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Duty-Free and Quota-Free Market Access for LDCs

State of play and Bali outcome

by

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<u>Context</u>

The agenda of duty-free and quota-free market access for LDCs has been on the table since 1996. As early as in Singapore Ministerial, Members declared to adopt a <u>comprehensive Plan of Action</u> for duty-free market access for LDCs and undertake other positive measures to help LDCs improve their overall capacity to respond to the opportunities offered by the trading system. This commitment was followed by a high-level meeting for LDCs in Geneva in 1997. A number of countries, both developed and developing, notified their intention to improve access to their markets for the LDC products.

In the <u>UN Millennium Declaration</u> of 2000, the international community called on the industrialised countries to adopt a policy of duty- and quota-free access for essentially all exports from the LDCs.

In the <u>Brussels Declaration and Programme of Action</u> adopted by the Third UN Conference on LDCs, 2001, our partners undertook to improve preferential market access for LDCs by offering DFQF for all LDC products.

In <u>Doha Declaration</u> Members committed themselves to the objective of duty-free, quota-free market access for LDCs.

In <u>2005</u>, Members decided that developed countries and developing countries declaring themselves in a position to do so shall provide DFQF market access for at least 97 per cent of products originating from LDCs, defined at the tariff line level, by 2008 or no later than the start of the implementation period. They also said that DFQF for all products of LDCs would progressively be achieved.

Since then Members <u>have committed to timely implementation</u> of the HK Decision including in the Istanbul Programme of Action.

In the past decade, Members have made <u>significant progress</u> in providing duty-free and quota-free market access on a lasting basis for all products originating in LDCs. Today, most of WTO developed Members provide either <u>full or nearly full DFQF Market</u> access to LDC products. In addition, a number of key developing country partners of LDCs grant a significant degree of DFQF market access to LDC products (Indonesia and Chile have been latest to announce). However, full realisation of duty-free quota-free market access for all products of LDCs is yet to be achieved.

<u>Demand</u>

<u>Secured and predictable non reciprocal market access</u> has been continued demand of LDCs. And this has been well recognized in all relevant LDC related UN and WTO dossiers.

<u>One major developed country</u> has not met the Hong Kong target of DFQF. We have heard <u>their argument</u> and their intention to implement Hong Kong as part of the broader Doha deal. They say

that they are required to implement HK "no later than the start of the implementation period". Only if the Doha Round concludes would there be a "start of the implementation period." LDCs have therefore demanded an early harvest of the issue.

LDCs have said that it is unfair to link implementation eternally with conclusion of Doha Round. When the negotiators put the HK timeline, no one had imagined that Doha would live in such uncertainties. There is no give and take situation in LDCs' case. LDCs are not required to make commitments on tariff reduction in this Round. And it is not because of them that Doha has stalled. This issue has big development imperative. While LDCs benefit from DFQF, there is no impact or marginal impact on preference-giving countries.

Proposal

We submitted our latest proposal on implementation of DFQF as a part of the LDC package in May this year (TN/C/W/63). It was the second concrete proposal on the issue after the LDC proposal of 2006.

Our proposal on DFQF market access sought that developed country Members that yet do not provide DFQF market access for at least 97 per cent of all products originating in LDCs shall do so by a certain date. The date of implementation is subject to negotiation. We calibrated our ambition and went for the number that is minimum, not maximum, of the Hong Kong Decision. We demanded that in meeting the 97 per cent target enhanced and commercially-meaningful market access be ensured for all LDCs and due care be taken not to diminish the existing market access enjoyed by any LDC at present. We wanted implementation of the Hong Kong Decision on DFQF making sure that fellow LDCs do not lose. We viewed that this was technically possible.

For developing country Members that have provided DFQF market access for LDCs, we urged them to expand the current coverage to at least 97 per cent. We requested other developing country Members that yet do not provide DFQF access to do so in line with the 2005 Decision.

This proposal drew opposition from two fronts:

- The Developed country that does not want to implement the HK Decision;
- Some developing countries (even the one that has 15 times higher per capita than an average LDC) which think LDCs will take away their market preference. Most unjustified is the opposition of developing countries. Hong Kong explicitly says that the concern of developing countries in similar level of development is to be taken into account when preference granting countries progress from 97 percent to 100%. Implementation of 97% is without condition and this is what we wanted as minimum.

Besides, a few LDCs that have concern that any progress on DFQF may have adverse impact on them also did not support the proposal.

Current situation

The following table presents status of DFQF implementation by developed countries. Focus is on developed countries as there is greater obligation on their part.

Table 1: LDC market access to developed Members, in 2012 (data received from WTO IDB)

Preference granting developed country	Duty-free coverage and exclusions	Number of Dutiable lines (national tariff lines)
Australia	100 per cent	None
Canada	98.6 per cent (dairy, eggs and poultry)	105
European Union	98.3 per cent (alcoholic beverages, arms and ammunitions)	162
Japan	97.8 per cent (rice, sugar, fishery products, articles of leather)	202
New Zealand	100 per cent	None
Norway	99.9 per cent (except roses)	2
Switzerland	100 per cent	None
United States	82.5 per cent (meat, dairy products, sugar, cocoa, articles of leather, cotton, articles of apparel and clothing, other textiles and textile articles, footwear, watches, etc.)	1,873

Source: WTO Secretariat, IDB applied tariff schedules for the year 2012.

The above table shows that all developed Members of the WTO offer duty-free and quota-free (DFQF) market access to LDC products through their GSP schemes. In most cases, the coverage of such schemes is comprehensive. With the exception of the United States, all developed Members grant full or nearly full DFQF access to LDC products.

Table 2: Imports from LDCs by developed Members, 2011

Market	US $ million and percentage				
	Value of total imports from LDCs	LDC share in total imports	Value of imports entering at MFN duty-free	Value of imports under LDC preferences [b]	Value of imports on which LDCs face MFN or LDC duty
Australia	495	0.2%	159	335	1
Canada	5,564	1.3%	3,908	1,656	0
European Union	40,546	1.9%	21,859	18,687	0
Japan	6,271	0.7%	4,596	1,633	42
New Zealand	58	0.2%	21	37	0
Norway	549	0.6%	316	233	0
Switzerland	426	0.2%	91	334	1
United States[a]	28,555	1.4%	2,576	17,510	8,469

[a] The United States do not recognise all UN LDC countries as beneficiaries to the LDC preferential tariff scheme, i.e. in 2012 Equatorial Guinea, Eritrea, Lao PDR, Myanmar and Senegal are excluded.
[b] The import value shown refers to the total amount of imports eligible under the preferential GSP/LDC market access schemes, the utilisation of this preference may be less.
Source: IDB-WTO

As shown in the table above, the EU and the US are the largest market destinations among developed Members, registering import values of US$40 billion and US$28 billion respectively in 2011. The share of LDC imports is insignificant though. It is obvious from the above table that implementation of HK Decision will require one developed country to expand DFQF coverage to LDCs.

Table 3: Tariff treatment in the US market

Total tariff lines according to 2012 US custom schedules	10710
Total MFN duty free tariff lines	3868
Duty free under GSP scheme for all developing countries	3506
Duty free only for LDCs	1403
Percentage of total duty free tariff lines for LDCs	82.5 (15% less than HK minimum)
Dutiable tariff lines	1873
Average ad valorem duty on these lines	13%

The 2011 figures show that out of the 1873 dutiable lines in the US, the LDCs registered trade in excess of US$100,000 on only 260 tariff lines. These 260 tariff lines are distributed over HS chapters 06 (vegetable products), 42 (raw hides, skins and leather), 46 (wood products), 56-59 (textiles), 61-65 (articles of apparel and clothing). 95% of LDC exports to the US in 2011 on those 260 dutiable tariff lines were registered in chapters 61 and 62. There is obviously a high concentration of LDCs' exports in textile and apparel goods.

And this is where we tried to grasp a solution in our pre summer exercise. There are some LDCs that are already benefitting duty free access in these tariff lines under other schemes and there are other that have not benefitted. Those that have not want to benefit and those that have are concerned that their preferences will be impacted. We tried to explore to what extent LDCs compete and to what extent their export under these two vital chapters is mutually exclusive. We identified that there are a few tariff lines wherein LDCs compete and several others where some LDCs trade and some don't. We saw as a possibility carving out of the most vital tariff lines of concerned LDCs from DFQF scheme of the United States. By excluding 3% of the total tariff lines US can exclude more than 300 tariff lines.

The carving out option in which we spent months of exercise failed within the LDC Group. Concerned LDCs were not convinced. They expressed that it's not only the question of what they trade today but also of what will happen tomorrow.

So, where things stand at present? The LDCs, as a Group, is not pushing an immediate time bound implementation of DFQF (most LDC members want it though). As individual delegations they are free to put their demand. We are not sticking to certain number as well.

But one thing is without question – Bali must deliver a commitment to improve DFQF for LDCs. If this minimum is not achieved, most LDCs will not have motivation to sign a Bali deal. We cannot give Trade Facilitation to certain countries and have nothing on our longstanding issue.

Thank you!