



**United Nations
Conference
on Trade and
Development**

Distr.
LIMITED

TD/B/52/SC.1/L.1
10 October 2005

Original: ENGLISH

TRADE AND DEVELOPMENT BOARD
Fifty-second session
Geneva, 3–14 October 2005
Agenda item 4
Sessional Committee I

DRAFT REPORT OF SESSIONAL COMMITTEE I

Held at the Palais des Nations
from 3 to 14 October 2005

Rapporteur: Mr. Levan Lomidze (Georgia)

Speakers:

Nepal for the Republic of the Congo for the Group of 77 and China	United Kingdom for the European Union	United States
Djibouti for the LDCs	Haiti for GRULAC	Sudan
Bangladesh for the Asian Group and China	Japan	South Africa
Egypt for the African Group	Ethiopia	Madagascar
	China	Afghanistan
	Norway	Nepal
	Cuba	

Note for delegations

This draft report is a provisional text circulated for clearance by delegations.

Requests for amendments to statements by individual delegations should be communicated by **Tuesday, 18 October 2005** at the latest, to:
UNCTAD Editorial Section, Room E.8104, Fax No. 917 0056, Tel. No. 917 5655 / 1437

**REVIEW OF PROGRESS IN THE IMPLEMENTATION OF THE PROGRAMME
OF ACTION FOR THE LEAST DEVELOPED COUNTRIES FOR THE DECADE
2001–2010**

(Agenda item 4)

Formal statements

1. The representative of **Nepal** read a statement from the delegation of the **Republic of the Congo** on behalf of the **Group of 77 and China**. The group called for special efforts by the international community to help LDCs meet their development targets in the light of the Brussels Programme of Action, particularly through aid, FDI, market access and debt relief. He described UNCTAD's work in favour of LDCs as instrumental in drawing the international community's attention to the challenge of reducing poverty in these countries, especially through international support measures. He urged member States to support the Integrated Framework and make increased financial efforts to enhance the analytical and operational work of UNCTAD in favour of LDCs. On the issue of preference erosion, he expressed the hope that due attention would be given to the range of mitigating options suggested by the secretariat. He also stressed the importance of South-South trade for LDCs, an area that should be seen as a complement, not a substitute to North-South cooperation.

2. The representative from **Djibouti**, speaking on behalf of the **LDCs**, expressed the group's appreciation of the overall work of the Special Programme for LDCs and the activities of other UNCTAD programmes that had benefited LDCs. He indicated a number of conditions for achieving poverty reduction in these countries.

3. The representative of **Bangladesh**, speaking on behalf of the **Asian Group and China**, commended UNCTAD on its work in favour of LDCs, particularly the analytical work on the challenges faced by LDCs. He pointed to limited supply capacities and low levels of domestic savings as the main factors impairing the ability of these countries to benefit from trade preferences. Accordingly, he called for increases in aid, debt relief, and deepening of preferential market arrangements to decrease poverty. He expressed appreciation for the theme of the upcoming *Least Developed Countries Report* (productive capacity and poverty reduction) and described productive capacity building as a paramount condition for overcoming the adverse impact of preference erosion. In this connection, he urged donors to meet the internationally agreed ODA targets. He also said there should be greater application of UNCTAD's research work through practical action.

4. The representative of **Egypt**, speaking on behalf of the **African Group**, called on member States to enhance their extra-budgetary contributions to UNCTAD for its activities on LDCs with a view to making resources more predictable and allowing continuity in relevant capacity-building activities. She welcomed recent G8 commitments to write off the multilateral debt of highly indebted poor countries (HIPC) and to double their ODA by 2010. The African Group was concerned with the erosion of market access preferences and

lack of progress in the area of special and differential treatment in the context of post-Doha negotiations. She stressed the need for technical assistance and greater policy space to build productive capacities and create a level playing field for LDCs.

5. The representative of the **United Kingdom**, speaking on behalf of the **European Union**, recognized that unpredictability in extra-budgetary resources hindered programmes, particularly in the area of technical assistance, while predictability would enable UNCTAD to meet relevant commitments more efficiently. He noted the need for harmonization of reporting requirements and expressed concern about the decrease in the share of UNCTAD technical cooperation activities devoted to LDCs. He warned against the risk of overestimating the magnitude of preference erosion for LDCs and noted that the adverse impact of erosion was being felt equally severely by several non-LDCs. The most fundamental problems faced by LDCs did not directly relate to the issue of preference erosion. However, essentially all LDCs needed external support, and the European Union, which already accounted for approximately half the volume of world aid to these countries, would contribute substantially, through a special facility, to the "aid for trade" initiative.

6. The representative of **Haiti**, speaking on behalf of **GRULAC**, stressed the desirability of ensuring that any concessionary treatment of disadvantaged countries had positive structural effects on these countries (particularly towards reducing economic vulnerability, essentially through productive capacity development), as opposed to a merely compensatory impact, even though compensatory measures – for example, after natural disasters – were sometimes necessary. While highlighting the case of Haiti as the only LDC in the Latin American and Caribbean region, he broadened the scope of his intervention to small island developing States as well as small and vulnerable countries, an implicit – though undefined – group of countries referred to in paragraph 33 of the São Paulo Consensus. He recognized the historically critical role of UNCTAD in supporting disadvantaged countries of all types and urged the secretariat to pursue its efforts in favour of a better differentiation in the special attention given to geographically handicapped nations.

7. The representative of **Japan** acknowledged the problem of preference erosion as one of the greatest concerns of some LDCs, although he did not think that the losses resulting from preference erosion exceeded the gains from trade liberalization. He urged LDCs to strive to enhance their competitiveness rather than seek compensation. He called for improvements in the Generalized System of Preferences to facilitate market access through remaining preferences. He underlined Japan's generosity in providing trade-related technical assistance, with particular reference to trade-related capacity building.

8. The representative of **Ethiopia** urged donors to provide more predictable resources to UNCTAD's Special Programme in order to enable the secretariat to respond to the numerous needs for technical assistance at the national and regional levels. He noted the importance of duty-free and quota-free access to large markets for LDCs and referred to debt cancellation and increases in aid as a moral imperative that also matched the interests of all countries. He called for a successful decade for the development of LDCs.

9. The representative of **China** echoed earlier views on the need for enhanced technical assistance in favour of LDCs. She described these countries as generally vulnerable, many of them as a result of their geographical characteristics of smallness and remoteness. She noted the paramount importance of special and differential treatment to offset the structural handicaps of LDCs and welcomed the most recent aid, debt relief and market access initiatives in favour of low-income countries in general and LDCs in particular.

10. The representative of **Norway** said that most LDCs had already fallen short of meeting the goals of the Brussels Programme of Action and the Millennium Development Goals. With the current trend of marginalization of LDCs in world trade, the number of people living on less than a dollar per day might increase by 20 per cent or more within the next 10 years. A strong global partnership was needed in order to reverse negative trends, accelerate growth and sustainable development, reform national policies, and achieve greater infrastructural and social investment. LDCs needed greater international support (aid, debt relief, improved market access, investment), and Norway devoted more than 40 per cent of its bilateral ODA to LDCs and would continue to give priority to these countries. She invited other bilateral and multilateral donors to make support to LDCs their priority.

11. The representative of **Cuba** emphasized the importance, for promoting entrepreneurial activity and reducing poverty in LDCs, of access to information and communication technology. She noted the pronounced global asymmetries in this area. She also underlined the need to increase the productivity and competitiveness of these countries and, to that end, to intensify efforts towards aid and market access. She recognized the important role of trade for growth and poverty reduction in LDCs and noted the vulnerability of many of these countries as a result of their high economic concentration in primary commodities. She acknowledged the main initiatives to improve market access for LDCs and welcomed relevant efforts under the Global System of Trade Preferences. She stressed the need to continue to assist LDCs in capacity building, particularly towards better negotiating capacities, especially for countries in the process of accession to the WTO. She commended UNCTAD for its efforts to train LDC officials on WTO issues and emphasized the need for continued international mobilization in favour of LDCs in the light of the Brussels Programme of Action.

12. The representative of the **United States** commended the Special Programme for its work in favour of LDCs and acknowledged its analytical capacity regarding issues relevant to preference erosion. While understanding the legitimate concern of LDCs regarding the erosion phenomenon, she hoped that this would not overshadow the benefits arising, for LDCs as well as other countries, from trade liberalization. Preference erosion was likely to have serious adverse effects only for a few LDCs, and it was still too early to know with certainty what the effects would be. She commented on the proposal for a compensatory fund to cover adjustment costs in the context of preference erosion (referred to in background document TD/B/52/4) and said that her Government would not be prepared to endorse such a proposal. She suggested that the effects of preference erosion could be compensated, *inter alia*, by existing World Bank and IMF resources, in the light of relevant impact assessments. She fully endorsed the secretariat's conclusion that enhancing productive capacities and

expanding the export base through enhanced competitiveness was ultimately the most desirable response, by LDCs with international support, to the issue of preference erosion.

13. The representative of **Sudan** said that there was discrimination in international support measures to alleviate poverty. He said that his country did not benefit from debt cancellation measures.

14. The representative of **South Africa** urged UNCTAD to be prepared to play a leading role in the preparation of the mid-term review of the implementation of the Brussels Programme of Action. Reflecting on the G8's recent decision to cancel the multilateral debt of several poor countries, he recalled UNCTAD's pioneering role in advocating debt relief as an essential condition for overcoming the "poverty trap". He commended UNCTAD for its work on LDCs and endorsed the proposal towards stability in the inflows of funds at the disposal of UNCTAD for the benefit of these countries.

15. The representative of **Madagascar** advocated a line of action whereby UNCTAD would conduct, on a country-specific basis, periodic reviews of the factors explaining the LDC status of the country along with standardized analysis of the effective impact of this status, with a view to enhancing the capacity of relevant countries to make the best possible use of the LDC regime as well as suggestions for improving this regime, notably in the context of LDC conferences or mid-term reviews of implementation.

16. The representative of **Afghanistan** described UNCTAD's technical assistance programmes in favour of LDCs as highly valuable, particularly in the context of the Millennium Development Goals. He said the plea for greater policy space for LDCs was vitally important to these countries and called for an enhancement of UNCTAD's role in providing investment- and trade-related support to LDCs.

17. The representative of **Nepal** advocated translating into more effective action the concept of shared responsibility in the development sphere. While the primary burden of pulling a country out of poverty rested on national authorities, poverty in these countries could not be addressed without the international community's support. He praised UNCTAD for its role in supporting enterprise development and trade policy making, and for its research and analysis. LDC exports had benefited much from trade preferences, and preference erosion had been largely detrimental to their economies. In the context of high vulnerability, export concentration and poverty, LDCs needed a comprehensive approach to the question of convergence with the rest of the global economy, with analytical inputs, development assistance towards increased institutional capacities, and systemic answers to the phenomenon of preference erosion.

Panel discussion

18. The general debate was followed by a lively informal debate on the issue of preference erosion, with the participation of a panel of four experts, after a visual illustration by the secretariat of the extent to which LDCs were dependent on trade preferences.

19. The seriousness of preference erosion in a number of LDCs was recognized. However, it was argued that LDCs themselves should strive to alleviate the domestic constraints that impeded competitiveness. Accordingly, donors and international organizations were seen as having a shared responsibility to help LDCs with pertinent analytical inputs, compensatory measures to mitigate the welfare losses, and long-term solutions, essentially toward lesser dependence on trade preferences. It was noted that the issue of erosion was not specific to LDCs, as it affected many other developing countries. However, LDCs tended to be more sensitive than others to losses in competitiveness, particularly when they suffered from high export concentration.

20. Although no agreement was reached regarding the best solutions to the issue of preference erosion, several avenues for mitigating the adverse consequences of erosion were discussed (some within the ambit of the WTO, others outside it): import subsidization as a means to foster export diversification; investment preferences; reforms in rules of origin; direct transfers of resources to LDCs to offset trade losses; and the provision of grant-based funding through the Integrated Framework. The concepts of compensatory finance mechanisms to offset the poverty effects of preference erosion, and aid for structural development toward enhanced international trade in goods and services (in the spirit of the "aid for trade" initiative) were discussed extensively.

21. In the debate on improving preferential modalities, particular attention was given to rules of origin. It was noted that, in some export sectors, the use of trade preferences had been hampered by restrictive rules. The latter are increasingly perceived as being founded on an obsolete vision of vertically integrated industries, while production has become internationally fragmented in the context of global interdependence and trade liberalization, which has changed manufacturing processes dramatically. Finished goods are increasingly subject to multi-country and multi-industry interventions, with individual enterprises in different countries specializing in specific production stages, according to their competitive advantage. Accordingly, carrying out several processes to acquire originating status in a single country is no longer consistent with technological progress and global trends. Moreover, with lower MFN tariffs on all large markets, the concern of circumvention often appears outdated. The debate also revealed that cumulative rules of origin might be beneficial to LDCs in relatively few cases. Overall, participants agreed that rules of origin, in several preference-giving markets, should be revisited to reflect changing globalized industrial trends and production processes, in the light of relevant analyses.