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**DEVELOPMENTS AND ISSUES IN THE POST-DOHA WORK PROGRAMME OF  
PARTICULAR CONCERN TO DEVELOPING COUNTRIES**

Note by the UNCTAD secretariat\*

**Executive summary**

This note reviews developments in negotiations under the WTO Doha Work Programme since 2005, particularly the outcomes of the Sixth WTO Ministerial Conference, 13-18 December 2005, Hong Kong (China), and the impact of the suspension of the negotiations in July 2006, with particular focus on assuring development gains from the international trading system and trade negotiations.

\* This document was submitted on the above-mentioned date because of processing delays and to reflect recent developments in the WTO Doha negotiations.



## I: INTRODUCTION

1. Item 6 of the provisional agenda of the fifty-third session of the Trade and Development Board provides an opportunity for the Board to discuss progress attained in the Doha Work Programme (DWP) in areas of interest to developing countries. This note has been prepared by the secretariat to assist the Board in carrying out its review.

## II. TRENDS IN INTERNATIONAL TRADE

2. International trade performance was dynamic in 2005 with the developing countries being the source of such growth. The world's merchandise exports recorded a robust growth of 13.8 per cent with their value estimated at US\$10.3 trillion.<sup>1</sup> Developing countries exports expanded at a faster pace (21.3 per cent) to reach \$3.7 trillion, and their share in world trade reached a record high level of 35.9 per cent. China and the major petroleum exporters were the major contributors to this trend. Among developing regions, North Africa experienced the greatest trade expansion of 35.1 per cent, followed by West Asia (30.6 per cent), South America (27.5 per cent), sub-Saharan Africa (22.2 per cent), South and South-East Asia (18.8 per cent) and the Caribbean (14.1 per cent). LDCs saw their exports increasing by 27.5 per cent while their share in world trade remained marginal at 1.8 per cent. South-South trade and integration is intensifying and providing a means towards strengthening supply capacity and trade of developing countries, facilitated by the rise of some dynamic developing countries. South-South trade accounted for 42 per cent of developing countries exports, or some 14 per cent of the world's exports (2003). Over two-thirds of developing countries exports were composed of manufactured goods. Primary commodity remained important for Africa and LDCs, accounting for 70 and 64 per cent of their exports respectively. The rise in oil prices by 41 per cent was significant. Global services exports expanded steadily at 10 per cent in 2005 and reached an estimated \$2.4 trillion. This represents one-fifth of world's total exports of goods and services. The ratio is lower for developing countries (13 per cent). Developing countries' services exports grew at a faster pace (14.1 per cent) to reach \$576 billion, which represented 23.6 per cent of world's services exports. Dynamic exporters in South and South-East Asia accounted for two thirds (66.3 per cent) of developing country services exports and recorded an export growth of 15.3 per cent. South America (21.3 per cent), sub-Saharan Africa (13.5 per cent) and the Caribbean (11.1 per cent) also experienced sound trade expansion. India was among dynamic services exporters. LDCs recorded sound export growth in 2005 (by 9.7 per cent) but this was not sufficient to overturn the long-term trends of declining share in world's trade in services, which remained at 0.5 per cent.

## III. OVERVIEW

3. The Doha negotiations have been underway for almost 5 years, much longer than initially scheduled. Following the Sixth WTO Ministerial Conference (MC6), the Doha negotiations have entered their most crucial phase. The completion of the round by the end of 2006 under the Single Undertaking is considered imperative in mainstreaming development into the multilateral trading system (MTS), as well as because of the expiry of the US Trade Promotion Authority in July 2007. In 2005, the expected "first approximation" of full modalities in agriculture and NAMA by the end of July of that year did not materialize owing to the lack of substantive progress in the negotiations. Such expectations had to be "recalibrated" to what can reasonably be achieved so as to avoid the failure of MC6.

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<sup>1</sup> UNCTAD *Handbook of Statistics 2005*. Trade data for 2005 are provisional.

Developing countries made repeated calls for a package of development issues and some submitted a paper on "Reclaiming the development content of the Doha Development Agenda".

4. Agreement was reached prior to MC6 on amending the TRIPS Agreement to facilitate access to essential medicines for countries with no or limited manufacturing capacities. This was the first ever amendment brought to WTO Agreements. The amendment will enter into force once accepted by two-thirds of WTO Members with the target date of 1 December 2007. Until then, the 2003 August waiver will remain in force. Agreement was also reached on extending the transition period of the TRIPS Agreement for LDCs for a further 7.5 years.

5. As expected, the Hong Kong Ministerial Declaration (HKMD) adopted on 18 December 2005 did not establish modalities on agriculture and NAMA. Nonetheless, the outcome moved the negotiations forward incrementally and renewed political commitment. It also approved the accession of Saudi Arabia and noted the completion of accession negotiations of Tonga. Some of the key outcomes are summarized below.

6. **Agriculture.** Agreement was reached to establish full modalities by 30 April 2006 and submit draft schedules by 31 July 2006. Movement was made in setting the end date for the elimination of export subsidies at 2013 (as against 2010 called for by developing countries) with a commitment of front-loading. Little movement was observed in domestic support. On market access, negotiations remained particularly difficult. As regards flexibilities for developing countries, Ministers confirmed the right of developing countries to self-designate special products (SPs) for food security, livelihood security and rural development. They also set price and volume triggers for the special safeguard mechanism (SSM). Agreement was reached on the exemption of those developing countries without AMS commitment from reduction commitment.

7. **Cotton.** Some advance was made regarding eliminating all forms of export subsidies in 2006 and the provision of duty-free quota-free (DFQF) treatment for cotton exports from LDCs from the beginning of the implementation period. Trade-distorting domestic support on cotton would be reduced more quickly than other commodities. The Cotton Four (Benin, Burkina Faso, Chad, Mali) had called for deeper measures to be adopted immediately or by the end of 2005, particularly in respect of domestic support and a credible development assistance package.

8. **NAMA.** A "Swiss tariff cutting formula" was chosen and the coefficients (the basis and numbers are yet to be agreed) would be more than one. Particular attention would be given to products of export interest to developing countries. Less-than-full reciprocity and SDT, including paragraph 8 flexibilities, for developing countries were reaffirmed as integral parts of modalities, and participation in the sectoral initiatives would be on a non-mandatory basis.

9. **Balance between agriculture and NAMA.** For the first time in the negotiations, parallelism was established so that the levels of ambition in both areas of negotiations are comparably high.

10. **Services.** Ministers set specific modal and sectoral objectives and qualitative benchmarks for making new and improved commitments, and agreed to the initiation of plurilateral negotiations (in addition to request-offer negotiations which remains the main

modalities for negotiations) with timeline for second revised offer by 31 July and draft schedule of commitments by 31 October 2006. Proposed quantitative benchmarks were not retained given strong resistance from developing countries. Some progress was made in modal objectives in respect of Mode 1(outsourcing) in terms of commitments at current levels of market access and to remove requirement of commercial presence, and Mode 4 (temporary movement of natural persons) in terms of new or improved commitments on the categories of Contractual Services Suppliers (CSS), Independent Professionals (IP) and Others, de-linked from commercial presence.

11. **Rules.** Agreement was reached on strengthening disciplines on subsidies in the fisheries sector, including certain forms of subsidies that contribute to overcapacity and over-fishing while also catering for SDT.

12. **Development package.** A limited development package for LDCs was adopted, including the adoption of 5 Agreement-specific SDT proposals for LDCs, TRIPS and public health, the extension of TRIPS transition period for LDCs, and an enhanced integrated framework (IF). The most important of the five LDC proposals on SDT was the DFQF treatment to be granted to all LDCs. Commitment was made by all developed countries and those developing countries declaring themselves in a position to do so to provide DFQF treatment on a lasting basis to all LDCs for at least 97 per cent of products by 2008 (or no later than the start of the implementation period). On services, it was decided that the LDCs would not be expected to undertake new commitments, and Members would implement the LDC modalities and give priority to the sectors and modes of supply of export interest to LDCs, particularly in Mode 4. Furthermore, there was an affirmation of the commitment to enhance effective trade-related technical assistance and capacity-building to LDCs. The idea of an *enhanced integrated framework* was approved and a task force would provide recommendations on, *inter alia*, increased predictable and additional funding.<sup>2</sup>

13. **Aid for Trade (AfT).** Recognition was given to the principle that AfT is required to help developing countries benefit from trade negotiations, although the actual features remain undefined, and, in this respect, there was a wide divergence of views. It was affirmed that AfT cannot be a substitute for the development benefits from a successful conclusion of the Doha round. A Task Force would be established to make recommendations on operationalization of AfT by July 2006.

14. Following MC6, negotiations intensified to meet a critical deadline of 30 April 2006 for establishing full modalities. A series of “reference papers” on aspects of agriculture negotiations were issued to serve as basis for full modalities. Informal simulation exercise was conducted on various tariff reduction scenarios in NAMA. Concrete steps were taken on specific issues, including the initiation of plurilateral negotiations on services, the establishment of the Task Force on AfT, follow-up on DFQF market access for LDCs, the continued consultation by the WTO Director-General on implementation-related issues, and discussion on outstanding SDT proposals. A series of mini-ministerial meetings aimed to forge agreement among major players took place.

15. As the April 30 deadline approached, attention was devoted to a limited number of issues on which agreement was considered indispensable for a grand bargain. On 28 March 2006, the WTO Director-General stressed the importance of achieving the “right level of

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<sup>2</sup> The task force issued its report in July 2006.

ambition” in numbers and elements of disciplines on a *triangle of issues* was key, namely, domestic support in agriculture, agricultural market access and NAMA, including the balance between the level of ambition and flexibilities, and how these should be applied between developed and developing countries. The overall objective was to ensure that the cuts in subsidies and tariffs are a multiple of the Uruguay Round results and that the flexibilities should not water down these multiples. Developing countries reiterated that areas of their positive agenda should be ambitiously dealt with to level the playing field. The “triangle of issues” is seen to point to greater efforts from the United States to move on agricultural domestic support, including for cotton, from the EU (and G-10) to cut more substantially agricultural tariffs, and from some large developing countries to make greater reductions in industrial tariffs and to provide substantial offers in services.

16. Post-MC6 negotiations have been difficult due to differing expectations, objectives and sensitivities, translated in specific defensive and offensive interests. This has been further complicated by competing interests among developing countries, such as on trade preferences, agricultural exporters, NFIDCs and beneficiaries of food aid.

17. There was no breakthrough at the end of April and thus concern was expressed that possible outcomes might be further scaled down to “minimum common denominators” to rescue the Doha round. Subsequently, the end of June 2006 was set as deadline for establishing modalities and the two draft texts on “Possible draft modalities on agriculture” and “Towards NAMA modalities” were issued on 22 June. The drafts reflected areas of convergence and divergence. It was noted that the draft paper on agriculture, containing 760 square brackets, was not agreed even as a draft, but rather was intended to reflect in a balanced way the state of discussions. The paper on NAMA contained in a tabular format, mandates, proposed text and the Chairman’s comments on various subjects. It was noted that consensus was not found on many important issues, including formula, and that NAMA negotiations had been constrained and conditional upon progress in agriculture, including the level of ambitions.

18. The high-level meeting held between 29 June and 1 July, where some ministers participated, ended with no movement. The WTO Director-General spoke of the “magic number” of 20, implying the possible middle ground for agreement, i.e. the G-20 proposal on agricultural market access, \$20 billion for the US domestic support spending and the Swiss formula coefficient of 20 for developing countries in NAMA. The meeting was organized around an open-ended informal TNC and the “Ministerial Consultative Group”. The discussion was structured to focus on the “triangle of issues”. The lack of agreement on key parameters made the task of finding a politically acceptable compromise particularly challenging and no progress was therefore possible. The WTO Director-General qualified the situation as a “crisis”. It was agreed at the TNC that the Director-General should urgently consult intensively and widely in facilitating and catalyzing agreement among WTO Members on the modalities. The consultation would be based on the draft modalities, and fully keep with the principle of bottom-up approach, transparency and inclusiveness.

19. The G8 Summit held between 15-17 July 2006 in St. Petersburg, Russian Federation, called for urgent efforts to be made to conclude the Round by the end of 2006 with real cuts in tariffs, effective cuts in subsidies and real new trade flows. It was significant that it also called for an agreement on modalities on agriculture and NAMA within a month (i.e. mid-August), thereby setting a new timeframe for the conduct of negotiations. In the follow-up to the G-8 Summit, Trade Ministers from G-6 countries held a meeting in Geneva on 23-24 July

in an effort to break the impasse, but the meeting ended with no breakthrough. Negotiations foundered on disagreement on the agricultural leg of the triangle of issues, as the gap in the level of ambition between market access and domestic support remained too wide to bridge. In general, the negotiations appeared to have suffered from the perception by key players that the economic benefits expected from the offers made by trading partners was not sufficiently significant to outweigh the political costs of making additional concessions on some of the politically sensitive issues under discussion. The WTO Director-General reported to the TNC on 24 July and to the General Council on 27 July that, without the modalities in agriculture and NAMA, it would not be possible to conclude the Doha round by the end of 2006, and thus recommended “to suspend the negotiations across the Round as a whole to enable the serious reflection by participants which is clearly necessary.” He indicated that this meant that all work in all Negotiating Groups would be suspended. Significantly, it also meant that the progress made to date on various elements under negotiation would also be “put on hold” pending the resumption of the negotiations. No date for the resumption of activity was proposed, as this could only be decided when the conditions exist to permit renewed progress. Such political movement would require changes in the entrenched positions currently held by WTO Members.

20. The suspension has cast significant uncertainty over the prospects of the negotiations in terms of the nature, scope and duration of the suspension, timing and conditions for resumption, and whether or not, in the meanwhile, work could continue on the development agenda. A number of countries have emphasized the importance of preserving the integrity of Doha mandate, including the Single Undertaking. On the other hand, work might continue on those areas falling, *stricto sensu*, outside the confine of the Doha negotiations, e.g. AfT and Integrated Framework. Intense diplomatic activities and consultations at various levels might be expected in coming months, with a view to the resumption of the work. The WTO Director-General is also expected to conduct extensive consultations. Developing countries have called for inclusiveness and transparency in the process, not losing sight of development component of the round, as well as stronger leadership of major players of G-6 in searching for a compromise solution to resume the negotiations.

21. Given key development stakes at issue, and the commitment of international community to work expeditiously towards implementing the development dimensions of the Doha Round as reaffirmed in the World Summit Outcome in September 2005, efforts and leadership need to be exercised to ensure that the suspension of the round not lead to the lowering of ambitions in development dimension of the round, and that core negotiating issues of developmental importance are addressed meaningfully, including:

- Enhanced and predictable market access for developing countries in agricultural and non-agricultural products, as well as services, of export interest to them, particularly commercially meaningful commitments in Modes 4 and 1;
- Fully operationalizing flexibilities and SDT as provided for in the Doha mandate and subsequent decisions in all areas of negotiations;
- Removal of trade-distorting non-tariff barriers (NTBs) and market entry barriers;
- Elimination of all forms of export subsidies by 2013 on a front-loaded basis, and substantial reductions in trade-distorting domestic support in agriculture;
- Urgent elimination of trade distorting subsidies on cotton and a development package for cotton producers;
- Expeditiously moving towards 100 per cent coverage in the provision of DFQF market access for LDCs on a lasting basis with transparent and simple rules of origin,

and operationalizing LDC modalities in services including in respect of appropriate mechanisms aimed at facilitating effective access of LDCs' services and service suppliers to foreign markets;

- Resolving meaningfully all outstanding implementation-related issues and SDT proposals;
- Addressing preference erosion and enhancing utilization of trade preferences by improving preferential schemes;
- Providing adequate financial and technical support to developing countries, including through AfT, *inter alia*, to build supply capacity and trade-related infrastructure including trade facilitation, and;
- Ensuring that trade liberalization does not adversely affect the livelihoods of the poor and vulnerable, and granting universal access to essential services.

## IV. SPECIFIC ISSUES

### A. Agriculture

22. Developing countries have high stakes in agricultural negotiations. Agricultural support is still high relative to other sectors, and gains are expected if substantial reductions can be negotiated. UNCTAD estimates show that developing country agricultural export revenues could increase by up to 30 per cent following implementation of an ambitious scenario. However, the gains and losses generated by policy changes do not seem to be distributed evenly. Some may experience negative terms of trade effects, some may see their preferences eroded and net importers may see their food bills rising.

23. **Market access** remains the most difficult pillar, despite the agreement reached in MC6 over the use of four bands for the tiered formula. The thresholds for developed and developing countries, and the formula used within the tiers, have not yet been agreed to although negotiations have focused on linear cuts. The level of ambition of tariff cuts and market access flexibilities through sensitive products for all countries, as well as special products and SSM for developing countries, are still in dispute. The proposed tariff reductions for the highest tariffs in developed countries range from 42 per cent (ACP proposal) to 90 per cent (United States). It has been noted that the "real zone of engagement has to be *around* the G-20" proposal of 54 per cent for developed countries. This observation, however, has been rejected by some countries, including the EU, the G-10 and the United States.

24. Proposals for the share of tariff lines that could be designated as sensitive products range from 1 per cent (United States and G-20) to 15 per cent (G-10). It has been observed that 15 per cent of dutiable tariff lines could account for up to 88 per cent of the trade of some major developed countries. Whether the number of sensitive products makes any difference to the level of ambition depends on the degree of compensatory provision of market access opportunities, either through tariff reduction or TRQ expansion. Proposals for TRQ expansion are variously based on consumption, imports or scheduled TRQ, but neither method is totally satisfactory. For tariff cuts, the Draft Modalities notes the range between 20 and 70 per cent of the formula reduction. Without compensation, too much flexibility in exemptions from tariff reduction commitments might significantly reduce the potential global



gains. This would be particularly to the detriment of agriculture exporters, including developing countries.

25. Erosion of preferences has been a major concern for those countries dependent on long-standing preferential schemes for their exports. Other countries, including some developing countries, are concerned that a trade solution would hold back MFN liberalization. UNCTAD analysis shows that it is mainly a group of LDCs and ACP countries that would be affected by preference erosion. Trade-based and non-trade-based solutions have been proposed. These include lower tariff reductions, longer implementation periods for specific products where they enjoy preferences, deepening and widening of preferences and targeted technical assistance, including improving productivity and assistance to diversify. Finding a trade-based solution has proven to be highly sensitive and divisive among developing countries. As regards the improvement of preference schemes, UNCTAD estimates show that providing unlimited DFQF market access for African countries in developed country markets could increase annual income gains by \$3 to \$5 billion and increase exports by about 5 to 10 per cent.

26. Regarding developing countries' defensive interests, the existing gap between bound and applied rates imply that applied tariffs would not be reduced by as much as any formula cut may appear to imply, but almost all developing countries have products where the applied rates are close or equal to bound rates. Thus, they are not free from the impact of formula cut. Proposals for reduction in the highest tariff band for developing countries range from 30 per cent cuts (ACP) to slightly less than 90 per cent (United States). An average cut of 36 per cent has been proposed by the G-20, together with flexibility for sensitive and special products in order to limit potential negative impacts on small and vulnerable farmers. Many developing countries continue to attach particular importance to SPs and SSM.

27. As regards **SPs**, an important agreement was reached at MC6 over the right to self-designate an appropriate number of tariff lines as SPs "guided by indicators based on food security, livelihood security and rural development". This is an important achievement for those developing countries that have an interest in protecting some vulnerable sectors. The number of eligible products, as well as the conditions to be attached, are yet to be determined. Proposals on the number of eligible products range from 20 per cent of tariff lines (G-33) to just 5 tariff lines (United States). While it is important to ensure increased export opportunities in agricultural products for all countries, excessively stringent conditions to SPs would prevent developing countries from effectively addressing food security, livelihood security and rural development. The issue remains how to strike a sensible balance between the two exigencies.

28. On the **SSM**, an agreement was reached at MC6 to set price and volume triggers. This means that countries would be entitled to impose additional duties if the price of the products concerned falls below a certain trigger level *and/or* the import volume increases above a certain level. The G-33 has called for making SSMs available, as an emergency measure, to all products and all developing countries for an unlimited period of time. Other countries have suggested a limited number of eligible products, to be linked with the extent of liberalization commitment; the mechanism being available only during the implementation period; and an additional market test before the SSM remedy is applied that ensures that imports are indeed rising if the price trigger is met or that domestic prices fall when the volume trigger is met. Agricultural exporting countries have argued that too lax rules on SSM could otherwise hamper trade. As a consequence of some proposals that sought to link the

eligibility to SSM with reduction commitments, it is yet to be determined whether SPs would be eligible for SSM, or whether LDCs would have access to SSM.

29. On **domestic support**, the establishment of three bands both for the AMS reduction and the overall cut of trade-distorting domestic support was agreed at MC6 with higher linear cuts in higher bands. The EU would be in the top band the United States and Japan in the second band and all other countries, including developing countries, in the third band. It was also noted that disciplines would be developed that would "achieve effective cuts in trade-distorting domestic support". Against this lies the concern of developing countries over whether proposed reductions in trade-distorting domestic support would effectively lead to a substantial reduction in support, hence production. This is because reductions would be from bound levels, which are often higher than the current support, and a broader range of support measures could be shifted into the new Blue Box (or to the Green Box). Differences persist on the criteria for the various boxes. On the new blue box support, the G-20 and EU had called for additional criteria to ensure that payments would be less trade distorting, but no decision was taken at MC6. No agreement was reached either on additional disciplines for existing Green Box measures although they were demanded by many developing countries. However, Green Box criteria are being reviewed to ensure that developing countries programmes that cause no more than minimal trade-distortions are effectively covered (Annex H of the Draft Modalities). This may be of some value to developing countries, as currently most developing countries are unable to fund domestic support in excess of the *de minimis* levels.

**Box 1: Different gains from market access and domestic support**

Various estimates suggest that greater gains are expected from reducing distortions in market access in agriculture trade than reducing distortion in agricultural domestic support. This may appear counter-intuitive in light of the fact that domestic support accounts for as much as about 40 per cent of the producer support estimate according to OECD, and that the depth of cuts in trade distorting domestic support under consideration in negotiations is relatively significant ranging up to 70 to 80 per cent. One reason for this is that there is overhang – gap between amounts listed in countries' schedules and actual spending – in the trade distorting support. The utilization rate was, for example, 58 per cent in EU (in 2000), 17 per cent in Japan (2001) and 88 per cent in the United States (2000). Reforms, such as the EU CAP reform in 2003, imply even lower utilization rates. Another reason is the frequent exclusion of Green Box support in various simulations due to a lack of knowledge of whether – and how – trade distorting these payments are. The Green and Blue Box criteria have been criticized for allowing trade-distorting measures. Furthermore, much support is provided to industries with production quotas, and reducing this support will not necessarily reduce production and increase imports.

30. **Export competition** is the area where greatest progress was achieved at MC6. The bulk of the world's export subsidies are accounted for by those provided by EU on temperate products such as dairy products and wheat. On export credit, there exists some convergence on disciplines for export credits with a repayment period of less than 180 days (higher repayment periods would be excluded). On STEs, disciplines relating to exporting STEs would extend to the future use of monopoly powers so that such powers could not be used to circumvent the direct disciplines on STEs. As regards food aid, a "safe box" for bona fide food aid would be provided to ensure that new disciplines aimed at preventing commercial displacement did not unintentionally impede the provision of food aid in emergency situations. Many beneficiaries raised the concern that the new disciplines might prevent countries from providing the necessary amount of food aid. The African Group and LDCs

tabled a paper on food aid which proposed criteria for emergency food aid and disciplines on non-emergency food aid; the paper also included the obligation to provide aid in full grant form, untied, only exceptionally monetized and not re-exported.

31. The impact of the elimination of export subsidies depends on whether countries are net importers or net exporters of the products concerned. For net exporters, the elimination is expected to lead to increased domestic production and exports owing to higher prices and lesser competition from subsidized countries, this would thus increase self-sufficiency and lead to food security. Net importers would, however, be worse off due to increased food bills. Thus, an effective provision for NFIDCs would be needed in order to mitigate the costs.

32. The draft modalities include a paragraph on **small and vulnerable economies (SVEs)**. SVEs have called for the flexibility to reduce their bound rates by less than formula although the degree of flexibility is not specified. Three criteria have been mentioned that would qualify for a SVE that are all based on the share in world trade. The draft modalities reflect the concerns of **recently acceded Members (RAMs)** by providing for longer implementation periods and lesser reduction commitments and exemption from the commitments. They also called for flexibilities in the selection of special and sensitive product and for exemption of small low-income RAMs from reduction commitments.

33. On **cotton**, the "Cotton Four" submitted after MC6 a further proposal to make more rapid and deeper cuts on cotton, but other members found that this could only be specified after the treatment of domestic support in agriculture as a whole was clear. The simulated increase of the cotton price as a result of an elimination of trade distortions varies significantly with the assumptions made, but many studies show an increase between 10 and 20 per cent.

34. Overall, market access remains the most controversial, but promising pillar for a balanced and development-focused outcome in agricultural negotiations although different elements may be more important for some countries. Effective tariff cuts, including limited flexibilities for developed countries, together with adequate flexibilities for developing countries, could be conducive for unblocking the negotiations. The Chairman has noted that G-20 proposal, which called for 54 per cent cuts in developed countries and 36 per cent for developing countries, could constitute possible middle ground. The design of developing country-specific flexibilities through SPs and SSM remain particularly important for their food security, livelihood security and rural development. Effective and substantial cuts in overall trade-distorting domestic support is yet another key issue in the development dimension of the agricultural negotiations.

## B. NAMA

35. The level of ambition remains the stumbling block in the NAMA negotiations. Developing countries are concerned that ambitious bound tariff reductions will lead to reductions in applied rates and consequent adverse impact on their economics. Developed countries are keen to ensure substantial improvements in market access, particularly in major developing countries. Members have agreed to use a harmonizing Swiss formula with different coefficients (maxima) for developed and developing countries, but they have not agreed as to what the maxima should be in each case, nor the basis on how it could be determined.

36. For developing countries, the importance of manufactured goods has increased significantly in recent years and on average currently represents 70 per cent of their exports. Although average tariffs are relatively low in industrial products, there are some protected sectors of export interest to developing countries where tariff peaks and escalation are prevalent, including textiles and clothing, motor vehicle parts and components, electronics, and gems and precious metals. Reducing or removing the protection could lead to gains, including for developing countries, although these would vary between countries and sectors. Efficiency and welfare gains are expected in the long run but in short and medium run, there are important adjustment costs. Most developing countries want their own liberalization to be carefully designed owing to the risk of high adjustment costs, unemployment, de-industrialization and loss of tariff revenue.

37. The NAMA negotiations have focused on the tariff reduction formula, flexibilities for developing countries, treatment of unbound tariffs. On core issues, agreement has been difficult. NAMA negotiations have been considered as intrinsically linked to agricultural negotiations, and the issue of ambition in NAMA would be resolved when the same is determined in the agricultural negotiations. Also important is the degree of harmonization between developing countries. The issue relates to whether or not countries with higher initial tariffs face the same maximum – the Swiss coefficient – as countries with lower initial tariffs. Several negotiating proposals have suggested the Swiss coefficient should vary from country to country depending on the initial average tariff.

38. Two broad approaches are discussed on the non-linear Swiss **formula**. The first option consists of setting a fixed number of pre-determined coefficients, e.g. one for developed and one for developing countries. The second option consists in setting the coefficients that are related essentially to the average initial bound tariff rates of individual members and possibly additional development factors. Some developed countries also want to link possible variation in the coefficients to other flexibilities, a view that is largely rejected by developing countries. So far, there has been no convergence on the modalities.

39. A NAMA simulation undertaken by ten developed and developing countries showed that the tariff reductions are very sensitive to the chosen coefficient with average reductions ranging from 21 per cent to 60 per cent for a typical developing country.<sup>3</sup> An ambitious coefficient for developing countries would lead to percentage reductions higher than under most proposals made so far in the agricultural negotiations. Some find this comparison relevant regarding the HKMD paragraph 24. This is linked to the fundamental difference on the interpretation of the term “less than full reciprocity”. There is also the post-MC6 discussion on “real market access”, which refers to cuts in applied rates. Developing countries have argued that there is no mandate on applied rates and that the demands would be contradictory to the principle of “less than full reciprocity” in the Doha Declaration. Some developing countries are particularly concerned about possible de-industrialization and tariff revenue implications. Flexibility and policy space are seen as particularly important given their already low applied rates and their stage of development.

40. The interpretation of less than full reciprocity is particularly relevant to the discussion surrounding **Paragraph 8** of the July Framework. The paragraph provides for flexibilities to undertake less than formula cuts on some tariff lines or the flexibility to leave some tariff lines unbound provided certain criteria are met. As noted, some developed countries want to

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<sup>3</sup> “NAMA simulations” (Job (06)57), 17 March 2006.

link the depth of cuts to be made by developing countries to options to use other flexibilities, especially Paragraph 8 flexibilities, but such a linkage is rejected by the majority of developing countries. They argue that the paragraph 8 flexibilities should be seen as a stand-alone allowance for developing countries.

41. As regards **unbound tariffs** in countries that are subject to formula cuts, Ministers agreed in MC6 on the non-linear mark-up approach to establish the base rates for tariff reductions. Subsequently, the understanding was reached on a *constant* non-linear mark-up approach without an agreement on the number. In the Draft Modalities, it is noted that there is no consensus on the level, but that the range would clearly be between 5 and 30 percentage points that would be added to all applied rates to establish base rates for tariff reductions, but this has not yet been agreed and it could be greater. Concerns have been raised regarding the treatment of low and high unbound rates. However, due to the harmonizing effect of the Swiss formula, the difference between a low and a high mark-up is low, as shown by the simulations, and it has been noted that it is relevant for tariffs that are only reduced by 50 per cent of formula cuts (Paragraph 8 flexibility). The level of the mark-up will most likely not be decided in isolation from the formula coefficients and Paragraph 8 flexibilities.

42. As regards the exception for countries with low binding coverage of less than [35 per cent], that do not have to apply the formula, but may have to bind all tariff lines at the overall average of current bound rates of developing countries, the July package provided that they would be subjected to binding of [100] per cent but the relevant countries expressed concerns that this would be too demanding for them.<sup>4</sup> Progress has been made in this respect and the brackets around the 35 per cent have been removed and the proponents of this paragraph have indicated acceptance of the 28.5 per cent average binding level if the coverage rate of 70 per cent would be acceptable. The Draft Modalities reflect this by providing to increase the binding coverage for these countries to [70 - 100] per cent.

43. MC6 provided in respect of flexibilities for **SVEs** that "ways to provide flexibilities for these Members without creating a sub-category of WTO Members" should be found in the NAMA negotiations. In the Draft Modalities, it is noted that objective criteria be set for the identification of such countries, and the treatment negotiated. One criterion proposed is that the share of trade would be less than [0.1 per cent] of world trade but additional criteria are yet to be identified to measure the "vulnerability". SVEs have called for binding 100 per cent of tariff lines at average levels that would be lower for tariffs in lower bands and higher for those in higher bands, as well as the implementation period for tariff reduction that would be longer than the generally applicable period. For **RAMs**, there was support for a longer implementation period but less support for lower reduction commitments – with the exception of Armenia, Kyrgyz Republic and Moldova which would be exempt from reduction commitments due to their accession obligations.

44. On **non-reciprocal preferences**, the Draft Modalities note that there is no consensus on possible solutions. While preference-dependent countries have called for special treatment of products where they benefit from preferences, other developing countries noted that those were the products for which they are seeking MFN liberalization. A satisfactory solution that mitigates the likely adverse effects from preference erosion for affected countries without stopping multilateral liberalization has not yet been found. While some support for a longer

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<sup>4</sup> The parentheses reflect text that is not agreed, in keeping with WTO usage.

implementation period and targeted AfT has been indicated, little support has been given to the proposed correction coefficient.

**Box 2. Simulating the potential impacts of a likely outcome in NAMA**

UNCTAD has analysed several formulas with varying levels of ambition and flexibility. The general "Swiss style" non-linear harmonizing formula is:  $T_I = (B \times t_a \times T_0) / (B \times t_a + T_0)$ , where  $T_I$  is the final tariff,  $t_a$  the maximum tariff,  $B$  a coefficient, and  $T_0$  the initial tariff. Under the standard Swiss formula  $B=1$ , and  $t_a$  would be common for developed countries and for developing countries. In recent months, proposals for  $t_a$  have ranged from 2 to 15 for developed countries and 15 to 40 for developing countries. Under the alternative variation, the ABI formula proposed by Argentina, Brazil and India,  $t_a$  would equal the initial average tariff in each country and the coefficient  $B$  would vary from 1 depending on the country's development status and levels of ambition. As  $B$  rises, a lesser cut in the tariff is implied. For ambitious Swiss formula, UNCTAD used a common Swiss coefficient of 3.4 for developed countries and 12.5 for developing countries, their respective trade weighted averages. A more flexible scenario has coefficients of twice these values. For the ABI formulas, the  $B$  coefficient was varied from 1 to 5 for developing countries. The resulting bound tariff changes for six scenarios are shown in table 1 along with the initial average. It may be noted that final values include newly bound tariffs, and that this inflates the average for developing countries and may result in final average exceeding initial average. For developing countries, the alternative scenarios make quite a difference to the final bound rates, with the final average ranging from 9 to 32 per cent. Thus, the level of ambition matters.

**Table 1. Change in simple average industrial bound tariffs under alternative scenarios**

	<b>Developed</b> (in per cent)	<b>Developing</b> (in per cent)
Initial	12.3	29.4
Swiss Ambitious	1.1	9.1
Swiss Moderate	1.1	16.8
Swiss Flexible	2.9	20.4
ABI Ambitious	2.9	12.7
ABI Moderate	2.9	29.7
ABI Flexible	3.1	31.8

*Source:* UNCTAD (2005). The "ABI formula" is referred to as "WTO formula" in the reference.

The estimated annual impacts of the simulated tariff changes on exports and imports of industrial products and national welfare are shown for the Swiss moderate and ABI moderate scenarios in table 2 for 23 countries and regions using an economy-wide computable general equilibrium model (GTAP). The estimated results indicate that there is growth in exports expected from these two scenarios modelled, and developing countries share in these gains. The major difference between these scenarios is the degree of tariff reduction of developing countries. Exports growth varies considerably across regions and between scenarios. Several regions show a decline in industrial exports under the ABI moderate scenario because they are more dependent on South-South trade. Whereas export growth tends to reflect the opening of other countries' markets, increases in welfare follow the degree of opening in one's own market.

**Table 2. Trade and welfare impacts of two scenarios**

	Swiss moderate Exports %	ABI moderate Exports %	Swiss moderate Imports %	ABI moderate Imports %	Swiss moderate Welfare \$m	ABI moderate Welfare \$m
European Union 25	0.9	0.4	1.4	1.1	20127	15805
USA	4.2	4.7	3.8	4.0	5237	4899
Japan	5.4	5.3	8.0	7.6	7749	6920
Canada	0.2	0.2	1.2	1.1	715	635
Rest of OECD	2.1	1.6	3.0	2.6	2999	3031
High-income Asia	4.8	4.2	4.7	4.0	6222	5743
China and Hong Kong (China)	17.3	16.1	16.1	14.5	39993	38827
India	26.4	7.8	34.2	8.5	4820	2703
Brazil	2.9	-4.5	10.0	2.5	2327	1190
Mexico	2.2	-0.4	2.9	0.1	1648	-172
Bangladesh	1.4	1.9	1.3	1.5	70	64
Philippines	1.0	0.9	0.3	0.1	401	412
Malawi	67.8	27.6	4.5	3.0	45	31
Zambia	-1.0	-0.6	0.2	0.2	4	2
Bulgaria	1.3	-1.5	3.7	0.8	84	49
Rest South Asia	14.7	10.9	11.9	6.9	1420	1104
South-East Asia	5.3	3.6	5.0	2.9	8605	7636
Central America and Caribbean	13.4	9.6	4.6	2.9	1672	1425
Andean Pact	5.1	2.3	3.8	0.8	578	424
Argentina, Chile and Uruguay	-1.4	-7.6	5.6	2.3	3179	2455
Middle East and North Africa	9.0	1.7	4.9	1.5	7080	3646
Sub-Saharan Africa	4.1	2.0	2.7	1.5	2165	1694
All other regions	3.1	1.8	3.3	1.8	5036	4191
<b>Total</b>	3.7	2.9	4.1	3.2	122177	102714

Source: Derived from the secretariat's GTAP simulations. Sub-Saharan Africa includes South Africa.

It should be noted that the adjustment costs – which could be significant – are not taken into account in the estimates. Such costs would range from the temporary unemployment of capital, land and labour, the loss of output in specific sectors, and the need to replace tariff revenue from other sources. Redeploying resources requires the relocating and retraining of labour, and the refitting or writing down of capital. Although one-off costs, these may be considerable in certain sectors, particularly within small economies, and their negative impact may endure for some time if the economies lack viable institutions. For instance, UNCTAD studies on adjustment estimated that the tariff revenue could decrease in developing countries by up to 40 per cent following implementation of the ambitious Swiss scenario. Such prospects point to the importance of policies to assist the adjustment process.

Reference:

UNCTAD (2005). *Coping with Trade Reforms: A Developing-Country Perspective on the WTO Industrial Tariff Negotiations*. Available online at: <http://www.unctad.org/tab/events/namastudy/coping.asp>.

45. Progress was made at MC6 on the approach to elimination of tariffs in **specific sectors** in respect of non-mandatory participation in the initiative as demanded by developing countries. That means all countries would receive improved market access on an MFN basis but would not necessarily have to liberalize. The participation would be based on a critical mass approach. Countries benefiting from preferences may be adversely affected on their export side, as sectoral elimination of tariffs would lead to the elimination of preference margins for them; this could be significant in textiles, leather, fish and fish products, although sectoral liberalization at the MFN level may open up new market opportunities. Turkey has proposed to harmonize duties in the textile and clothing sector which would not entail the degree of tariff cut foreseen by the formula, in part in an effort to address adjustment concern in a post-ATC competitive trading environment in the sector, but the Draft Modalities note that sectoral initiatives should reduce, eliminate or harmonize tariffs “over and above that which would be achieved by the formula”.

46. **NTBs** and market entry barriers are affecting more than 40 per cent of exports of LDCs. Technical measures and quantitative measures increased considerably during 1994 and 2004. Behind-the-border measures are likely to become the dominant means for restraining trade in the future. Of the 250 submitted notifications and proposals on NTBs 78 per cent were from developing countries. Products exported by developing countries such as fisheries products, electrical equipment, pharmaceutical and textiles are often affected by NTBs. The major challenge in the NAMA negotiations is to allow governments to achieve their legitimate regulatory objectives while preventing protectionist abuses. The NTB work was proposed to be finalized in 2006 in order to “reduce or eliminate, as appropriate, non-tariff barriers, in particular on products of export interest to developing countries”. In the post-MC6 negotiations, discussion was engaged on how to proceed in the request-and-offer process. The importance of financial and technical commitment for setting up the necessary hardware and software standards-related and certification infrastructure has been highlighted.

47. In sum, what is at issue in the NAMA negotiations is the level of ambition of tariff cuts in developing countries. This ambition is determined by the combination of the coefficients for Swiss formula and flexibilities for developing countries. The issue hinges upon the interpretation of SDT and less than full reciprocity. For those developing countries



with low binding coverage, the treatment of their unbound tariffs is of major importance in determining their future tariff profiles.

48. In respect of a comparably high level of ambition in market access for agriculture and NAMA provided in HKMD, WTO members are split on its interpretation. Developing countries consider it appropriate to compare average percentage reductions of current proposals or maximum tariffs in agriculture and non-agricultural products, whereas others stress that this kind of comparison was not envisaged because NAMA tariffs are much lower than agricultural tariffs.

### C. Services

49. Services are crucial in enhancing and facilitating countries' productive efficiency and competitiveness, infrastructure, trade, as well as in addressing human and social policy objectives such as provision of essential services, gender empowerment and the poverty reduction, and contribute to the achievement of MDGs. Liberalization of services trade would enhance global welfare, but for liberalization to generate pro-development outcomes, certain preconditions must be met. Appropriate content, pacing and sequencing of reform is important and needs to be supported by suitable flanking policies and regulatory preparedness, as well as domestic supply capacity-building measures.

50. As of 15 July 2006, 70 initial offers have been submitted by 94 Members, and 30 revised offers by 54 Members. Despite the number of offers, limited improvements have been made in quality – both in terms of the number of sub-sectors offered and the pattern and depth of sectoral offers. Few countries have included new sectors and modes in their offers, especially in those sectors and modes of interest to developing countries, most notably Mode 4. Most developing countries consider that existing offers do not represent meaningful commercial opportunities for them.

51. MC6 raised the profile of services to the level of other market access negotiations by including a substantive Annex C on services. Ministers mandated the launching of "plurilateral negotiations" aimed at facilitating a higher level of liberalization. This gave rise to concerns that plurilaterals would constrain the use of the GATS flexibilities and policy space and result in a formalization of sectoral negotiations. Some developing countries felt that the approach is not fully in line with the principles and the architecture of the GATS, and that the resource-intensive nature of plurilateral negotiations affects disproportionately developing countries that continue to face the challenges of limited negotiating capital in services. Many of them face difficulty in ensuring effective coordination between Geneva and capitals, as well as between ministries and in pursuing their export interest as *demandeurs* in the negotiations without in-depth service sectoral assessments. Based on 23 plurilateral requests, two rounds of plurilateral negotiations took place, in which 30-40 countries participated. Some found the process useful in clarifying technical issues and positions of partners, but others felt that the process had failed to produce expected higher level of commitments. Such result has been attributed partly to the so-called "lowest common denominator effect" arising from the fact that the "*demandeurs*", who are also target countries, were reluctant to request for higher level of liberalization. The targeted countries were also able to defend collectively their positions rather than individually. There is expectation that Members will increasingly redirect their attention to bilateral negotiations.

**Box 3: Developing countries in plurilateral negotiations**

Most developing countries acting as "*demandeurs*" are middle-income countries, such as Taiwan Province of China (energy, environmental, construction, telecoms, financial, maritime, education, logistics, maritime); Malaysia (construction, education); Mexico (construction, architectural and engineering, audiovisual); Turkey, (construction); Chile (architectural and engineering, legal, logistics); Republic of Korea (architectural and engineering, maritime, financial); Panama (maritime); Brazil, Argentina, Uruguay (services related to agriculture); and Saudi Arabia (energy). There are only two requests involving broader developing country participation. These are the request on cross-border supply (Modes 1 and 2) supported by India, Chile, Mexico, Pakistan, Singapore and Taiwan Province of China; and computer-related services supported by Chile, India, Republic of Korea, Mexico, Pakistan, Peru, Singapore and Taiwan Province of China. By contrast, several plurilateral requests originate from developed countries only, with express delivery, air transport and Mode 3 being examples. These requests reflect trade patterns and comparative advantages in the services sector, and the countries' abilities to identify their export potential and formulate proposals. On the other hand, developing countries figure prominently as "requestees", with the main target countries being developing countries with large markets, such as Argentina, Brazil, Chile, China, Colombia, Egypt, India, Indonesia Malaysia, Mexico, Peru, Philippines, Singapore, South Africa and Thailand. A few smaller developing countries have also not been spared of requests. Examples include Bolivia (architectural); Fiji (air transport); Peru (cross border); Namibia (environmental); and Nigeria (energy).

52. Modes 4 and 1 liberalization has been identified as key for developing countries. Studies have shown gains both for developed and developing countries, ranging from US\$150-250 billion from liberalizing Mode 4, with greater gains realized from easing the movement of low-skilled workers.<sup>5</sup> Similarly, outsourcing as an alternative and cost-effective way of doing business revealed itself as an additional source of gains. IT-enabled services – business process outsourcing are projected to rise to \$1 079 billion by 2006. Conservative estimates set the welfare gains for developing countries at \$60 billion in 2008 but greater gains could be expected as the outsourced services supplied by developing countries move from lower-end back-office services to the high-end services such as innovation, consulting, and branding and integrated services.

53. Developing countries argue that, despite the fact that about a half of the 70 offers introduced Mode 4-related changes in their horizontal commitments, offers in Mode 4 do not sufficiently respond to developing countries' concerns in respect of the coverage of Contractual Services Suppliers (CSS) and Independent Professionals (IP) (and semi- and less-skilled providers). While developed countries, such as Canada, EU, Japan, Norway and Switzerland, included CSS and/or IP in their offer, the professional and/or educational requirements or sectoral carve-outs attached to the offer limit the possibilities of developing countries exports. For instance, less obstructive qualification requirements, requiring alternatively university degree "or" technical qualifications demonstrating knowledge of an equivalent level, are frequently limited to very few sub-sectors. The EC offer has included some reference to the possibility of setting numerical ceilings for their commitment on contractual service suppliers and independent professionals, which has not been clearly defined. Mode 3-related movements have more privileged access in terms of the length – and

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<sup>5</sup> Alan Winters *et al.* (2002). *Negotiating the Liberalization of the Temporary Movement of Natural Persons*, Commonwealth Secretariat, March; UNU/WIDER (2003). *Efficiency Gains from the Elimination of Global Restrictions on Labour Mobility*; and Dani Rodrik (2002), *Feasible globalizations*, Working Paper 9129, National Bureau of Economic Research.

extension – of stay and absence of stringent qualification requirements. Although some offers have removed economic needs tests (ENTs), the remaining ENTs are undefined.

54. LDCs have called for progress in the implementation of the 2003 LDC Modalities in light of the 31 July 2006 deadline. LDCs have made two joint Group requests on Mode 4, and a proposal on establishing mechanism to accord special priority to LDCs. LDCs argue that few existing offers contain commitments on low-skilled and qualified persons, and hardly any commitments allow for the possibility that competence and demonstrated experience can substitute formal qualification requirements. The proposed mechanism on special priority for LDCs contains a mandatory provision for developed countries to provide, on a permanent basis, non-reciprocal special priority to LDCs in sectors and modes of interest to them. The QUAD countries have expressed their preference for focusing on improved technical assistance and other supporting mechanisms, including the “Consultative Mechanism”. No progress has been made on these LDC proposals.

55. Negotiations on domestic regulation have entered into text-based phase. For developing countries, challenge is to strike the right balance between the need for preserving domestic policy flexibility and that for achieving specific disciplines to underpin their export market access opportunities, including in Mode 4. Many fundamental questions are open, including the level of ambition, nature, impact and desirability of certain concepts, including the applicability of a necessity test. Such necessity test raises concern of developing countries, as it might constrain the ability of regulators to accommodate the interests of various stakeholders. The so-called "prior comment requirements" could also prove to be burdensome for developing countries. Technical standards pose challenges, as there is lack of understanding on the concept in the context of services. With several negotiating proposals being far-reaching in scope and nature, development flexibilities and SDT are becoming particularly important. Options under discussion include exemptions from or temporary suspension of future disciplines for development objectives, including a broader carve-out for LDCs. The Chairman of Working Party on Domestic Regulation issued a consolidated working paper based on proposals submitted.

56. Assessment of trade in services is important for determining the impact of services liberalization and regulatory reforms on national economies in general, and developmental and social policy objectives in particular. Paragraph 14 of the Negotiating Guidelines provides for the conduct of an assessment by the Special Session of the Council for Trade in Services as an ongoing activity, with technical assistance provided for national/regional assessments. Services negotiations are to be adjusted in the light of the results of the assessment. Paragraph 15 of the Negotiating Guidelines also provides that the Special Session of the CTS also conduct an evaluation, before the completion of the negotiations, of the results attained in terms of the objectives of GATS Article IV. This may be important for securing a development-focused outcome. UNCTAD has assisted developing countries in their assessments and initial findings were presented at the 10<sup>th</sup> Session of the Trade Commission (6–10 February 2006).

57. As regards GATS rules, progress has been limited in respect of emergency safeguard measures (ESM), subsidies and government procurement. Some developing countries have continued to stress the need for an ESM. In a recent communication on government procurement, EC has suggested an Annex to the GATS on Government Procurement. This proposed annex draws on provisions on government procurement in existing regional trade agreements and suggests procedural rules for government procurement and the possibility to

make specific commitments in GATS schedules to open services government procurement up to international competition.

#### **D. Development issues**

58. The WTO Director-General has conducted consultations on all outstanding **implementation issues** so as to allow the General Council to take appropriate action by 31 July 2006 as mandated by HKMD, but no significant progress has been reported. As regards the 88 agreement-specific proposals on special and differential treatment (**SDT**), Ministers instructed the CTD to report to the General Council with a clear recommendation for decision by December 2006 and expressed concerns over the lack of progress on the 38 Category II proposals that were referred to other bodies of the WTO. Discussion was accordingly resumed in the CTD and other relevant WTO bodies but no significant progress has been reported.

59. As regards **DFQF market access for LDCs**, LDCs are seeking effective implementation of the commitment, by securing 97 per cent tariff line coverage by 2008, with the fast-track inclusion, in a commercially meaningful manner, of the products of their export interest, and moving expeditiously towards 100 per cent coverage. The explicit mention of timing is significant, as some countries consider that DFQF market access is conditional upon the conclusion of the overall Doha round. Product coverage remains important as the remaining 3 per cent of tariff lines could exclude some 330 tariff lines, whereas, for example, an exclusion of 20-25 tariff lines would account for some two-thirds of Bangladesh's total exports. A study by the WTO Secretariat finds that several countries have yet to achieve the target of 97 per cent coverage, including Japan (85.5 per cent), Norway (96.4 per cent), Switzerland (86.2 per cent) and the United States (81.8 per cent).<sup>6</sup> As regards the commitment to ensure that applicable rules of origin are "transparent and simple", LDCs are engaged in operationalizing the commitment, including by calling for setting concrete parameters in respect of origin criteria ("wholly obtained" and "substantial transformation") as well as cumulation rules.

60. **Aid for Trade (AfT)** The Task Force has examined the definitional issues, the scope of AfT, and current flows and future trends in funding. UNCTAD has contributed to this process, including organizing a conference jointly with the Commonwealth Secretariat. Acknowledging the importance of AfT, the G8 summit in St. Petersburg expected spending on AfT to increase to US\$4 billion, including through enhancing IF. The Task Force released its report in July 2006 and provided a set of recommendations in respect of financing, scope, objectives, guiding principles, countries' needs to be addressed, and monitoring and evaluation. As a next step, the Task Force recommends, *inter alia*, that the WTO Director-General is invited to: communicate the recommendations to relevant agencies and to urge Ministers at the forthcoming Development Committee Meeting in Singapore to give consideration to the recommendations and to encourage the World Bank and IMF to ensure adequate follow-up; establish an ad hoc consultative group to take forward the practical follow-up to the recommendations and convene an initial review of AfT with the participation of all relevant stakeholders.

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<sup>6</sup> Market access issues related to products of export interest originating from least-developed countries (WT/COMTD/LDC/W/38, TN/MA/S/19), 22 February 2006.

### **E. Rules**

61. A transparency mechanism on regional trade agreements was agreed in June 2006. The mechanism introduces procedural rules in respect of early announcement, notification, enhanced transparency, subsequent notification and reporting of RTAs. In particular, the mechanism introduces factual presentation by the WTO secretariat in the examination process. In accordance with paragraph 47 of the Doha Declaration, the mechanism would be implemented on a provisional basis as an "early harvest".

### **F. Trade facilitation**

62. Negotiations on trade facilitation are progressing relatively smoothly and new proposals are being put forward. MC6 called for moving into "focused drafting mode". The submission of full draft text is expected in July 2006. A large number of WTO Members recognize the benefits of trade facilitation, but there remain concerns over the possible financial, legislative and administrative cost implications of proposed measures, including infrastructure investment. Developing countries have emphasized the need to create synergy between the timing and degree of commitment, implementation capacity and the provision of technical and capacity building support for developing countries, as provided in the Negotiating Modalities. In respect of operationalizing such synergy, some developing countries have called for a "modular" approach to possible commitments and implementation thereof, so as to allow for certain obligations to be subject to longer implementation periods and conditional on the provision of technical assistance and capacity building support that takes account of the implementation capacities of countries.

### **G. TRIPS**

63. Further negotiations continue regarding issues on geographical indications and biodiversity. Issues being considered in the negotiations include the extent to which the registration of GIs within the multilateral system of notification and registration would create legal effects at national levels, the participation in the system, and administrative and other burdens of multilateral system. Many developing countries seek the participation in the system to be voluntary. Developing countries are also seeking to address the relationship between the TRIPS and the CBD by establishing a multilateral requirement for disclosure of source of biological materials and related traditional knowledge in patent applications.

### **CONCLUSION**

64. The international community faces a daunting challenge in reaching agreement on Modalities on agriculture and NAMA and concluding the Doha negotiations under the Single Undertaking. The suspension of the round, due mainly to the lack of agreement on agriculture, has significant bearing on the prospects for the round, particularly in its development dimension. In the short term, the progress made so far in some development-related areas of the agenda of the round have also effectively been "put on hold" pending the resumption of the negotiations. Such issues include duty-free and quota-free market access for LDCs with transparent and simple rules of origin, the elimination of all forms of export

subsidies in agriculture by 2013 with front-loading, and addressing cotton issues ambitiously, expeditiously and specifically.

65. The longer-term implications of the suspension are manifold. First, it is a setback, albeit temporary, to the international efforts to render the MTS more open, fairer and development-oriented, as the successful development-oriented outcome of the round could have brought gains for economic growth and poverty alleviation and made a contribution to the achievement of Millennium Development Goals. Second, the suspension also sends a negative signal for the future of the world economy and may encourage a resurgence of protectionism. Third, there is a risk that countries will intensify their pursuit of bilateral and regional trade initiatives with deeper commitments, in which developing countries have less individual and collective bargaining power, and some of them might be left out of the process. Fourth, distortions caused by subsidies in world agricultural trade will persist at the current level, thereby jeopardizing the prospects of developing countries to generate additional export revenue and income from agricultural exports, including cotton. Fifth, it can also be anticipated that countries will have increasing recourse to dispute settlement cases.

66. However, it is important to emphasize that, although the suspension indicates that the Doha negotiations, and the MTS, have reached a critical phase, the relevance and importance of the WTO as a central pillar of the international trading system in administering multilateral trade agreements, providing forum for multilateral trade legislation through negotiations on disciplines and commitments, and providing effective dispute settlement mechanism, continues to be unaffected and is in no way in question.

67. Arguably, the suspension imparts an element of uncertainty with regard to the overall negotiating process and an eventual conclusion, particularly in terms of timing, quality and ambition of the possible package. It is widely held that the prospect for resumption would be related to developments in domestic electoral processes and political decisions. Furthermore, the scheduled expiry of the US Trade Promotion Authority on 30 June 2007 renders the negotiating prospects less clear. A number of countries have emphasized the shared responsibility of all countries in demonstrating renewed political will and additional flexibilities to facilitate the resumption of work, but they also called for greater role to be played by key players. There also exists concern over the increased use of mini-ministerial settings and consultative groups of a limited number of countries to attempt to forge agreement. The growing membership and diversity of interests points to the need for rebuilding confidence and consensus among the entire WTO membership, and ensuring a transparent and inclusive process, as well as truly participative and bottom-up approach to the negotiations.

68. In terms of substance, there is need to ensure that the suspension of the negotiations not lead to a lowering of ambitions in the round's development objectives as set out in the Doha mandate. On the contrary, achieving a meaningful and substantial development content remains indispensable for a successful outcome of the Doha negotiations in all areas, and would provide an important boost for the world economy. In this respect, a number of issues remain key. For example, although development is at the heart of the negotiations, it remains to be fully and effectively integrated into the core areas of market access negotiations (where most of the commercial benefits would arise), and into the requisite flexibilities to provide policy space for development. There is need to ensure coherence between the trade negotiations outcomes and the implementation of the MDGs. This requires improved effective market access and entry for exports of developing countries, as well as improved

donor support in building their supply capacity, competitiveness and trade-related infrastructure, and in helping them better benefit from the opportunities generated by the multilateral trade liberalization, including through effective AfT with secure, predictable and additional funding.

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