 77 welcomed the idea of a consultative mechanism to collect and analyse information and data on existing mandatory and voluntary environmental requirements and their likely implications for products of key export interest to developing countries. This would help to alert Governments and businesses to new trends in environmental requirements in international markets and to facilitate the active participation of developing countries in pre-standard-setting stakeholder

consultations, as well as proactive adjustment strategies and measures in developing countries.

12. The representative of **Morocco**, speaking on behalf of the **African Group**, welcomed the distinction made in the secretariat report under agenda item 3 between market access and market entry. That item raised three major questions. First, what do market access and competitiveness mean for Africa's commodity-dependent economies? Second, is export diversification possible for them? If so, what would be the most appropriate policies? Third, what is the best approach to reducing dependence on commodities and proceeding to high-value-added products?

13. The analysis in the secretariat's report coincided with the launching of the New Partnership for Africa's Development (NEPAD). He recognized that certain national policies could encourage increased competitiveness. These included: (a) the lifting of trade constraints; (b) upgrading financial markets; (c) strengthening human and administrative infrastructure; and (d) increasing the capacity of exporters to analyse markets.

14. Agricultural subsidies in many developed countries continued to impede efforts by developing countries to increase exports. The constant evolution of sanitary and phytosanitary standards in developed countries was another challenge to developing country exporters. These issues should be addressed in the post-Doha context.

15. He urged UNCTAD to strengthen its technical assistance programmes for the promotion of competitiveness and improvement of African countries' export capacities for high-value-added products. In this connection, it should include the implementation of the General Assembly resolution on commodities in its activities.

16. Regarding item 4, entitled "Trade in services and development implications", he noted that a number of sectors, including transport, financial services, tourism, construction and professional services, were of great importance to African countries. With regard to the transport sector, costs remained very high and future negotiations should include multimodal transport services. With respect to professional services, nationality-related limitations on the movement of natural persons should be lifted.

17. With regard to the needs of African countries for technical assistance, a number of points needed to be made. First, capacity-building was required in the area of services, particularly in order to allow African countries to benefit from the flexibility of the GATS. Second, negotiation modalities should be sensitive to the specific circumstances of Africa. Third, special and differential treatment should be strengthened when the GATS was revised in accordance with paragraph 44 of the Doha Declaration. Fourth, WTO trade policy review mechanisms should be used to evaluate the needs of African countries. Fifth, UNCTAD's Coordinated African Programme of Assistance on Services (CAPAS) should be strengthened.

18. With regard to item 5, on trade, environment and development, the African Group appreciated the analytical work done by UNCTAD in order to help African countries to integrate the environment dimension into their development strategies. He noted with appreciation the launch of the joint UNCTAD/FAO/IFOAM (International Federation of

Organic Agriculture Movements) Task Force on Harmonization and Equivalence in Organic Agriculture.

19. In conclusion, he recommended that UNCTAD strengthen its technical assistance activities in the areas covered by the agenda of the present session and urged donors to provide it with the necessary resources for the implementation of the post-Doha technical assistance programme.

20. The representative of **India**, speaking on behalf of the **Asian Group**, stressed the importance of trade as a vehicle for economic, human and social development for Asian countries, since the future of the Asian region would rest upon accelerated economic growth and development. The multilateral trading system had to be shaped to play a major role in the promotion of economic development and poverty alleviation. The Commission's discussions were all the more opportune given the global economic prospects and the slow progress made in the WTO's Doha work programme in addressing areas of particular interest to developing countries, including implementation issues, special and differential treatment, the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), and public health. While Asian countries had been relatively successful in expanding exports of goods and services, they continued to face a variety of constraints in diversifying their commodity exports, expanding exports of services and meeting environmental requirements in export markets.

21. Major obstacles to developing countries' commodity diversification included barriers to market access and market entry such as agricultural subsidies in major developed countries, tariff peaks and escalation, and sanitary and phytosanitary standards and those related to technical barriers to trade, as well as supply-side constraints such as the lack of efficiency and competitiveness and the low share of value added retained in the global value chains.

22. As regards trade in services, in spite of an open domestic environment, suppliers of services from Asian countries were not benefiting from the same market access opportunities in developed country markets. Asian countries were also facing important constraints in terms of preconditions for liberalization such as supply constraints, lack of access to new technologies and finance, and public policy requirements. The impact of liberalization on public policy objectives such as access to essential services was of particular concern. He stressed the need to remove barriers such as the economic needs test (ENT), visa and entry requirements, and non-recognition of professional qualifications, which impeded Asian countries' exports of labour-intensive services through Mode 4. GATS negotiations would therefore need to address the imbalance in commitments in respect of different modes of supply with a view to achieving the objectives of Article IV of GATS. UNCTAD's assessment of trade in services submitted to the WTO Services Council and its sectoral work had been of considerable value.

23. With regard to environmental requirements, he pointed out that it was necessary to ensure that these did not create unnecessary barriers to trade and were not used for protectionist purposes. Government regulations, industry standards and guidelines set by the private sector, as well as buyers' requirements, were proliferating, especially in sectors of interest to Asian countries such as food and health products, textiles and electronics. The

Asian countries sought to be involved in standard-setting to ensure that standards would reflect their environmental and developmental conditions. The Asian Group welcomed the suggestion by the Expert Meeting on Environmental Requirements and International Trade that a consultative mechanism on environmental requirements and international trade be created.

24. He noted that at its 57<sup>th</sup> session the United Nations General Assembly had reaffirmed the role of UNCTAD as the focal point in the United Nations for the integrated treatment of trade and development. UNCTAD's role in policy analysis and technical assistance in the areas of effective participation in the multilateral trading system, trade negotiations, trade in services, WTO accession, regional trade agreements, commodities, and trade, environment and development had been significant. UNCTAD should intensify its work in the context of the implementation of the Secretary-General's plan for post-Doha technical assistance. In this connection, donors were encouraged to provide further financial support. As regards commodity diversification, analytical work should address the potential outcome of WTO negotiations; policies regarding the supply chains for commodities and the distribution of value added; the role of commodity diversification in the production and export base in poverty alleviation; and possibilities of enhancing linkages to improve the benefits accruing to the disadvantaged segments of the population. Additional extrabudgetary resources should also be provided to UNCTAD to implement the General Assembly resolution on commodities, and the relevant recommendations stemming from it should be included in UNCTAD's activities. In the area of trade in services, assistance should be provided in the field of policy analysis and trade negotiations, including the formulation of requests and offers under the Doha work programme. Continuation of work on Measures Affecting Service Trade (MAST) and development of adequate indicators to measure trade flows in services would also be needed. Analytical work should address ways and means of facilitating exports of labour-intensive services through further commitments in Mode 4; assessment of trade in services; identification of market access barriers to developing country exports; trading opportunities through cross-border supply/electronic commerce; the regulatory framework for trade in services; and access to information networks and distribution channels. In the area of trade and environment, analytical work should address trends and environmental requirements and implications for trade and development. The creation of a consultative mechanism on environmental requirements and international trade would also need to be considered.

25. The representative of **Venezuela**, speaking on behalf of the **Group of Latin American and Caribbean Countries (GRULAC)**, noted that most Latin American and Caribbean countries were dependent on commodities exports. Neither commodities exports nor countries' competitiveness, however, had increased in recent years. Exports of manufactured goods had stalled as well, since only a few countries in the region had become successful exporters and had been able to find niche markets for their products. This trend was leading to increasing poverty in the region. She therefore stressed the importance for the region of producing and exporting value-added products and, at the same time, the need to improve market access for such products, especially processed agricultural products, originating in the region. Since tariff escalation and subsidies were serious obstacles to the export possibilities of Latin America and the Caribbean, the ongoing negotiations at the WTO

had to be aimed at reducing both subsidies and tariff escalation. It was important to emphasize support to small producers to prevent them from being marginalized, particularly since they formed a large proportion of the population and produced mainly for domestic markets. Support to these producers in Latin America and the Caribbean did not distort international trade and guaranteed food security. Two crucial goals had to be pursued by UNCTAD in its analytical and support work: enhanced market access for developing country products, and better access for producers in developing countries to knowledge, capital and managerial know-how, which would enhance their competitiveness.

26. She stressed that services had played a very positive role in the development of the region, with their contribution to gross national product increasing from 58 to 62 per cent during the last decade. Services suppliers by and large had concentrated their activities in the traditional services sectors, such as retail services, transport services and, above all, tourism. Latin American and Caribbean countries had traditionally been importers of services, and this situation had negatively affected their balance of payments. Lack of adequate statistics, however, made it difficult to assess the structure and development of the services sector in the region and hampered the formulation of strategies aimed at supporting the most dynamic sectors. It would be very useful to make an evaluation of the actual contribution of the services sector to the growth of the region. Within the ongoing multilateral services negotiations, the liberalization of the delivery of services through Mode 4 was of paramount importance, and UNCTAD had to give priority to the analysis of the issue and make suggestions about how to effectively liberalize this mode of supply. Since Latin American and Caribbean countries had greatly benefited from UNCTAD's technical cooperation activities in respect of services, it would be appropriate for the Commission to give the secretariat a clear mandate and adequate funds to continue its useful work. Several countries in the region had unilaterally liberalized their services markets, especially key sectors such as telecommunications, financial services and basic facilities. The results were mixed and the setting up of new institutional and regulatory frameworks had proved to be a very challenging task for most countries. It would therefore be useful for UNCTAD to analyse the impact of services liberalization on country competitiveness, which was going to be the main theme of UNCTAD XI, and on people's welfare, as well as to identify the conditions that needed to be met in order for the countries of the region to benefit from the services liberalization process. An additional theme that could usefully be analysed by UNCTAD in its work on services could be the relationship between multilateralism, regionalism and development. She stressed the crucial role that UNCTAD had been playing in the debate on special and differential treatment, and recommended that this work be continued and that the secretariat inform delegations about the progress made.

27. In relation to item 5, on trade, environment and development, she said that environmental requirements in international markets were becoming more frequent and more stringent. Important lessons could be drawn from the Expert Meeting on Environmental Requirements and International Trade. First, adjustment costs could be quite significant, particularly for small and medium-sized enterprises (SMEs). Second, while standards and regulations by themselves might be based on genuine environmental or food safety concerns, their application and interpretation could discriminate against exporters from developing countries. Follow-up was required in areas such as best practices in developing and

implementing standards, improved information flow and management, and the identification of policies to assist SMEs in responding to environmental challenges.

28. GRULAC countries expressed strong support for the BIOTRADE initiative. Country programmes had been developed in Bolivia, Colombia, Ecuador, Peru and Venezuela, in addition to regional programmes such as the Andean BIOTRADE Programme and Programa Bolsa Amazonia. She thanked the Governments of the Netherlands, Norway and Switzerland for their contributions to the BIOTRADE initiative. GRULAC strongly recommended that this programme be strengthened.

29. With regard to technical cooperation and capacity-building in the post-Doha context, GRULAC highlighted UNCTAD's support in the area of traditional knowledge. It expressed its appreciation for the launching, at the World Summit on Sustainable Development, of the second phase of the UNEP-UNCTAD Capacity Building Task Force. Also, she expressed her gratitude to the United Kingdom's Department for International Development for funding the project on "Improved Policy Making and Negotiation on Key Trade and Environment Issues", in which seven countries in the region were participating.

30. In conclusion, GRULAC supported the work of UNCTAD on organic agriculture and welcomed initiatives such as the meeting held in Brussels in 2002, funded by the European Union, and the recently established IFOAM/FAO/UNCTAD Task Force on Harmonization and Equivalence in Organic Agriculture.

31. The representative of **Benin**, speaking on behalf of the **least developed countries (LDCs)**, noted that export diversification, access to markets and competitiveness, as well as trade in services and its implications for development, and the links between trade, environment and development, were all areas that should be accorded more attention.

32. With respect to agenda item 3, he said that commodity production was the dominant activity for his group of countries. Commodities represented 70.1 per cent of total LDC exports. For some countries, this ratio was as high as 98 per cent. It was also worth noting that of all the commodities produced by these countries, only 7.8 per cent were processed for value-added export. The steep fall in commodity prices over the past 30 years had exposed least developed countries to serious balance-of-payments deficits. The distortions caused by production subsidies provided by some developed countries for agricultural commodities, together with tariff peaks, tariff escalation and technical barriers to trade, had aggravated the difficult situation of LDCs. At the international level, the LDC group called for an appropriate solution to these grave problems through measures that took into account their particular situation. At the national level, it urged the UNCTAD secretariat and the international community to provide technical assistance in the area of know-how and institutional capacity in order to develop the supply capacity of value-added products and increase the volume of exports.

33. The services sector, which was the subject of agenda item 4, was important to developing countries. The weakness in several parts of this sector in developing countries and LDCs necessitated the taking of actions aimed at improving the situation. The LDC group hoped that technical assistance in the context of the GATS would be provided to LDCs with a

view to enabling them to define their specific needs and formulate offers and requests in accordance with the Doha Declaration.

34. In conclusion, he said that the LDC group considered that environmental standards, which were to be discussed under agenda item 5, should be formulated with due account taken of the specific situation of the LDCs and with a view to allowing them to adapt to requirements at an appropriate pace, including on matters such as measures to assist SMEs, eco-labelling, notification of voluntary standards and access to markets for environmentally preferable products.

35. The representative of **Greece**, speaking on behalf of the **European Union, the acceding countries (Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia) and the associated countries (Bulgaria, Romania and Turkey)**, said that the Commission's session had a heavy agenda: export diversification, market access and competitiveness, trade in services, and environment. As stressed in the substantive documentation, it had to address the linkages and interrelationships among these various concepts in terms of challenges and opportunities, from the point of view of developing countries, in the context of multilateral trade negotiations and progressive trade liberalization.

36. UNCTAD could play a useful role in clarifying issues from a development perspective and in promoting consensus. The Commission should focus, in a constructive and pragmatic way, on the conditions necessary at the national level for developing countries to maximize their development opportunities deriving from trade, and the ways in which their concerns should be taken into account, both in the multilateral process and by the international development community.

37. The multilateral trade negotiations under the Doha development agenda, together with certain bilateral and regional initiatives, and support for regional integration among developing countries, were the vehicle for pursuing market access, particularly in respect of those products and services sectors where developing countries had a comparative advantage.

38. In the services area, efforts should continue in order to help the developing countries increase their participation through negotiated specific commitments and to provide them with technical assistance so as to enable them to assess the negotiating proposals and identify the scope and impact of further liberalization. The European Union would continue its support in that area.

39. Increased market access alone and additional trade-related assistance would not automatically lead to trade expansion. There was a need to make market access more effective in order to help exporters in complying with applicable regulations and to exploit market access concessions. Supply-side constraints often acted as obstacles to trade expansion. Besides lack of investment in product capacity, important factors constraining supply responses could include inappropriate macroeconomic and tax policies, weak regulatory frameworks and implementation, dependence on a small range of low-value-added exports, high transport costs, unreliable utilities, poor telecommunications and inefficient financial services.

40. Addressing these constraints required the active participation of standard-setting bodies, offices for standardization and registration, storage facilities, and so forth. Support services for enterprises in the areas of payments, insurance and transport also needed to be upgraded. All that required considerable resources and forward planning, and therefore additional external assistance from developed countries that complemented increased market access opportunities. Opening up to foreign investment and creating a favourable investment climate in developing countries could boost investment from developed countries and thus expand the exporting capacity of developing countries.

41. In line with the outcome of the World Summit on Sustainable Development and the Millennium Development Goals, the European Union would continue its financing for development and further assist with enhancing the capacities of vulnerable countries to benefit from trade opportunities, notably in the sectors where there was a potential for “win-win” opportunities, such as environmentally friendly products and organic food products.

42. With regard to the problem of commodity dependence, the European Union was committed to building the capacity to diversify through, *inter alia*, financial and technical assistance and international efforts to help mitigate the effects of the instability of commodity prices and declining terms of trade.

43. The representative of the **United States of America**, referring to the common efforts of all nations to advance economic development, and to the ties between them in this endeavour, emphasized the responsibility of Governments to create enabling environments for the private sector to perform efficiently in creating greater economic opportunities throughout the world.

44. The activities of individuals and firms in the private sector formed the engine of growth and development that generated the wealth and employment that were essential for the eradication of global poverty. While national Governments played an important role in creating environments that stimulated the entrepreneurship of individuals and firms, it was the experience of the United States that light government intervention in markets was most helpful in encouraging economic development.

45. Recognizing that the international community performed an important function in helping developing countries to improve their development prospects, the United States stressed the extremely important collective role of nations in enhancing access to their markets. Enhanced market access for developing countries could allow them to increase their share of global trade, and to that end, the United States had tabled offers at the WTO to further liberalize trade in agricultural and non-agricultural industrial goods. The United States expressed its interest in working with other Governments to increase trade opportunities for all countries.

46. He referred to the key role that regional trade agreements played in increasing market access and reducing poverty, noting that such agreements had led in numerous instances to significant increases in developing country exports to the United States. The progress at the

WTO in enhancing trade had been less rapid and less significant than the United States had expected, and it would therefore continue to pursue alternative initiatives.

47. The United States viewed with great satisfaction the conduct and outcomes of UNCTAD's Expert Meetings. The richness of the debates and the references made to successful national experiences were particularly appreciated. However, the United States would have liked to see more references in UNCTAD's background papers to these examples of success stories, best practices and development models, and it encouraged UNCTAD to continue the approach it had adopted, particularly with respect to its work on diversification.

48. The representative of **Belarus** said that diversified commodities exports were a precondition for sustainable development. The question was how to achieve the desirable level of export diversification. UNCTAD should formulate mechanisms for export diversification for developing countries and countries in transition in order to enhance their competitiveness. These mechanisms should be an integral part of the present round of WTO negotiations. In this context, special attention should be paid to implementation of the General Assembly resolution on "Sustainable development and international economic cooperation: integration of countries in transition into the world economy", which emphasized the importance of assistance on policy issues and in providing development-related technical assistance to countries in transition with a view to furthering their integration into the world economy. Special attention should also be paid to the interests of developing countries and countries in transition in the context of their accession to the WTO, attraction of foreign investments and general globalization processes.

49. With regard to WTO accession, he emphasized that it did not provide automatic and unrestricted access for products from developing countries and economies in transition to the markets of developed countries. Furthermore, there was a clear tendency for WTO members, especially developed countries, to request acceding countries to assume additional obligations as compared with normal WTO obligations and commitments. In his view, this was neither justified nor just.

50. In conclusion, he said that his country was interested in the continuation of UNCTAD's analytical and technical support in the area of trade policy.

51. The representative of **Switzerland**, addressing item 3 of the agenda, urged the UNCTAD secretariat to continue to use its analytical competence in the areas of diversification, competitiveness and access to markets. He noted that success in diversification was contingent on market access conditions and competitiveness. If exporting countries were not competitive they could not profit from market access, and without access to markets it would be impossible to exploit the advantage of competitiveness. With regard to UNCTAD's technical assistance, it was important that it exploit its comparative advantages vis-à-vis other international organizations such as the International Trade Centre UNCTAD/WTO and the World Bank.

52. With respect to agenda item 4, he appreciated the fact that the external and internal barriers and difficulties facing developing countries had been highlighted, including activities which developing countries themselves could undertake in order to benefit from progressive

liberalization of trade in services. He fully supported the invitation and the need for developing countries to be proactive in the multilateral services negotiations.

53. He welcomed the decision by the Commission to include the item on trade, environment and development in its agenda, since environmental issues played an increasingly important role in international trade, especially with regard to market access and competitiveness of products from developing countries. Switzerland paid particular attention to fostering the capacity of SMEs and relevant institutions in developing countries to comply with environmental requirements. It strongly supported the objective of deeper liberalization of tariffs and non-tariff measures on environmental goods and services, while noting that it was difficult to determine which products and services should fall into this category.

54. With regard to the Science and Technology Diplomacy Initiative, he invited UNCTAD to cooperate with agencies that specialized in the training of trade officials from developing countries, such as the Agency for International Trade Information and Cooperation.

55. He emphasized that UNCTAD must play an active role in the WTO post-Doha work programme and noted with pleasure that close cooperation with the WTO secretariat had been established. Special emphasis should be placed on the promotion and implementation of technical assistance and capacity-building projects in the area of trade, environment and development.

### Chapter III

## EXPORT DIVERSIFICATION, MARKET ACCESS AND COMPETITIVENESS

(Agenda item 3)

56. For its consideration of this item the Commission had before it the following documentation:

“Export diversification, market access and competitiveness: Note by the UNCTAD secretariat” (TD/B/COM.1/54)

“Report of the Expert Meeting on the Diversification of Production and Exports in Commodity-dependent Developing Countries, Including Single-commodity Exporters, for Industrialization and Development, Taking into Account the Special Needs of LDCs” (TD/B/COM.1/50 - TD/B/COM.1/EM.18/3)

### Chairperson’s summary

57. *UNCTAD, as the only United Nations organization with an explicit mandate to work on the issue of commodities, has traditionally provided useful analysis and policy advice on how to make the commodity sector an engine of growth and development. The emphasis placed on the interrelationships between export diversification, market access and competitiveness in the documentation prepared for this session of the Commission sheds new light on the opportunities and problems faced by commodity-dependent countries and offers a new perspective for national and international commodity policies and related actions. It links conveniently the specific activities and concerns at the intergovernmental level, including in the context of the World Trade Organization (WTO), with those at the national and enterprise levels.*

### Diversification

58. Diversification into higher-value-added commodities and processed products, as well as into activities such as labelling, design, packaging, product differentiation, effective service and prompt delivery, was seen as a crucial component of the development efforts of commodity-dependent countries. This would increase not only foreign exchange earnings but also the value-added retained in the producing countries. For some commodity-dependent countries, such as small island developing countries, however, this option is very limited or non-existent, and their special developmental needs have to be addressed. Problems need to be dealt with on a selective, country- and product-specific basis.

59. Geographical diversification may be achieved by seeking new markets while drawing on the advantage of geographical or cultural proximity. South–South trade and regional economic integration can also contribute to export diversification since it is easier to

penetrate neighbouring markets with value-added products, as exemplified by the Andean Community.

60. Although diversification cannot be a panacea for all the development problems of these countries, if national and international policies are supportive it can provide a significant basis for the structural transformation and modernization of their economies and contribute to poverty alleviation. Apart from supportive policies, including in the context of the international trading system, financial and technical cooperation from developed countries and international organizations such as UNCTAD is necessary in order to address the needs of commodity-dependent developing countries with regard to the closely related objectives of improving competitiveness and diversification. In an era of declining financial assistance to the commodity sector, the Common Fund for Commodities plays an important role in the development of the commodity sector. Civil society also has a crucial role to play in this process.

### **The concepts of market access and market entry**

61. Diversification of exports, competitiveness and market access are inextricably linked. Without market access, competitiveness will remain meaningless – as in the case of textiles – and without adequate supply capacities and competitiveness in terms of quality and price, market access will not in itself provide effective opportunities for increasing export earnings and diversifying the export structure, as in the case of many least developed countries (LDCs). An important concept that featured in the discussions was that of market entry. Market access, which is defined by conditions set by Governments within their legal rights and obligations as agreed at negotiations on international trade, established a virtual market space. This space became a real and effective market to the extent that other conditions determined by market structures allowed this and quality, health and environmental requirements set by buyers themselves were satisfied. For example, Senegal had identified 35 products as having strong market potential. Actually exporting them required that the market entry conditions be fulfilled, which was not an easy task.

### **Market access conditions**

62. Market access conditions that hinder export success include tariff peaks and tariff escalation. The requirements of the Agreement on the Application of Sanitary and Phytosanitary Measures (the SPS Agreement), the Agreement on Technical Barriers to Trade (the TBT Agreement) and the Agreement on Trade-Related Aspects of Intellectual Property Rights (the TRIPS Agreement) also generate important market access barriers, and overcoming them requires considerable assistance from the international community. Repeated changes in these requirements cause difficulties for developing country exporters, and developed countries were called upon to refrain from introducing new standards and requirements too often. Subsidies granted to agriculture in member countries of the Organisation for Economic Co-operation and Development (OECD) nullify any degree of competitiveness in costs and quality for developing countries' products competing with those produced in developed countries that grant subsidies. All these are issues that are discussed

and should be expeditiously settled by the international community within the context of the WTO and through intergovernmental cooperation in relevant forums, including UNCTAD.

### **Changing commodity markets and requirements for market entry**

63. The most significant recent change in commodity markets that affects market entry conditions and has a significant impact on socio-economic conditions, particularly those of small producers, is the surge by international supermarket chains. The share of supermarkets in the retail market for fruits, vegetables and potatoes, for example, varies widely among countries in Europe. It is over 80 per cent in Scandinavian countries, 70–80 per cent in Germany, and over 50 per cent and rising in the Netherlands, France and the United Kingdom, and the trend is positive in all cases. With the exception of Wal-Mart, the largest international supermarket chains are all from France, the Netherlands and Germany. The European-based supermarket chains also tend to be the ones with the largest share of their business abroad. Carrefour is the best example of rapid market penetration and a high rate of growth in developing countries, particularly in Latin America. The growth of supermarkets is a phenomenon that has extended to many developing countries, partly as a result of foreign investment by large international supermarket chains.

### **Participation in international supply chains**

64. Given the characteristics of modern supply chains, which are dominated by large firms, including at the retail level, actual market entry can be facilitated by meeting the requirements set by them (reflecting and influencing consumers' preferences) and establishing mutually beneficial links with them, including for transfer of technology. If these market entry conditions are not satisfied, market access will be to no avail. The question for developing country producers is how they can become integrated into these chains in a way that promotes development. Dissemination of market intelligence (about, for example, prices, supply, demand, weather, retailers, buyers, and market outlets) and improving the capacity to use it, so that producers and exporters can make informed decisions on production, marketing and exporting, would help in this connection. Although the internationalization of retail services opens up important opportunities for some exporters, small producers find it particularly difficult to benefit from them. Cooperative arrangements among such producers would reduce the likelihood of their marginalization and improve their chances of participating profitably in modern value chains. However, financial and technical support is necessary in order to enable them to meet the increasingly stringent requirements in terms of quality and traceability. Large firms' dominance of international commodity markets prevents increased participation by developing country enterprises in some stages of the value chain, but dealing with only a small number of buyers may make it easier to find them.

### **Improving competitiveness**

65. Diversification and success in international commodity markets also depend on improved competitiveness and satisfying the requirements set by importing firms with regard to quality, quantities and environmental and social aspects of production. Competitiveness can be improved through mastery of production technology, reducing production costs,

drawing on existing competence and local know-how, and improvement of the country's image, its products and brands. Obtaining internationally recognized certification is one way of showing competence. Figures for certification under ISO 14000 indicate that while developed regions have been much quicker to see this as a source of competitive advantage, some developing regions have also been quick to recognize the advantages of certification: Europe accounts for 48 per cent of certifications, South-East Asia for 31 per cent, North America for 7 per cent and the rest of the world for 14 per cent.

66. Poor physical and technological infrastructure is one of the main obstacles to diversification in many countries. Other important obstacles include taxation of exports, State monopolies, lack of investment in value-adding activities, and poor adherence to quality control and standards in consumer markets, as well as weak and poor governance in general. More needs to be done at the domestic level in order to avoid a "cycle of misalignment". Active public policies to promote diversification and change in export structures, as well as to enhance competitiveness by raising productivity, are necessary in order to enhance competitiveness leading to diversification.

### **Success stories**

67. In spite of the difficulties concerning market access and market entry conditions, there have been success stories about developing countries and individual exporters in many countries that have increased and diversified their exports. The cases of Kenya and Zimbabwe in the horticulture sector are noteworthy. In many instances successful countries have been those in the Far East and Latin America facing relatively disadvantageous tariff preferences. All success stories point to the importance of high quality, good business practices, reliability and organization.

### **Diversification and the problem of commodity prices**

68. At a time when declining prices and terms of trade for commodities are having devastating economic and social effects on the poorest people in developing countries, diversification into higher-value-added commodities and processed products would not only improve incomes but also help in dealing with the adding-up problem in commodities and avoiding excess supplies that lead to depressed prices. In some cases, depressed prices were due to policy failures on the part of developed country Governments and international financial institutions. Subsidies to producers in developed countries competing with developing country producers have contributed to depressed prices for some commodities. Supply management and compensatory financing could be used both to prevent oversupply situations from occurring and to facilitate adaptation and diversification by developing country producers. In addition to the level of prices, dramatic price fluctuations such as those experienced in recent years create major problems both at the level of national economies and for producing enterprises. Enterprises' management of risks arising from fluctuations in prices is also an important aspect of commodity-sector development. Several countries have gained useful experience and benefited from the activities of UNCTAD in this area.

### **Future work of the UNCTAD secretariat**

69. UNCTAD's emphasis on the interrelationships between the concepts of competitiveness, market access and entry and diversification was appreciated. UNCTAD was encouraged to continue its policy-oriented analysis of these concepts and enhance its technical cooperation activities in the area of commodities. Member Governments were called upon to support this work and the implementation in developing countries of policies and strategies stemming from it, particularly through the provision of extrabudgetary resources for expanded research, country-level activities and technical cooperation. In its commodity-related work, UNCTAD should focus on identifying policies for increasing the value-added retained in commodity-exporting developing countries and improving their competitiveness, not only to increase export earnings but also to improve the benefits accruing to the disadvantaged segments of the population.

## Chapter IV

### TRADE IN SERVICES AND DEVELOPMENT IMPLICATIONS

(Agenda item 4)

70. For its consideration of this item the Commission had before it the following documentation:

“Trade in services and development implications: Note by the UNCTAD secretariat” (TD/B/COM.1/55)

“Report of the Expert Meeting on Audiovisual Services: Improving Participation of Developing Countries” (TD/B/COM.1/56 - TD/B/COM.1/EM.20/3)

#### Chairperson’s summary

71. UNCTAD has done pioneering work in the area of services. Its ongoing work in that area has greatly benefited from the insights gained at the Expert Meetings, all of which examined the trade and development dimension in the areas of health, environment, tourism, air transport, construction, energy and audiovisual services. These meetings provided policy clarification and offered insights to developing countries and the international community regarding the preconditions for developing countries to increase their participation in the international trade in services. UNCTAD has continuously assisted developing countries in their multilateral trade negotiations on services, especially by providing analytical inputs for the assessment of different negotiating options. Through its analytical work and technical assistance activities in the area of services UNCTAD has contributed to international consensus-building.

#### **Contribution of the services sector to overall economic development, especially of developing countries**

72. Compared with other areas of economic activity, the global services economy has undergone the most dramatic changes, which have led to the establishment of interrelated global markets involving far greater participation by all countries, and has thus become a driving force for development. Between 1985 and 1999 world services exports grew by more than 9 per cent a year, compared with 8.2 per cent for trade in goods. In most developing countries, the services economy has become a major factor and contributor to gross domestic product and employment. At the same time, many services have more than a purely economic significance and retain their role in development through, for example, their social or cultural aspects. Sustainable development cannot take place if access to health-care schemes, education, commercial energy, drinking water and sanitation systems is not guaranteed. Also, sustainable development implies due respect for cultural diversity, traditions and national values. Services may act as a cushion during periods of economic recession to mitigate manufacturing swings.

73. The importance of an efficient services sector as the backbone of all economic activities is particularly revealing in its linkage to trade in manufactured goods, agricultural products and other commodities, as well as to other sectors of the economy. There could also be positive linkages between liberalization of manufactured goods and commodities and development of the services sector and its competitiveness. At the same time, however, major differences in the development of the services economy across different countries and regions are evident. Developing countries have weak services sectors and face a deficit in trade in services. Tourism is among the top five foreign currency generators for 79 of those countries. Many LDCs, for example, view tourism as the only services sector where they currently have a comparative advantage. Tourism services, if managed in a sound and environmentally conscious way, can play a unique role in increasing export revenues and act as an overall development driver. There was general agreement that the temporary movement of natural persons – Mode 4 in the General Agreement on Trade in Services (GATS) – is the most important mode of supply for developing countries' services providers and has been constantly contributing to economic growth and poverty alleviation in those countries, especially since capital remains scarce in many of them. This is particularly true of labour-intensive sectors such as tourism, professional and business services, audiovisual services, construction, and sectors requiring unskilled workers, which involve the temporary movement of people to supply services between countries.

74. Total remittances for developing countries from their nationals working abroad exceeded \$50 billion in 2001. Recent empirical evidence indicates that if quotas were increased by 3 per cent of the OECD countries' labour force, global welfare gains would total \$158–200 billion a year. Mode 4, however, represents only 1.4 per cent of trade flows according to the existing estimates. Nevertheless, the risks of brain drain linked to the movement of skilled professionals out of developing countries should be addressed. E-commerce – which falls under GATS Mode 1 – is gaining in importance, but since it implies a rather high level of development, particularly in respect of new technologies, for countries to benefit from it, it remains less relevant for most developing countries than Mode 4.

### **Statistical limitations**

75. Lack of adequate statistics makes it difficult to assess in a precise manner the structure and evolution of the services sector and hampers the formulation of strategies aimed at supporting the development of the most dynamic services sectors in developing countries. Inadequate statistical information has been an issue since the early stages of negotiations on services and has not been adequately addressed at the national and international levels. These limitations have impeded the mandated assessment of trade in services, leaving countries with the option of relying on a qualitative analysis. Lack of proper assessment of trade in services at the national level became a major stumbling block for the participation of developing countries in the negotiations on services, since in the absence of data and assessment developing countries could not see what gains they had made so far and formulate their negotiating position in the new round of GATS negotiations. It was stressed that lack of data has also impeded negotiations on emergency safeguard measures and on subsidies. The issue of the availability of data on services has become urgent, especially in understanding how international data can accommodate the GATS modes of supply. Statistical data are also

necessary for assessing the social and developmental impact of services liberalization, and the importance of the temporary movement of persons and commercial presence, as well as for developing services- and development-related statistical indicators and measuring trade flows. Building databases on measures affecting services could serve as a tool for providing information to developing countries.

### **Benefits and risks of liberalization**

76. The liberalization of the services sector could yield significant benefits for developing countries, as shown by success stories in all regions. It is important, however, to expand the scope of successes and replicate them. This would require appropriate national and international support. Developing countries are facing important constraints in terms of the preconditions for liberalization, for example supply constraints, access to new technologies, access to finance, public policy requirements, weak small and medium-sized enterprises (SMEs), difficulties in participating in global networks, and lack of modern regulatory and institutional frameworks. There was general agreement that there is a need to carefully examine the design of reform and liberalization programmes in the services sector to ensure an appropriate pace, sequencing and content adapted to the level of development of individual countries. Governments have a key role to play in the process of liberalization and privatization, and retain important functions after liberalization and privatization have taken place. The crucial importance of a modern regulatory framework in response to changing market realities, competition-related issues and advances in technology were underscored. There was general agreement that countries retain their right to regulate.

77. It was highlighted that 56.3 per cent of trade in services takes place through Mode 3 – foreign commercial presence. Such presence could bring access to technology and generate employment. In this context, the issue of universal services obligations becomes particularly relevant. The presence of private domestic and foreign operators in very sensitive services sectors, such as health, education, transport and energy services, should not jeopardize the access of local people, especially the poorest among them, to these services. On the contrary, market liberalization would contribute to development only if, as a result of it, access to basic services improved. For developing countries, devising an appropriate regulatory framework to accompany the liberalization process represents a major challenge for which they need international assistance.

### **Increasing participation of developing countries in international trade in services**

78. Enhanced capacities in developing countries to provide services to the domestic markets are of paramount importance and can eventually be translated into regional and global export capacity. Until recently, the export potential of many developing countries was underestimated. Developing countries seeking to put services at the heart of their development strategy should pursue a comprehensive policy reform, targeting bottlenecks in certain services areas which impact on the development of competitive services exports – for example, costly telecommunication services may prevent exports of back-office or information-technology-related services. It is important to sequence the reform so as to target initially areas that may be least costly in terms of impact on employment and growth and that

could deliver broad-based development benefits in the short term. Comprehensive policy measures and a national master plan for services are necessary for those developing countries willing to position themselves in the global services markets, including policies concerning goods, taxation and support mechanisms for domestic providers. Experience in achieving success in one area of services may later be translated into reforming other sectors of the economy. The ability to achieve world levels of factor productivity, adapt to changing market conditions and deliver products with higher value-added is the key to maintaining competitiveness in international trade. When the appropriate preconditions are satisfied, liberalizing domestic markets may be beneficial, since introducing competition would spur job creation and Governments would need to take measures to maintain stability and inspire investor confidence in the economy.

79. Trade between developing countries is becoming increasingly important: exporting to other developing country markets may be the means by which developing countries can improve their skills. Once neighbouring and regional markets have been successfully explored, services providers may venture into other markets. SMEs are a typical feature of the services economy, and often even large firms of developing countries are small in relative terms on a global scale. At the same time, certain services sectors such as banking are typified by large firms, owing in part to economies of scale and the need to mitigate risk. Such services sectors would not be target areas for global exports from developing countries until the latter have sufficiently developed those sectors.

#### **Competition-related issues: Access to information and distribution networks and the role of SMEs**

80. Market access in several services sectors can be nullified or impaired because of the dominance of transnational corporations and their anti-competitive behaviour. In particular, lack of effective access to information and distribution networks may make it impossible for new operators to enter a market. The access problem is particularly relevant in sectors such as tourism, telecommunications, health and energy. Appropriate regulatory frameworks to address anti-competitive practices would be required, both at the domestic and international levels, to ensure effective market entry. SMEs, especially from developing countries, are particularly affected. As a result of the WTO negotiations on basic telecommunications, a Reference Paper was adopted to ensure interconnection and fair access to the networks. It also provided for the right of countries to define the universal access obligation. The same approach could be followed for other relevant sectors. The role of SMEs is an issue of common interest and concern among the members of the WTO as many services suppliers are small or medium-sized. Although WTO members have not so far agreed on a common definition of SMEs, other issues could usefully be addressed, including how to minimize the administrative burden, provide access to information, finance and production networks, and ensure transparency of market information for SME suppliers.

#### **Constraints in developing an efficient services economy**

81. Knowledge, skills and quality are the decisive factors that have given a competitive edge to the services suppliers in developed countries. Developing country suppliers, on the

other hand, face a number of constraints that are hampering their ability to provide services domestically and internationally. The main constraints include human resource and technology constraints, and weak institutional and regulatory capacities. The former are currently affecting the capacity of developing countries to analyse the requests they have received in the ongoing GATS negotiations and formulate their own requests and offers. Weak institutional and regulatory capacities relate to limited inter-agency cooperation at the national level and inadequate contacts between the Government and the private sector. As a result, several developing countries have been unable to develop an overall domestic services policy and regulatory framework and a related export strategy. This is compromising developing countries' opportunities to take informed positions in the services negotiations and benefit from enhanced trade in services.

### **Action in the ongoing multilateral negotiations on services**

82. Reference was made to a number of studies that have presented various estimates pointing to the fact that liberalization of trade in services could yield benefits far greater than the welfare gains expected from liberalization of trade in goods. Developing countries have become more involved in the export of services and more aware that gains could be achieved through the multilateral services negotiations. They are increasingly applying a new negotiating strategy: taking a proactive attitude and engaging actively. This is the most effective way for them to express their interest and concerns and to pursue their development goals. Developing countries recognize that the architecture of the GATS could be made friendly in terms of their development considerations. However, pursuit of the new negotiating strategy is hampered by many difficulties, including the identification of national interests in the services sector and lack of negotiating leverage. While maintaining their proactive role, developing countries should approach the negotiating table with caution, especially when entering into specific commitments, and must base their decision on sound information and analysis. Securing market access in all sectors and modes of supply where developing countries have an interest would be in line with the fulfilment of the objectives of the GATS, particularly as reflected in Article IV. It should be borne in mind that the negotiations are not a goal in themselves, but are intended to contribute to the development and welfare of all countries, particularly developing countries.

83. The importance of horizontal issues in advancing services negotiations is becoming ever greater, especially in terms of addressing regulatory barriers resulting from domestic regulations and from trade-distorting subsidies. Developing countries do not have the financial means to subsidize their exports, unlike the developed countries, and would greatly benefit from disciplines on subsidies at the multilateral level. It is necessary in the negotiations to recognize the role of subsidies in relation to the development programmes of developing countries and their need for flexibility. The negotiations on services are only one part of the ongoing post-Doha negotiations. An overall balance in the negotiations should be ensured: developing countries could link advances in the services negotiations to how successfully their interests are being taken into account in other areas such as agriculture.

## **Effective implementation of GATS Article IV and international trade in services through Mode 4**

84. The enhanced participation of developing countries in international trade in services depends on the extent to which GATS Articles IV and XIX.2 will be implemented. It is important to ensure that developing countries retain their flexibility to decide what to liberalize and what conditions should be attached to the liberalization process to achieve development goals. Negotiations seem to be predominantly focusing on the liberalization of trade in services through Mode 3, while limited attention is being paid to trade through Mode 4. The economic relevance of Mode 4 for providing finance to developing countries for their development remains at the heart of developing countries' interests and has been translated into negotiating requests from them.

85. The temporary movement of skilled natural persons is linked to the risk of brain drain on the one hand, and to the enhancement of human capital and know-how on the other hand. Liberalization of Mode 4, if well thought out, could be expected to benefit all trading partners, and developed countries need to consider undertaking meaningful market access commitments in this area. The transparency of the regulations for the issue of visas, and speed in visa delivery and in the delivery of work permits, are essential elements for making the movement of natural persons effective.

### **Autonomous liberalization**

86. Developing countries have undertaken important autonomous liberalization, particularly under structural adjustment programmes. The need to grant credit for autonomous liberalization is recognized as very important, especially in political terms and in supporting further liberalization efforts in developing countries. However, autonomous liberalization has to be seen as part of progressive liberalization, and therefore inherent flexibility in services negotiation has to be retained and used to boost the capacity of developing countries. Modalities regarding autonomous liberalization have to ensure flexibility for developing countries, while differentiated treatment should be considered for the LDCs. It was noted that developing countries have received requests in those areas where autonomous liberalization has already taken place. The pressure to undertake specific commitments is expected to be enormous, and the question remains as to what would be the trade-offs for developing countries when they commit themselves in those areas.

### **Regional integration**

87. All countries, including developing countries, are increasingly engaging in services negotiations as part of their regional integration efforts. The relative importance of regional integration is increasing, particularly since the WTO negotiations are not progressing in certain areas. The pros and cons of regional trade negotiations should be analysed thoroughly, since there is a risk that regional agreements may contain obligations going far beyond WTO multilateral rules.

### **Future work in the areas of interest to developing countries**

88. The international community is invited to provide means to alleviate the supply-side constraints of developing countries and support technical assistance activities aimed at improving the participation of those countries in the ongoing services negotiations. In this respect, UNCTAD has an important role to play both in analysing the supply-side constraints and in providing technical assistance activities. Analytical work should continue in the areas related to the negotiations from the viewpoint of the developing countries, including issues arising in the area of domestic regulation and GATS rules. In continuing sectoral work, it is important to focus on those areas where some potential exists for developing country exports and where equity concerns arise. Work should continue on services sectors, which are new and challenging for developing countries. With regard to support for the negotiations, UNCTAD, with the cooperation of other institutions, should offer suggestions about a possible mechanism to enhance developing country exports through Mode 4. Another outstanding area is development of the modalities for operationalizing GATS Article IV.

89. UNCTAD's role should be reinforced in providing training and support to developing countries so that they can take advantage of the opportunities offered by further market liberalization and participate beneficially in the requests and offer process. In the area of supply-side constraints, UNCTAD should promote an international debate aimed at the establishment of a "master plan for the services sector" that would ensure overall services development. The importance of the regional dimension in the area of technical assistance should be underscored. In the area of statistics, data collection should be promoted as well as work on assessing the social and development impact of services liberalization. In addition, the international community should seek to ensure policy coherence between the structural adjustment programmes undertaken by the World Bank and the International Monetary Fund, and the WTO negotiations, so as to ensure that development is considered the primary goal and trade becomes an effective means to reach that goal.

## **Chapter V**

### **TRADE, ENVIRONMENT AND DEVELOPMENT**

(Agenda item 5)

90. For its consideration of this item the Commission had before it the following documentation:

“Trade, environment and development: Note by the UNCTAD secretariat”  
(TD/B/COM.1/52)

“Report of the Expert Meeting on Environmental Requirements and International Trade” (TD/B/COM.1/53 - TD/B/COM.1/EM.19/3)

#### **Chairperson’s summary**

91. UNCTAD has an important role to play in trade and environment by examining linkages from a development perspective. The results of that work will be important in the context of national policies, international cooperation, and preparations for the WTO Ministerial Conference in Cancún as well as for UNCTAD XI. It is important to bear in mind the three pillars of sustainable development, namely economic development, social development, in particular poverty alleviation, and environmental protection. The World Summit on Sustainable Development reiterated the important role of trade in promoting economic growth and sustainable development. It was therefore vital that the trade, development and environment connection was not weakened or lost. The Bangkok Plan of Action focused on the developmental dimension of trade and environment and called upon UNCTAD to identify issues that could yield potential benefits for developing countries. Similarly, some non-governmental organizations were promoting the sustainable development dimension of trade, for example in the context of the Southern Agenda of the International Centre for Trade and Sustainable Development.

#### **Environmental requirements and trade**

92. General appreciation was expressed for the discussions, wealth of information presented and outcome of the Expert Meeting on Environmental Requirements and International Trade. It was necessary to ensure that stringent environmental requirements did not create unnecessary barriers to exports from developing countries and that they were not used for protectionist purposes. Environmental requirements were usually based on genuine concerns, but their application might be discriminatory. Furthermore, there needed to be some proportionality between benefits accruing from such requirements and costs of compliance, both domestically and abroad. The burden of adjustment should not fall on the poor.

93. One delegate gave figures indicating the trade impact of environmental and health measures, which affected \$10 billion worth of exports in 2001. No less than 50 per cent of the country's exporting enterprises incurred increased production costs. A ban by a major trading partner had put 50,000 jobs at risk.

94. Another delegate referred to the drastic changes in the export structure of his rapidly industrializing country in the last 10 years. Resource- and agriculture-based products had been largely replaced by manufactures, such as electronics, chemical products and several labour-intensive items, such as textiles and garments. The country was therefore confronted with a large and divergent spectrum of environmental and health requirements in key export markets and required assistance with effective information-gathering and dissemination, as well as with best practice in responding to environmental requirements. The country was one of the beneficiaries of a new UNCTAD project funded by the United Kingdom that would address some of those issues and also provide a forum for subregional dialogue with neighbouring countries that were in a similar situation.

95. The increasing frequency, stringency and complexity of environmental requirements could pose a major obstacle to market access and market penetration for developing countries. Government regulations, and even more so industry standards and guidelines set by the private sector, as well as buyers' requirements, were proliferating, especially in key sectors of export interest to developing countries, such as food and health products, textiles, leather and electronics. It was pointed out that in practice importers and buyers were setting the standards in the market. There was therefore a risk that government regulations would become increasingly irrelevant. Moreover, there were few international standards for environmental purposes. The question was also raised about how to deal, in an intergovernmental setting, with the proliferation of voluntary, private-sector standards.

96. In most developing countries, it was a daunting task for exporters, particularly SMEs and Governments, to keep abreast of and adequately respond to these new trends. Environmental and health requirements were constantly moving the goal posts. There were still large information gaps particularly regarding voluntary standards and buyers' requirements, and no comprehensive clearing-house mechanisms existed. Also, there was no obligation under the WTO to notify such measures. Key constraints in developing countries made it difficult to respond effectively to these challenges. These included the following: lack of infrastructure, including in conformity assessment; high costs of compliance; lack of timely information; dominance of SMEs and pollution-intensive sectors in the industrial structure; and limited human and financial resources.

97. Many developing countries sought to be actively involved in standard-setting in major export markets to ensure that the environmental and developmental conditions in their countries were also taken into account. It was important that trade rules and other procedures ensured fairness and transparency, coupled with better cooperation between countries moving towards higher standards and their trading partners. There was considerable support for the proposal made by the Expert Meeting on Environmental Requirements and International Trade for follow-up on (a) exploring best practices in developing and implementing environmental regulations and standards; (b) improving information flows and management,

including with regard to voluntary standards, and promoting "early warning" systems for forthcoming standards and regulations; and (c) assisting developing countries in identifying proactive adjustment policies and measures to reduce adjustment costs and enhance economic efficiency and export competitiveness, including identifying measures to address the specific needs of SMEs in responding to environmental requirements in export markets.

98. A number of general empirical studies on environmental requirements have been conducted by UNCTAD, the International Trade Centre UNCTAD/WTO (ITC), OECD and other bodies. It was felt that the discussion on environmental requirements and trade should now become more action-oriented. A large number of speakers, including several regional groups, supported the proposal made by the Expert Meeting on Environmental Requirements and International Trade that a Consultative Group on Environmental Requirements and International Trade be set up, which would work on the activities mentioned in the previous paragraph. Duplication with other initiatives should be avoided and the Consultative Group should not engage in "second-guessing" the validity of environmental regulations.

99. The Consultative Group would closely coordinate its activities with other initiatives and pool resources from different organizations. In fact, such a group would be a major mechanism for avoiding duplication and developing synergies, notably in information-gathering and dissemination. It would place particular emphasis on voluntary environmental requirements set by the private sector and buyers and involve the private sector in its deliberations. The UNCTAD secretariat could further explore the creation of the Consultative Group, in close coordination with relevant bodies and the private sector, as a project-based activity.

100. Representatives of the OECD, ITC and WTO secretariats reported on the activities of their organizations in this area and underlined their readiness to collaborate closely with the Consultative Group.

101. The representative of the OECD reported on the outcome of the Global Forum on Trade's workshop on "Environmental Requirements and Market Access: Addressing Developing Countries' Concerns", held in New Delhi in November 2002, and the work planned for phase III of the project on the development dimensions of trade and environment, which would include drawing lessons from the case studies conducted in phase I and exploring good practice in standard-setting and implementation.

102. The representative of the ITC gave an overview of its work on environmental requirements, an environmental performance index and environmental trade maps. The latter comprised a set of quantitative indicators benchmarking the export performance of 184 countries from an environmental perspective. It was emphasized that ITC would like to share its data and analysis with the proposed Consultative Group.

103. The representative of the WTO reported on the Standards and Trade Development Facility recently created with the World Bank to support the capacity of developing countries in shaping and implementing international standards on food safety, and plant and animal health.

104. It was noted that efforts were currently being made to restructure the Codex Alimentarius so as to make it more responsive to everyone's needs, particularly those of developing countries. A trust fund was being set up to increase the effective participation of developing countries in the standard-setting activities of the Codex Alimentarius Commission.

105. Several speakers pointed out that the Expert Meeting on Environmental Requirements and International Trade had also shed light on the importance of harmonization and mutual equivalence of environmental requirements. Mutual recognition or technical equivalence agreements in the area of environmental and health requirements would greatly facilitate international trade in the products concerned. However, they had been very difficult to achieve. Work was urgently needed to develop guidelines and establish forums to facilitate the negotiation of such agreements. They could be at the level of standards and regulations and/or conformity assessment (accreditation and certification).

106. Exports of organic products from developing countries faced serious constraints owing to the proliferation of standards, regulations and conformity assessment requirements, both private and public. In this context, several delegates welcomed the joint initiative by the UNCTAD/FAO/IFOAM (International Federation of Organic Agriculture Movements) secretariat to create the Task Force on Harmonization and Equivalence in Organic Agriculture. They hoped that this Task Force would put forward recommendations and practical solutions to this problem in the organic sector, which is of increasing interest to developing countries. They requested the secretariat to share with the Commission and member States the outcomes of the Task Force's deliberations and to draw lessons that might be applicable in a wider range of sectors.

### **Science and technology diplomacy**

107. Trade disputes had highlighted the role of science as the legal test in the WTO. In particular, cases relating to the environment and the SPS Agreement were very complex, in terms of both law and facts, and involved complicated scientific fact-finding and assessments. Against this background, the establishment of the Technical Expertise Trust Fund at the Advisory Centre on WTO Law was an important development. Now, in addition to the Centre's subsidized legal services, developing countries and economies in transition could have access to the Fund to help finance the scientific and technical expertise needed to participate in WTO dispute-settlement proceedings.

108. Although assembling the technical and scientific facts might be necessary in order to determine whether there was a WTO case worth pursuing, having a well-researched technical dossier did not always have to result in recourse to a WTO panel. Such a dossier could be instrumental in settling a dispute at the consultative stage – that is, through mediation rather than arbitration. In fact, the integration of a broad range of sciences was essential for managing environmental and SPS issues along the entire trade policy cycle.

109. In this context, the Commission took note of and welcomed the fact that the Science and Technology Diplomacy Initiative, launched by UNCTAD and the Centre for

International Development at Harvard University in June 2002, targeted a number of areas of special interest to the trade community, such as the management of environmental and SPS risks in international trade, standard-setting, and the impact and applications of new technologies. There was a need to train trade diplomats and facilitate their access to the best available scientific and technical expertise on those issues, particularly in the context of discussions and negotiations at the WTO and related technical assistance activities. The secretariat was invited to cooperate in this field with relevant specialized and training agencies.

### **WTO negotiations**

110. Environment had become an issue for negotiations in the WTO. Negotiations had started on the relationship between existing WTO rules and specific trade obligations set out in multilateral environmental agreements, and the reduction or elimination of tariff and non-tariff barriers to environmental goods and services. The Cancún Ministerial Conference would have to decide on approaches to three other issues, including in the area of environmental requirements and market access and ecolabelling. There was a great deal at stake for developing countries. On the one hand, there was apprehension about discussions on trade and environment due to fears of environmental protectionism, and about lack of clarity in the Doha mandate, and fears that the agenda might be enlarged. On the other hand, there was an emerging interest on the part of developing countries in re-crafting this debate in their own interest. Some delegates indicated that developing countries were willing to address trade and environment in the context of sustainable development.

111. Trade and environment issues were negotiated or discussed in a number of different WTO bodies, and this imposed a significant strain on developing country negotiators. Also, trade and environment issues were emerging in the context of bilateral and regional trade agreements. There was a need to support developing countries in their effective participation in the post-Doha work programme and to assist them in strengthening policy coordination and research capacities at national level.

### **Environmental goods and services**

112. Many participants referred to the need for clarity regarding definitions for environmental goods and services (EGS). In view of the environmental goods classifications most used in WTO discussions, some developing countries were concerned that there might be few sectors of export interest to them. It was therefore argued that developing countries needed to take a more proactive approach in order to introduce classifications that allowed for the inclusion of EGS of export interest to them. It was emphasized that definitions of environmental goods could include certain categories of environmentally preferable products (EPPs), while environmental services could include activities such as conservation projects, eco-tourism and consultancy services. Definitions of EGS proposed by the OECD and Asia-Pacific Economic Cooperation (APEC) appeared to be extensive, but not inclusive of EGS of export interest to developing countries. In reply to questions on the concept and definition of EPPs, it was indicated that the concept of EPPs used in UNCTAD studies covered products with less environmental harm or a contribution to environmental preservation generally

related to one of the following areas: use of natural resources and energy; amount of waste generated along the life cycle; impact on human and animal health; and preservation of the environment. These studies, however, were not aimed at proposing a classification for possible use in WTO negotiations.

113. The discussions explored ways to support ongoing negotiations within the WTO on EGS. Lack of agreement among countries on a definition for EGS remained a fundamental outstanding issue. UNCTAD should do analytical and capacity-building work on EGS. By focusing on definitions for environmental goods and their implications for trade, and on the impacts of liberalization of trade in environmental services on development, UNCTAD could help developing countries decide how they might best define the sectors in negotiations, and limit or extend the scope of negotiations, in order to promote their trade and development interests.

### **WSSD follow-up**

114. The World Summit on Sustainable Development (WSSD) had called upon UNCTAD, within its mandate, to strengthen its contribution to sustainable development programmes, the implementation of Agenda 21 and the WSSD outcomes at all levels, particularly in the area of promoting capacity-building (WSSD Plan of Implementation, paragraph 137). Several delegations referred to UNCTAD's efforts to support WSSD follow-up through the implementation of "type-2" partnerships, in particular BIOTRADE partnerships, Phase II of the UNEP–UNCTAD Capacity-Building Task Force on Trade, Environment and Development (CBTF) and UNCTAD–Common Fund for Commodities initiatives in the area of commodities. In this context, it was observed that a strengthened CBTF could be a useful vehicle for delivery of WSSD outcomes. Great appreciation was expressed for the support that donors had already provided to these partnerships, and there were calls for others to follow their lead.

### **Capacity-building activities**

115. Many delegations expressed appreciation for UNCTAD's capacity-building programme on trade, environment and development. This was aimed at improving national policy formulation and integration, addressing specific national trade and environment problems, and supporting developing countries in their effective participation in international negotiations, particularly under the Doha work programme and multilateral environmental agreements. With a major financial contribution by the European Union, implementation of Phase II of the CBTF would begin soon. A large number of countries would benefit from training and brainstorming workshops as well as some institutional capacity-building activities.

116. Representatives of countries that are beneficiaries of the newly launched project on building capacity for improved policy-making and negotiations on key trade and environment issues described the various ways in which the project would benefit them in terms of responding to environmental requirements in export markets, strengthening regional cooperation and effectively participating in post-Doha discussions and negotiations.

Delegates expressed their appreciation to the United Kingdom's Department for International Development, which finances the project, and other donors for their generous support. There was a call for increased technical and financial support for LDCs in this area.

117. A large number of beneficiary and donor countries also commended the work of the BIOTRADE Initiative and the positive results that had been achieved in beneficiary countries through the BIOTRADE country programmes. They considered the BIOTRADE programme to be a good example of the mutually supportive interface between trade and sustainable development, particularly the sustainable use of biodiversity, as well as a way to promote export diversification.

118. They welcomed the partnerships announced at the WSSD and expressed appreciation for the generous contributions of Switzerland and the Netherlands to the BioTrade Facilitation Programme, which was an innovative instrument to enhance market access and competitiveness for developing countries by promoting bio-business development and trade in biodiversity products and services. These countries also indicated that the BIOTRADE Initiative should be strengthened.

119. Support was expressed for the work carried out by UNCTAD on the trade and investment aspects of the Climate Change Convention and the Kyoto Protocol with a view to enabling developing countries to take advantage of the clean development mechanism. Additionally, the UNCTAD study on the impacts that climate change policies, in particular the implementation of the Kyoto Protocol, have on the countries of the Organization of the Petroleum Exporting Countries (OPEC) was welcomed.

### **Cooperation with other agencies**

120. Great appreciation was expressed for the considerable cooperation on trade, environment and development, including in the field of technical assistance, between the secretariats of WTO, UNCTAD, ITC, the United Nations Development programme (UNDP), the United Nations Environment Programme (UNEP), United Nations regional commissions and other relevant organizations, as called for in paragraph 97(c) of the WSSD Plan of Implementation. The UNEP–UNCTAD CBTF had been instrumental in this context and should be further supported. Several participants welcomed the UNCTAD and CBTF events organized back to back with WTO regional seminars on trade and environment and the joint activities with regional commissions.

## **Chapter VI**

### **IMPLEMENTATION OF AGREED CONCLUSIONS AND RECOMMENDATIONS OF THE COMMISSION, INCLUDING THE POST-DOHA FOLLOW-UP**

(Agenda item 6)

121. For its consideration of this item the Commission had before it the following documentation:

“Progress report on the implementation of agreed conclusions and recommendations, including the post-Doha follow-up” (TD/B/COM.1/57)

#### **Chairperson’s summary**

122. The Director of the Division on International Trade in Goods and Services, and Commodities made a presentation on the implementation of agreed conclusions and recommendations of the Commission during the period following its sixth session, indicating that additional information on the work and activities of the division was available on its website. Particular attention had been given during the period under review to the work and activities aimed at enhancing the capacities of developing countries to participate effectively in the post-Doha multilateral trade negotiations. Also, efforts had been intensified in assisting developing countries and countries in transition in the process of accession to the WTO. Given the Doha-related deadlines and the preparations for the Cancún Ministerial Conference, it was likely that the number of requests for assistance would increase during the period ahead.

123. It was noted that at its 57<sup>th</sup> session the General Assembly had reaffirmed the role of UNCTAD as the focal point in the United Nations for the integrated treatment of trade and development. UNCTAD had an important role to play with regard to the implementation of the outcomes of global conferences. Its role in relation to the post-Doha consensus-building was stressed, particularly with regard to the Doha-related deadlines and the Cancun Ministerial Conference. The secretariat's research and analysis regarding international trade issues and their development dimension, technical cooperation and capacity-building were recognized and commended. UNCTAD was uniquely placed to assess whether proposals made in the multilateral trade negotiations promoted economic development and alleviated poverty, and provided increased opportunities and welfare gains for developing countries. Similarly, UNCTAD could analyse whether the developing countries would secure enhanced market access and whether more balanced rules were emerging. Since special and differential treatment had been made an integral part of all negotiations UNCTAD could continue to make a contribution to achieving that systemic goal.

124. The continuation and strengthening of technical cooperation and capacity in favour of African countries was emphasized. Strengthening of the human resource base and the

reinforcement of national institutions dealing with trade negotiations and trade policy formulation were given particular attention in this regard. The experience gained under the Joint Integrated Technical Assistance Programme for Selected Least Developed and Other African Countries (JITAP) to strengthen the national institutional committees dealing with WTO issues should be extended to other African countries, in particular the African LDCs. Great importance was attached to the development of regional cooperation amongst African countries. The UNCTAD secretariat was requested to extend its support to the regional groupings and to work closely with their secretariats so as to reinforce their capacities. Assistance was very important as the African countries were conducting parallel negotiations with the European Union for the establishment of Economic Partnership Agreements.

125. Information was provided on the implementation of the United Nations Guidelines for Consumer Protection. These guidelines were an important factor in promoting competitiveness. An overall study of the implementation of the guidelines through a joint programme of UNCTAD and Consumers International was proposed.

126. Information was also provided on the work and activities of the Economic and Social Commission for Asia and the Pacific relating to the Doha work programme and accession to WTO. Cooperation between ESCAP, UNCTAD and WTO was underlined in this regard.

## **Chapter VII**

### **OTHER BUSINESS**

(Agenda item 8)

#### **Chairperson's summary**

127. The demonstration of databases and modelling (TRAINS, WITS, ATPSM, MAST and INFOCOMM) relevant to the work of the Commission was welcomed. Those databases and modelling were essential tools for the analysis of international trade issues and for supporting the negotiators in the multilateral trade negotiations. The UNCTAD secretariat should continue to update and upgrade them. There would be a need for additional resources to ensure the dissemination of the information and data derived from the databases.

## Chapter VIII

### ACTION BY THE COMMISSION AND STATEMENTS AT THE CLOSING PLENARY

#### Action by the Commission

128. At its closing plenary meeting, on 6 February 2003, the Commission adopted its agreed recommendations (see chapter I).

#### Statements at the closing plenary

129. The representative of **Thailand**, speaking on behalf of the **Group of 77 and China**, submitted draft agreed conclusions on agenda item 3 ("Export diversification, market access and competitiveness").

130. The representative of **Benin**, speaking on the behalf of the **least developed countries (LDCs)**, supported the draft agreed conclusions on agenda item 3. He would make other comments later.

131. The representative of **Morocco**, speaking on behalf of the **African Group**, expressed his support for the draft agreed conclusions.

132. The representative of **Venezuela**, speaking on behalf of the **Group of Latin American and Caribbean Countries (GRULAC)**, also supported the draft agreed conclusions submitted by the Group of 77 and China.

133. The representative of **Greece**, speaking on behalf of the **European Union (EU)**, said that the EU objected to the submission of draft agreed conclusions by the Group of 77 and China, and had explained the reasons for its objection in the Bureau.

134. The representative of **India**, speaking on behalf of the **Asian Group**, supported the draft agreed conclusions on agenda item 3. It would have preferred to have had such conclusions for each of the substantive agenda items, but was not opposed to having only one set of conclusions.

135. The representative of the **United States of America** noted that the draft agreed conclusions submitted by the Group of 77 and China had not been discussed by the Commission. Had they been discussed, his delegation would have been able to endorse them subject to several minor changes to the wording.

136. The representative of **Switzerland** indicated that his delegation had been prepared to accept the draft agreed conclusions.

137. The **Chairperson** said that adoption of texts required a consensus among the delegations. Since that had not been the case, it was not possible to adopt the draft agreed conclusions which the Group of 77 and China had submitted.

138. The representative of **Thailand**, speaking on behalf of the **Group of 77** and **China**, said that the Group of 77 and China wished to express their deep disappointment at the apparent unwillingness of the European Union even to discuss a text relating to an item that was of great importance to them. For the developing countries the agenda item in question – on export diversification, market access and competitiveness – was of the utmost significance, because most of them relied on commodity exports for their income, and because the problem of depressed prices and the decreased value of exports constituted one of the greatest obstacles to their development. The Group of 77 and China appreciated the ideas and support expressed during the meeting with a view to addressing those concerns, especially with regard to identifying measures to increase competitiveness, to diversify and to add value to their products. It had been hoped that, after four days of intense consultations and exchanges of views, the Commission could have produced concise and balanced conclusions on this important issue and on how the international community could make its contribution. The Group of G77 and China considered the building of consensus and the formulation of policy to be a fundamental part of the work of the organizations of the United Nations system, including UNCTAD. The adoption of agreed conclusions on export diversification, market access and competitiveness would have signalled to the Governments and peoples of member States the common desire of the international community as a whole to address this vital issue. Although the Chairperson's summary reflected the discussions under the agenda item in question – item 3 – what was needed above all else was a consensus text that embodied participants' views and of which the Commission could be proud.

139. Although there had been overwhelming support for the agreed conclusions drafted by the Group of 77 and China, it was a matter of profound regret that the European Union had been unwilling even to consider that document. The Group of 77 and China would therefore seek a review of this matter at future sessions of the Trade and Development Board. It appeared that there were now different interpretations of both the letter and the spirit of the consensus that had emerged from the Mid-term Review. As far as the Group of 77 and China were concerned, any member State or group of States had the right to propose a consensus-based document which they considered important and which would assist them in their development work. In this connection, the UNCTAD member States were duty-bound to embark upon a process of consultation and consensus-building. Not to consider a proposal was to run counter to the principle underlying the work of all international bodies, including UNCTAD and the World Trade Organization.

140. It was imperative that regional coordinators be given the necessary flexibility and mandate to negotiate, with a view to consensus-building. The future of UNCTAD's intergovernmental work would be jeopardized if delegations did not have the flexibility, the time and especially the wisdom to decide and negotiate on what they deemed to be important for themselves and for the work of UNCTAD. In view of the impasse reached in respect of the draft agreed conclusions submitted by the Group of 77 and China, he requested that the

draft text be annexed to the Commission's report. Any views in support of that text expressed by delegations would be greatly appreciated.

141. In conclusion, he thanked donor countries for the assistance they provided to UNCTAD's activities.

142. The representative of **Morocco**, speaking on behalf of the **African Group**, said that his group acknowledged the crucial importance of the issues that had been discussed by the Commission and was well aware of the difficulties experienced by exporting countries and of the issues relating to Mode 4. With regard to agenda item 3, which was of vital importance, it was greatly disappointed that a consensus had not been reached, and it hoped that this would not set a precedent, particularly in view of what had been decided at the Mid-term Review. It was important that this matter be clarified by the Trade and Development Board.

143. The representative of **India**, speaking on behalf of the **Asian Group**, said that the Commission had held fruitful discussions on a number of important issues. With regard to agenda item 3, his Group joined with the Group of 77 and China in expressing its deep regret that no consensus had been reached on the adoption of the draft agreed conclusions that had been submitted. It was particularly ironic that this situation had arisen in UNCTAD, which was the focal point for consensus-building.

144. The representative of **Venezuela**, speaking on behalf of the **Group of Latin American and Caribbean Countries (GRULAC)**, expressed her group's support for the technical cooperation and capacity-building work carried out by UNCTAD. With regard to the draft agreed conclusions on agenda item 3 submitted by the Group of 77 and China, her group was both disappointed and concerned about the position adopted by the European Union, which had been unwilling to discuss that text. This made the Commission's work very difficult. However, GRULAC appreciated the efforts made by the delegations of Switzerland and the United States to emphasize the interests of the developing countries and hoped that this spirit of cooperation would continue.

145. Speaking on behalf of her country, she expressed concern about the follow-up to the Expert Meetings on construction and energy services, and also about the fact that UNCTAD had not organized an ad hoc expert group meeting on energy services.

146. The representative of **Benin**, speaking on behalf of the **least developed countries (LDCs)**, said that the Commission would have achieved better results if it had adopted the draft agreed conclusions on agenda item 3 submitted by the Group of 77 and China. The topics covered by that item were all of great importance to the LDCs, and it was a source of considerable disappointment for those countries that it had not been possible to adopt the conclusions. His group believed that by adopting guidelines for the functioning of the intergovernmental machinery member States had given clear directions for the conduct of UNCTAD's work. It would be necessary to consider at future meetings of the Trade and Development Board a redefinition of UNCTAD's work procedures, and he hoped that positive results would be achieved.

147. The representative of **Greece**, speaking on behalf of the **European Union (EU)**, said that, for the efficient work of the Commission, it was important to bear in mind the outcome of the Mid-term Review as regards the functioning of the UNCTAD intergovernmental machinery, and to continue work on its implementation. During the present session UNCTAD had proved once again that it could be a very useful forum for exchanging views on economic and development issues.

148. The representative of **Uganda** expressed his support for the statements made by the representatives of the Group of 77 and China, the African Group, GRULAC and the LDCs. His delegation was greatly disappointed that the draft agreed conclusions on agenda item 3 had not been adopted, particularly since the topics covered were of great importance to developing countries, most of which were dependent on the export of commodities. Less than a year after the nineteenth special session of the Trade and Development Board, within the framework of the Mid-term Review, had agreed on guidelines for the functioning of the UNCTAD intergovernmental machinery a number of delegations had sought to interpret paragraph 9 of those guidelines for their own purposes. Agreed conclusions and recommendations served to guide the UNCTAD secretariat in its work and to permit a clear understanding of the Commissions' deliberations. The Chairperson's summary, despite its usefulness, did not provide a complete picture. As result of the failure to adopt agreed conclusions, the process of consensus-building had been compromised, and this presented a challenge to UNCTAD as it embarked on its preparations for UNCTAD XI.

149. The representative of **Switzerland** said that his delegation was satisfied with the outcome of the session, particularly since there had been a good interactive debate. It felt, however, that the number of panellists could be reduced in future so as to enable more participants to take the floor, and that too much time had been devoted to discussing the outcome. Although the results of the Mid-term Review were clear, more time and experience were needed in order to better cope with the new instruments in place. Informal discussions among regional coordinators could help to reduce misunderstandings and to bridge the gap among delegations concerning their interpretation of the results of the Mid-term Review.

150. The representative of **Bangladesh** said that his delegation was disappointed by the inflexibility of the European Union regarding the draft agreed conclusions on item 3. The Trade and Development Board should be requested to provide the Commissions with the necessary flexibility to adopt other procedures so to avoid a recurrence of the situation that had arisen during the present session.

#### **Action by the Commission**

151. The Commission agreed that the draft agreed conclusions on agenda item 3 submitted by the Group of 77 and China would be annexed to the final report of the Commission in accordance with the request by the representative of Thailand (see annex I).

## **Chapter IX**

### **ORGANIZATIONAL MATTERS**

#### **A. Opening of the session**

152. The seventh session of the Commission on Trade in Goods and Services, and Commodities was held at the Palais des Nations, Geneva, from 3 to 6 February 2003. In the course of the session, the Commission held two plenary meetings and seven informal meetings. The session was opened on 3 February 2003 by Mr. Anel Enrique Béliz, Vice-Chairperson of the Commission at its sixth session.

#### **B. Election of officers**

(Agenda item 1)

153. At its plenary meeting, on 3 February 2003, the Commission elected its Bureau as follows:

Chairperson:	Mr. Toufiq Ali (Bangladesh)
Vice-Chairpersons:	Mr. Papa Diop (Senegal)
	Mr. Mahdi Fakheri (Islamic Republic of Iran)
	Mr. Douglas Griffiths (United States)
	Mr. Stefano Lazzarotto (Switzerland)
	Mr. Bernard Weston (Trinidad and Tabago)
Rapporteur:	Mr. I. Gospodinov (Bulgaria)

#### **C. Adoption of the agenda and organization of work**

(Agenda item 2)

154. At the same meeting, the Commission adopted the provisional agenda circulated in document TD/B/COM.1/51. Accordingly, the agenda for the seventh session was as follows:

1. Election of officers
2. Adoption of the agenda and organization of work
3. Export diversification
4. Trade in services and development implications
5. Trade, environment and development
6. Implementation of agreed conclusions and recommendations of the Commission, including the post-Doha follow-up
7. Provisional agenda for the eighth session of the Commission
8. Other business
9. Adoption of the report of the Commission to the Trade and Development Board

**D. Provisional agenda for the eighth session of the Commission**

(Agenda item 7)

155. At its closing plenary meeting, on 6 February 2003, the Commission approved the draft provisional agenda for its eighth session (see annex II) and the topics for Expert Meetings for 2003 (see annex III).

**E. Adoption of the report of the Commission to the Trade and Development Board**

(Agenda item 9)

156. At its closing plenary meeting, the Commission adopted its draft report (TD/B/COM.1/L.25), subject to any amendments to the summaries of statements, and authorized the Rapporteur to finalize the report in the light of the proceedings of the closing plenary meeting.

## **Annex I**

### **DRAFT AGREED CONCLUSIONS ON AGENDA ITEM 3 SUBMITTED BY THE GROUP OF 77 AND CHINA\***

1. The Commission welcomed the emphasis placed by the secretariat on the interrelationship between the concepts of competitiveness, market access and entry, and diversification. It was recognized that many developing countries, particularly least developed countries, rely on the commodity sector for their development, and that the process of enhancing competitiveness and promoting diversification remains integral to the challenge of breaking out of the cycle of commodity dependence where declining prices and terms of trade remain the most important challenge to development.
2. The Commission noted that strengthening competitiveness and a dynamic diversification process require improved market access conditions and enhanced participation in global supply chains for their success.
3. The Commission further noted that adopting an integrated and holistic view of the international commodity economy, based on a supply-chain approach, is important for designing and implementing diversification and commodity-based development policies and strategies.
4. The Commission appreciated the work that the UNCTAD secretariat is carrying out with other international organizations and bilateral partners with a view to promoting diversification, market access and competitiveness.
5. The Commission urges the donor countries and international institutions to continue to support UNCTAD's work on a mutually supportive programme of action involving not only Governments and international organizations, but also the enterprise sector and the civil society community.
6. The Commission urged all member States to strive for a successful conclusion to the work programme outlined in the Doha Ministerial Declaration for agriculture and related matters so that commodity-exporting countries can benefit from the process of globalization.
7. Governments in commodity-producing and exporting countries should provide a supportive policy framework and support to the enterprise sector for upgrading technical and business skills, and access to and utilization of information, and should facilitate conditions for access to finance. In addition, in order to overcome the challenges of, and benefit from the opportunities provided by, modern trading channels, with their emphasis on quality, traceability and large quantities, support for the establishment of better cooperative arrangements among small producers is crucial.

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\* See paragraph 151 above.

8. The Commission welcomes United Nations General Assembly resolution A/RES/57/236 on commodities and urges Governments, international organizations and other interested bodies to consider positively the possibility of providing the voluntary contributions for UNCTAD to carry out the work mandated by this resolution as mentioned in resolution A/C.2/57/L.78, as well as other technical cooperation activities in the field of commodities requested from UNCTAD by developing countries.

**Annex II**

**PROVISIONAL AGENDA FOR THE EIGHTH SESSION OF THE COMMISSION**

1. Election of officers
2. Adoption of the agenda and organization of work
3. Market access, market entry and competitiveness
4. Trade in services and development implications
5. Trade, environment and development
6. Implementation of agreed conclusions and recommendations of the Commission, including the post-Doha follow-up
7. Provisional agenda for the ninth session of the Commission
8. Other business
9. Adoption of the report of the Commission to the Trade and Development Board

### **Annex III**

#### **TOPICS FOR EXPERT MEETINGS FOR 2003**

##### **Expert Meeting on Market Entry Conditions Affecting Competitiveness and Exports of Goods and Services of Developing Countries: Large Distribution Networks, Taking into Account the Special Needs of LDCs**

This Expert Meeting would attempt to clarify the impact of international supply chains, in particular large distribution networks, on the competitiveness of developing country enterprises in domestic and export markets. Also, it would review opportunities provided to developing country enterprises by subcontracting arrangements with international distribution networks and the effects of dealing with monopsonistic or oligopsonistic partners. Market entry conditions studied would include quality and volume requirements, payment conditions and environmental considerations.

##### **Expert Meeting on Definitions and Dimensions of Environmental Goods and Services in Trade and Development**

Paragraph 31(iii) of the Doha Ministerial Declaration calls for negotiations on “*the reduction or, as appropriate, elimination of tariff and non-tariff barriers to environmental goods and services*”. Although trade benefits for developing countries in terms of increased exports may be relatively small, those countries can obtain national benefits to the extent that trade liberalization results in strengthened capacities to promote sustainable development, meet environmental requirements in external and domestic markets, and enhance competitiveness. Experts would examine issues such as the classification of environmental goods and services and policies to ensure that trade liberalization is consistent with national policies to develop and strengthen domestic capacities in developing countries.

##### **Expert Meeting on Market Access Issues in Mode 4 (Movement of Natural Persons to Supply Services) and Effective Implementation of Article IV on Increasing Participation of Developing Countries**

Many studies underline the fact that the movement of persons constitutes a key mode for the supply of services, particularly for developing countries. The results of recent research and modelling suggest large potential gains resulting from liberalization of this mode. All countries would share in the gains. Those developing countries that have a comparative advantage in this mode of supply would of course gain as a result of commitments in this mode, which remains the least utilized in terms of trade flows and number and depth of specific commitments under the GATS. There are several barriers to the supply of services under this mode, whose removal would enhance the competitiveness of developing countries. Proposals have been put forward by developed countries (United States, Australia, European Union, etc.) and developing countries (Pakistan, India, etc.) on Mode 4.

The Expert Meeting could address the following issues and contribute to consensus-building:

- Recent research on the important welfare gains resulting from liberalization of Mode 4;
- Examination of different categories of persons to clarify scope and definitional issues;
- Barriers to movement of persons (lack of distinction between permanent and temporary movement in immigration legislation, economic needs test (ENT), visa and entry requirements, pre-employment requirements, wage parity/social security issues, etc.);
- Recognition of professional qualifications (licensing, work and training requirements, impact of mutual recognition agreements);
- Different options in respect of negotiating modality to ensure the highest level of liberalization in this mode (formula approach, improvement of transparency of measures and legislative framework, GATS visas).

**Annex IV**

**ATTENDANCE \***

1. The following States members of UNCTAD were represented at the session:

Albania	Malaysia
Angola	Malta
Argentina	Mauritania
Bangladesh	Mauritius
Barbados	Mexico
Belarus	Morocco
Benin	Nepal
Bhutan	Netherlands
Brazil	Nicaragua
Brunei Darussalam	Nigeria
Burkina Faso	Norway
Cameroon	Oman
Chile	Panama
China	Paraguay
Colombia	Peru
Costa Rica	Philippines
Cuba	Portugal
Ecuador	Republic of Moldova
Egypt	Russian Federation
Ethiopia	Senegal
France	Serbia and Montenegro
Germany	Slovakia
Greece	Spain
India	Sri Lanka
Indonesia	Switzerland
Iran (Islamic Republic of)	Thailand
Iraq	Trinidad and Tobago
Ireland	Uganda
Italy	United Kingdom of Great Britain and Northern Ireland
Jamaica	United Republic of Tanzania
Japan	United States of America
Jordan	Uruguay
Kenya	Venezuela
Lebanon	
Lesotho	

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\* For the list of participants, see TD/B/COM.1/INF.7.

2. The following intergovernmental organizations were represented at the session:

African, Caribbean and Pacific Group of States  
Common Fund for Commodities  
Common Market for Eastern and Southern Africa  
European Community  
Inter-African Coffee Organization  
International Tropical Timber Organization  
Organisation Internationale de la Francophonie  
Organization of African Unity

3. The following United Nations agency was represented at the session:

Economic and Social Commission for Asia and the Pacific

4. The following specialized agency was represented at the session:

United Nations Educational, Scientific and Cultural Organization

5. The following non-governmental organizations were represented at the session:

*General Category*

Consumer International  
International Confederation of Free Trade Unions  
Third World Network  
World Association of Small and Medium Enterprises  
World Wildlife Fund for Nature

*Special Category*

International Council of Nurses  
International Union for Conservation of Nature and Natural Resources

6. The following panellists attended the session:

H.E. Jorge Voto Bernales, Ambassador, Permanent Representative of Peru to the  
United Nations, Geneva  
Mr. Peter Dodd, Department of Trade and Industry, London  
Mr. Otto T. Genee, Director, Policy Coherence, Dutch Ministry of Foreign Affairs,  
The Hague  
H.E. Mr. Vanu Gopala Menon, Ambassador, Permanent Representative of Singapore  
to the United Nations, Geneva  
Mr. Jeremy Hobbs, Executive Director, Oxfam International  
Mr. James Hodge, Professor, Cape Town University, South Africa  
Mr. Martin Khor, Third World Network

H.E. Mr. Karl Walter Lewalter, Ambassador, Permanent Representative of Germany to the United Nations, Geneva

Mr. Ricardo Melendez-Ortiz, Director, International Centre for Trade and Sustainable Development

H.E. Mr. Samuel T. Ramel, Ambassador, Permanent Representative of the Philippines to the United Nations, Geneva

H.E. Habib Sy, Minister of Agriculture, Senegal

Madame Selma Tonzanli, Institut agronomique méditerranéen de Montpellier

H.E. Mr. Guillermo Valle Galmes, Deputy Minister of Foreign Affairs of Uruguay

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