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REPORT ON THE RIO TRADE WEEK PREPARATORY TO UNCTAD XI

Rio de Janeiro, 7–12 June 2004 – Summary prepared by the UNCTAD secretariat

Part I: Thematic overview

I. Opening colloquium

1. The Rio Trade Week consisted of several pre-Conference events in preparation for UNCTAD XI, organized by the Division on International Trade in Goods and Services, and Commodities (DITC), with the support of BNDES and FGV. The UNCTAD-led events focused on a range of issues to further elaborate a key theme of the Conference, namely “Assuring development gains from international trade and trade negotiations”. This report is in two parts: part I provides a thematic overview of the main issues highlighted during the Rio Trade Week, while part II contains summaries of individual events organized by UNCTAD. In addition, the International Trade Centre UNCTAD/WTO organized a number of events during the week. This report has been prepared under the responsibility of the UNCTAD secretariat. It does not attempt to exhaustively reflect all points made at individual events.

2. The formal opening of the Rio Trade Week – a colloquium on this theme – was marked by high-level discussions on the key elements of national trade and development strategies that the developing countries need to pursue in order to seize existing and emerging trading opportunities, and the complementary prerequisites in the international trading system and developed country policies in support of developing country efforts.

3. The colloquium was addressed by, among others, H.E. Mr. Roberto Rodriguez, Minister of Agriculture of Brazil; Mr. Rubens Ricupero, Secretary-General of UNCTAD; Professor Carlos Ivan Simonsen Leal, President of FGV; and Mr. Luiz Eduardo Melin, Director of BNDES. Mr. Denis Belisle, Executive Director of ITC UNCTAD/WTO, was a special invitee. The keynote speech was given by Mr. Mauricio Botelho, President and Executive Director of Embraer of Brazil, which is the world's fourth largest aircraft manufacturer, and was Brazil's largest exporter during 1999–2001.

4. The speakers focused on elements of national development and business strategies that are required for developing countries to seize emerging opportunities in international trade. Access to markets and fair rules are obviously important, but building competitive supply capacity has a fundamental role in determining the performance of an economy and promoting the importance of international markets. Financing constraints, technological shortcomings and a long reaction time to a constantly evolving world economic climate pose particular challenges to developing countries, with a consequent increase in the costs linked to adjustment. The need for strategic policies and actions to alleviate financing shortages, support technological capacity building and promote economy-wide innovation was stressed.

II. Export competitiveness and developing country participation in dynamic and new sectors of international trade

5. Three key aspects of policy are relevant in the context of export competitiveness: how to lift supply capacity, how to obtain greater diversification through value added, and market access/market-entry conditions. These are influenced by both internal and external factors, whose relative significance varies among countries and sectors. The forum underlined the importance of four policy thrusts: creating a good investment climate and attracting development-oriented FDI; building supply capacity and competitiveness through sound and supportive macro, sectoral and enterprise-level policies; merging public and private objectives within a general development-deepening oriented framework by increasing genuine collaboration between the spheres; and effectively managing integration with the global economy. An important lesson of the successful experiences is that developing countries themselves need to take the initiative to make the appropriate strategic policy choices, based on a realistic assessment of the actual and potential comparative advantage of each country, not only in each sector but also in the entire value chain.

6. Current WTO negotiations provided an important opportunity to address a number of key market access issues relevant for developing countries' participation in dynamic and new sectors. For example, the future performance of Embraer will depend critically on fair competition in international markets based on prices, quality of products and after-sale services, as opposed to continued provision of export financing support by other major countries with an aeronautics industry to their companies, or their continuation of tariffs barriers. In this regard, the WTO has an important role to play, particularly in effectively addressing issues relating to export financing support, aiming at the removal of structural disadvantages faced by developing countries' South-South trade,

and regional economic and trade arrangements that could also provide a supportive environment for entering these sectors. One such example is the Wood and Furniture Production Chain Competitiveness Forum, which involved all MERCOSUR members in a collaborative effort aimed at improving competitiveness, a balanced distribution of value added and improved complementarities in regional productive sectors.

III. Multilateralism and regionalism: The new interface

7. A new kind of regionalism has been rapidly evolving in all regions of the world, especially in the period following the formation of the WTO. Some 300 RTAs have been notified to the WTO and some 200 are currently in force. These include South–South, North–North and North–South agreements. An important issue raised by the emergence of this new regionalism is its impact on the multilateral trading system (MTS): whether regional integration is a building block or a stumbling block for multilateral efforts. Although there is no clear-cut answer to this issue, it is crucial to ensure that RTAs are more conducive to strengthening the MTS by minimizing their possible negative effects, while allowing developing countries to maximize their trade gains in the different layers of integration. Both MTS and RTAs need to be “development-plus” in fostering economic, human and social development and poverty reduction. The impact of interface among RTAs is also important, as membership of multiple RTAs places a tremendous burden on the administrative capacity of developing countries.

8. Developing countries are increasingly participating in RTAs with developed countries, motivated principally by the possibility of turning unilateral trade preferences into contractual rights for better market access and entry conditions. Also, expectations of increasing FDI flows and technology are motivating developing countries in negotiating this type of agreement. North–South RTAs could have positive or negative effects on developing countries depending on a number of factors, *inter alia* the architecture and structure of these arrangements, the level of existing protection, and the composition and the design of rules. There is a need for these agreements to incorporate elements of asymmetry in the form of S&DT in commitments and disciplines, including the level of tariff dismantling, transition period or rules on safeguards and trade remedies such as the *de minimis* level. Other development features can include reduction of tariff peaks by developed countries; provision of adjustment support, technological support and technical assistance; facilitating mobility of workers; and developing trade remedy rules.

IV. South–South trade: The case of the India and Mercosur initiative

9. South–South trade has been expanding more rapidly than world trade and thus exhibits great potential for further growth. Today, a “new geography of trade” is emerging in which the South is a major player. South-South trade is stronger at the regional level and needs to be encouraged at the interregional level, including through the GSTP. South-South trade is not an alternative to North-South trade, but a complement to it as the North continues to provide key markets for the South. The India-Mercosur initiative constitutes a recognition of the potential of interregional trade. An India-

Mercosur framework agreement was signed in June in 2003, to lead to a free trade area in goods, later extended to trade in services. In January 2004, a preferential trade agreement was signed.

10. The India-Mercosur agreement should aim to start with the least sensitive areas, manufactures and services and then move to more sensitive areas such as some agricultural products. At the same time it should avoid the common mistake of just focusing on narrow non-sensitive areas, an approach that has proved to be of dubious value. The India-Mercosur trade initiative and other new-age South-South cooperation should be more open, more market driven and more business-oriented. There are considerable complementarities in agricultural products, marine products, drugs and pharmaceuticals, creative industries, software and IT, telecommunications, railways, timber and forest products, aviation and shipping. There is also scope for cooperation in science and technology oriented to development. The involvement of businesses was considered critical for the processes.

V. Environmental requirements and market access for developing countries

11. As countries seek to enhance environmental protection and promote sustainable development, environmental requirements are expected to become more frequent, including in sectors of key export interest to developing countries. With growing evidence of the harmful environmental effects of certain substances, changes in consumer preferences and other factors, environmental requirements tend to become increasingly stringent and move continuously. Many voluntary requirements developed by the private sector or NGOs are de facto mandatory and tend to be globalized through international supply chains. They are largely outside WTO disciplines on TBT measures, but may be the precursor of future regulations. This contrasts with the lack of capacity in many developing countries to raise awareness on new environmental requirements in key export markets, gather much-needed information on them and create effective public-private partnerships to adjust to the new requirements in a developmentally beneficial way. A more holistic and development-oriented approach to the interface of environmental requirements and market access for developing countries is required and should include an integrated analysis of policy and capacity-constraints issues at three levels: at the international level outside the WTO, at the WTO level and at the national and local levels in developing countries. The complexity of the interplay between policy and capacity-building measures requires a strategic and proactive response by exporting developing countries, rather than a merely reactive, “fire-fighting” approach, and more efficient public-private dialogue and cooperation. It also necessitates active collaboration by Governments and business associations in developed countries and a more coherent approach by donors. The Consultative Task Force (CTF) on Environmental Requirements and Market Access for Developing Countries could make a specific contribution in this regard.

12. Participants agreed that the functions of the CTF should be well defined, targeted, not duplicative and pragmatic, with a view to adding value in areas of mutual interest to the parties concerned. In this context, the CTF could provide the “missing link” between

existing mechanisms and initiatives to address specific policy and capacity gaps. It should facilitate constructive dialogue, fully coordinated with concerned stakeholders, on (a) sector-specific experience in the preparation, adoption and implementation of regulations and standards and the related examination of possible trade implications for developing countries; (b) the development of holistic, proactive strategies in developing countries that effectively respond to environmental requirements in key export markets; (c) improved access to and dissemination of information on environmental requirements, including private-sector requirements; and (d) a regular exchange of information among international organizations, bilateral donors, private-sector associations and NGOs on their activities that are relevant for the CTF. The CTF will provide an umbrella for well-structured and focused dialogue and networking on relevant issues at the interface of environmental requirements and market access for developing countries. Under its umbrella, the CTF may consider launching some specific, well-defined and time-limited project activities whose results will aid the substantive debate in the CTF. Initially, this would include work on themes (a) to (c), mentioned above. As regards studying the feasibility of better linking existing international information systems on environmental requirements and improving collection of and access to information on voluntary requirements set by the private sector or NGOs, Inmetro's experience in disseminating information on TBT notifications through its early warning system was considered a useful point of departure. The CTF will regularly review the efficiency of project activities and decide on their continuation or termination, or on a change in the course of action. The CTF will start as a collaborative effort among a core group of supportive partners, including Governments, relevant intergovernmental organizations, the private sector and concerned NGOs from developed and developing countries, but will be open to other interested stakeholders. The CTF and time-limited thematic activities under its umbrella will be implemented as a project-based activity.

VI. Managing risks and seizing opportunities in the oil and gas sector

13. For large projects in the oil sector, as well as in mining and infrastructure, to have a strong development impact, they need to be closely linked with the local economy. Experience has shown that the most productive way to do this is through a cluster approach. Companies should not just try to subcontract to local firms, but should think in terms of “dynamic comparative advantage” – what sustainable activities could be developed around the contracts that large firms in the oil sector could provide. Contracts should be drawn up in such a way that local companies can tender. Foreign investors should be strongly encouraged to enter into technology-transferring partnerships with local companies. Where Governments have a monopoly in a certain sector, the responsible parastatals should be strongly encouraged to outsource activities that are not part of their core competences. While the necessary technical skills for this are likely to be present in many countries, local banks should be assisted in learning how to help new entrepreneurs meet financing needs.

14. There is a lack of awareness about how international investors and financiers look at country risk, and in particular about the large negative effect of a very complex and rather unstable taxation and regulatory regime. Having a stable, clear and transparent

regime is very important for international investors, perhaps more so than the actual details of the regime. Public–private partnerships (PPPs) are often the way forward to ensure that as large a number of people as possible can benefit from essential services – whether these be energy, water, transport, telecommunications, and so forth. The elements of PPPs should include transparency, strong contractual relationships between the various partners, the understanding by Governments that PPPs do not come free, and the mobilization of “supporting” entities such as development banks.

Part II: Reports on individual events

A. Summary of the Colloquium on Assuring the Development Gains from Trade

(Rio de Janeiro, 7 June 2004)

15. The formal opening of the Rio Trade Week was marked by high-level addresses on one of the key sub-themes of the UNCTAD XI Conference, “Assuring development gains from trade”. The speakers focused on elements of national development and business strategies that are required for developing countries to seize emerging opportunities in international trade.

16. The Minister of Agriculture of Brazil, Mr. Roberto Rodrigues, pointed to the fundamental development role that could be played by agriculture in improving the distribution of wealth by granting developing countries better access to international markets under conditions of fairer competition from developed countries’ producers. While rich countries could afford to pay not to produce, poorer countries had to produce to pay their way. He insisted that closing the income gap between rich and poor countries by deepening the opening of world trade in agriculture would contribute to preserving democracy and peace.

17. The Secretary-General of UNCTAD, Mr. Rubens Ricupero, said that the Rio Trade Week would provide valuable inputs to UNCTAD XI. He stressed the role that UNCTAD had played since its creation 40 years earlier in emphasizing the fundamental role of the competitive supply capacity in determining the performance of an economy and promoting the importance of international markets. He stressed the need to invest in technology and promote economy-wide innovation to ensure sustained growth. This demonstrated the need for policy makers to avoid thinking that access to international markets was the only component of export performance. While access to markets was obviously important and could be tackled through negotiations, it did not require the same investment and strategic vision as the development of supply capacity.

18. The President of the Fundação Getulio Vargas, Mr. Carlos Ivan Simonsen Leal, underlined the difficulties that Brazil had been facing in its integration into the process of globalization. These difficulties had arisen mainly from capital shortages, technological shortcomings and a long reaction time to a constantly evolving world economic climate, with a consequent increase in the costs linked to adjustment.

19. The keynote address of the opening colloquium was given by Mr. Mauricio Botelho, President and Executive Director of EMBRAER, who focused on the factors for the success of Embraer, and how these could be used in other countries and sectors. Embraer was world's fourth largest aircraft manufacturer behind Boeing, Airbus and Bombardier. It was Brazil's largest exporter from 1999 to 2001 and the second largest in 2002. It was present in 58 countries and had production facilities in the United States, France, Australia, China and Singapore, as well as in Brazil.

20. Mr. Botelho noted that the aeronautics industry was highly capital-intensive, required a highly skilled labour force, used advanced technology and had a very long period of maturation. Aircraft production had a high aggregate value added, and contributed to regional development and employment through a multiplier and instigator effect on technology-based industries. Mr. Botelho underlined the importance of the sector's privatization in explaining its success in Brazil. This had made an important difference in establishing a business strategy that was more sensitive to international market requirements. In that respect, the definition of products to serve the market over time had been and remained a fundamental element of success.

21. Flexibility and adaptation to customers' needs and requirements were among key factors contributing to the success of the industry. However, the Brazilian Government, by adopting a strategic vision based on a solid foundation in research and development, had created the necessary basis for that success. Moreover, an essential role had been the financing of exports by the Brazilian Bank of Development (BNDES). The aeronautics industry in Brazil had generated US\$ 5.5 billion of net export income (taking account of imported inputs). The fight for new and larger market shares tended to be based on higher technical barriers and more systematic disputes within the WTO trade system.

22. Referring to the trading system, Mr. Botelho insisted that Embraer was calling for a free trade environment with rules that ensured a level playing field. Embraer was also pleading for competition in international markets to be based more on prices, quality of products and after-sale services than on conditions of export financing support and/or tariffs. He insisted that the best trade prospects for Embraer, and Brazil in general, could only be obtained through the completion of the WTO negotiations, which would guarantee fair access to international markets rather than trade rules and exceptions that would generate structural disadvantages for developing countries.

23. In closing the colloquium, the Secretary-General of UNCTAD stressed the need to create the conditions that would guarantee the development of the supply capacity of an economy. Particular attention should be paid to containing the cost of investment, implementing a tax system that generates the right incentives to invest in new activities and deepen existing ones, removing inefficiencies linked to bureaucratic costs, and investing in public infrastructures. UNCTAD could play a role in helping developing countries strengthen their supply capacity. This could be achieved in the context of specific projects on the identification and assessment of the determinants of sectoral success stories in developing countries.

B. Summary of the Forum on Export Competitiveness

(Rio de Janeiro, 7 June 2004)

24. A forum on “Export Competitiveness: Increasing Developing Countries’ Participation in Dynamic and New Sectors of International Trade” was held in Rio de Janeiro on 7 June 2004. The purpose of the forum was to discuss how to generate and capture development gains from international trade and trade negotiations through greater participation by developing countries in world trade in general, and in dynamic and new sectors in particular. The forum was intended to shed light on the main factors affecting export performance by focusing on some practical cases in order to provide insights into how policies could be developed in a more coherent manner to lift the export performance and development of developing countries. Three key aspects of policy were discussed: (a) how to lift supply capacity, (b) how to obtain greater diversification through value added, and (c) market access/market-entry conditions. These were examined with reference to a number of specific sectors, as well as through a number of cross-cutting issues. The sectors discussed were poultry, fruit and juices, cotton, wood and wooden furniture, electronics, and ICT services, with representatives from the Brazilian private sector as well as overseas participants.

Determinants of export performance

25. The determinants of export performance can be split up into internal and external factors, which are of different significance for different sectors, and also vary over time and with the stage of development. External factors are related to market access and entry conditions and other factors affecting import demand. Speakers drew attention to tariff peaks and escalation, and also emphasized the growing importance of measures such as anti-dumping and, for food products, particularly SPS regulations that had to be met to penetrate major markets. However, conforming to international standards, for example those set by ISO, was also important in high-technology areas, including electronics and ICT services. Developed country subsidies made it more difficult for developing countries to export products such as cotton, and this had a direct, negative effect on the poor in Africa and other countries. Market structures in production and trade were also another factor that could affect developing countries’ capacity to enter areas of production and to obtain fair returns from trade. Transport costs were particularly important in a number of cases.

26. Internal factors related mainly to supply-side conditions, which are affected by natural and human resources as well as access to capital. A number of discussants emphasized the importance of economic policy and of institutional factors. Some speakers drew attention to the positive role of government in their countries through supportive trade and industrial policies. Foreign direct investment could be important in providing access to technology leading to productivity gains, as well as providing a link to international value chains. The right kind of investment policies could also lead to the creation of forward and backward linkages. Several speakers underlined the importance

of an educated workforce in moving into higher technology areas and in achieving greater domestic value added in design and production.

Policy thrusts and the role of the trading system

27. The forum underlined the importance of four policy thrusts: (a) creating a good investment climate and attracting development-oriented FDI; (b) building supply capacity and competitiveness through sound and supportive macro, sectoral and enterprise-level policies; (c) merging public and private objectives within a general development-deepening oriented framework by increasing genuine collaboration between the spheres; (d) effectively managing integration with the global economy. An important lesson of the successful experiences was that developing countries themselves needed to take the initiative to make the appropriate strategic policy choices, based on a realistic assessment of actual and potential comparative advantage of each country, not only in each sector but also in the entire value chain.

28. Effective and expanded market access and market entry into the premium markets are vital to the success of developing countries in entering and benefiting from the dynamic and new sectors. Current WTO negotiations provide an important opportunity to address a number of key market access issues relevant for developing countries' participation in dynamic and new sectors, such as tackling high tariffs, and tariff peaks and escalation facing items of export interest to developing countries; meaningful reform in agriculture; liberalization of services sectors and modes of supply of export interest to developing countries, particularly Mode IV of the GATS; adequate and operational special and differential treatment provisions; and effectively addressing problems arising from the application of measures under SPS, TBT and ADM provisions.

29. South–South trade and regional economic and trade arrangements could also provide a supportive environment for entering dynamic and new sectors. One such example was the Wood and Furniture Production Chain Competitiveness Forum, which involved all MERCOSUR members in a collaborative effort aimed at improving competitiveness, a balanced distribution of value added, and greater complementarities in regional productive sectors.

30. An important conclusion of the forum, illustrated by the various sectoral experiences presented, was that all relevant factors of export performance should be dealt with contemporaneously, although their relative significance varied from country to country and sector to sector. What was important for any one country or sector also changed over time. For this reason, the forum concluded that there was a need to continue to work to understand the issues and to suggest possible policy options that could usefully be considered by individual countries and the international community to help developing countries create and take advantage of opportunities for trade, including in the context of dynamic and new sectors.

C. Summary of the forum on multilateralism and regionalism: The new interface
(Rio de Janeiro, 8 June 2004)

31. A new regionalism is rapidly evolving in all regions of the world, especially following the formation of the WTO. Some 300 RTAs have been notified to the WTO and some 200 are currently in force. These include South–South, North–North and North–South agreements. They will remain an enduring feature of the international trading system. The emergence of this new regionalism raises many issues. One is its impact on the multilateral trading system (MTS), including whether regional integration is a building block or stumbling block for multilateralism. This is linked to the element of incompatibility between RTAs and MTS, as the former are an exception to the MFN principle. RTAs could weaken the MTS and be detrimental to developing countries. On the other hand, depending on the nature and content of RTAs, these could contribute to fostering the MTS and provide important benefits for developing countries. This remains an open question and deserves further analytical work.

32. Owing to the increasing and parallel participation of countries in RTAs, the trade-off between integration in different layers and the preservation of policy spaces for developing countries to define and implement national development policies, and “forum shopping” becomes strategically important and affects negotiating prospects. It is crucial to ensure that RTAs are conducive to strengthening the MTS by minimizing their possible negative effects, while allowing developing countries to maximize their trade gains in the different layers of integration. Both the MTS and RTAs should be “development-plus” in fostering economic, human and social development and poverty alleviation. Assessing and understanding the interface and coherence between RTAs and MTS also require that the impact of interface among RTAs be examined. For example, the FTAA initiative existing alongside subregional and bilateral trade and integration processes in Latin America and the Caribbean increases the demand on countries’ negotiating capital and increases the complexities of issues to be addressed. Membership of multiple RTAs places a tremendous burden on the administrative capacity of developing countries. Small economies such as members of the Caribbean Community are particularly affected.

33. The emergence of North–South RTAs is one of the salient features of the new regionalism, bringing new challenges and opportunities for participating developing countries. These RTAs are likely to be trade creating because of existing complementarities. The motivations of developed countries in engaging in North–South RTAs arise from North–North relations and “competitive regionalism”. Also, regionalism is used as a means to expand the trade agenda beyond what is currently possible in the MTS. For example, issues such as intellectual property rights, investment, competition, environment, labour and government procurement could lead to WTO-plus RTAs. These can constrain policy flexibility and space available to developing countries, and hence result in WTO-minus disciplines. Such issues are being taken up within regional integration groupings of developing countries, but raise difficulties when approached in the North–South context. High tariff protection in developing countries makes reciprocal

liberalization attractive for developed countries. The strategies of TNCs are also behind the new North–South activism.

34. North–South RTAs could have positive or negative effects on developing countries depending on a number of factors, including the architecture and structure of these arrangements, the level of existing protection, and the composition and the design of rules. Developing countries are increasingly participating in RTAs with developed countries motivated by the possibility of turning unilateral trade preferences into contractual rights for better market access and entry conditions, expectations of increasing FDI flows and technology, and various strategic reasons such as political considerations. RTAs also serve as laboratories for liberalization, harmonization of rules and upgrading of regulatory environment, and raise a country’s trade and investment profile. There are some possible negative factors such as reduced negotiating capacity and administrative complexity, for example rules of origin. Improved market entry conditions including simplified rules of origin, mutual recognition of standards and testing results and trade facilitation measures, would be particularly beneficial to developing countries. It was widely recognized that there is a need for North–South agreements to incorporate elements of asymmetry in the form of SDT in commitments and disciplines, including the level of tariff dismantling, transition period or rules on safeguards and trade remedies such as *de minimis* level. Countries have to identify national objectives to pursue in different levels of integration, and approach negotiations, in a coherent and strategic manner. A clear understanding of the impact of agreements and rules being negotiated and sectors covered is essential.

35. The proposed regional economic partnerships agreements (REPAs) between the EU and ACP States under the Cotonou Agreement could affect African regional integration, development policies and the MTS. For these agreements to be development friendly, they need to incorporate SDT provisions. GATT Article XXIV needs to incorporate SDT to allow African countries to better manage and take advantage of their participation in RTAs. The ACP States’ recent proposal in the WTO on SDT in GATT Article XXIV was noted as a positive initiative in this direction.

36. The importance of an integrated approach to trade and cooperation in RTAs to ensure development gains was stressed. This has been the case in CAFTA and the extension of the principles of social cohesion and structural funds under the EU agreements. Other examples are the regional infrastructure programmes between Brazil and Peru, Brazil and Venezuela, Brazil and Bolivia, and within Mercosur. The newly created BIMST–EC agreement also aims to enhance trade combined with regional infrastructure development to enhance connectivity and trade facilitation among its members. Other development features may include reduction of tariff peaks by developed countries; provision of adjustment support, technological support and technical assistance; facilitating mobility of workers; and developing trade remedy rules.

37. South–South trade has been expanding more rapidly than world trade and thus exhibits great potential for further growth. Asia accounts for the largest share of South–South trade. The latter is particularly beneficial as the products traded are composed of

high-value-added and technology-intensive goods. Such trade is stronger at the regional level and needs to be encouraged at the interregional level, including through the GSTP. South–South trade is not an alternative to North–South trade, but a complement to it as the North remains the South’s key market. In Africa, regionalism is a development strategy for bringing about greater economies of scale and integration within the various subregions. For example, COMESA has formed an FTA and is moving towards a customs union. The wider development strategy is captured in ASEAN, where members recently agreed to create an ASEAN economic community by 2020 to facilitate the freer flow of goods, services, capital and people. This goal is also manifested in the Andean Community and CARICOM.

38. UNCTAD has an important role to play in helping developing countries deal with the interface between multilateralism and regionalism, and the interplay among RTAs, under a new trade, development and cooperation paradigm. This can include (a) facilitating exchange of experiences, best practices and lessons learned among RTAs; (b) promoting networking and information sharing among RTAs; (c) facilitating consensus building and international cooperation in addressing the development dimension of RTAs and the interface with the MTS; (d) undertaking development impact assessment of RTAs; and (e) reinvigorating and enhancing the GSTP.

D. Summary of the India–Mercosur Forum

39. The India–Mercosur initiative constitutes a recognition of the potential for interregional South–South trade. An India–Mercosur framework agreement signed in June in 2003 led to a free trade area for goods and was later extended to trade in services. In January 2004, a preferential trade agreement was signed with three annexes on rules of origin, safeguard measures and dispute settlement. The agreement aims to evolve gradually into a free trade agreement, starting with fixed preferences for a number of tariff lines and cooperation initiatives in various fields. It could be an important precursor of other such agreements among developing countries. Under this agreement some 2,000 products have been notified for tariff reductions or preferences with a view to gradually extending the list of products.

40. Trade by itself, however, will not bring about the expected outcome. It is important to include investment and technology and other forms of economic cooperation to ensure the strengthening of bilateral relationships. There was a consensus among the speakers that the India–Mercosur trade initiative and other new-age South-South cooperation should be more open, more market-driven and more business-oriented. The potential for India–Mercosur trade has barely been exploited. The current level of trade is low – at US\$ 1.3-1.8 billion – where the largest trade is in crude petroleum. India has also become an important market for soya oil and sunflower oil from Argentina, while many products in which India is competitive are absent from the Brazilian market.

41. There are considerable complementarities in agricultural products, marine products, drugs and pharmaceuticals, creative industries, software and information technology (IT), telecommunications, railways, timber and forest products, aviation and

shipping. Nevertheless, concerns were expressed about whether the trade pattern between Mercosur and India could be changed to one dominated by sharing of technology, investment and joint ventures in a range of sectors such as forestry, poultry farming, chemicals dyes and intermediates; drugs and pharmaceuticals; hydro- and nuclear power; compressed natural gas; ethanol; telecommunications; and IT. Already, some joint ventures have been created by India with Mercosur countries, for example in pharmaceuticals (Brazil), automobiles (Brazil and Uruguay) and IT (Uruguay).

42. There is also scope for cooperation in development-oriented science and technology. Two examples were cited: aircraft, where Embraer is cooperating with India's largest aircraft manufacturer; and fuel (ethanol), where India has adopted a decision to use ethanol in the sugar-producing states. A Brazilian company is working in India on the latter project.

43. The bilateral trade between India and Mercosur is inhibited by various factors, including (a) partners' lack of information about the potential, policies and import regulations of the other partners; (b) poor air and sea transportation links; (c) trade restrictions; (d) inadequate banking and insurance facilities; (e) high transaction costs; and (f) language problems (not insurmountable). If these problems are addressed, bilateral trade between India and Mercosur could grow 16-fold in both directions, reaching US\$13 billion.

44. Both Mercosur and India are engaged in several other bilateral and plurilateral agreements, which makes the scope and markets for an India–Mercosur agreement much more attractive and provides an incentive to invest in each other's territory. The hub and spoke methodology under which each country has preferential relations with other countries, but these do not have such treatment among themselves, could be beneficial for the hub. However, the dangers and complications associated with a “spaghetti bowl” configuration of agreements were highlighted.

45. Participants emphasized the issue of how to move forward the India–Mercosur agreement. The issue of the trade priorities of both countries should be taken into account, placing this initiative in its context. For example, in the case of Brazil it was stated that the current trade priorities are in the region and in the Mercosur–EU agreement being negotiated. Cooperation could begin in a few areas to build confidence and contacts, and avoid areas of conflict. The focus should be on doing what is possible, rather than trying to achieve the ideal situation from the outset. In this process, priority should also be given to investment: trade must be followed by investment, otherwise trading alone will not be sustainable. In this regard, in India the Federation of Indian Chambers of Commerce and Industry (FCCI) has set up a help desk to promote investment, and supplement the efforts of the Government.

46. The involvement of businesses was considered critical for the processes. Business contacts should be promoted and the creation of private–public working groups was suggested for ensuring adequate private-sector involvement. Also, the need to increase mutual knowledge, *inter alia* by disseminating adequate information through cultural

exchanges and business missions, was stressed. Some concrete areas that could receive immediate attention were harmonization of standards, customs procedures, financing issues, and transport availability and costs.

47. Participants agreed that UNCTAD should play a role in supporting South–South initiatives such as the one being launched by Mercosur and India. It could provide support by (a) constituting a platform or an institutional mechanism for the exchange of experiences among developing countries; (b) providing a forum for exchange of views among policy makers, economists and the private sector at the national or subregional level; (c) generating and disseminating adequate and timely information; (d) helping in institutional capacity building at the national and regional levels; (e) training negotiators; (f) analytical work evaluating the trade agreements and their implications; and (g) facilitating technical cooperation projects between developing countries, for example between Inmetro (Brazil) and BIS (India) on cooperation on standards.

E. Report of the UNCTAD/Inmetro Workshop on Environmental Requirements and Market Access for Developing Countries Rio de Janeiro, 7–8 June 2004

48. The UNCTAD secretariat and Inmetro (the National Institute of Metrology, Standardization and Industrial Quality, Ministry of Development, Industry and Foreign Trade of Brazil) jointly held a pre-UNCTAD XI workshop in Rio de Janeiro on 7 and 8 June 2004 to review the results of exploratory activities and examine the concept and modalities of a Consultative Task Force (CTF) on Environmental Requirements and Market Access for Developing Countries.¹ Some 75 experts from a range of developed and developing countries, representing trade, environment and industry ministries, governmental, private-sector and NGO standardization organizations, intergovernmental organizations, and large and small companies, participated in the workshop.

49. They discussed the findings of the analytical and capacity-building work of UNCTAD, various intergovernmental organizations and other relevant initiatives, as well as sector- and country-specific experience. They also discussed the findings of draft studies on consultations with developing country stakeholders in the preparation and adoption of regulations and standards on environmental requirements in developed countries and on the feasibility of an international clearing house for environmental requirements and international trade. Experts had a more in-depth dialogue in three

¹ The UNCTAD Commission on Trade in Goods and Services, and Commodities, at its seventh session in February 2003, recommended exploration of “the possibility of creating 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”. The UNCTAD secretariat has conducted a series of analytical and capacity-building activities as well as consultations with relevant other initiatives. The Government of the Netherlands provided funding support for exploratory work. The exploratory phase also benefited from activities carried out under a project funded by the UK Department for International Development (DFID).

break-out groups on (a) involving developing countries in pre-regulation- and pre-standard-setting consultations; (b) an exchange of national experience on proactive adjustment policies in developing countries; and (c) an international clearing house mechanism for environmental and health requirements.

50. On the basis of this discussion, workshop participants aimed at conceptualizing the main policy and capacity-constraints issues, and in this regard, identifying the key problems encountered by developing countries at the interface of environmental requirements and market access. Against this background, participants discussed the specific contribution that the CTF should make to address some of the problems identified. This included the objectives, nature and modalities of CTF activities.

Need for a CTF

51. As countries seek to enhance environmental protection and promote sustainable development, environmental requirements are expected to become more frequent, including in sectors of key export interest to developing countries. With growing evidence of harmful environmental effects of certain substances, changes in consumer preferences and other factors, environmental requirements tend to become increasingly stringent and move continuously. Many voluntary requirements developed by the private sector or NGOs are de facto mandatory and tend to be globalized through international supply chains. They are largely outside WTO disciplines on TBT measures, but may be the precursor of future regulations. This contrasts with the lack of capacity in many developing countries to raise awareness about new environmental requirements in key export markets; gather much-needed information on them; and create effective public-private partnerships to adjust to the new requirements in a developmentally beneficial way. Participants also stressed that there was not enough consistent and credible information on the types of problems that existed; that the interplay between policy and capacity-constraints issues was not well understood; that not all problems could be addressed through WTO discussions and disciplines; and that there was an insufficient exchange of information among international organizations and other initiatives on activities implemented by them, although a strategic partnership would be required.

52. Many participants were of the view that a more holistic and development-oriented approach to the interface of environmental requirements and market access for developing countries was required, one that should include an integrated analysis of policy and capacity-constraints issues at three levels: at the international level outside the WTO, at the WTO level and at the national and local levels in developing countries. The complexity of the interplay between policy and capacity-building measures required a strategic and proactive response by exporting developing countries, rather than a merely reactive, “fire-fighting” approach, and more efficient public-private dialogue and cooperation. It also necessitated active collaboration by Governments and business associations in developed countries and a more coherent approach by donors. The CTF could make specific contributions in this regard.

53. It was concluded that exploratory activities had been very helpful in guiding the discussion on the value added and focus of CTF activities. Representatives of a number of Governments, intergovernmental organizations, the private sector and NGOs expressed their willingness to participate actively in relevant activities of the CTF. This provides a good basis for starting the implementation of a small number of well-defined and focused CTF activities.

Objectives and nature of CTF activities

54. Participants agreed that the functions of the CTF should be well defined and targeted, and not duplicative and pragmatic, with a view to adding value in areas of mutual interest to the parties concerned. In this context, the CTF could provide the “missing link” between existing mechanisms and initiatives to address specific policy and capacity gaps. The CTF should facilitate constructive dialogue, fully coordinated with concerned stakeholders, on (a) sector-specific experience in the preparation, adoption and implementation of regulations and standards and the related examination of possible trade implications for developing countries; (b) the development of holistic, proactive strategies in developing countries that effectively respond to environmental requirements in key export markets; (c) improved access to and dissemination of information on environmental requirements, including private-sector requirements; and (d) a regular exchange of information among international organizations, bilateral donors, private-sector associations and NGOs on those activities that are relevant for the CTF.

55. The CTF will provide an umbrella for well-structured and focused dialogue and networking on relevant issues at the interface of environmental requirements and market access for developing countries. Under its umbrella, the CTF may consider launching some specific, well-defined and time-limited project activities whose results will aid the substantive debate in the CTF. Initially, this would include work on themes (a) to (c), mentioned in the previous paragraph. As regards studying the feasibility of better linking existing international information systems on environmental requirements and improving collection of and access to information on voluntary requirements set by the private sector or NGOs, Inmetro’s experience in disseminating information on TBT notifications through its early warning system was considered a useful point of departure. The CTF will regularly review the efficiency of project activities and decide on their continuation or termination, or on a change in the course of action.

56. The CTF will start as a collaborative effort among a core group of supportive partners, including Governments, relevant intergovernmental organizations, the private sector and concerned NGOs from developed and developing countries, but will be open to other interested stakeholders. The CTF and time-limited thematic activities under its umbrella will be implemented as a project-based activity.

57. CTF activities are not intended to “second-guess” the legitimacy and objectives of environmental requirements. Rather, they will analyse and discuss ways of overcoming specific developing country problems regarding the development and implementation of, as well as adjustment to, such measures.

**F. Summary of the Conference on Managing Risks and Seizing Opportunities
for Local Companies in the Oil and Gas Sector**
(Rio de Janeiro, 8–9 June 2004)

58. Various experiences presented and lessons drawn at the conference are of relevance not only for the oil or gas sector but also for other commodity sectors. One is the issue of developing local clusters. For large projects – whether in oil, mining or infrastructure – to have a strong development impact, they need to be linked closely with the local economy. Experience has shown that the most productive way to do this is through a cluster approach. This means that companies should not just try to subcontract to local firms, but they should think in terms of “dynamic comparative advantage” – what sustainable activities could be developed around the contracts that large firms, for example in the oil sector, could provide.

59. Presentations on the experiences of Brazil, Norway and Venezuela highlighted how this can be done. Contracts should be drawn up in such a way that local companies can tender; foreign investors should be strongly encouraged to enter into technology-transferring partnerships with local companies; and local companies should be informed about the type of contracts that they can expect in the years to come so that they have sufficient time to prepare. This should be supported by a well-defined education policy, and appropriate research and development activities. Competition between local firms should be encouraged. And even though technological capacity may be low at the outset, trust in the ability to develop the necessary skills is important.

60. Another relevant issue is the role of large companies in fostering the development of smaller ones. Where Governments have a monopoly in a certain sector, the responsible parastatals should still be strongly encouraged to review their range of activities, and outsource anything that is not part of their core competences. For example, a parastatal oil company such as Petrobras should sell off fields, once they are mature, to smaller, local companies. Experience has shown that not only are these smaller companies likely to be better in managing the fields, but also they can build on these core assets to grow, including in international markets. Even if Governments wish to retain state control in certain sectors, small companies should be allowed to grow up around parastatals, and Governments should not allow parastatals to “crowd the field”. While the necessary technical skills for this are likely to be present in many countries, finance will be a bottleneck, and local banks should be assisted in learning how to finance new entrepreneurs in these areas.

61. Country risk is an important consideration for international investors and financiers. In particular, the large negative effect of a very complex and rather unstable taxation and regulatory regime can be an important concern. However, there is a lack of awareness in this regard. Having a stable, clear and transparent regime is very important for international investors, perhaps more than the actual details of the regime.

62. The conference also discussed public–private partnerships (PPPs). These are often the way forward to ensure that as large a number of people as possible can benefit from

essential services – whether it is energy, water, transport, telecommunications, etc. PPPs are still relatively new – in Brazil, for example, a draft law is now being discussed. The discussions at the conference clarified how to move forward with sustainable partnerships. The elements include transparency, strong contractual relationships between the various partners, the understanding in Governments that PPPs do not come free, and mobilization of “supporting” entities such as development banks.