OECD Global Forum on Trade

GLOBAL FORUM ON TRADE

THE MARKET ACCESS CHALLENGE IN THE DOHA DEVELOPMENT AGENDA

Background Texts

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Main Points and Recommendations

The negotiating mandate of the Doha Ministerial decision involving environmental goods and services has the potential to deliver win-win trade-environment outcomes – a hackneyed phrase that is nevertheless appropriate here – which would break a decade of paralysis around trade-environment linkages. Paragraph 31 (iii) has the potential to expand global trade in environmental goods and services by decreasing the price of green goods and services compared to their non-green counterparts, thus delivering environmental quality benefits long associated with market transformation.

However, paragraph 31 (iii) has uncovered a number of thorny issues, largely because it is rich in ambiguity, and poor in clarifying the timing of implementation of paragraph 31 (iii) – before, during or after? – and the coverage of goods and services to be included – all environmental goods, or only those that the WTO can accommodate?

The work that has been done to clarify the product coverage implied in paragraph 31 (iii) has focused on extolling the virtues of various “lists” of environmental goods. (Environmental services are approached as a separate issue, which itself is unfortunate given the strong link between goods and services.) These lists can be roughly divided into two camps. On the one hand, the brevity of the APEC list is useful for trade negotiators, although largely unfamiliar to environmental practitioners. On the other hand, the breadth of the Eurostat/OECD list is an accurate descriptor of the $550 billion “environmental sector,” but particularly unhelpful for WTO negotiators who nervously spy production process methods (PPM) and similar product definitions in the list.

Given these differences, the plan of an “early harvest” from paragraph 31 (iii) has been put on hold as discussions are directed towards debating the best list. Here, recent lessons from the TRIPS and Public Health issue are instructive. Following the collapse of a consensus deal in late 2002, a compromise list of 23 infectious diseases was proposed to break the negotiating deadlock. Various lists included HIV/AIDS, malaria, tuberculosis and “others.” However, no list in early 2003 made any reference of SARS, for the simple reason than when assembled, that disease was unknown. Similarly, hoping to resolve product coverage of environmental goods by advocating one list or another is doomed from the start. Environmental policies are relatively innovative, responding to new science, assessments of risk, new technologies and management approaches driven as often by bottom-up partnerships as top-down policy declarations. Although less dramatic than sudden outbreaks of unknown infectious diseases, it is a sure bet that whatever environmental list is agreed to at the WTO will soon be obsolete.

Does this matter? Given the influence of the WTO in influencing a growing range of policies applied behind the border, it does. For the WTO to embrace either an incomplete or obsolete list essentially locks in one particular vision of environmental protection that is frozen in time. This is especially true if the WTO endorses a trade-friendly list grounded in regulatory-led end-of-pipe capital goods, the basic characteristics of the APEC list. In the last 20 years, end-of-pipe approaches have been complemented – not least because of the urging of the trade policy community for first-best policy interventions – by cleaner production methods, integrated environmental management systems and a range of incentive-based schemes like emissions trading. Without question, the greatest advocates of cleaner production are developing country manufacturers.

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1 By Scott Vaughan, Carnegie Endowment for International Peace, Washington, DC. The author is grateful to comments and the general discussion during the Global Forum, and thanks Kristen Dubay for helpful comments in previous drafts.
The classification challenge in striking a balance between a definition of environmental goods that is neither too narrow nor too broad is significant, but not insurmountable. The WTO has proven it can be astute and flexible in tackling thorny issues of product coverage. The most relevant example that should be repeated in implementing paragraph 31 (iii) is the WTO Agreement on Information Technology Products (ITA). Although imperfect – product coverage was not in sync with customs classification codes adopted or being considered by the World Customs Organization – the scope of ITA product coverage was negotiated because it brought together domestic ITA regulators and trade negotiators. A very similar approach has long been the norm in international environmental negotiations. For example, the 1989 Basel Convention negotiated the principles and obligations of hazardous waste trade and disposal, while remaining largely silent on the actual classification of wastes covered in the agreement. The classification work that followed is an on-going process, regularly updated in different annexes. Other international agreements – for instance, CITES and the Montreal Protocol – also regularly review and update their product coverage in response to changing environmental and other conditions.

The lesson here is that a one-off declaration of product coverage for environmental goods is unhelpful, and contrasts with recent norms of both the WTO and international environmental agreements. An on-going approach to product coverage should be followed.

The more important challenge is to frame the product coverage debate around the underlying purposes and gains that would accrue from implementing paragraph 31 (iii). That is, once the benefits are more clearly understood – essentially the why of the decision – then the product coverage issue – the what – would follow. Thus far, little work has been done to show how liberalization will bolster environmental quality or policies, or deliver developmental benefits. Here, three guiding principles that should be considered.

First, work should identify the environmental goods and services that deliver the greatest environmental benefits in support of Multilateral Environmental Agreements (MEA). Here, considerable opportunities exist for accelerating the liberalization of goods and services that support the goals of the Kyoto Protocol and the UN Framework Convention on Climate Change. Examples include renewable energy packages such as solar and wind turbines, and more importantly, energy-efficiency goods such as household appliances and office equipment. Energy efficiency consumer goods are being produced, consumed and exported by both developed and developing countries. As noted below, tariff rates in some countries exceed 20-30 percent. Examples of non-tariff barriers include the multiplicity of non-uniform efficiency standards, criteria and related labeling schemes.

Second, product coverage should reflect both import and export interests of developing and developed countries alike. Many environmental goods of export interest to developing countries result from very low or zero energy or chemical inputs per unit of output, or correspondingly low environmentally damaging outputs. Examples include low-impact sustainable agriculture.

Third, given long-standing fears of linking environment-related PPMs with the conditioning of market access, a product coverage approach that includes products of export interest to developing countries ironically exposes the worst fears by developing countries about the dangers of the slippery slope.

The WTO Negotiating Mandate

One of the most important decisions of the 2001 Doha Ministerial declaration of the World Trade Organization (WTO) relating to trade and environment involves the promise to reduce and/or eliminate

2 For example, demand for new household electrical appliances is especially strong in China and other higher growth Asian economies. Ten years ago, China consumed an estimated 220,000 air conditioners. In 2003, it is expected to consume 33 million units, with a projected growth rate of 20 percent per annum. China already represents 20 percent of the US$12 billion global market for refrigerators.
“tariffs and non-tariff barriers to environmental goods and services” (Doha Ministerial Declaration, paragraph 31). This negotiating mandate represents a new and serious opportunity for the WTO to end the decade-long paralysis that characterizes trade-environment discussions, by supporting special liberalization of environmental goods and services.

**The Lackluster Trade-Environment Agenda**

Admittedly, one of the reasons paragraph 31(iii) is so welcome is because the other components of the Doha trade-environment agenda are so comparatively bleak. The negotiating decision covering MEAs, and in particular the decision to restrict discussions to trade measures in MEAs between Parties, prolongs a ritualized debate that has been underway for well over a decade. This portion of the Doha mandate is supposed to examine the compatibility between WTO rules and trade measures in some environmental agreements. However, the solution to the measures taken between parties to an MEA was already clearly addressed in the 1996 Report of the Committee on Trade and Environment. After months of negotiations, Members in that Report sensibly noted that disputes between Parties to an MEA should be resolved within the provisions of the MEA itself, rather than spilling over into the WTO. The secondary decision that MEA Secretariats and the WTO CTE should exchange information has limited merit. It is a tautology to support information exchange. However, the agenda has diverted scarce resources of Convention Secretariats charged with implementing global agreements on shoe-string budgets into updating government officials in the WTO about decisions those governments have taken elsewhere in implementing and updating an MEA.

Twelve years after the MEA issue was introduced, first into the GATT and then the WTO, no single MEA dispute has come close to being arbitrated in the WTO. Certainly, some caution that history may not be a useful guide to the future, especially given the commercial interests associated with the Kyoto Protocol or the Biosafety Protocol. However, in both instances, the key question involves non-parties to MEAs, an issue omitted from the Doha decision, and skillfully dodged in the 1996 CTE Report.3

Along the same lines, the future of environmental labeling in the WTO context has become an open question with the Doha Declaration. Like the MEA issues, environmental labels have been a source of concern that criteria contained in labels, or the administration of labels, could either clash with WTO rules – notably the Agreement on Technical Barriers to Trade – or impede market access for small and medium-sized producers, especially in developing countries. However, the main flash point of the labeling question from a WTO standpoint has been the inclusion in some programs and schemes of criteria based on life-cycle assessments (LCA). Since most LCA or cradle-to-grave schemes include indicators like total energy input or pollution output per unit of production, production-process methods have become a main source of concern. However, it is not surprising that there have been no cases in the WTO around environmental labeling and like product issues. It is hard to demonstrate commercial injury when most voluntary, third-party labels have carved out less than 2 percent of specific product segments.

After a decade, it is clear that there is little to be gained in attempting to codify the relationship between WTO rules and either MEAs or labels. Such efforts will likely introduce new and unforeseen constraints on environmental policy with unintended consequences. Instead, most now accept what Von Moltke has called the “rules of disengagement” in these two areas. Moreover, the Doha decision is perfectly clear that any accommodation of MEAs or labels is a one-way street: by noting that any decision WTO members take “shall not add to or diminish the rights and obligations of members under existing

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3 The 1996 report of the Committee on Trade and Environment addressed the issue of trade measures applied between parties to an MEA thus: “While WTO Members have the right to bring disputes to the WTO dispute settlement mechanisms, if a dispute arises between WTO Members, Parties to an MEA, on the use of trade measures they are applying between themselves pursuant to the MEA, they should consider trying to resolve it through the dispute settlement mechanisms under the MEA.” It is very difficult to imagine the current work of the CTE going significantly beyond this consensus statement.
WTO agreements,” negotiations are by definition focused on maintaining WTO rules, with any changes directed at either MEAs or labels.

Environmental Goods and Services: A Welcome Addition?

By contrast, the WTO decision on environmental goods and services offers the potential to identify areas in which the WTO – pursuant to its mandate of gradual liberalization – can support the environment. In recent years, this has been commonly referred to as a “win-win” outcome for several reasons. First, it could send a symbolic message that the WTO supports environmental policies. More importantly, it could allay many developing countries’ mistrust of linking the environment with trade. Almost without exception, proposals to integrate environmental measures into trade rules have been met with resistance and suspicion about green protectionism from industrialized countries. (The exception is subsidies in the agriculture and fishing sector.)

However, for developing countries to view paragraph 31 (iii) more positively, three things must happen. First, imported goods into developing countries should lead to improvements in general welfare gains. For example, a reduction in the price of air pollution technologies or wastewater filtration plants could, in theory, bring about welfare gains. (However, in practice, most end-of-pipe pollution abatement technologies are part of technology transfer packages associated with foreign direct investments and turn-key plants.)

Second, the coverage of environmental goods and services must meet export interests of developing countries. Put another way, if coverage predominately focuses on goods and services for which OECD have a comparative advantage – for instance in capital goods that result in environmental improvements – then the wider policy implication is that developing countries have no comparative advantage in any environmental goods and services. This case would prolong the north-side divide around trade-environment.

Third, the challenge in identifying environmental goods and services of export interest to developing countries is doing so in a way that reflects existing markets without creating fissures around production process method issues. Clearly, developing countries have strong advantages in goods and services resulting both from environmental criteria – for example, sustainable farming produce – as well as resulting in environmental gains – for instance, eco-tourism. However, exploring these potential export advantages is stymied by long-standing developing country fears that a top-down trade-environment path is always navigated by a slippery slope. In this case, the imagined path of the slippery slope is from some categories of environmental goods, to conditioning market access because of differentiated pollution abatement standards, then based on child labor standards, and finally based on wage differences.

Hence, the relatively benign and largely symbolic efforts of paragraph 31 (iii) have opened up all sorts of potentially contentious issues. It is difficult to say how much of these concerns are negotiating postures in Geneva, and how much are based on a fear that this decision will lead to chaos and the downfall of the trading system.

Win-Win Possibilities, Bad-Bad Fears

Two very different “visions” have surfaced regarding the potential of the WTO decision. On the positive side, liberalizing environmental goods and services has the potential to expand the availability of green goods in global markets. As tariffs and barriers to trade in environmental goods are reduced or disappear, then marginal price declines could increase demand, and bolster modest market transformation exercises away from dirty products towards cleaner ones.
The extent to which the WTO supports this shift depends on the modest, temporary price preference accorded to environmental goods liberalization that would take place before the liberalization of their mainstream non-green or standard counterparts. This temporary price preference acts in much the same way as using fiscal policy measures like taxes and charges to differentiate green and non-green products in the market. A more familiar example of changes in relative prices is the use in many countries over the years of differentiated tax rates between unleaded versus leaded gasoline. Obviously, the extent of the change in relative prices from the WTO decision depends on the existing tariff rates (identifying and quantifying changes in relative prices brought about by reducing non-tariff barriers is more difficult).

Changing relative prices for green versus non-green products could lower the premium that many environmental goods have in the market, often in the range of 10 percent.

From a producer and export point of view, those countries that enjoy a comparative advantage in environmental goods and services would expand production in response to increased consumer demand, thereby attracting new investments, adding new jobs and benefiting from various related welfare gains.

Although this all makes sense in theory, the Doha declaration is ambiguous concerning the timing or sequence of implementing paragraph 31 (iii). The obvious question is how liberalization should proceed compared to across-the-board commitments. When introduced, many assumed that this agenda would yield an “early harvest” by the WTO, whereby liberalization of environmental goods and services would precede across-the-board liberalization of all goods and services. Given the enthusiasm of several WTO members – notably the United States, New Zealand, Canada, Australia and others – for the 1997 list of environmental goods produced to back the commitment of the Asia Pacific Economic Cooperation (APEC) (discussed below) under its Early Voluntary Sectoral Liberalization initiative, this remains a reasonable assumption. [The APEC list was already alluded to on page 1 in the 3rd paragraph. It seems a little strange to give more detailed information at this point.]

However, the question of timing of paragraph 31(iii) has become a source of debate in Geneva. Some have proposed that liberalization of environmental goods should follow, rather than precede, across-the-board market access and tariff reduction negotiations. After across-the-board progress in tariff reduction is made, then WTO Members would then return to paragraph 31 (iii) to identify residual tariffs involving environmental goods that merit action.

However, the question of product coverage and related tariff classification issues are far more complex than the sequencing issue. As noted above, several members have expressed fear that an expansive interpretation of environmental goods will allow PPM issues to sneak into the WTO through the green door. Therefore, the pessimists have viewed the inclusion of paragraph 31 (iii) as an attempt to include long-feared green protectionism into trade rules.

First, no consensus exists around what constitutes an environmental good. (Services are somewhat different, since a stand-alone category for “Environmental Services” exists in the General Agreement on Trade in Services. However, as discussed briefly below, the GATS classification is not without its own problems.) Although WTO members may have envisioned a sectoral approach, similar to the ITA or financial services examples, there is no stand-alone environmental “sector.” Environmental components and services intersect with many economic sectors, from manufacturing and forestry, to energy and transportation. However, defining an environmental good from a perspective that is useful for the WTO is proving vexing.
Environmental Goods as the Flip Side of the MEA Issue

Some WTO members have suggested including products in the environmental goods section that prevent environmental pollution, rather than just pollution reducing goods. Preventative goods, such as bicycles illustrate why paragraph 31 (iii) is the flip side of the MEA issue. In MEAs, a clearly delineated list of goods or substances – including ozone-depleting substances, specimens of endangered species, hazardous wastes, and persistent organic pollutants – have been negotiated in a multilateral setting. Countries have agreed that unchecked production, consumption and trade in these goods are bad. The WTO issue that arises is whether trade restrictions covering so-called “environmental bads” contained in MEAs undermine WTO rights and obligations.

This focus on “environmental bads” at the international level coincides with the main focus of national environmental policy: regulators pinpoint the main environmental pressures or damaging products, and constrain or prohibit them. Given the magnitude of environmental problems, it is not surprising that less attention has been paid to promoting “environmental goods.” Regulators simply don’t have the time. Those few instances when environmental goods have been promoted almost always entail environmental labeling, certification, green procurement or other initiatives that remain on the fringe of core regulatory policies.

The irony of paragraph 31 (iii) is that the WTO has attempted to expand trade in environmental goods, in the absence of international definitions of those goods, but has left open the question of whether internationally-agreed lists of environmental bads can be constrained through trade measures.

Different lists – some of which are noted below – are now being circulated and debated in the CTE. Given the lack of a clear, internationally-agreed upon list, it is hard to argue why a bicycle shouldn’t be included: it has zero emissions, an expanded use of bicycles would increase urban air quality, and it is fuelled by renewable energy.

However, for many goods – such as filters or pipes – defining them as environmental has to rely on identifying their end-use or dual-use. A pipe or filter can be used to meet an environmental objective, or it just as easily may be fitted to a dirty, grandfathered coal-fired turbine in the Midwest U.S.

Which brings us back to the worst-case or pessimistic scenario: some critics have argued that opening a debate within the WTO over product coverage for environmental goods will invite chaos. Indeed, some have imagined that paragraph 31 (iii) can be used as a kind of dirty green tariff increase, whereby average tariffs on non-environmental goods are increased, so as to push dirty products out of the marketplace. This scenario may lie in the lunatic fringe of policy proposals, but it worth noting as a concern.

One well-known and highly capable WTO commentator – Dr. Reinhart Quick of UNICE – argues that the environmental goods decision is simply wrong, because the WTO is not an environmental institution. In the WTO, there are no “good goods” or “bad goods.” By trying to make such a distinction, the WTO exposes itself to a highly divisive debate about its competence.

However, two points are worth noting. First, the WTO has shown that it is capable of classifying goods, under the Agreement on Information Technology Products (ITA). Once the principles of the ITA agreement were elaborated, the scope of ITA product coverage was negotiated in close conjunction with ITA regulators. Since clearly an early harvest is not going to happen, the ITA model is the best example for how WTO members should proceed pursuant to the environmental goods mandate. (Similarly, in 1989 the Basel Convention negotiated the principles and obligations of that agreement, and then proceeded to define product coverage in the annexes. Most MEAs – notably CITES and the Montreal Protocol – regularly review and update their coverage in response to changing environmental and other conditions.)
Second, as a point of principle, the WTO does differentiate good goods from bad goods, under the 
TRIPS agreement. However, the punitive measures for non-compliance in that agreement is not the model 
to be followed in searching for collaborative approaches to supporting environmental goods and services.

The Debate About Lists:

APEC Early Voluntary Sectoral Liberalization

Although the topic of environmental goods is not new, linking them to the trading system certainly is. 
It is worth recalling that the original idea of aligning environmental goods and accelerated trade 
liberalization took shape in 1997, under the Early Voluntary Sectoral Liberalization Initiative (EVSL) 
introduced by the APEC ministers. APEC leaders noted that early liberalization “would have a positive 
impact on trade, investment, and economic growth in the individual APEC economies as well as in the 
region.” To date, fifteen areas are identified under the EVSL initiative, including: environmental goods 
and services; fish and fish products; forest products; medical equipment and instruments; 
telecommunications mutual recognition arrangement (MRA); energy sector; toys; gems and jewellery; 
chemicals; oilseeds and oilseed products; food sector; natural and synthetic rubber; fertilizers; automotive; 
and civil aircraft.

The EVSL initiative is comprised of a three-track approach: market-opening measures, trade 
facilitation activities and economic and technical cooperation initiatives. Particular attention continues to 
be paid to examining enhanced infrastructure and sustainable development goals of the EVSL package.

As noted below, the APEC is mainly comprised of single-use capital goods and related environmental 
technologies. It did not pretend to reflect all goods in markets that in some way are described as being 
“environmental,” “sustainable,” “conservation” or any other name. Instead, it focused on larger-ticket 
environment related technologies, including:

- Municipal water delivery systems, potable water treatment technologies, wastewater treatment and 
sanitation technologies and related infrastructure;
- Industrial heat pump technologies in existing and new applications;
- End-of-pipe pollution abatement technologies, including scrubbers to remove N0x and S0x.

Since the scope of the APEC list is itself rather narrow, some progress has been made in classifying 
environmental goods within the WTO context, building upon the APEC initiative. For example, in a 
submission by New Zealand to the WTO Committee on Trade and Environment Special Session, the 
summary categorization list of goods and services, and the “Complete Product Coverage” list under the 
Environmental Goods Initiative are reproduced in full. These lists are important for several reasons: they 
reflect among the earliest work in classifying environmental goods; they still represent among the most 
comprehensive classification exercises to date; and perhaps most importantly, they reflect the consensus of 
all APEC countries – both developing and industrialized country alike – in a potentially divisive and 
sensitive area.

As a general observation, both the 1998 and 1999 summary lists focus mainly on capital goods. 
Examples include vacuum pumps (8414.10), industrial or laboratory furnaces and ovens: electric, induction 
or dielectric (8514.20), exposure meters (9027.50) and Electromagnets (8505.90). Nevertheless, the 1998 
Complete List includes some examples of non-capital environmental goods. In particular, the reference to 
agriculture and textiles within the goods classification is worth noting:

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<table>
<thead>
<tr>
<th>HS No.</th>
<th>HS 6 Digit Description</th>
<th>Additional Product Specification</th>
</tr>
</thead>
<tbody>
<tr>
<td>2302.01</td>
<td>Bran, sharps and other residues, whether or not in the form of pellets, derived from sifting, milling or other working of corn</td>
<td>Booms or socks consisting of ground corn cobs contained in a textile covering</td>
</tr>
<tr>
<td>4601.20</td>
<td>Mats, matting and screens of vegetable materials</td>
<td>Erosion control matting (bio-degradable)</td>
</tr>
<tr>
<td>4601.20</td>
<td>Mats, matting and screens of vegetable materials</td>
<td>Ecologically safe ground covers (bio-degradable)</td>
</tr>
<tr>
<td>5911.90</td>
<td>Textile products and articles, for technical purposes...</td>
<td>Environmental protection cloth</td>
</tr>
</tbody>
</table>

Work continues in APEC technical working groups on such issues as classification coverage, measures covered, phasing and implementation schedules. In 2003, the APEC Secretariat will study the impacts on APEC economies of measures to liberalize and facilitate trade in environmental services.

Tariffs applied to such technologies by industrialized countries are already low, often less than 3 percent. By contrast, some developing countries apply most favored nation (MFN) tariffs to environmental technologies at much higher levels, often above 20 percent. Lowering tariffs could result in modest price reductions for such technologies, thus contributing to some welfare gains through reduced draws on the public treasury to improve air and water quality. However, given that tariff levels are relatively low in several areas of environmental technologies, the relative price decreases from tariff reduction would be very modest at best. Examples of MFN tariff rates associated with environmental goods are noted thus:

<table>
<thead>
<tr>
<th>Filters for Internal Combustion Engines (8421.23)</th>
<th>Mexico 15%</th>
<th>U.S. 2.6%</th>
<th>Japan 0</th>
<th>New Zealand 13.5%</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Water Filtration</strong> 8421.21</td>
<td>Chile 8%</td>
<td>Australia 5%</td>
<td>Canada 0</td>
<td>China 18%</td>
</tr>
<tr>
<td><strong>Sewage Treatment</strong> 8421.29</td>
<td>China 18%</td>
<td>U.S. 0.8%</td>
<td>Australia 5%</td>
<td></td>
</tr>
<tr>
<td><strong>Electrical Appliances</strong></td>
<td>Oecd 2.5%</td>
<td>China 18%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Price effects could be modest where tariff levels are around 20 percent or more, thereby helping importing developing countries address chronic pollution problems, especially in sprawling urban areas. With respect to nuisance tariffs in the 2-5 percent range, it is extremely doubtful that the Doha mandate would lead to any relative price changes.

However, the more difficult part of the Doha agenda involves the extent to which WTO members are willing to balance the existing orientation of product coverage – comprised of capital goods – with...
products of export interest to developing countries, as well as consumer-based products that are described by some as being “environmentally preferable?”

All Environmental Goods, or Just Some?

Who Decides? Whose Standards? Is it Worth the Effort?

The environmental sector is large and expanding. Global expenditures on the environment are in the range of US$525 billion per year and are expected to surpass $600 billion by 2005. Annual U.S. expenditures on the environment are US$170 billion. The biggest items are solid waste management ($31 billion), water treatment works ($25 billion), water equipment and related chemical treatment ($13 billion) and air pollution equipment and waste management equipment ($11 billion each). The European Union estimates that its environmental “industry” generates 54 billion Euros per year, employing over two million people, or 1.3 percent of its total paid labor force. Roughly 1.5 million people are employed in pollution management activities, and another 650,000 in resource management. The Canadian sector employs 220,000 people, and has annual revenues of CAD$12 billion.

However, an inherent challenge arises from the OECD/Eurostat Group’s reference to an “environmental goods and services industry.” On the one hand, some believe that environment-related economic activities constitute a measurable, stand-alone economic sector. For instance, estimates by UNCTAD and others put environmental sector sales at approximately US$450 billion per year. On the other hand, there is a view that no stand-alone environmental industry exists. Instead, environmental goods and services comprise an “agglomeration of providers of many types of goods, services, and technologies.”

Certainly, end-of-pipe capital technologies to meet or exceed pollution abatement regulations form a substantial part of total environmental expenditures. They can fairly easily be classified, primarily through the OECD/Eurostat Category A, “The Pollution Management Group.” However, pollution abatement technologies were long preceded by wildlife, conservation and biodiversity-related activities – which are not capital intensive – and succeeded by the ongoing integration of “upstream” environmental management approaches affecting virtually all manufacturing, resource processing and retail product sectors. Integrated environmental approaches have various names, from cleaner production and eco-efficiency to product stewardship. Disentangling stand-alone environmental activities from multi-sectoral efficiency gains throughout production and product chains, remains extremely difficult, and poses substantial problems in classification exercises.

One insight into how the environment is affecting technical regulations and standards of goods is found in the Environmental Database of the World Trade Organization (WTO). The database summarizes all environment-related WTO notifications in annual notifications under the Agreement of Technical Barriers to Trade (TBT) and other WTO Uruguay Round agreements. Among the terms used by the WTO Secretariat in compiling the Environmental Database include carbon, clean, climate, conservation, ecolabel, greenhouse, pollution, hazardous, indigenous, organic, modified organisms, packaging, toxic materials, soil erosion, wildlife and wood.

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7 According to UNCTAD, industry approaches to environmental goals are changing “from complying with regulations to resource efficiency.” UNCTAD (3 August 1998), “UNCTAD Expert Meeting on Strengthening capacities in Developing Countries to Develop Their Environmental Services Sector,” WT/CTE/W/96

8 World Trade Organization (31 May 2002), “Environmental Database For 2001,” WT/CTE/EDB/1. According to the WTO Secretariat, over the last decade, between 10 and 11 percent of all TBT notifications referred to some kind of environmental consideration. (In 1998 and 2000, the number of notifications were slightly above 15 percent.) This marks among the single-most important categories of all TBT notifications.
As large as these estimates are, it is likely that environment-related expenditures, investments and employment levels are much higher than suggested above.

Unlike large-scale environmental technologies, which represent a regulatory and supply-driven market, environmental goods at the consumer level are in essence demand-driven, reflecting a kind of bottom-up approach to achieving environmental goals. For consumers, among the most familiar environmental goods are recycled or environmental paper products followed by recycled plastic and rubber products. Since recycled paper and plastics were introduced in markets over twenty years ago, the range of environmental products has expanded dramatically. These include low or non-toxic household and industrial paints; sustainably harvested wood products; environmental construction materials like recycled plastic flooring and garden deck materials; zero emission and hybrid automobiles; biofuels; and renewable electricity generated by solar and wind technologies.

One reason why consumer-based environmental products are so diverse is that, in many cases, they act as substitutes for standard, non-environmental counterparts. In most cases, environmental products in consumer markets are based on relative rather than absolute benchmarks. For example, many green products are based on relative product composition or performance criteria, in which energy efficiency standards are 30 percent greater than the average performance of mainstream, non-green products.

### Classifying Environmental Goods

The problem with products that are based on relative environmental criteria is that they raise enormously complex issues related to classification. The specific question before the WTO following the Doha agenda is whether product coverage should be limited to the clearly incomplete but non-problematic APEC list of capital goods, or whether efforts should be made to broaden coverage to include (a) consumer-based products such as electrical appliances, and (b) products of export interest to developing countries. Among the comprehensive classification of environmental goods was that produced by the OECD and Statistical Office of the European Union. The (1999) *Environmental Goods and Services Industry* – a classification manual describing the main categories of environmental goods – was not developed for the purposes of trade or customs classification. Nevertheless, it is useful insofar as it provides one reference point to the breadth and diversity of the environmental sector.

The main groupings of environmental goods and services, as well as examples within those categories, are noted below.

---

## CATEGORY A: POLLUTION MANAGEMENT GROUP

<table>
<thead>
<tr>
<th>Air Pollution Control</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Air-Handling equipment</td>
<td></td>
</tr>
<tr>
<td>Chemical recovery systems</td>
<td>Dust collectors</td>
</tr>
<tr>
<td>Separators, precipitators</td>
<td>Incinerators, scrubbers</td>
</tr>
<tr>
<td>Wastewater Management</td>
<td></td>
</tr>
<tr>
<td>Aeration systems</td>
<td>Chemical recovery systems</td>
</tr>
<tr>
<td>Biological recovery systems</td>
<td>Gravity sedimentation systems</td>
</tr>
<tr>
<td>Oil/water separation systems</td>
<td>Screens, strainers</td>
</tr>
<tr>
<td>Sewage treatment</td>
<td>Water pollution control</td>
</tr>
<tr>
<td>Solid Waste Management</td>
<td></td>
</tr>
<tr>
<td>Hazardous waste storage</td>
<td>Waste collection equipment</td>
</tr>
<tr>
<td>Waste disposal equipment</td>
<td>Waste handling equipment</td>
</tr>
<tr>
<td>Waste separation equipment</td>
<td>Recycling equipment</td>
</tr>
<tr>
<td>Remediation/clean-up soil and water</td>
<td></td>
</tr>
<tr>
<td>Absorbents</td>
<td>Water treatment equipment</td>
</tr>
<tr>
<td>Noise and Vibration Equipment</td>
<td></td>
</tr>
<tr>
<td>Mufflers, silencers</td>
<td>Vibration control systems</td>
</tr>
<tr>
<td>Environmental monitoring/analysis</td>
<td></td>
</tr>
<tr>
<td>Measuring and monitoring equipment</td>
<td>Sampling systems</td>
</tr>
</tbody>
</table>

## CATEGORY B: CLEANER TECHNOLOGIES/PRODUCTS

| Cleaner technologies | Cleaner/resource efficient products |

## CATEGORY C: RESOURCE MANAGEMENT GROUP

<table>
<thead>
<tr>
<th>Indoor air pollution</th>
<th>Potable water</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recycled materials</td>
<td>Renewable energy plant</td>
</tr>
<tr>
<td>Heat/energy saving and equipment</td>
<td>Sustainable agriculture and fisheries</td>
</tr>
<tr>
<td>Sustainable forestry</td>
<td>Eco-tourism</td>
</tr>
</tbody>
</table>

In developing the above list, the OECD/Eurostat Informal Working Group defined the environmental goods and services industry as comprising “activities which produce goods and services to measure, prevent, limit, minimize or correct environmental damage to water, air, and soil as well as problems related to waste, noise and eco-systems.” Because of this broad definition, there is a practical challenge to classifying environmental goods and services. In particular, the Working Group highlights three unresolved issues:

(a) The question of dual-use and/or multi-purpose use products: that is, products which can be applied equally for environmental and non-environmental purposes;

(b) References to cleaner and resource efficient technologies and products clearly suggest that continuous improvement and innovation are decisive factors in environment-related classifications. Performance or product characteristics of “standard” technologies and products therefore become the reference point against which to measure their environmental counterparts. The Working Group noted that in “a dynamic perspective, the cleaner technologies and products of today will become the “standard” technologies and products of tomorrow.”

There are several challenges arising from this reliance on innovation and relative performance indicators. First, as the Group notes, the duration of technology/product development cycles, and the gap between what is “old” and what is a “new” technology, may raise more questions than it settles. The age of technologies or products seems to be a proxy for whether they are more or less clean or efficient. Under Canada’s Environmental Choice program, among the criteria for defining “green” power is the date of commissioning of electric power plants: environmental benefits or offsets only occur when a new facility comes on line. However, Environmental Choice notes that the key challenge is to define “what is new. Any date, by definition [is] arbitrary and will soon become old.”

Other problems related to the average age of a technology/product include (a) the lack of certainty that newer technologies are on average environmentally preferable compared to old ones – the public debate about biotechnologies is a useful example; and (b) a goal of sustainable consumption policies is to prolong the lifetime of products, to reduce various environmental burdens. Secondly, innovations leading to resource efficiency gains are rarely driven solely, or even primarily, by environmental considerations. One question is whether this matters: that is, whether there should be a link between the aim of a cleaner/efficient good or technology, and its environmental effect.

(c) Difficulties in measuring international trade. In light of ambiguous product classification, it follows that tracking total world trade in environmental goods is hampered by gaps in customs classification codes.

Categories B and C of the OECD/Eurostat classification matrix both rely on a relative, as opposed to stand-alone or absolute, classification criteria. This is true both for “cleaner/resource efficient” technologies and goods of Category B, and the reference to “sustainable” – as opposed to environmental – agricultural, fisheries and forestry goods of Category C. Unlike pollution abatement equipment, technologies and goods under these categories are not characterized by their exclusivity of application for environmental ends. Rather, cleaner, efficient and sustainable goods serve as substitutes for their dirtier, inefficient and unsustainable counterparts.

Product and technology substitution for environmental goals potentially touches upon almost all sectors of the economy, from manufacturing and resource extraction to several services industries. Substituting environmental products for standard ones affects literally hundreds of product groups, covering thousands of actual products. Some examples of the range of products include household electronic goods, office equipment, construction materials, railway ties and bananas.\footnote{http://www.p2pays.org/ref/01/00937/contents.htm. Most environmental labeling schemes, in assessing whether new product categories should be included in their programs, undertake substitute assessments. Product and technology substitution assessments are also carried out by such programs as the Cleaner Technologies Substitutes Assessment, operated by the US Environmental Protection Agency.}

By way of illustration, there has been tremendous interest in recent years in developing alternative energy paths, to address climate change. DuPont recently announced that by the end of the decade, one-quarter of its total revenues will be generated from non-depletable resources -- in particular from plant life.\footnote{Center for Sustainable Systems, University of Michigan, (LCA of Bio-Based Materials & Closed-Loop Systems, http://css.snr.e.umi.ch.edu/} This initiative reflects interest in expanding the use of fuels such as ethanol derived from the conversion of the carbohydrate portion of biomass into sugar. Within the OECD/Eurostat categories, the particular reference to climate-related goods falls within the “Heating/energy savings and management” category, reflecting a preference for technology-based solutions to climate challenges. However, of the 26 projects financed in 2001 under the Prototype Carbon Fund, only some involved heat and energy savings (in such areas as improved waste incineration and efficiency gains in district heating, landfill gas conversion and electricity.) However, one of the projects highlighted as a success in the Annual Report of the Prototype Carbon Fund entailed a “crop waste-to-energy conversion”\footnote{Ken Newcombe (2002), Prototype Carbon Fund: Annual Report, World bank, Washington, DC. http://prototypecarbonfund.org/router.cfm?Page=About} similar to plant-conversion commitments described above.

From a practical point of view, it remains unclear how customs classifications ought to categorize such activities. Should plant-to-energy conversion be the basis for establishing a separate environment-based classification for ethanol? Given that similar examples can be found in almost all categories of goods, a significant technical challenge awaits any environment classification exercise. The main challenge will be striking a balance. On the one hand, classification should reflect the breadth and inherently dynamic nature of the environmental agenda. This dynamism will become even more pronounced in light of the Kyoto Protocol. On the other hand, parameters need to be set to limit a customs classification exercise in a way that leads to concrete results.

Second, given that environmental goods are not characterized by an exclusivity of application, the best means of limiting product substitution based on environmental grounds is by referring to existing labeling and certification schemes. One of the most dramatic developments in the environmental agenda in the past decade has been the evolution of third party, voluntary labeling and certification schemes operated by non-governmental actors. This represents one of the most visible and innovative consequences of governance-based innovations. However, from an international trade and trade rule perspective, environmental labels (and certificates to a lesser extent) remain under discussion at the World Trade Organization (WTO) and other international bodies. As a practical point, this Note refers extensively to goods that are contained in a variety of environmental labeling and certification systems. Any classification exercise that does not draw upon such schemes to define environmental goods is flawed from the outset.

**The Example of Energy Efficiency Appliances**

Since the environmental benefits of energy efficient consumer goods are substantial, the WTO should try following through on this area in the Doha decision. In most industrialized and emerging economies, household electrical appliances account for roughly one-quarter or more of total residential energy
consumption, which in turn accounts for one-third of total electricity demand. Generating electricity remains by far the single largest source of air pollution in many countries. For instance, in the United States, 70 percent of emissions of sulfur dioxide and 25 percent of emissions of nitrogen oxide (the main ingredients in acid rain), and 35 percent of emissions of carbon dioxide (the main greenhouse gas (GHG) causing climate change) are from electric power generation. The U.S. Environmental Protection Agency estimates that its voluntary labeling program for energy efficiency — called Energy Star — has directly prevented 38 million tons of GHG emissions and 140,000 tons of nitrogen oxide emissions. Similarly, Danish researchers have shown that if energy-efficient computers that are currently available were used in Europe, the reduction in air pollution would be tantamount to the displacement of 166,000 tons of GHG and 874 tons of sulfur dioxide emissions.

Several countries that have ratified the Kyoto Protocol, notably Japan, expect to achieve their targets in large measure through an expansion of energy-efficient products. Recently, the Wall Street Journal reported that Dupont – together with other countries that are benefiting from new international “carbon markets” – are considering bundling greenhouse gas (GHG) emission credits with products as a means of attracting new customers and generating revenues from international markets for emission credits. Demand for such products in developing countries — including China, India, and Mexico — is also on the rise. Action by the WTO that would result in lower prices for energy-efficient consumer goods would contribute measurably to progress toward climate policy objectives.

The importance of efficiency performance standards for trade is reflected in the notifications submitted under the WTO Agreement on Technical Barriers to Trade (TBT). During the past decade, environmentally related notifications were the largest category of TBT notifications: 10 to 15 percent of all such notifications, according to the WTO Secretariat. Within the environmental category, the largest subcategory of notifications involved product performance standards related to energy efficiency. Examples of recent TBT notifications submitted for energy efficiency-related standards are noted below, and reflect the breadth of product areas covered under efficiency-related product performance standards:
## Notifications to the WTO's TBT Committee relating to energy-efficiency standards and labeling

<table>
<thead>
<tr>
<th>WTO document code, country and date</th>
<th>Summary of notification</th>
</tr>
</thead>
<tbody>
<tr>
<td>G/TBT/N/EEC/28 European Communities 26 March 2003</td>
<td>Revises energy labeling of household cold appliances (refrigerators and freezers) to take account of improvements in efficiency. Two new classes (A+ and A++) are introduced. The amendment will introduce higher energy efficiency classes because in some markets over half of appliances sold are in the best (A) class. This will contribute to the objectives of energy conservation and environmental protection.</td>
</tr>
<tr>
<td>G/TBT/N/EEC/29 European Communities 26 March 2003</td>
<td>Revises energy labeling of household washing machines to take account of improvements in efficiency. A new A+ class is introduced. The amendment will introduce higher energy efficiency classes because over half of washing machines sold are in the best (A) class.</td>
</tr>
<tr>
<td>G/TBT/N/NZL/13 New Zealand 14 February 2003</td>
<td>Minimum energy performance standards for ballasts for fluorescent lamps, and electric storage water heaters (excluding those with three or more heating elements or designed for use with a solar water heating system).</td>
</tr>
<tr>
<td>G/TBT/N/THA/104 Thailand 9 January 2003</td>
<td>Energy conservation: Air Conditioners (HS Chapter 84.15, ICS: 23.120)</td>
</tr>
<tr>
<td>G/TBT/N/CAN/54 Canada 7 January 2003</td>
<td>The proposed Regulations Amending the Energy Efficiency Regulations will increase the stringency of the existing energy efficiency standards for fluorescent lamp ballasts (&quot;ballasts&quot;), room air conditioners and 60 to 66 Watt PAR lamps; will introduce new standards for BR and ER incandescent reflector lamps and dry-type transformers; and will update the energy performance test procedures referenced for general service fluorescent lamps and motors and introduce minor changes to dishwasher and model number definitions and to annual energy consumption calculations. The revisions to the standards for ballasts, reflector lamps, room air conditioners and dishwashers are, with some minor differences, consistent with the standards currently in effect in the United States.</td>
</tr>
<tr>
<td>G/TBT/N/MEX/37 México 16 October 2002</td>
<td>Energy saving (conservation of natural resources) and quality and labeling of household refrigerators and freezers for consumer protection.</td>
</tr>
<tr>
<td>G/TBT/N/MEX/38 México 16 October 2002</td>
<td>Energy saving (conservation of natural resources) and quality and labeling of three-phase squirrel-cage AC induction motors of 0.746 kW to 373 kW for consumer protection.</td>
</tr>
<tr>
<td>G/TBT/N/MEX/2 México 4 September 2002</td>
<td>This conformity assessment procedure (CAP) does not directly cover any product, since the related Standard regulates only the requirements to be met by lighting systems installed in non-residential buildings to ensure that they are energy efficient.</td>
</tr>
<tr>
<td>G/TBT/N/MEX/30 México 4 September 2002</td>
<td>This conformity assessment procedure (CAP) does not directly cover any product, since the related Standard regulates only the requirements to be met by lighting systems on roads and highways and building exteriors to ensure that they are energy efficient.</td>
</tr>
<tr>
<td>G/TBT/N/HKG/11 Hong Kong, China 3 September 2002</td>
<td>Laser Printer (HS code 8471 6011). To promote awareness of energy efficiency among consumers.</td>
</tr>
<tr>
<td>G/TBT/N/JPN/46 Japan 30 April 2002</td>
<td>To promote energy conservation through prevalence of machinery and equipment of which the energy consumption efficiency is high in order to cope with the recent increase of energy consumption in commercial/residential sector, global warming problem, and so on. Applies to Gas stoves, Oil stoves, Gas cookers, Gas water heaters, Oil water heaters, Water closet heated seats, Automatic beverage vending machines, Electrical transformers.</td>
</tr>
<tr>
<td>G/TBT/N/CHE/19 Switzerland 27 March 2002</td>
<td>Introduction of a mandatory energy efficiency label for new passenger cars including a relative comparison of fuel use and CO2 emission based on the EC directive 1999/94/EC. Requirement of indication of the fuel economy category for each car model.</td>
</tr>
</tbody>
</table>
Although tariffs are generally low for most energy-efficient products, there is nevertheless room for further tariff reduction. For example, MFN tariffs on electric water heaters were levied in 2001 at rates ranging from 2.7 percent, by the European Union, to as much as 35 percent, by China.

Refrigerator-freezers

Refrigerator-freezers are the single largest source of electricity consumption in many households. Unlike other appliances, refrigerators are required to operate 24 hours a day, 365 days a year. In the United States, refrigerators consume roughly 14 percent of total household electricity use; in Thailand they account for nearly 20 percent in Bangkok, and more than 30 percent in rural areas. Total annual energy consumption from refrigerator-freezers in that country represents 55 kW-hours of electricity per year.

Market demand for refrigerators is large in mature markets, where it is the largest source of product replacements. In the European Union, roughly 22 million units are sold each year. New demand in several developing countries — notably China and other Asian countries — is signalling potentially important longer-term changes in patterns of trade. For example, while the majority of refrigerator-freezers are manufactured in home markets, China has experienced a 60 percent increase in exports of refrigerators since 2000. As for other appliances, tariffs on refrigerator-freezers in OECD countries are already low (Table 3). However, MFN tariffs in some developing countries are greater than 15 percent, thereby presenting an opportunity to explore tariff-liberalisation in a way that would benefit end-use consumers by lowering relative prices.

Refrigerator-freezers as a product class have the largest number of standards and labels of any household appliance. Minimum energy-performance standards exist for refrigerator-freezers (combined or separate) in all major industrialised markets, including the United States, EU, Canada, Australia, India, Indonesia, Japan, Mexico, Chinese Taipei, South Korea, Thailand, China, Romania, and the Philippines.

### Most-favoured-nation tariff rates on combined refrigerator-freezers (HS code 8418.10)

<table>
<thead>
<tr>
<th>Importing country</th>
<th>MFN tariff Rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>5</td>
</tr>
<tr>
<td>Canada (8418.10.10.00)</td>
<td>Free</td>
</tr>
<tr>
<td>China</td>
<td>25</td>
</tr>
<tr>
<td>Chile</td>
<td>8</td>
</tr>
<tr>
<td>European Union</td>
<td>1.5</td>
</tr>
<tr>
<td>India</td>
<td>30</td>
</tr>
<tr>
<td>Korea</td>
<td>8</td>
</tr>
<tr>
<td>Mexico</td>
<td>20</td>
</tr>
<tr>
<td>South Africa</td>
<td>25</td>
</tr>
<tr>
<td>United States</td>
<td>0.6</td>
</tr>
</tbody>
</table>

Sources: Australia, Canada, China, Chile, Korea, Mexico, United States: APEC Tariff Data Base: (apectariff.org); European Union: Integrated Community Tariff database (TARIC); India: Central Board of Excise and Customs; South Africa: Customs and Excise Tariffs database.
In light of the large number of programmes involved in standard setting and related labels for energy efficiency of refrigerator-freezers, there does not appear to have been any effort to compare similarities and differences between national performance standards and related testing criteria on a systematic basis. One of the few studies examining similarities and differences among energy efficient programs (conducted in 1995) found some overlap in efficiency standards for refrigerator-freezers in the U.S., Europe and Japan.

Comparison of energy consumption per litre of frost-free refrigerator-freezers manufactured in Europe, Japan and the United States in 1995

![Graph showing energy consumption per litre for USA, Japan, and Europe](image)


Although crude, the above graph illustrates areas of convergence and divergence related to technical standards. The differences keep a single international efficiency standard elusive, and this absence of an international standard makes the prospect of a six-digit HS break-out code for energy efficiency products difficult, although certainly not impossible. The development of an international standard for energy efficiency would be a positive step in supporting the Doha mandate’s efforts to reduce non-tariff barriers (in this case, associated with the proliferation of non-uniform standards).

In light of growing energy demand and the heavy environmental footprint of household appliance use, coupled with demand growth in some developing countries, tariff levels of 20 percent offer an opportunity to deliver tangible air quality benefits through relative price reductions driven by tariff reduction. A similar exercise could be followed for a range of electrical goods, including many household goods – notably air conditioners, lighting, washing machines, water heaters and coolers (all of which consume a significant proportion of total residential electricity use), as well as office equipment such as fax machines and photocopiers.

It is worth reiterating that these products should not impose systemic strains upon the WTO and like-product issues, since energy efficiency criteria are based on product performance standards and fully consistent with TBT obligations. Moreover, these products are of growing importance both from a production/export perspective, as well as a demand point of view for developing countries, in particular China.

**Green Goods, Developing Countries, and Market Access**

With the Doha Development Round, the WTO Secretariat has pursued several initiatives, including capacity building. As welcome as technical assistance and capacity-building initiatives are, increasing market access for developing countries is the acid test for whether progress has been made. Market access objectives enunciated at Doha commit governments to reducing or eliminating tariffs, including tariff peaks, high tariffs, and tariff escalation, as well as non-tariff barriers, “in particular on products of export
interest to developing countries” (Doha Ministerial Declaration, emphasis added). Given that the WTO’s membership consists overwhelmingly of developing countries, work should concentrate on those areas where the most egregious access distortions affecting developing-country exports persist: agriculture, textiles, and apparel.

Agriculture is the obvious key to the success of the Doha round. It also holds part of the key in exploring if there is any overlap between the environmental goods agenda item and the current deadlock that continues around agriculture.

Increasingly, traditional low-impact community farming comes under the sustainability rubric, precisely because it is characterized by an absence of capital inputs (such as pesticides, agro-chemicals, and genetically modified seed) that small farmers in most low-income countries can ill-afford to purchase. There is an opportunity, therefore, to assist small farmers in developing countries by extending the scope of the Doha environmental goods agenda to cover farm produce that meets sustainable agriculture criteria.

Sustainable agriculture includes a broad range of practices, such as reliance on heterogeneous organic and biological inputs to improve production, rain-fed irrigation, dry-land farming with a low ratio of irrigated land to crop output, crop rotation, and integrated pest management.

One category of sustainable agriculture that already has well-defined international standards is organic foods. The current global market for organic foods is US$17.5 billion a year; with annual growth rates of up to 30 percent, this continues to be among the fastest-growing segments of the food sector. After examining classification issues related to organic foods, the United Nations Statistical Commission noted in 2002 that organic farming “should be considered as a different agricultural activity from farming using chemicals.”

All international bodies — including, for instance, the International Federation of Organic Agriculture Movements (IFOAM) — that provide definitions of organic foods stress the close relationship between organic farm systems and the environment or ecosystems. The CODEX Alimentarius Commission – which is cited in the WTO Agreement on Sanitary and Phytosanitary Measures as an example of a relevant international standard-setting body — defines organic agriculture in its voluntary guidelines as “one among the broad spectrum of methodologies which are supportive of the environment. Organic production systems are based on specific and precise standards of production which aim at achieving optimal agro-ecosystems which are socially, ecologically and economically sustainable.”

Of the growing list of organic products, coffee is a useful starting point. Grown almost exclusively in developing countries, coffee surpasses all other goods except petroleum in value as a trade commodity, generating US$11 billion to $15 billion in commerce per year. By definition, most small-scale coffee farms in developing countries produce sustainable coffee. For instance, the International Trade Center estimates that more than 90 percent of all coffee grown in Ethiopia is organic, even though no formal certification system is in place. Similarly, the North American Commission for Environmental Cooperation estimates that three-quarters of all coffee produced in Mexico – representing the work of 450,000 small-scale farmers — falls under the sustainable agriculture rubric.

Changes in land use resulting in the loss of small-scale, community-based farming continue to pose one of the chief threats to biodiversity. By making their output more accessible to consumers at lower relative prices, the WTO could help small-scale farmers sell sustainable, organic coffee, and in the process help preserve old-growth forests under which much sustainable produce like coffee is grown.
Environmental Services

Most of the above discussion has focused on environmental goods. As noted, the WTO is taking a two-track approach to paragraph 31 (iii), in which environmental goods are being examined in the Non-Agriculture Market Access group – itself prejudicial in excluding farm produce from possible coverage – and in the Special Session of the Council of the General Agreement on Trade in Services (GATS). The GATS sets out a separate category for “Environmental Services” that would appear to lessen classification challenges compared to goods. Under initial offers submitted on March 31, 2003 by several Members to the GATS Special Session, the main examples of environmental services include wastewater treatment and sanitation services. Although potable water could be included under environmental services commitments, many countries – including the U.S., Canada, Switzerland and others – have excluded water for human consumption from their offers.

Challenges arising from classifying environmental services in the GATS are illustrated by the inclusion, in the U.S. proposal to the GATS of March 31, 2003, of the following services linked to the “protection of ambient air and climate:”

“Services to reduce exhaust emissions and other emissions to improve air quality.”

Emissions’ trading is an example of a service that reduces both acid rain and greenhouse gas emissions. Many of the transactions associated with such trades resemble other kinds of financial transactions, including hedging and futures, which are generally viewed as being entirely outside of WTO disciplines. Environmental services that are increasingly being considered as climate-related services include various carbon sequestration programs, such as reforestation or low-tillage agriculture. Calculating the environmental benefits of many of these activities is problematic and controversial. Recently, the European Union excluded all carbon sequestration projects from eligibility under the Clean Development Mechanism of the Kyoto Protocol. Part of the reason for this controversy is the difficulty in distinguishing tree planting services undertaken pursuant to carbon sequestration from non-carbon objectives.

Finally, there are a number of services sectors that have environmental activities. From a developing country perspective, clearly the most important is tourism. In the Special Session of the GATS, the sector that received the largest number of offers from developing countries was tourism. According to the World Tourism Organization, UNEP and others, eco-tourism comprises one of the fastest growing market niches of the $3.5 trillion global tourism sector. Natural areas, including legally protected parks and reserves, are a powerful draw for tourists. Similar examples of environmental services abound – from environmental accounting as a stand-alone discipline to environmental road transport and renewable energy services. Given the structure of the GATS itself, it is unclear how accelerated liberalization of environmental services would proceed, assuming for a moment that classification did progress. (For example, would this include a sector-specific approach that would contain deeper commitments around market access or national treatment compared to non-environmental counterpart commitments, or deeper commitments in some or all modes?) Given these uncertainties, expecting any progress in environmental services is unlikely beyond the existing scope of the environmental services categories.

However, if an on-going approach to coverage is followed, then addressing some of these issues is an important, longer-term challenge.
Conclusion

The Doha mandate on environmental goods has the potential to deliver tangible benefits in support of environmental objectives. Most importantly, the green goods mandate can build on the more general commitment to market access – one of the foundations of the Doha Development Round agenda – by supporting accelerated liberalization of trade in goods of special interest to developing countries.

However, success in environmental goods negotiations is not possible if countries fail to take account of the inherently dynamic characteristics of environmental markets. Two categories of green goods – (a) consumer products that enjoy support in many developed countries and a growing number of developing countries; and (b) environmental farm, textile, and apparel products from developing countries – are apparently being excluded from initial negotiations. WTO members appear content to limit negotiations on environmental goods to the organization’s Non-Agriculture Market Access Committee, and to limit talks on services to work already underway on the General Agreement on Trade in Services. But because of its inherent bias against outputs of developing countries and consumer-based products, this approach is a recipe for failure.

The classification challenges involved in differentiating green consumer goods, agricultural products, and other outputs from their standard counterparts are difficult but hardly impossible. The January 2002 revision of the Harmonized Systems (HS) customs codes set a precedent by explicitly referring to the importance of environmental and social criteria. It remains unclear whether negotiators regard a comprehensive approach to green goods as administratively difficult, or whether the reluctance to follow a comprehensive approach reflects the lingering distrust many countries have of labeling schemes, and the challenges they present to the trading system in modifying notions of “like” products. However, rather than continuing to inquire into how labels might hypothetically run afoul of TBT rules, the WTO Committee on Trade and Environment could – with the help of the United Nations Environment Program and others – analyze how labels and certification could provide guidance on the green goods mandate.

VI. List of PPT Texts

VI.1 The Quantification and Measurement of NTMs, Bijit Bora

WTO OMC
Economic Research and Statistics

Outline

- Identify an NTM
- Incidence of NTMs
- Impact of NTMs
- DDA and NTMs

Why are NTMs important?
Lowering the costs of trade transactions

Other reasons
- Steadily growing trade volumes
- Fall in tariff levels to an all-time low
- Transport cost revolution
- Role of technology in trade
What is an NTM?

What are the elements of an NTM?
  Standards & TBT
  Investment Competition Policy
  Non-tariff Measure
  Trade Facilitation
  Contingency Trade Measures

UNCTAD Trains
  – Finance control measures
  – Price control measures
  – Automatic licensing
  – Quantity Control
  – Monopolistic measures
  – Technical Measures
  – Miscellaneous

Deardorff and Stern
  – Quantitative restrictions
  – Non-tariff charges
  – Government participation; restrictive practices
  – Customs Procedures
  – Technical barriers to trade

Incidence of NTMs
Frequency measures
  – Percentage of lines affected by NTMs
  – Percentage of imports
  – Does not measure impact
Survey studies
  – Private sector perspective
  – Detailed measures are highlighted.
  – Difficult to estimate the costs of NTMs

Key issues from surveys
Main obstacles
  Excessive documentation requirements
  Burdensome border-crossing procedures
  Lack of automation and scarce use of information technology
  Lacking transparency and predictability

How much of an impediment are NTMs?
Aggregate gains from
  – Subsidy and support removal
--Trade facilitation
--Government procurement

Larger than from tariff removal

Developing countries can gain
--Most gains, except from agricultural support measures accrue to developing countries.

What is the current status of work?
Mandate
Doha Ministerial Declaration §16
Doha Development Agenda

Modalities for NTMs?
What should Amb. Girard do?

Proposed approach
Agreed NTMs would be dealt with in the NGMA
NTMs with specific DDA negotiating mandate will be dealt with as specified
Work in other areas without a mandate will continue, but report back.
NTM without a specific mandate would, if decided be sent to another WTO body (TNC)

Existing WTO Work on Possible NTMs
OTHER WTO AGREEMENTS
   Customs Valuation Agreement
   Agreement on Preshipment Inspection
   Agreement on Import Licensing Procedures
   Agreement on Rules of Origin
   Agreement on Technical Barriers to Trade
   Agreement on Sanitary and Phytosanitary Measures

Existing WTO Work on Possible NTMs
Working Groups
   Trade and Investment
   Competition Policy

Any agreed approach to NTM should be inclusive

VI.2 Services in a Development Round, Aaditya Mattoo

Three questions:
I. What are the barriers and how big are the gains from liberalization?
II. What are the priorities for domestic reform?
III. What are the priorities for services negotiations in a development round?

In developing countries, significant liberalization but an uneven pattern…

Figure 1: Services liberalization indices: Telecoms and financial

Financial Services
- South Asia(3)
- EAP(5)
- SSA/MNA(17)
- ECA(3)
- LAC(18)
- High Income(26)

Telecoms
- SSA/MNA(42)
- ECA(3)
- South Asia(5)
- EAP(8)
- LAC(21)
- High Income(21)

Source: Mattoo, Rathindran & Subramanian (2001)

Successful reform in services is associated with more rapid growth

Linear prediction
Growth rate (adjusted for other factors)
Composite services liberalization index
Source: Mattoo, Rathindran and Subramanian (2001)

Services policy also affects the size and pattern of trade in goods…

High Cost of Telecommunications Penalizes Trade, Especially in Differentiated goods

Homogeneous
Reference
Differentiated

The comparative advantage of several developing countries is shifting towards a range of business services

Brazil’s RCA for Services Exports in Selected Categories
RCA index
Other business services, Travel, Transportation, Change in RCA
India’s RCA for Services Exports in Selected Categories
Other Business, Travel, Transportation, Others, Change in RCA

Emerging comparative advantage in services is also linked to domestic services policy

Exports of IT and IT-related services from India: Share of foreign and domestic firms
IT Services (ITS)
IT Enabled Services (ITES)
ITS + ITES
Indian
Foreign
But developing country exports face severe current and some potential impediments

- **Mode 4** barriers are well known
- **Mode 1** export expansion is beginning to provoke protectionist pressures
- **Mode 2** also suffers some restrictions

**Mode 4: Some preliminary estimates**

Increase in developed countries’ quotas on skilled and unskilled temporary labour movement equivalent to 3% of their labour force could lead to an estimated $156 billion increase in world welfare (which is greater than the estimated gains from complete liberalization of goods trade).

II. Priorities for Reform

- **What we know:**
  - Emphasis on competition
  - Effective domestic regulation
  - Appropriate sequencing

Sequence matter

Effects of sequencing

Privatization before competition

Competition before privatization

**Questions that remain**

- How far should trade liberalization be conditioned on strengthened regulation?
- How much is to be gained from eliminating all barriers to entry/ownership when some is already permitted?
- Would liberalization improve access to essential services for the poor, and if not, what must be done?

3. Priorities for Negotiations in a Development Round

- Policy research to help design reform programs
- Assistance to improve the regulatory environment
- Improved access to foreign markets

Negotiating improved access: formulae versus request-and-offer

**Formulae could help:**

- Overcome unequal bargaining power
- Reduce transactions costs of negotiations
- Overcome the free-rider problem
- Ensure credit for unilateral liberalization

Options for securing openness for cross-border trade in services

- **Option 1**: Horizontal commitments on market access and national treatment for all services sectors (except specific financial and transport services) subject to a prudential carve out.
- **Option 2**: As above, except commitments would only apply where businesses are the consumers
• **Option 3**: Targeted commitments for specific IT and BPO services

Options for securing openness for mode 4: a possible general approach

**Emphasis on**:
- Horizontal commitments
- Intra-corporate and contract-based movement.

**Contract-based movement**
- Likely to be more desirable, because temporary
- And may be easier to liberate from restrictive immigration and labor market regulations

**Options for securing openness for mode 4: possible specific elements**
- Streamlined visa for short-term presence
- No quantitative restrictions or economic needs tests
- No discrimination through internal measures (taxes and regulations)
- Transparent and predictable regimes

VI.3 **Trade Facilitation: win-win for everyone?**, Peter Wilmott, President ODASCE

Points to cover
- what is trade facilitation?
- what do we know about costs and benefits?
- how is trade facilitation related to other market access issues?
- why negotiate a WTO agreement?
- what would an agreement look like?
- who wins?

Definitions
- wide (trade promotion; civil engineering)?
- or narrow (customs modernisation)?
- for WTO purposes, it’s about
  - efficiency of processes associated with goods movements across international borders
  - setting standards and spreading best practice
  - cutting costs of doing international trade

Costs and benefits
- Choice of approach
  - top down (percentage of international trade values)
  - bottom up (aggregation of individual business costs)
- No convincing estimates of either, though work in progress
- Does it matter?
Links to other market access issues
• Trade facilitation targets processes, while traditional WTO negotiations target outcomes
• Linked nevertheless to areas like tariff reductions and elimination of NTBs
• Increasingly significant as tariffs fall
• Currently not subject to any international discipline

Why a WTO agreement?
• Trade facilitation is national in its implementation, but international in its impact – a natural candidate for WTO rules
• Without international rules, progress will be slow and uncertain
• Developing countries can be big winners – so it’s a natural for the Doha Development Agenda
  Ingredients
  • Up-front commitment to imaginative and practical use of special and differential treatment and of capacity building
  • Mechanisms for accommodating big differences between members’ starting points
  – core commitments plus facilitation ‘ladder’
  – self-assessment and peer review

Who wins?
• Trade facilitation cuts the cost of doing trade, and helps boost trade volumes
• Developing countries participate more in international trade (and cope better with difficult security climate); they also gain from internal efficiency gains (eg revenue)
• South-south trade wins, and not just developed economies

Conclusion
• A trade facilitation agreement in the WTO gives an opportunity for members to win without having to make concessions first
• Trade facilitation is a continuing process, not a one-off event; but it needs WTO commitment to produce benefits world-wide
• It can deliver political success and practical gains, with no losers

VI.4 An LDC View On Liberalization Of Tariff and Trade Barriers, Patricio Meller

Key issue of Doha Development Agenda:
What type of WTO rules would maximize the rate of development of LDC?
↑ LDC X becomes essential objective ⇒ ↑ market access to DC economies.
Why this DC bias? Because DC markets are the most significant ones

variety DC trade barriers mainly biased against LDC X
  -- Tf peaks & Tf escalation -- agricultural and L + goods
  -- Agricultural subsidies (for exports and domestic production),
  -- Antidumping laws, rules of origin, pyramid trade preferences
What is the trade theory providing the rationale for this DC trade protective structure?

Why should LDC liberalize service X & protect IP when LDC X of goods having comparative advantage in DC markets do not face a leveling field?

There is an inconsistency in the DC trade economic argument. On the one hand: Recognition LDC X are a key tool for development. On the other hand: DC have trade barriers to significant products which LDC could export. The DC emphasis on “behind the border issues” and LDC tariff barriers looks like a trade deviation tool from a real debate on DC trade distortions.

**DC TARIFF PEAKS**
- while LDC Tf levels are at 2digit level and in quite many cases over 20%.
- **Prevailing view:** DC Average Tf are at the one digit level and below 5%

Graph 1: Bound Mean Tariff for DC and LDC(%) “The Marketing Image”
- Developed Countries: EU, Japan, USA
- Less Developed countries: India, tunisia, Indonesia, Mexico, argentinian, Brazil, thailand, Korea
- Agriculture, Industry, All lines

**DC TARIFF PEAKS**
The 10 selected items have Tf peaks >50%; 8 of them have 3digit level tariffs.
Table 2: Selected Tariff Peaks(MFN) in CD on Agricultural Imports from LDC 1998-99
Product tobacco, Butter, Milk concentrates, chocolate, oil seeds, Mild, Poultry, Barley, wheat, Maize

How were these Tf peaks established?
What is the economic rationale for these values?
What is the consumer welfare loss at each DC country level?
How many are the privileged DC domestic producers?

**DC TARIFF ESCALATION**
DC Tf structure for several products (L+) follows a similar pattern than LA ISI
- Goods having more stages of production have > levels of protection

⇒ Tf escalation according to increasing value added.
ERP for the final products are much higher than those shown by nominal Tf rates.
Graph 5: Textil Tariff Escalation in DC
- Raw Mat., Semi-finish, finished
- USA, EU, Japan

**NON-TARIFF BARRIERS**
DC apply several technical and non-Tf measures which are perceived as trade barriers by LDC.
There are clear Tf barriers like quotas, import licenses, pre and prior authorization, preferential origin norms, enter price, trade names.
Specific examples in this respect (EU non-tariff barriers against LA products:}
(i) **fruits & vegetables** face quotas/ enter price /import license/ special safeguard
(ii) **cocoa & canned sardines** face trade names /product standards
(iii) **coffee, flowers, tobacco, fish products** face quotas
(iv) **maize & sugar** face import license
(v) **textiles & clothing** face quantitative restrictions
(vi) **footwear** face Surveillance/ prior authorization

**AGRICULTURAL SUBSIDIES PROVIDED BY DC**
DC Government support agricultural sector (OECD; year 2001):
- Japan: US$23,000/farmer
- EU US$20,000/farmer
- USA US$16,000/farmer
DC agricultural subsidies as % of total value production (The Economist, year 2001):
- Japan: 58% value production
- EU: 35% value production
- USA: 21% value production
These numbers could be compared to the value of LDC agricultural X/ farmer.
On average, LDC agricultural X are around US$200/farmer
This figure ↑ to US$1,500/farmer when only are considered successful LDC Agric X
DC government subsidies to DC farmers are >> than w ≠ among DC and LDC.
Even if Tf peaks of agricultural products were ↓ and these levels of DC public agric. subsidies were maintained
it is very difficult for LDC agricultural X to be able to compete.

When DC push the same leveling field principle for having “fair” competition among DC and LDC in the international world markets, how then could be justified such large public subsidies to the DC agricultural sector? What is the economic calculus backing the above numbers?
It is said that EU CAP is concerned with the defense and preservation of the way of life of the European rural regional people.
However, this policy has a huge negative effect far away upon poor peasants living in the Andean and African valleys, subtropical belts, LDC small and medium farms
DC agricultural subsidies are contributing “to the destruction of those same values, social networks and cultural heritage” of LDC rural life that they are trying to save in their own countries
Moreover, in LDC the rural poor are likely to represent a large share of the total poor.

**ANTIDUMPING DUTIES**
AD has become the main tool used DC for restraining LDC successful X
In a seven year period there were 164 AD investigations/ year;
of the total AD cases of the period, 300 were by USA and 242 by EU.

“AD - minor instrument when GATT was negotiated- ∃ little controversy”
Present AD “virtues” so attractive to DC governments and producers
(i) AD is a better tool for targeting foreign suppliers having lower costs
(ii) the action is unilateral, and no compensation is required
(iii) the “injury test” is lower than for safeguards
(iv) no requirement of adjustment by domestic producers
(v) no need to prove ∃ of subsidies (compared to countervailing measures)
(vi) rhetoric foreign unfairness facilitates the political support for protection
(vii) the beginning of the judicial process curbs exports.
Simple AD rules have a highly negative effect upon successful LDC producers. It is a deterrent to LDC X & LR I are discouraged because “if an LDC exporter becomes too efficient, it will eventually be penalized”.

Which is the economic theory that suggests that efficient producers should not expand their level of production?

**LDC WISHFUL THINKING OF DOHA OUTCOME**

DOHA Round Trade should have the following goal: to achieve a leveling field across all countries, DC and LDC.

1st Best set of rules:
- Flat tariffs, without exceptions, for all countries.
- Zero subsidies (X & domestic producers) for all goods, incl. agriculture products
- Elimination of AD.

2nd Best set of rules:
- Tf peaks < 2 times level of the mode (median) value of the Tf structure.
- Subsidies (X & domestic producers) for all goods, incl. agricultural products, providing a protection equivalent to < 2 times the mode (median) value of Tf structure.
- Annual limit to the number of AD investigations that the producers of a country could request. This limit for each country could be 1 to 2 cases per month.

In this way, AD would become a scarce resource at each country level; the government would have to define which cases really deserve using the “existing (annual) AD budget limit”

Bottom line (from an LDC University professor).

What guides DC WTO position:
- Economic principles or private corporate interests?
- As Michael Finger said “trade theory is about identifying whose hand is in whose pocket; trade policy (and trade rules) is about who should take it out”

**VI.5 Current Doha Negotiations Importance Of Developing Countries Agriculture – Important Activity, Minister Rodrigues**

Brazilian experience
- Developing country with unbalanced development
- Process of transformation
- Sector modernisation
- Reduction of the government role

Use of land in Brazil
- Territorial distribution – estimate
- In million ha
- Amazon rain forest
- Breeding pastures
- Protected areas
- Annual cultures
- Permanent cultures
- Cities, towns, lakes
Roads and swamps
Cultivated forests
Other uses
Unexploited area still available for agriculture

Brazilian’s grain production
Brazil – cultivated area and production
Productivity (t/ha)

Brazil’s trade balance
Agribusiness

International trade liberalisation
Domestic and international markets are linked
Trade barriers inhibit development
Agreement on agriculture – useful framework

Agriculture Negotiations
Negotiations must be balanced
The three pillars considered together tariff reduction – subsidies elimination
Brazilian positions in WTO negotiations

Brazilian positions in WTO negotiations
Export subsidies elimination
Export competition
Domestic support disciplines
Green box x amber box
Market access

Brazilian experience – Cotton case
Great effort to recover cotton sector
Transformations – modernisation, new technologies
Production recovered
Recuperation threatened by international subsidies

Minister of agriculture, livestock and food supply

VI.6 Governance Reform In Agriculture Trade: Market Access And Developing Countries, H.S. Dillon, Executive Director, Partnership for Governance Reform in Indonesia

Globalisation, governance reform, and agriculture trade
Globalisation Opportunity
Governance Rules
WTO Key
Institution for governance reform

Doha Ministerial Declaration
Greater market access
Phasing out export subsidies
Reducing domestic support

Market access
Tariffs  Peak escalation
Tariff quotas
Special safeguards

Genesis of trade distortions
Food sovereignty  price supports, border measures
Productivity  surpluses
Budget burden  X subsidies dumping
TRAP DC farmers in poverty

Consensus
Deep cuts in peak tariffs
Tariff simplification
Tariff escalation
Extension of SSG for DCs only
Special products for DC development

The road to Cancun
Justice  Fair treatment
WTO  Rules
Today’s rich and powerful
Global  Lasting
Governance  Solution
Reform  Against discrimination

VI.7  Multilateral Trade Negotiation in the Textile and Apparel Sector: Evaluating the Impact of the Uruguay Round and of a New Round, Antoine Bouët, University of Pau & CEPII

Introduction
Textile and clothing sector: some specificities
Very large market
Still protected, all around the world
Recent normalization, with the set-up of the ATC agreement
New competitors: China
A major stake for the development issue

A few methodological issues
Applied rates vs bound rates
Weighting tariffs on different products: imports of a reference group
Liberalisation formula is applied at the disaggregated level

Market access before and after the Uruguay Round

European Union, Japan Canada, Unites State, Australia New Zealand
Global protection
Before UR, textile
After UR, Apparel
Clothing, induced imports variation
Apparel, induced imports variation
China, Thailand, Malaysia, Brazil, Argentina, Mexico, India, Indonesia

Tariff peaks

Tariff peaks in developed countries
Frequency
Coverage

A new liberalization: what impact?

Protection level after a Round with a linear formula
Textile & apparel

Protection level after a Round with a progressive formula

Concluding remarks (1)
Textiles and clothing: a still protected sector, but in many countries, protection is much lower than in agriculture and the recent liberalization has been large
Protection is especially high in developing countries and in the clothing sector of some developed countries (Australia, New Zealand)
Tariff peaks are still numerous in developing countries and in Canada, Australia, Norway, USA … next liberalization must be progressive

Concluding remarks (2)
World T&C protection is still high and T&C represent a very large economic sector: large expected increase in trade flows due to a new progressive liberalization
The initial situation is not a multilateral world: next multilateral liberalization should mean erosion of preferential margins

VI.8 Environmental Goods & The Multilateral Trading System, Scott Vaughan

The Doha Mandate
Reduce and/or eliminate tariffs and non-tariff barriers to trade in environmental goods

Defining environmental goods:

US$550 billion per year globally

Environment “industry” in Europe generates 54 billion Euros per year, employing over two million people, or 1.3% of its total paid labour force.

US$170 billion:
Solid waste management ($31 billion)
Water treatment ($25 billion)
Water equipment ($13 billion) and
Air pollution equipment and waste management equipment ($11 billion each)
Category A:
Air pollution control
Wastewater management
Remediation/clean-up soil and water

Category B
Cleaner technologies
Cleaner/resource efficient products

Category C: Resource management group
Indoor air pollution
Potable water
Recyled materials
Renewable energy plant
Heat/energy saving equipment
Sustainable agriculture and fisheries
Sustainable forestry
Eco-tourism

Is there room for tariff reduction?
In theory, reduce relative prices of green goods
MFN tariffs

MFN tariffs
Developing
OECD
China
Canada
Australia
Chile
New Zealand
Japan
US
Mexico

Electrical Appliances
Sewage Treatment
Water Filtration
Filters for Internal Combustion Engines

Non-tariff barriers
Lack of international standards and common agreement
Proliferation of competing schemes
Labels and certification
Testing procedures
Is harmonisation an option

Like products and production process concerns
Some environmental goods reply on PPM criteria
Top-down approaches
The slippery slope
Trade facilitation vs trade policy
Support trade facilitation in developing countries
Reduce information failures
Increase access to micro-credit and financing
Possible returns for small-scale producers
Trade policy: unlikely to move forward

VI.9 Trade Facilitation A Win-Win For Everyone!, Jim Clawson (discussant)

The goal is to facilitate the flow of international trade and at the same time increase supply chain security through the use of appropriate internationally accepted norms, standards and practices

How to facilitate trade
Promote the use of trade instruments, particularly those that harmonise and simplify processes and provide advance information to increase security
Ensure transparency and non-discrimination of the process
Reduce the clearance time for goods
Support WTO efforts to develop rules that provide the political will to adopt trade facilitating agreements

Tools or keys that implement facilitation

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<th>HS</th>
<th>G8/WCO Data Model</th>
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<tr>
<td>GATT Value</td>
<td>WCO and ECE Compendia of Facilitation</td>
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<tr>
<td>Nairobi</td>
<td>WCO Recommendations</td>
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<tr>
<td>Revised Kyoto</td>
<td>WCO Recommendations on use of IT</td>
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<td>UN/EDIFACT</td>
<td>Unique consignment reference</td>
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<td>Single Window concept</td>
<td>Unique consignment reference</td>
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<td>GATT 1947</td>
<td>Layout key</td>
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<td>APEC Shanghai Accord</td>
<td>SITPRO Recommendations</td>
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Who created these keys
Membership is about the same in most international intergovernmental organizations that have developed these trade tools
Significant time, resources and energy have been invested by all countries in developing these tools
Governments have already agreed to the standards, norms and processes for facilitation

Why aren’t we all using the keys
Too difficult
Low priority
Restricts flexibility
May reduce revenue
Lack of capacity
Too costly
Insufficient political support

Why is facilitation needed
All economies are now being challenged to improve customs procedures in order to collect revenue, attract investment, increase economic development through trade, and ensure security
For business there are practical reasons including:
Reducing clearance time (“a container at rest is a container at risk”)
Eliminating uncertainties
Reducing logistics costs
Improving compliance and physical security

Why Now
Growing volume of trade
Fall in tariff levels to an all-time low
Availability of modern technology
Losses from border inefficiencies are estimated to exceed the costs of tariffs
Heightened need for economic and physical security

Developing economies win
Developing economies benefit from greater efficiencies and frequently benefit from increased revenue collection.
Customs reforms in Peru increased fiscal revenue from duties from 25% to 35% of national revenue from duties from 25% to 35% of national revenue (World Bank).
In Chinese Taipei, improved risk and analysis enabled Customs to target fraud and increase duty collection by $3.5 million (World Bank).

Civil Society Wins
Increased investment and customs revenue become available for government and private services to reduce poverty.
In Bangladesh, reforms eliminated inefficiencies in Chittagong Port that exceeded $600 million a year (OECD).
In the Republic of Korea, reforms resulted in reduced average clearance time from 14.9 to 8.9 days, saving over $308 million in logistics costs (World Bank).

Business Wins
Transparent, predictable customs procedures are integral to a company’s ability to ensure beneficial trade transactions.
By reducing transaction costs and time, business is more willing to invest those savings in growth.
Small and medium-sized enterprises (SMEs) are particularly dependent on a clear, reliable customs environment.
SMEs are able to enter markets previously closed to them.

Trade Wins
Traders in all sectors will know that sourcing plans and production operations will not be subject to interference because of unknown procedural requirements or other difficulties in obtaining rapid customs clearance.
Importers will have accurate estimates of costs and clearance times before goods are shipped.

What is expected in the WTO from this work
The WTO legal framework, e.g., in Articles V, VII, VII and X of the GATT 1947, as well as the Agreements on Customs Valuation, Import Licensing, Preshipment Inspection, Rules of Origin, TBT and SPS, already provide the basis for an agreement on facilitation.

Why is it taking so long
There is no consensus commitment to a clear, simple set of TF rules in the WTO.
Many developing countries believe TF is just another obligation being forced upon them at a time when they have not yet completed the commitments from previous rounds.
Other issues such as agriculture and medicines are commanding a higher priority to developing country members

Can these problems be resolved
There is little opposition to modernization of customs and facilitation of trade flows
There is a lack of understanding of the benefits to south-south trade and developing economies in transition, particularly for SMEs

Better communication is needed to demonstrate that the least developed, land-locked and transition economies will derive the most benefit from rules governing facilitation

The way forward
The means of negotiating TF rules need not be difficult
Many WTO Members are aware of the challenges faced by developing countries, especially in the case of implementing new trade reforms
A coalition of WTO Members promoting TF has called for a new kind of negotiating mandate in this area

An action plan
If TF negotiations were launched this fall, the mandate could include a work programme, to be conducted concurrent with the negotiations, with the purpose of developing the technical assistance necessary for implementation of obligations

In this way, the negotiation of new TF rules can take into account the individual needs of developing countries

What is needed is the political impetus to encourage member nations to adopt and implement this Action Plan

WTO: The master key
The Cancun WTO Doha Development Round Ministerial is the opportunity to marshal that political will to embark on a programme that will encourage all nations to fully implement the Trade Facilitation instruments that will bring about the benefits of facilitating the flow of international trade and increasing supply chain security.

An agreement on Trade Facilitation in the World Trade Organisation will make everyone a winner

VII. List of Discussants Papers

VII.1 The Quantification and Impact of Non-Tariff Measures: Why Do NTMSs Proliferate And What Are The Consequences? Dan Ciuriak*

Bijit Bora’s “The Quantification and Impact of Non-Tariff Measures” describes a “vast array” of measures that, although perhaps individually not important, when taken together as an aggregate, serve as “a significant barrier to trade.” While one would welcome some sense (however rough) of the extent to

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15 Ibid, p. 1
which the proliferation of NTMs described in the surveys has been within areas that are likely to fall under the purview of existing WTO processes/working groups, Bora makes the point well enough based on his taxonomy of what is known that the list is not complete and that the trade policy community does not, in fact, have a good handle on what is out there.

While providing a very nice survey of the state of knowledge concerning NTMs, the paper invites elaboration on two questions: Why the proliferation of NTMs? And what are the consequences of this proliferation? These questions lead to some conclusions that bear on the allocation of trade policy research in the coming years as well as on other policy areas that are affected by trade.

Why the proliferation of NTMs?

The apparently explosive growth of NTMs in the last several decades occurred at a time of powerful growth of trade, well in advance of global GDP growth. Trade policy undoubtedly had something to do with this record, alongside the technological forces that have driven globalization (reduction of costs of transportation and communication, etc.). During this period, governments were enthusiastically “talking the talk” of trade liberalization. And based on the broad success in concluding multilateral trade rounds and several large and on balance trade-creating regional trade agreements, governments were also to some extent “walking the walk”.

So one might well ask, why the counter current of NTM proliferation? Bora does not really address this question, offering only the observation that “National governments have always been able to discover and implement new and sometimes ingenious ways to reduce the volume and value of trade.” 16 In this context, the flourishing of NTMs is described as “not surprising”. 17

Governments do indeed from time to time respond to pressures on the economy and squeaky wheels do get their grease. Insofar as these pressures derive from stronger import competition (driven by technological change, product innovation, or improved economic performance abroad), the economic logic of trade should work as a strong countervailing pressure on governments to help them resist yielding to domestic calls for protection—not least because governments can be under no illusion that, in such circumstances, the need for protection usually does not go away, as vested interests are created along with the rents that protection generates. The disciplines of the multilateral system should help put steel in the backbones of governments in facing such domestic calls for protection.

Of course, insofar as the trade disciplines are found to be inadequate, then there is work cut out for future trade negotiations. For example, loopholes in the existing trade laws may facilitate giving in to lobby pressures for protection, and procedures governing trade disciplines—especially trade remedy mechanisms—may allow for “gaming” of the rules to buy time for industries under external competitive pressure, which some countries argue amounts to “procedural protectionism”.

Importantly, insofar as NTMs might be emerging because tariffs have been brought under trade disciplines, we might have the perverse result of protection shifting from a form that can be considered “efficient protection” into a category that can be described as “inefficient protection”. 18 The distinction here is that instruments such as tariffs are transparent and predictable, are subject to international disciplines, and have fewer and less deleterious welfare effects than many non-tariff measures (e.g., tariffs create transfer payments that become tax receipts which can be used for public purposes; by contrast,

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16 The point is echoed in the summary of the work of Deardorff and Stern on NTMs which concludes that most NTMs are put in place expressly to reduce imports. Ibid at p. 3.
18 For a discussion of this idea see Allan O. Sykes, “ ‘Efficient Protection’ Through WTO Rulemaking”, paper delivered at the conference Efficiency, Equity and Legitimacy: the Multilateral Trading System at the Millennium, Center for Business and Government, Harvard University, June 1-2, 2000, available online at www.ksg.harvard.edu/cbg/trade.
regulatory requirements that raise rivals’ costs simply create deadweight losses through expensive compliance procedures). Categorizing and measuring NTMs provides the basis for policy change to counter any such trend—this presupposes, of course, that they are not already subject to study/negotiation in one context or another (e.g., standards, trade facilitation, government procurement etc.).

And, inter alia, having this information would strengthen the case for further liberalization which needs to be made anew not only to the general public, but also within governments of economies that are already highly open (when openness is measured by the height of tariff walls) and that might accordingly be less inclined to spend the political capital needed to push forward to an ambitious result in the present round of multilateral negotiations.

The pressures to which governments respond do not always stem from trade, however. Various social, environmental, health and other policy domains actively churn out policy changes to address problems and issues of their own. Trade can get sideswiped. In these instances, we enter a gray zone where the legitimacy of non-trade concerns has to be recognized while pushing back hard enough such that policy frameworks settle on approaches that are transparent, based on objective scientific grounds where scientific issues are raised, and that are the least trade restrictive means of addressing the non-trade concerns. This too is a matter that provides good grist for the trade policy mill.

So far so good and well understood.

But there is a third source of pressures that is given too little heed these days. As Bora emphasizes in his discussion of the definition of an NTM, trade should equalize prices for a particular good such that, taking into account differences due to transportation and other unavoidable factors, the “law of one price” should hold. NTMs that drive a wedge between local prices and the price that would prevail under the law of one price are then a source of price distortion and consequently of economic inefficiency.19

But implicit in the law of one price is that exchange rates are at equilibrium. If exchange rates are persistently wandering far from equilibrium over extended periods of time, then what is the price for a particular good that would prevail under the law of one price? The short answer is that it would be one that prevails nowhere at any time in the real world—perhaps it is some weighted average of the disequilibrium prices in the various national economies in which the good is bought and sold. But it would certainly not be a price that a trader would recognize. And the effect of an NTM on a national price under these circumstances is therefore indeterminate in classical efficiency terms.

Insofar as the inventiveness of governments in devising NTMs to relieve pressures on national economies stem from this source, we enter a different kind of gray zone—a world in which the prevailing law is that of the “second best”.20 In this world, it is not clear whether NTMs are “bads” or are simply offsetting other “bads”.

Casual empiricism suggests that at least some of the proliferating NTMs were prompted by disequilibrium conditions. One tends not, after all, to see countries with undervalued exchange rates being accused of introducing NTMs to block imports.

Accordingly, the first question posed above (“Why have NTMs proliferated?”) seems to matter quite a bit in terms of how the trade policy community responds to them. And, if an important reason for NTM proliferation is lack of “coherence” between the systems of international trade and international finance,21

21 The extent of movement of real exchange rates, which is the major issue for the trading system posed by the system of international finance, is at the heart of three puzzles: (a) whereas the theory of the floating rate system is that nominal exchange rates adjust to offset inflation
what is needed is a rather more general discussion—recalling for example the discussion agenda of the Functioning of the GATT System (FOGS) working group during the Uruguay Round.

**Some consequences of proliferating NTMs**

Three consequences of particular significance flowing from the proliferation of NTMs are highlighted in the literature reviewed by Bora. First, the overall level of trade is lower than it optimally would be. Second, internationally prices are not at the levels dictated by the law of one price. Third, the elasticity of trade flows to price changes is dampened. The first two points are basic to the economist’s rationale for trade, namely increasing efficiency, and need no elaboration here.

The last point, namely the dampened responsiveness of trade flows to price changes, is of interest on at least three accounts.

First, it may be observed that today’s global economy has external imbalances of unprecedented size in absolute terms. It tries to resolve these imbalances through exchange rate flexibility. At the same time, it is commonly observed that exchange rates tend to overshoot as the adjustment process unfolds. A dampening of trade elasticities would logically work to slow/weaken the adjustment of external imbalances. Accordingly, imbalances would persist for longer and reach larger dimensions and the exchange rate swings needed to correct those imbalances would have greater amplitude. Turning the argument around, increasing the responsiveness of trade flows to prices would cause more rapid external adjustment and reduce the chance of large imbalances arising in the first place. Without going so far as to make judgments concerning the quantitative significance of NTMs in the current problems of global adjustment, a proliferation of such measures might well be a contributing factor.24

Second, a slower response of trade flows to prices is effectively the same as a reduction in similarity of domestic and foreign goods and services (i.e., there is an implicit reduction of the cross-price elasticity of imports vis-à-vis domestically produced goods). In turn, this means that price competition from imports is lower than it otherwise would be. NTMs that reduce the elasticity of imports thus not only convey protection to domestic producers from imports, they create increased monopolistic pricing power domestically, with implications for domestic policy. For example, in response to trade liberalization, differentials and thus keep real exchange rates stable (subject to secular trends in the real economy that warrant changes in the real exchange rate), in reality nominal and real exchange rate movements are highly correlated—as for example has been the case with the recent euro depreciation/appreciation cycle against the dollar in a climate of stable low inflation; (b) the purchasing power parity (PPP) “persistence” problem is posed by the fact that the speed of reversion to PPP values is very slow (as a stylized fact, the “half life” of such reversion is 4-5 years), much slower than a globalized capital market would lead one to expect; and (c) whereas the theory of “multiple equilibria”, in the context of second generation crisis models, justifies attacks on exchange rates on the basis that the market correctly anticipates future inflationary policies, the emerging markets that have been attacked on this basis have not in fact behaved in accordance with theoretical expectations, meaning that the large devaluations forced by financial markets have been largely real depreciations. For a summary of the key facts bearing on the question of coherence between the systems of trade and finance, and sources concerning the conundrums cited see Dan Ciuriak, “Trade and Exchange Rate Regime Coherence: Implications for Integration in the Americas”, *The Estey Centre Journal of International Law and Trade Policy*, Volume 3 Number 2, 2002:256-274.

22 In theoretical terms, dampened price elasticities of trade flows and external balance adjustments are linked through the Marshall-Lerner Condition which states that, if longer-run import and export price elasticities sum to greater than one, an appreciation (depreciation) weakens (strengthens) the external balance.

23 In a dynamic context, an initial proliferation of NTMs to offset exchange rate-induced pressures might perpetuate the external imbalances and thus set the stage for still further growth in such NTMs—in short a self-perpetuating negative dynamic that could intensify beggar-thy-neighbor trade policy reactions to the imbalances that trade policy reactions helped to create in the first place.

24 An important test case as to the potential quantitative significance of this proposition might be provided by the slow adjustment of Japan’s external balance between 1985 and 1995 in response to the phenomenal appreciation of the yen over that period. In prior episodes of yen appreciation following the breakdown of the Bretton Woods system, oil price shocks served to swing Japan’s external balance into deficit; in each case, the yen subsequently fell back to more comfortable levels for Japan and Japan continued its trade-led growth path. By contrast the post-Plaza Accord appreciation of the yen was not attenuated by a swing into external deficit. The persistence of Japan’s external surpluses was regarded in some quarters as due to non-tariff measures used to slow imports—this, for example, was the rationale behind the US Structural Impediments Initiative of the last 1980s. Since all previous historical evidence suggested that Japan’s trade elasticities more than met the Marshall-Lerner Condition, there appears to be a *prima facie* case for further investigation along these lines.
governments appear to have been willing to see greater domestic industrial consolidation in the belief this would promote export competitiveness, implicitly counting on competition in the domestic market being provided by trade. But if proliferating NTMs reduce the competition flowing from trade, we get the worst of all worlds—limited domestic competition and ineffective trade competition. This is perhaps one of the sources of the civil society response to globalization which targets growing corporate power.

Third, insofar as the gains from trade liberalization derive from the responsiveness of imports to changes in relative prices through tariff reductions, a dampened price response will lead to disappointing results from trade liberalization compared to expectations which are calibrated according to assumed stronger responses.

Conclusions

To summarize, some five conclusions may be drawn from Bijit Bora’s analysis as to why it is important to make the attempt to gain a better understanding of, and to better measure, NTMs, notwithstanding the difficulties faced in doing a perfect job.

First, categorizing and measuring NTMs provides the basis for policy change to counter any trend to NTMs popping up as “inefficient protection” to replace the relatively more “efficient” protection conferred by tariffs—in other words, it would give trade negotiators something concrete to shoot at, over and above what they now have in their sights under mandates in the various WTO negotiating/working groups. By the same token, given the fact that the various Singapore Issues (competition policy, investment, government procurement and trade facilitation) likely cover a good number of the types of NTMs that have been identified, moving forward on some or all could perhaps slow the growth and/or partly roll back the existing stock of NTMs.

Second, given past success in reducing average tariffs in the industrialized world to essentially de minimis levels, with remaining areas of significant tariff protection in the industrialized countries relatively few but typically “sensitive”, the focus for further trade liberalization is increasingly based on non-tariff issues; the case for a higher level of ambition on the part of the industrialized countries (which is needed as a quid pro quo for engagement by the developing countries where traditional tariff protection is still high) would be strengthened if it can be demonstrated that the protection has migrated elsewhere in the system.

Third, there are important ancillary domestic policy implications from an NTM-induced dampening of responsiveness of imports to tariff changes, in particular regarding the erosion of the effectiveness of trade in disciplining domestic competition.

Fourth, insofar as NTMs are slowing the response of trade to change in prices, J-curves will be longer and deeper; by the same token, one would expect greater amplitude of the real exchange rate swings needed to drive adjustment of external imbalances. Meanwhile, insofar as NTMs are in the first place prompted by disequilibrium conditions in international financial markets, we have the makings for a vicious circle. Insofar as this effect is quantitatively important, a broader dialogue on trade-finance coherence is required.

Fifth, a proliferation of NTMs might, by dampening trade responsiveness to prices, invalidate the econometric estimates of gains from trade in the Doha Development Agenda or in regional agreements. There are accordingly analytical implications of proliferating NTMs.

25 For example, competition and investment-related issues are important parts of the taxonomy of NTMs developed by Deardorff and Stern; government procurement and trade facilitation might well catch many more actual or potential NTMs.
VII.2 Trade Facilitation: Win-Win for everyone?, Syed Habib Ahmed

**Defining Trade Facilitation:**

- The paper starts by making an attempt to draw parameters for a definition of Trade Facilitation. The first assumption in this regard spells out the purpose/objective of trade facilitation *i.e.* to improve the efficiency of processes associated with the movement of goods across international borders.

- How does Trade Facilitation work – by promoting the development and use of internationally accepted norms, standards, and practices; by encouraging public administrations to coordinate their activities and minimise their impact on legitimate trade, and by fostering the adoption of best practice in commercial transactions.

- Second assumption the author makes about the potential trade facilitation agreement is that it would place a set of rules that bind governments to progressively higher standards in their facilitation of international trade and that offer appropriate remedies when these standards are not met.

- These rules will provide a valuable multilateral framework of rights and obligations.

- It cannot be a substitute for effective action on the ground at national level.

**Comments:**

- Many definitions have been provided for trade facilitation:

  - Some Definitions:

    - the systematic rationalization of procedures and documentation for international trade
    - defines trade procedures as activities to be the practices and formalities involved in collecting, presenting, communicating, and processing data required for the movement of goods in international trade
    - Involves reducing of the transaction costs
    - the simplification and harmonization of trade procedures
    - systemic rationalization of procedures and documents for international trade through a sequence of institutional and physical actions
    - invisible infrastructure
    - cardio vascular system of international trade
    - applying standards to procedural requirements of trade monitoring institutions

- The way I view the concept is that the problem does not lie with the definitional concepts associated with trade facilitation. There is generally an understanding amongst the membership of the WTO about what constitutes trade facilitation. The problem as I see pertains to the idea of agreeing or on the need to have a WTO trade facilitation agreement.

**Costs and Benefits:**

- Nobody has yet satisfactorily quantified the benefits of trade facilitation.
• Whatever the methodological difficulties, there appears to be a consensus that, however, they are quantified the potential savings from streamlining border processes are large and that any benefits from trade facilitation will, taken in the round, substantially outweigh the costs.

• Administrations can also benefit from improvements in control procedures via greater transparency, efficiency and effectiveness, leading to improved controls and collection of duties and taxes.

• No trade off between more facilitation – less control.

Comments:
○ There is no dispute about the fact that trade facilitation brings benefits for international trade. One can agree that there are no authentic quantified benefits which might depict true state of affairs in terms of cost benefits of trade facilitation. Everyone tends to agree that trade facilitation is needed. No administration wants to make clearance expensive and cumbersome for its trade. Although one can agree that there is no trade off ‘per se’ between control and trade facilitation but one would have to strike a balance between the two concepts. The way I view trade facilitation is not from a point of view of controls but rationalisation of procedures, formalities, and documentation for international trade. Trade facilitation aims at simplification and harmonization of trade procedures. One can always argue this is not an issue of control but getting rid of procedures which are complicated and cause delays for customs clearances.

Trade Facilitation and other Market Access Issues:

• Trade Facilitation is not a traditional WTO activity.

• Trade facilitation has perhaps closer links with tariffs and TBTs than other WTO issues.

• Trade facilitation aims at the process by which public policy measures are enacted and enforced, while tariff lines and the like address the outcomes of those processes.

• If duties raise the price of imported goods when traded on a domestic market, then so do the transaction and compliance costs of paying those duties.

• If this process remains obscure and not subject to the international disciplines in which the WTO excels, an increasingly important component of international trade costs will continue to be arbitrary and uncontrollable.

Comments:
○ The advantages of reduction measures of tariffs is nullified as a net result of the high costs the trade has to encounter due to inefficient and cumbersome procedures. There is a positive linkage between trade facilitation and market access issues.

○ Besides market access one can also expand the advantages to countries providing efficient cargo infrastructure and rapid passage of inputs and finished goods for investment purposes. Investment would tend to follow efficient, and predictable economic environments.
I would wish to seek a clarification regarding trade facilitation not being a traditional WTO activity. Rather one could argue that trade facilitation permeates into various WTO agreements. To name a few, Articles V, VIII, IX, and X of GATT 1994 besides Agreements on Import Licensing, Customs Valuation, Pre-Shipment Inspection, Rules of Origin, TBT, SPS, Services, and TRIPS.

A Multilateral Framework:

- The WTO is the obvious home for a set of rules governing this aspect of international trade and international obligations.
- Surprise is that the initiative was not taken 30 years ago.
- It is fair to ask whether these rules should look and feel like other WTO provisions or whether trade facilitation calls for a different approach.
- The Doha Development Agenda mandates that the Council for Trade in Goods shall review and appropriate clarify and improve Articles V, VIII, and X of GATT 1994.
- Trade facilitation commentators do not seem to believe that these articles, however, embellished, can by themselves deliver the necessary degree of facilitation as they are limited in scope and relatively inflexible in their architecture.
- The author takes a view that a successful WTO agreement on trade facilitation needs to incorporate innovative thinking and new kinds of provisions.
- However, the new potential agreement is preconditioned by two other instruments i.e. ‘Special & Differential Treatment’ and ‘Capacity-building’ or ‘Technical Assistance’.
- It is believed that if this cannot be built into the agreement, the chances of securing consensus on a workable and effective agreement diminish sharply.
- Uncertainty about the commitments which a trade facilitation agreement would entail is an important element of the discussions.

Comments:

- In the discussions held so far on the subject of trade facilitation, a large number of developing countries, while recognizing that there was a need for improving and clarifying procedures and practice relating to export and import are not inclined to accept the proposal for development of new rules. There are several delegations which have expressed serious concerns regarding the idea of “negotiating binding rules” when there already exist mandatory provisions in the WTO agreements. They contend that the varied stages of development of many developing countries and their resource constraints do not allow them to engage in new commitments. In simple terms, a “one-size-fits-all” approach would not work. While developing countries and the LDCs agree on the benefits of trade facilitation they do not concur with the view of the usefulness and necessity of developing binding trade facilitation rules.

The New Ingredients:

- Countries will have different starting points when drawing up and implementing the agreement.
Developed countries have already attained a high degree of trade facilitation.

Less developed countries are likely to face bigger challenges with major reforms and significant expenses.

If negotiations followed, a traditional path, the risk is that the outcome would be of lowest common dominator of trade facilitation that might give comfort to WTO members but would change little in the real trading world.

But the key ingredients can be described succinctly:

- **Trade Facilitation Ladder:**
  The agreement would define a set of core commitments to which all members would be committed, but would then describe progressively higher levels of facilitation that would apply to the more advanced countries. Assessing the level appropriate for any one WTO member would be a matter for that country, although internal and peer pressures would help to avoid unacceptably low levels of ambition.

- **Measurement:**
  Members would make and publish regular measurements of their performance in key trade facilitation areas.

- **Capacity-building:**
  The ladder would provide clear goals, by setting out practical measures that a country could, with suitable assistance, expect to implement.

**Comments:**

○ One of the major apprehensions expressed by developing countries and LDCs pertains to the possibility of invoking “dispute settlement procedures”. Developing country Members fear that the lack of infrastructure, limited human and financial resources does not provide a level playing field viz-a-viz their developed country trading partners. The Developing countries are apprehensive that any breach of their commitment on account of their low level of development in providing multilaterally accepted obligations on Trade Facilitation could subject them to dispute settlement procedures.

○ However, having said this one could tend to agree that an approach of “one size fits all” might not apply to issues relating to trade facilitation. Therefore, one could argue that there is a need to think innovative ways to address the issues. An incrementalist approach could be one approach to further explore. The issues at stake are substantial and profound.

**Keeping Everyone Happy:**

- Trade facilitation can be a ‘win-win’ experience for all signatories to a WTO agreement.

- The benefits of trade facilitation are universal, and accrue to a large extent to the country investing in simpler trade procedures.

- The components of trade facilitation bring spin-off benefits in other areas.
• The ‘win-win’ nature of the agreement stems from the fact that members do not have to give something up in order to gain other advantages.

• If the right sort of deal can be done on special and differential treatment and on an appropriate capacity-building programme, the cost of change can be shared equitably and the countries with the biggest challenges or the lowest capacity to manage change sheltered from its more extreme and costly consequences.

Conclusions:

• Paper paints an excessively rosy picture.

• Negotiation has to be approached in a spirit of realism.

• Trade Facilitation is genuinely different from most other trade disciplines, in that it is inherently non-confrontational and bestows its major benefits on the countries prepared to make the biggest effort. It is to some extent a programme of self-improvement rather than one of trade-offs and concessions.

• To obstacles to agreement include a failure to see the advantages of trade facilitation.

Comments:

○ The desirability and feasibility of adopting common subject of rules in the area of trade facilitation which would impose binding obligations of all WTO Member countries has to be examined taking into account that both theory and past experience of harmonization of rules on an international basis show that differences in social and economic conditions in trading environments make the case weak for harmonizing rules on a multilateral basis.

○ The countries which are pressing for the development of rules in WTO in this area envisage, that it may be possible to improve the capacities of the developing countries to adopt and apply the new methods that are being used for facilitating trade by helping them in adopting electronic data interchange (EDI) and by training their officials in using new methods. Provision of such assistance during the period of negotiations and allowing them if necessary, a further transitional period of 5 years or so to prepare themselves for application of the rules that may be adopted in the negotiations, should enable them to apply them on a binding basis.

○ The counter view from the developing countries is that it would not be desirable to link the provision of technical assistance to the negotiations of new disciplines in WTO in the area of trade facilitation.

○ UNCTAD is of the view that “standard solutions spawned and successfully applied in industrialised countries could bring similar benefits if transformed as such into developing countries. However, practice tends to prove the contrary. Experience gained through technical assistance in the field shows that imported blueprints rarely fit all kinds of environments. Different situations require different approaches, both in terms of resources and in pace. Country or region-specific institutional innovations have proved successful when they can be based on local knowledge and experimentation, targeted to domestic traders and tailored to domestic international realities.”

○ Many developing countries feel that “real problem lies not in the inadequacy of multilateral disciplines, but in the deficiencies in the human, financial and institutional resources of developing countries.”
Questions to Consider:

- When a WTO Member takes obligations, meeting these obligations will require changes, including the implementation of new systems and enforcement processes. The questions to be asked are:
  - Would the developing countries be able to accept “binding obligations”?
  - Will the proposed WTO rules correctly diagnose the so-called problems affecting trade?
  - Aren’t the prevalent provisions not adequate or good enough?
  - Will the proposed rules prescribe the appropriate remedy?
  - How would we bridge the developed and developing countries facilitation gap?
  - What are the costs and expected benefits of supporting these rules?
  - What funds and who will provide the required funds to ensure adequate technical assistance and support for capacity-building in trade facilitation?
  - Do we really need legally binding multilateral rules or can we live with non-binding guidelines on trade facilitation?
  - Should individual Members embark on their own to initiate trade facilitation programmes keeping in view their national requirements?
  - Shouldn’t we have a realistic level of ambition?

VII.3 Moving Forward on Market Access, Mr. Gil-Sou, Shin

Thank you, Chair.

1. I feel greatly privileged to be here as a discussant, together with our respected Ambassador Girard serving here also as the Chair.

   Prof. Meller covered comprehensively the 3 areas of market access, whereas, I will focus on the issue of non-agricultural market access, then make two specific comments on Professor Meller’s presentation.

   (Introduction)

2. I’d like to begin by touching upon the annual meeting of the Group of 8 held just before this forum in Evian. This time what attracted my attention the most is not the speeches by the world leaders or outcome of that meeting, but the demonstration staged by protesters there against the G8 meeting.

   - Because when I saw those demonstrations on TV, I sensed that moments of reflection on motives behind them could be very relevant to our discussion.

3. I was particularly struck with a young German protester who was questioned by a TV reporter. He made a response to the effect that he was there to protest against globalization since he believes that the current global economy makes the rich richer and the poor poorer.

4. It seemed to me that the message he intended to send, to some extent, touched the very heart of today’s discussion and we are therefore expected to deal with the question raised in that message.
(DDA negotiations)

5. In this connection, the Doha Development Agenda negotiations which are under way at the WTO carries additional significance, compared to previous rounds of negotiations, treating development issues as a priority.

- The DDA negotiations are now regarded by many as an important test of whether global trade can realize its promise of helping both developed and developing countries.

- While the multilateral trading system has huge potential to help both the rich and the poor, the broad-based political support crucial for sustaining it requires the benefits of trade to be widely shared.

- Therefore, we see a growing expectation that the conclusion of DDA negotiations should ensure that open trade works for the rich and the poor alike, by contributing to achieving equal benefit-sharing.

- In this context, it is appropriate that at the G8 summit, world leaders pledged to promote the multilateral trading system by providing leadership in the ongoing negotiations so that improved market access for all WTO members is realized, particularly for the poorest, to ensure their integration into the multilateral system and their more broad development.

(Non-agricultural Market Access Negotiations)

6. Let me share with you a few thoughts about the progress recently made in the area of non-agricultural market access negotiations at the WTO meeting held last week in Geneva.

7. At that meeting, thanks to the comprehensive paper on elements of modalities circulated by the Chair, WTO members were able to discuss issues in a more structured manner.

- Even though the deadline for agreeing to modalities for negotiations, set for 31 May, was not met, many Members believed that the Chair’s paper could be used as a basis for further discussion.

8. The overall impression from my participation in the meeting is that the negotiation is being driven by two perspectives about how to achieve a higher level of ambition in improving market access.

- According to one view, now is also the time for developing countries to come forward and make ambitious commitments to improve market access, as the South-South trade accounts for a substantial share of world trade and the importance of that trade will continue to grow in the years to come.

- The other view is that there needs to be differentiated commitments between WTO members in accordance with their different levels of development.

- I would not venture to offer any assessment regarding the future direction of the negotiations and rather leave it for the dynamics of the negotiations to decide. Anyhow, I am sure that these two views will shape most of the features of the final outcome.

(Korea’s Expectations)

9. At this juncture, it could be worthwhile to present what Korea expects from the negotiations.
First and foremost, we expect that the outcome of the negotiation will ensure substantial improvement in market access while seeking to balance the benefits between developed and developing countries.

Second, we also expect that the negotiation will achieve convergence in the different tariff structures of WTO members by effectively addressing tariff peaks, high tariffs and tariff escalation in accordance with the Doha mandate.

These expectations are anchored in Korea’s firm belief that the negotiation should aim to deliver ambitious and real market access results which would enable the global trading system to use its potential for bolstering Members’ efforts for development and growth.

The substantially improved market access will benefit all WTO members equally in an ever-globalizing economic environment where the central role of trade for advancing development and growth is becoming more and more universal across the world.

The current negotiation on market access should be conducted not as a zero-sum game but as a winning one for all participants.

I am confident that the DDA negotiation will deliver an outcome that will enhance Members’ confidence in the global trade system.

(Concluding Remarks)

Finally, I’d like to underline the importance of developing countries making efforts on their own for integration into global open trade.

As experience in emerging economies has shown us, the benefits from global trade cannot be reaped where one has not sown.

Gaining the benefits from international trade requires developing countries to pursue policy initiatives that take advantage of the force from the global economy for their economic growth and development.

In this regard, Korea’s experience may offer some modest clues.

Korea had sought to implement a policy of autonomous liberalization from the late 1960s and followed this policy most robustly throughout the 1980s.

This policy has encouraged domestic industries to sharpen their competitiveness by exposing them to open competition with foreign products.

This, in turn, has had the effect of enhancing export opportunities for domestic industries with heightened competitiveness of their product.

In parallel with the autonomous liberalization policy, the government introduced a system for foretelling liberalization of target products 3 years in advance of actual implementation in order to mitigate the shock from the opening of the market. This system provided affected industries with time to adjust to the changed market environment.

Another merit of autonomous liberalization was its contribution to the curbing and fending off of trade conflicts with major partners.
- Building on these policies, Korea could, on a positive note, participate in the UR negotiations and utilize its multilateral framework for further boosting trade as an engine for growth.

14. Now, I would like to make two specific comments on the presentation by Professor Meller.

a) I appreciate Professor Meller’s comprehensive presentation.
- I share his concerns over trade barriers such as rules of origin and anti-dumping.
- In particular with regard to anti-dumping, most WTO members recognize the problem and are now vigorously seeking to clarify and improve the anti-dumping rules under the Doha mandate.
- At the end of the day, it is hoped that anti-dumping rules will be improved so that they are difficult to abuse for trade protection purposes.
- We believe that the appropriate reform of WTO rules is necessary to support developing countries efforts to expand their exports to the markets of developed countries.
- In our discussion on rules reform, one thing we should not disregard is that these days, users of anti-dumping have not been confined to developed countries.
- It is now also commonly observed in developing countries and the trend is ever-growing.
- The current negotiation on rules should deal with the temptation of countries to have recourse to anti-dumping for domestic political consideration.

b) I’d like to highlight the necessity of a positive and substantial participation by developing countries in improving market access.
- These days, South-South trade (trade between developing countries) appears to be growing rapidly and has become an essential component of world trade.
- This means that improved market access among developing countries is now critical for expanding export opportunities for developing countries themselves.
- The discussion about market access, therefore, cannot be prejudged in one way or another.
- When both developed and developing countries participate substantially in the initiative to improve market access, we can truly expect that genuine market access gains will be realized globally.

As Professor Meller has pointed out, tariff peaks which are predominantly observed in developed countries should be addressed and the Doha Mandate clearly demands it. Furthermore, high tariffs, another problem to be tackled in accordance with the Doha mandate, have been maintained mostly in developing countries and should also be addressed. By confronting these two tariff problems at once, we can pursue balanced efforts between developed and developing countries for improving market access and thus would fulfill the Doha mandate.

Such a participation by developing countries will help bring about international harmonization in the tariff structure.

VII.4 International Trade Policies in the Textile and Clothing Sector after 2005 by Husnu Dilemre

I. General Remarks

Textile and clothing industry has its own roots in the history of industrial development. It is often called as a traditional industry where production process mainly requires labor-intensive activities.

Textile and clothing sector still constitutes an important source of income and employment for many countries, especially for the developing ones. It accounts for 14% of the world employment and 8.3% of the value of manufactured goods traded in the world. In the last two decades, the geographical distribution
of production in the textile and clothing sector has shifted from Europe and North America to Asia and other parts of the developing world.

One of the major developments of the past decade was increasing impact of regional integrations in this sector. Mexico’s export performance experienced within the NAFTA, for example, has been an outstanding performance to this end.

Furthermore, South-South trade has risen significantly over the last ten years from 30% in 1990 to 40% today. However, a number of trade barriers, such as high customs duties and various non-tariff barriers hinder the increasing potential of trade. For instance, the average tariff on textile and clothing in developing and transition economies is 29%, while this is over three times the average tariff in textile and clothing in the Quad countries.

On the other hand, WTO member countries witnessed a major development in 2001. With the participation of some important and influential players of the global textile and clothing trade to the WTO, the comprehensiveness of WTO as a rule making body in the international trade has strengthened.

During 1994-2001 period, while the world textile and clothing trade grew by 12.9% on average, textile and clothing exports originated in China increased by 42.4% and 54.4% respectively. Those figures indicate the expanding share of China in the market.

On the 1st of January 2005, the textile and clothing sector will be completely integrated into the WTO rules and quantitative restrictions will be eliminated. However, there still remain the tariffs and the non-tariff barriers, which have been included in WTO agenda.

When the tariff structures of the WTO members are examined, it is seen that textile and clothing sector has the highest bound and applied tariff rates among other sectors –which are in fact the tariff peaks except agriculture in most of the countries. Also, tariff escalation exists from textile to clothing products even among the same categories.

II. Estimation of Future Conditions

From Turkey’s point of view, the future conditions in textile and clothing sector are as follows.

Market access for non-agricultural products is an integral part of the Doha Development Agenda. The Doha mandate stipulates that members will reduce or eliminate tariff peaks, high tariffs and tariff escalation as well as non-tariff barriers without a priori exclusion of any sectors.

Within this context, it is the general expectation that liberalization in textile and clothing sector will continue. In other words, the elimination of the quantitative restrictions with the completion of the Doha negotiations, there will be more liberal and competitive conditions for all trading countries.

Turkey is one of the world’s major textile and clothing manufacturers. Textile and clothing sector provides almost 20% of the total Turkish output, which also employs 21% of the total labor force. While Turkish export of textiles exceeded 4.4 billion, export of clothing reached 7.7 billion US Dollars in 2002.

Turkey applies very low customs duties since 1996 as a result of the establishment of the Customs Union with the EU. The 6.8% share of Turkey in textile imports of EU before the Customs Union has increased to 11.7% by the end of 2001. Concurrently, Turkey has a dominant market position in EU as the second major supplier of clothing products.
Turkey has adopted EU’s common commercial and competition policies and has launched market access conditions for third countries that are similar to the EU’s. Moreover, Turkey has signed free trade agreements with 15 region countries, where textile and clothing products circulate freely.

Currently, Turkey’s tariffs for textile and clothing products range from 4% to 12%. These levels will probably become lower by the year 2005, with the completion of the Doha negotiations.

On the other hand, Customs Union with the EU has enabled Turkey not only to enjoy a comparative advantage vis-à-vis the others but also to discipline the domestic market to manufacture under very competitive conditions. The outcome is a dynamic sector with high flexibility and responsiveness, utilizing also the geographical proximity to the EU and other markets.

At this point, the risk of depreciating preferences is a main concern for Turkey. Turkey is aware that, improved market access is the key word for non-agricultural products in the Doha Round. Bounding all duties at a low pre-determined level and then their reduction by a formula, and also elimination of all types of non-tariff barriers as well as the quantitative restrictions are the essential ingredients to achieve further liberalization. Turkey also pays utmost importance for WTO principles: transparency and non-discrimination to prevail in order to assure the rules based trade environment.

According to a recent compiling study published by the OECD Trade Committee, some of the quantitative studies reflect that the elimination of quotas might well enable developing countries to seize upon their comparative advantage in textile and clothing sector and increase their export incomes.

Moreover, in the same study, global welfare gains were given as ranging from 6.5 billion to 324 billion US Dollars. In real terms, elimination of textile and clothing quotas in 2005 will provide significant advantages for both consumers in importer countries and producers in exporter countries. However, the implementation of technical barriers and trade remedies might significantly hinder any prospect or advantages.

Transferring the opportunities brought by the liberalization into real trade performance requires implementing the appropriate domestic policies with regard to the production techniques, technological and marketing strategies.

Specifically, expecting the fully liberalized international textile market should mean being much more competitive at the same time. In other words, it is a challenge especially for the developing countries, to produce higher quality products with lower costs.

It is clear that, combining the skilled and productive employment with the technological innovation is the main indicator, which displays the competitive advantages and success acquired in international trade.

Therefore, new investments in this sector should aim modernization and innovation, which improve quality, raise productivity, and protect the environment. In addition, training, research and development do have considerable impacts on the competition power of textile and clothing sector.

In Turkey’s experience, it is not only the cost advantages any more but more importantly it is to manufacture at the upper end of the chain especially in apparel production. Now, at this level, it is a matter of “original design” and “original brand manufacturing” where the added value reaches the highest.

In due course, fast changing global environment in textile and clothing trade entails the exploration of new ways of doing business, harmonization of the new production techniques and diversification of the products and export markets.
In this context, transforming into production of high value added products such as yarn, texture/fabric and technical textile products, concentrating on the quality, designing new fashions and creating trademarks will not only provide the competitiveness in the global market but also increase the potential welfare gains. In doing so, collaboration of all economic agents in the world would be crucial issue to strengthen the global ties in this sector.

In conclusion, Turkey hopes that post-ATC period will be a real opportunity in spreading the trade benefits equally.

VII.5 Environmental goods: negotiating definitions or defining negotiations?, Alexey Vikhlyaev, UNCTAD

Introduction

It is commonly said that the meaning of the Doha Declaration is in the eyes of the beholder: there is always a risk of reading too much or too little into the text. Paragraph 31 (iii), on environmental goods and services, is no exception. Some claim it is the most important agreement on trade and the environment in the WTO history, an agreement that may “break the deadlock” between the developed and developing countries on issues such as clean technologies and process and production methods (PPMs). Others treat it as a negotiating chip, to be traded off against other agendas in the single undertaking, which is fair enough, considering that the inclusion of paragraph 31 (iii) in the Declaration was prompted by the negotiations dynamics that had to do with things other than trade and the environment, and the main demandeurs in the environmental area lobbied hard to ensure that the current trade negotiations would be concluded on the basis of "everything is agreed, or nothing is agreed". In between these extreme views, there are a variety of ideas and approaches that may influence the negotiations at the WTO.

The language of Doha Declaration suggests a “win-win” scenario for trade and the environment. Even a cursory look at the environmental industry suggests that the developed countries will be looking for winning propositions in terms of market access. For developing countries, it is access to environmental goods (and services) that is going to be more important. Their potential gains are in improved environmental conditions and resource management at home, and in strengthened capacity to comply with environmental requirements abroad.

This “win-win” scenario begs an uncomfortable question. If the liberalization of trade in environmental goods is so clearly in the interests of the developing countries, why have not they liberalized their environmental markets unilaterally? Or, to put this question in the future tense, what is it exactly that the WTO Members may achieve with the negotiations that they would not be able to achieve without?

After all, the negotiations at the WTO are not the only way to create or integrate markets in environmental goods. It may not even be the best way. Contrary to the economic theory, the WTO “logic” says: imports are “bad” and exports are “good”. In other words, pursuing the environmental goods agenda through the multilateral trade negotiations would require avoiding the direct trade gains from liberalization flowing only one way – to the more advanced WTO Members. The Doha Declaration states that the negotiations "shall aim to eliminate barriers to products of export interest to developing countries" (paragraph 16). Ironically, this careful balancing of accounts goes against the “win-win” scenario for environmental goods. Unless, of course, paragraph 31 (iii) will lead to a fourth sectoral agreement in the WTO since the Uruguay Round, which seems a very unlikely development for the moment.26

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26 In all three sectoral agreements reached since the Uruguay Round, on information technology, financial services and basic telecommunications services, a large number of developing countries that had signed on were not, and did not expect to become exporters in the near future.
There are those who argue that environmental goods can be redefined in trade negotiations to include the products of export interest to the developing countries. The current uncertainty about definitions creates the impression that there is everything to play for in the negotiations, and that there are potential gains for both developed and developing countries. Whether WTO Members are able to find viable trade interests and reconcile these in the negotiations is anybody’s guess, and the guesswork is being done along the following lines: the treatment of environmental goods in the Negotiating Group on Market Access (NGMA); the way these goods are defined for the purposes of trade negotiations; the relative importance of tariffs and non-tariff barriers, and, last but not least, supply capacity.

Negotiating approaches

Treatment of environmental goods in negotiations on market access

There is a strong likelihood that environmental goods will receive no special treatment in the NGMA. Or, the WTO Members agree on tariff liberalization on a much broader range of goods, effectively canceling the need for a special treatment of environmental goods. In this case, the agreement would effectively turn into an *ex-post* environmental assessment of trade liberalization in non-agricultural goods.

Should environmental goods receive special treatment in terms of deeper cuts or even “zero-for-zero” approach, paragraph 16 of the Doha Ministerial Declaration would apply and WTO Members will have to include within the scope of negotiations products of export interest to developing countries.

Re-defining environmental goods

Environmental goods are one area where negotiating definitions may prove instrumental to defining negotiations. In economic analysis and statistics, environmental goods are defined in two ways: through environmental services, or as an “environmental service”. The first category comprises goods that are integral or incidental to the delivery of environmental services, such as wastewater treatment or waste management. The second category consists of goods that are “environmentally preferable” to other, similar, *like* in trade parlance, products.27

While defining environmental goods for analytical or statistical purposes is matter of fact, defining environmental goods for the purposes of trade negotiations is a matter of a policy. As is always the case with distinguishing between *like* products, it is matter whether one likes – or does not like – a particular product, and given the differences in the negotiating perspectives countries may find it difficult to share their “likes” and “dislikes”.

As environmental goods may defy definition in the trade policy context, WTO members may find it more practical to agree on a list of such goods, based on a *convention*, i.e. a common understanding rather than a strict definition. Such a list may be based on a combination of criteria, which will have to be derived from the concept of a *like product*: end-use; properties, nature and quality; consumer tastes and preferences; tariff classification; and product-related PPMs. Should environmental goods receive no special treatment in the negotiations, these criteria may be used *ex-post*, to make an “environmental assessment” of the negotiations in the NGMA.

Whatever the criteria for environmental goods are, making these criteria operational is going to be difficult as countries will have to grapple with problems such as confirming systems to be used at Customs, their administrative costs and identification of environmental goods among similar products.

27 The two categories are not mutually exclusive as some EPPs may be incidental to the delivery of environmental services.
(Predominant) end-use is a criterion that is, by and large, difficult to make operational for Customs purposes. There are some high-tech approaches to solving the problem. However, the bulk of volume – and value – of trade in environmental goods is at the low-tech end, and it would not make much sense to apply high-tech methods to low-tech goods. For the high-tech environmental goods end-use is less of a problem as most of those tend have been designed and made specifically for environmental purposes.

Whenever there is no single, international definition of a particular class of products, labeling and certification schemes tend to proliferate. Performance-based standards, especially energy-efficiency standards, and eco-labels are relevant to environmental goods. A number of such schemes have been notified under the TBT Agreement. The most sensitive question is whether these will be used by Customs to differentiate environmental goods from mainstream products.

The Harmonized System (HS)\(^{28}\) tends to be more specific for some goods, e.g. chemicals used for environmental purposes, and less specific for others, e.g. electrical or mechanical goods. The two options available to countries in dealing with products that are currently not captured in the HS are: amending the HS at the 6-digit level, or introducing national tariff lines, with their subsequent harmonization. Because of the point in the current cycle at which the WCO is in amending the HS, it would be difficult to make new changes within the timeframe of the Doha negotiations.\(^{29}\)

The scope for the application of PPMs as criteria in the WTO is limited to those that are expressed in physical, chemical, functional differences of like products. The majority of WTO Members oppose defining environmental goods through PPMs on systemic as well as practical grounds - PPM-based criteria can create a new set of standards or prompt changes in customs classifications.

A closer look at the hypothetical universe of environmental goods, through the “lens” of APEC and OECD lists and the proposals made by Japan and Qatar, reveals the following picture:

- end-of-pipe pollution control equipment (OECD and APEC);
- minerals and chemicals used in pollution control processes (OECD);
- monitoring measuring equipment (APEC);
- renewable energy equipment (OECD and APEC);
- energy efficient consumer goods (Japan);
- low carbon, energy efficient equipment (Qatar).

The search for products of export interest to developing countries revolves around EPPs, more specifically:

- products superior to their petroleum based analogues: renewable energy, clean fuels (ethanol and methanol), natural fibres (e.g. jute and coir);
- natural, or inherently environmental goods (e.g. non-timber forest products, jute and coir, as biodegradable)\(^{30}\);
- products that contribute to preservation of the environment (e.g. bio-pesticides).

On the theoretical front, there are attempts to breathe life into WTO negotiations on environmental goods through finding “cross-overs” with areas whether significant barriers to exports from developing countries persist. The “usual suspects” are agriculture and textiles. It would be difficult to master support for these attempts. The negotiations on agriculture and textiles are complicated enough, so why add to the

\(^{28}\) Harmonized Commodity Coding and Description System.

\(^{29}\) The proposed changes will be finalized by mid-2004 and a revised system will take effect in January 2007.

\(^{30}\) These categories are not mutually exclusive.
negotiating costs and pursue propositions with important systemic implications. It is much more likely that environmental goods will be traded-off against other negotiating agendas in the context of the single undertaking.

It is impossible to second-guess the negotiators and predict which categories of products will eventually receive support of the WTO Membership, particularly of developing countries, and the developing countries are not a homogeneous group. However, if one were to draw a “vector” of some views that have gained currency in para-WTO discussions on these matters, it would point to the following conclusions:

- end-of-pipe pollution control equipment: the views expressed are generally positive, except for items with significant other industrial uses;
- minerals and chemicals for water/waste treatment: positive;
- monitoring and testing equipment: there is a preference for complete systems specifically designed and made for environmental purposes, with high-tech content;
- renewable energy: positive, except for large hydraulic turbines;
- energy efficient consumer products: generally negative;
- low carbon, natural gas to liquid fuels (diesel, naphtha) and energy technologies: there is a feeling that the proposal raises issues with important implications and may better be left to the Kyoto Protocol.

And as far as EPPs are concerned:

- non-timber forest products and products derived from traditional knowledge: positive;
- products made with natural fibres: positive;
- handloom products and products made using natural dyes: positive;
- organic agricultural products: negative, also negative with regard to other products identified on the basis of non-product-related PPMs, e.g. certified timber products and fair trade products.

All this is not to say that the negotiations cannot proceed in the absence of an agreed definition or criteria. They certainly can, and at least for the moment, this seems to be the most likely scenario. In this case, the negotiations will turn into a “barter economy”, with WTO members trying to make deals by seeking to identify “bilateral coincidences of wants”, with subsequent multi-lateralization of concessions. A “list” of environmental goods may then evolve as a post-scriptum to such a "bottom-up" process of requests and offers.

Relative Importance of tariffs and NTBs

Tariffs on environmental goods in developed countries are at nuisance levels, while tariffs in developing countries follow the general pattern for industrial products. The applied rates have gone down since 1996. The negotiations may reduce bound rates and increase the coverage of bindings, but this will not amount to much in “real terms” of reducing tariff assistance in developing countries.

Reducing NTBs affecting EPPs would seem more important. It is also important to ensure that any selection of categories of EPPs for negotiating purposes is based on objective criteria to avoid possible new NTBs and additional costs, e.g. for certification.

One issue is repeatedly being raised in discussions on EPPs: environmental regulations, including packaging and recycling directives in developed, especially European countries discriminate against
environmentally friendly and bio-degradable products from developing countries and favour local recycling and waste disposal systems.

Supply capacity

UNCTAD’s analysis shows that during the period 1996-2001 developing countries as a group were net exporters for only 14 of 182 “environmental goods” on the OECD and APEC lists.\(^{31}\)

Examples include clean fuels (ethanol), chemicals, articles of cast iron, some energy-efficient goods such as florescent lamps, space heating and soil heating apparatus, thermometers, pyrometers, artisanal manufactures such as hand brooms etc.

Many of these products fall into the category of EPPs. A broader range of EPPs can also be considered, e.g. resource-based products, bio-degradable products; recyclable products as well as products derived from recycled materials, products made by traditional processes, such as hand-spinning, handloom.\(^{32}\)

To date the proposed lists of environmental goods have centered on a selective coverage of environmental equipment, chemicals (in the case of the OECD list), scientific instruments and a few energy-efficient products. In general, developing countries are net importers of these products. Clearly, none of the lists accounts for the size and variety of the WTO membership. For these reasons, some developing countries seem inclined to keep any list of environmental goods short and current.

As WTO Members have been encouraged to submit their illustrative lists of environmental goods following the example of Japan and Qatar, developing countries may choose to include within the purview of negotiations goods in which they enjoy a comparative advantage. However, this is not going to change the “big picture”. Trade flows between developed and developing countries in goods on the OECD and APEC lists do show an improving balance for developing countries. However, this trend has to be adjusted for the shifting horizon of environmental industry, where time is a factor. According to the OECD estimates, 50 percent of the environmental goods that will be in use 10-15 years from now do not currently exist.

Conclusions

It looks like tariff protection is being dismantled, and the scope for other instruments of opening markets in environmental goods is minimal under a strict application of national treatment. If environmental goods received special treatment, the negotiations would be of complex nature but limited potential impact. Their focus might eventually shift to NTBs.

A similar conclusion could have been drawn from the APEC early voluntary sectoral liberalization (EVSL) initiative, which includes the environmental sector. Getting the record straight about what has - or has not - happened in APEC is important as some WTO Members advocate using the APEC list as a starting point in the WTO negotiations on environmental goods and generally learning from APEC.

The EVSL initiative was launched in 1997 when the trade world had just completed the Information Technology Agreement (ITA). The ITA was launched by the Quad countries, and it was concluded when economies accounting for more than 90% of trade signed-on. The idea behind the EVSL was to replicate the ITA process, with APEC economies rather than the Quad, or some other grouping of countries, picking


\(^{32}\) The NGMA does not cover agricultural products. Trade liberalization of agricultural EPPs could perhaps be discussed in the CTESS.
the sectors. The original intent was for APEC to develop frameworks for the agreements, i.e. product coverage and phase-out periods for tariffs. Once the framework agreements were developed, APEC would go to the WTO to seek broader support for the proposals.

APEC spent the rest of 1997 identifying the sectors, and 1998 developing framework agreements. Along the way, some economies pushed to conclude agreements within the APEC context. Trade liberalization at APEC is propelled not by negotiations but by voluntary initiatives, individual and collective. As nothing much had happened on that account, APEC economies have returned to the original idea. They “disowned” the liberalization part of the EVSL by shifting it to the WTO, and focused on NTBs and economic and technical cooperation (trade facilitation and Ecotech in APEC’s parlance), which was actually the innovative part of the EVSL.

It seems APEC’s history may repeat itself, and the early sectoral liberalization at APEC may become a late sectoral liberalization in the WTO, with Members’ gradually coming to the realization that, while nothing much can be done through the negotiations, a lot can be done through trade promotion and facilitation measures and technical assistance.

These conclusions may come as a disappointment for those who take the view that, if properly implemented, paragraph 31 (iii) of the Doha Declaration can help redefine the “rules of disengagement” (von Moltke) into the “rules of engagement” on the issue that goes to the heart of the trade and the environment debate – PPMs.

The opposition to dealing with PPMs in the negotiations is understandable - after all the WTO legal order is based on national treatment, not mutual recognition. Can there be ways of tackling PPMs, other than using them as criteria in the liberalization? Finding such ways would require looking beyond environmental goods and into environmental technologies, i.e. promoting “technological equivalence” in developing countries.

The disjunction between technology transfer provisions in multilateral environmental agreements and reality is very indicative of the limitations of intergovernmental processes in this regard. The fact that substantial amount - according to same estimates up to 90 percent - of environmental technology is proprietary does not help. The WTO Working Group on Trade and Technology Transfer could look into this issue. For instance, it would be worth while compiling a list of environmental technologies, across a wide range of industries, which developing countries have a need in. Of particular interest are complete systems specifically designed and made for environmental purposes. However, discussions in the Group up to this point have been somewhat disappointing.

The basic problem of course, at least from a theoretical perspective, is the compartmentalized negotiations in the WTO, with the negotiations on environmental goods being somewhat of a misnomer. Sectoral liberalization, and the environmental sector is no exception, lends itself easier to negotiations within GATS than within GATT. Indeed, the checkmate situation in the NGMA with respect to environmental goods is in stark contrast to the high level of activity in the negotiations on environmental services. So rather than looking for “cross-overs” in the negotiations under GATT, it would be worth while taking a broader perspective on the negotiations on environmental goods AND environmental services, and exploring ways to combine and interlace the two areas.

Some procedures and methods developed for services may eventually bring about more productive approaches to liberalizing trade in environmental goods. “GATS-like” approaches to liberalizing trade in environmental goods would include finding ways to promote technology transfer, using the purchasing power of the government, affording preferential treatment to environmental goods supplied for priority investment projects, and aligning standards with own environmental and developmental objectives.
Infrastructure environmental services have traditionally been in the public domain, in terms of public good, public interest or public ownership. Although this situation is changing, the public sector accounts for as much as 70 percent of overall environmental expenditure in developing and for 50 percent in developed countries. The government and government contractors invested with a responsibility for environmental infrastructure projects are the biggest, sometimes the only buyers, of environmental goods.

GATT rules do not prevent an import buyer from demanding that exporter "bundle together" goods and services. Proprietary technology may also be part of what a government is buying, i.e. be included in the “terms of purchase and sale”. GATT Article III:8 allows the government to put pressure on foreign suppliers to build facilities or transfer technology as offsets and technology transfer conditions may be part of the deal.

The quality of trade liberalization in services depends on effective domestic regulatory regimes. Here also a parallel can be drawn to the liberalization of environmental goods, i.e. the important role played by standards and technical regulations in determining the type of environmental goods used to meet environmental requirements.

There is a clear relationship between technological and regulatory capacity. Developing countries are under growing pressure to follow the developed countries' lead in environmental regulations. On the other hand, standard-setting activity promotes the homogenization of products, processes and environmental management practices, and imposes new requirements on developing countries, particularly their export sector. Developing countries’ markets may also be affected by environmental regulations taken pursuant to technical assistance, which favours the donor country’s suppliers. The role of export credit agencies in the delivery of environmental goods and services also needs further assessment. These trends carry the risk of extending the trajectory of existing abatement, compensatory and end of pipe technologies, effectively turning developing countries into a captive market for the environmental industry.

To capture the benefits of liberalization, developing countries would have to strengthen their regulatory regime in relation to own developmental and environmental objectives. This will help attract the “right” environmental goods, services and technology, create or preserve “space” for the domestic environmental industry, including a reliable supply from SMEs, promote opportunities for switching to clean(er) technologies, leading to a better match between technological solutions and local environmental and resource management problems.

On a higher plane, the liberalization of environmental sector will revolve around finding a proper balance between market access and “public services”, be it in terms of public goods, public interests or public ownership. The most promising avenue, it would seem, is exploring the negotiating approaches enshrined in GATS. To an extent, this may also be true for goods, although such approaches are currently lacking. It is a task for the future to develop a comprehensive negotiating approach applicable both to goods and services for sectoral agreements in the various fields of exclusive rights.

VII.6 Liberalisation of environmental goods – ”Idealism instead of mercantilism”,
Ms. Tuula Kulovesi

On the question of definition

- There are several ways of looking at the question of liberalisation of environmental goods. A lot of discussion has already taken place on the definition, on developing country interests and on classification difficulties. Costs and benefits have been raised in this discussion but unfortunately from a narrow mercantilistic perspective which does not allow us to fully appreciate the objectives
that lie behind the Doha declaration. I will briefly set out some ideas on how to tackle these problems.

- I will start by going to the fundamental question of how to best bring about benefits for the environment through trade liberalisation. Which are the factors that we should tackle in order to stop environmental damage?

- While a number of factors could be identified it is clear that industry and energy production emissions and energy efficiency are clear priorities.

- The technologies for controlling the emissions that come from these sources and that bring about benefits in the area of energy consumption could be summarized as follows: 1) traditional environmental technologies, 2) integrated environmental technologies, 3) energy saving devices and technologies and 4) energy technologies that are based on renewable energy sources. While we should not reject suggestions concerning other product groups either, the sectors cited above are the ones that should form the backbone of liberalisation negotiations. That is simply for the reason that with this package the objectives contained in the Doha Declaration and in international environmental agreements can be best promoted.

What's in it for the DCs?

- It has been said that if a liberalisation package which comprises of the product groups that I just mentioned is put on the table in Geneva it would be immediately rejected because of lack of export interest by the developing countries. However, I would dare to say that the liberalisation of this product group, even a zero for zero agreement, is as much in the interest of the developing countries as it is in the interest of the industrialized countries.

- There are several interlinked reasons for this. First of all, the protection of environment is, or at least should be, in the interest of every government. Therefore, improvements in market access mean better dissemination of these technologies, it means more competition, it means more affordable solutions and an impetus for further R&D. In short, it means that any country building or renewing its industrial capacity will benefit of it through improved energy efficiency and lower level of emissions. These are valuable achievements, not just from environmental point of view, but also when we look at it from an economic point of view.

- There are important parallels to the Information Technology Agreement (ITA), which is one of the most significant achievements of the WTO since its inception in 1995. The ITA has a number of governments subscribing to it even if their production of IT sector products is very limited or non-existent. In the case of the ITA there was a general perception that the dissemination of information technologies is a means of paving the way for the "global information society”.

- What made it possible to conclude the ITA was the fact that even if there were suggestions that the product coverage should contain everything that was interlinked to electricity, the majority of responsible players in the WTO were able to maintain the focus of negotiations on what is essentially IT. The same, or even stricter, restraint is called for if we wish to conclude an agreement on environmental goods. If everything which has an environmental “excuse” is put on the table, we end up empty handed.

- Now, even if we look at the benefits of the developing countries from a purely mercantilistic perspective, the situation is not as bleak as some of the rhetoric in Geneva may suggest. Namely, the DDA is based on single undertaking so the export interests of those countries that do not
produce certain types of goods can be taken into account in other fields of liberalisation. Not everyone can get everything from every sectoral agreement. Secondly, if it is agreed that the concessions made in environmental goods are considered as credits in the overall DDA liberalisation package, it would undoubtedly be more inviting for any government to make a concession here than in, say, consumer electronics or alcoholic beverages. Besides, many of the developing country members of the WTO maintain applied tariff levels that are clearly lower than the bound rates. Therefore, the impact on tax revenues and protection of the domestic industry would be far more modest than an analysis that is based on bound levels would lead us to think. Instead, there would be a steady improvement of market access conditions and an even clearer improvement in transparency.

VII.7 Liberalisation Of Non-Agricultural Tariff Barriers, BIAC (Business and Industry Advisory Committee to the OECD)

The Business and Industry Advisory Committee (BIAC) has taken the position that market access for industrial goods (including both tariff and non-tariff barriers) is the number one priority for business in the Doha WTO negotiations. BIAC recommends that negotiators pursue the elimination of all industrial tariffs by a fixed date. BIAC believes that such tariff reduction will greatly benefit developing countries as well as OECD members. (See the February BIAC Statement "BIAC Priorities for the WTO Negotiations" attached.)

That BIAC position is based on the observation that the world trading system and open market that it promotes are essential to sustainable economic growth, supporting and diffusing innovation and technology, and reducing poverty by creating wealth.

Importance of Manufactures Trade to Developing Countries

The majority of the trade that brings these benefits is in industrial goods. Trade in manufactures (a proxy for industrial goods) continues to dominate growth in world trade despite the decisive shift to services-based economies underway at the national level.

The manufactures share of total trade has been growing steadily since the 1960’s and now accounts for almost two-thirds of total trade compared with 20 percent for services. As the OECD reports, trade in manufactures by developing countries is also on the rise. “Between 1950 and 1980, the share of manufactured products in the total exports of developing countries hovered between 30 and 40 percent. Beginning in 1981, this hitherto flat trend moved sharply upward, reaching a remarkable 84 per cent in 1996.”

In 1996 developing countries sold more than a third of their (total) exports to each other, compared to less than a quarter a decade earlier. The share of developing country merchandise exports going to other developing countries has risen from about 20 percent in 1965 to about 40 percent in 1995.

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3 See “Open Markets Matter, OECD, 1998 p. 34.
3 Ibid.
3 Thomas W. Hertel, “Potential Gains from Reducing Trade Barriers in Manufactures, Services and Agriculture,” Federal Reserve Bank of St. Louis Review, Vol 82(4), 2000, p. 79
Gains in Manufactures Liberalisation Will Accrue to Developing Countries

Tariffs are still the main inhibitor of trade in industrial goods. The WTO estimates that 55 percent of all global trade is free but only six percent of that trade is bound duty free within the WTO.5 Most of the remaining tariff barriers are among developing countries. On average, poorer countries maintain higher protection than rich countries. For industrial products, rich-country tariffs are 3 percent compared to 13 percent for poor countries. Even in textiles and clothing, the poor-country tariffs at 21 percent exceed the rich-country tariffs at 8 percent.6 While the trade-weighted tariff burden on commercial and industrial goods in the industrialised countries decreased from 40 percent to just under four percent over the last 50 years, it still amounts to 40 percent on average (bound tariffs) in developing countries today (example: average bound tariff rates of 60 percent in India; 1.8 percent in Switzerland).7

Because poorer countries have higher levels of tariff protection, they are the ones that stand to benefit most from tariff elimination and greater competition. The majority of gains from liberalisation of manufactures trade will accrue to developing countries.8

The business models of global manufacturing companies support this analysis. For many manufactured products, companies have developed supply chains that draw components from several country manufacture sites to produce the final product. Countries chosen to supply components must, in turn, be able to import raw material and manufactured inputs for these components without high tariff costs if the supply chain is to be cost effective, yielding products that can compete in the marketplace. Companies are less likely to outsource industrial production in markets protected by high tariffs. However, companies both trade and invest to deliver a product. More and more, firms prefer to sell their goods abroad by investing, rather than through trade. Formerly, such investment often found motivation in the need to leap over protective tariffs that denied trade market access. Today this is much less the case. Foreign investments are designed to make products adapted to local needs and tastes, which is now cost effective because of innovations in the technology of the production process. This type of investment also depends on low-cost import of manufactured components.

BIAC recognises that the rate of tariff liberalisation may have to take account of the situations in individual economies. At the same time, the experience of the Uruguay Round has demonstrated that the former approach to Special and Differential Treatment (SDT) for developing countries, which in practice resulted in their non-participation, has had the perverse effect of impeding access to the benefits of trade and competition. To that end the meaning of SDT, the circumstances for its application and the timing for its phase out should be clarified in specific terms.

VIII. About the Toolkit CD-ROM

VIII.1 Toolkit II Introduction

I. Introduction

An OECD Tool Kit for Trade Policy Makers II: The Market Access Challenge in the Doha Development Agenda

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7 WTO Market Access Unfinished Business – Post Uruguay Round Inventory: Special Study No. 6 (2001)
This CD-ROM is a second tool kit for trade policy makers. Like the first CD ROM of this series published in September 2002, it is designed to help governments enhance their understanding of trade policy issues and negotiating procedures.

Users will find the video proceedings of discussions at the OECD Global Forum on Trade held at OECD Headquarters in Paris in June 2003, which focused on the market access challenge in the Doha Development Agenda. In addition to these video proceedings, interviews have been included with some lead speakers and staff members of the OECD Trade Directorate. The text of the speeches and discussion papers of the Forum are also available on this CD-ROM, along with 23 recent OECD analytical papers on trade issues of relevance to the Doha Development Agenda.

The Forum provided an opportunity for informal discussion among participants from developed and developing countries on barriers to market access that could be addressed in the WTO and on the potential gains from the removal of these barriers. The analytical work also constitutes a continuation of the OECD's response to the DDA and a contribution toward strengthening trade-related technical assistance and global capacity building. Therefore, the CD-ROM aims to contribute to a successful process of the WTO Fifth Ministerial Conference in Cancun, Mexico in September 2003 and beyond.

This CD-ROM was prepared by the Information Technology and Network Directorate, with advice from the Public Affairs and Communications Directorate and the Executive Directorate of the OECD.

II. The Video Proceedings of the Forum

This Forum is part of the OECD Global Forum on Trade organized by the Trade Directorate within the framework of the Centre for Co-operation with Non-Members (CCNM). The Global Forum on Trade is one of eight Global Forums coordinated by the CCNM.

This Forum focused on the market access challenge in the Doha Development Agenda and seeks to highlight development aspects. It comprised four sessions: an introductory session; two main sessions (non-tariff barriers including regulatory barriers and trade facilitation, and tariffs); and a concluding session. The text of speeches and discussants' papers are also included.

III. Recent OECD analytical work

The full texts of 23 OECD analytical papers and publication on trade policy issues are available in pdf file format. This analytical work was selected on the basis of its relevance to the Doha Development Agenda and classified under the following themes: tariff liberalization, non-tariff barriers, trade in services, trade facilitation, trade in agriculture, trade in textiles and clothing, trade and environment, government procurement and regulatory reform.

IV. The OECD

Users will find general information about the OECD, its history, main objectives, and composition of membership, along with the OECD annual report 2003. The mandate of the Trade Directorate and the main objective of the CCNM are outlined. Information on how to make the best use of some of the OECD's online services is also provided.

* Instructions are provided for users to gain access to future updated of this CD-ROM. Users will have access to additional OECD analytical reports as they become available through a dedicated website.
VIII.2  OECD’s Analytical Work on Trade Policy

The Organization of Economic cooperation and Development (OECD) provides a unique setting for reflection and discussion, based on policy research and analysis. Through its analytical capacity and multidisciplinary expertise, the OECD helps governments seek answers to common problems and coordinates domestic and international policies to assist members and non-members in dealing with an increasingly globalised world.

In the trade policy field, one of the key objectives of OECD work is to provide analytical underpinnings in support of ongoing efforts deployed to strengthen the multilateral trading system and to facilitate broadbased multilateral trade negotiations under the World Trade Organization (WTO) auspices.

The development dimension of trade was recently placed at the forefront of the policy agenda in November 2001 in Doha, Qatar, when over 140 member countries of the WTO, undertook to launch a new round of multilateral trade negotiations. The Doha Ministerial Declaration represents a wide-ranging undertaking to accelerate the integration of developing countries into the world trading system, through improved trade rules, enhanced market access and better co-ordinated trade-related technical cooperation and capacity building.

The analytical section of the CD-ROM, like the first CD ROM of this series published in September 2002 provides recent analytical papers related to the Doha Development Agenda undertaken mainly by the Trade Directorate of the OECD, in cooperation with other Directorates such as Environment and Agriculture. It is designed to assist policy makers in developing countries in enhancing their understanding of trade policy issues and trade negotiations procedures.

By reaching out to a wider audience, it is hoped that this analytical compendium will advance an informed debate among all stakeholders, governments, academia and civil society representatives, in helping developing countries building wider consensus for trade-related reforms in support for their policy development strategies. The analytical compendium also represents an OECD contribution to co-ordinated international efforts to strengthen trade-related technical assistance and capacity building.

The full texts of 23 analytical papers and publication on various trade policy issues are available in pdf file format in this section. The analytical materials are classified under the following trade themes.

- Tariff liberalization
- Non-tariff barriers
- Trade in services
- Trade facilitation
- Trade in agriculture
- Trade in textiles and clothing
- Trade and environment
- Government procurement
- Regulatory reform

For each of these themes, an introductory note sets the relationship between the theme and the Doha Ministerial Declaration. Simply click on one of the title themes listed on the left side of the screen to access to the analytical material. From there, click on the underlined links to access to the documents and publication.
Tariff Liberalisation

- The Doha Development Agenda: Welfare gains from further multilateral trade liberalization with respect to tariffs
- China’s tariff regime

Non-Tariff Barriers

- Analysis on Non-tariff measures: The case of export restrictions
- Overview of Non-tariff barriers: Findings from existing business surveys
- Analysis on Non-tariff measures: The case of non-automatic import licensing
- Analysis of Non-tariff measures: The case of export duties
- Non-tariff measures in the ICT sector: A survey

Trade in Textiles and clothing

- Liberalising trade in textiles and clothing: A Survey of quantitative studies

Trade in Services

- Service providers on the move: the economic impact of mode 4
- Managing “request-offer” negotiations under the GATS
- Current regimes for temporary movement of service providers case study: Australia
- Current regimes for temporary movement of service providers case study: The United States of America
- Regulation of services traded electronically
- Service providers on the move: Mutual recognition agreements

Trade Facilitation

- Transparency and simplification approaches to border procedures: Reflections on the implementation of GATT article X- Related proposals in selected countries
- Transparency and simplification approaches to border procedures: Reflections on the implementation of GATT article VIII- Related proposals in selected countries
- Transparency and simplification approaches to border procedures: Reflections on the implementation of GATT article V- Related proposals in selected countries
- Trade facilitation principles in GATT articles V, VIII and X: Reflections on possible implementation approaches

Trade in Agriculture

- Agricultural Policies in OECD Countries: A positive reform agenda

Trade and Environment

- Environmental goods: a comparison of the APEC and OECD lists
- The development dimension of trade and environment: Case studies on environmental requirements and market access
Government Procurement

- Transparency in government procurement: The benefits of efficient governance and orientations for achieving it

Regulatory Reform

- Integrating market openness into the regulatory process: Emerging patterns in OECD countries

VIII.3 Tariff Liberalisation

Relationship with the Doha Ministerial Declaration

In Doha, delegates to the WTO’s 4th Ministerial Conference recognised the importance of continued progress in reducing key tariff-related distortions. Paragraph 16 of the Ministerial Declaration gives a clear negotiating mandate with respect to tariffs on non-agricultural products:

“We agree to negotiations which shall aim, by modalities to be agreed, to reduce or as appropriate eliminate tariffs, including the reduction or elimination of tariff peaks, high tariffs, and tariff escalation, as well as non-tariff barriers, in particular on products of export interest to developing countries. Product coverage shall be comprehensive and without a priori exclusions. The negotiations shall take fully into account the special needs and interests of developing and least-developed country participants, including through less than full reciprocity in reduction commitments. […]”

With respect to agriculture, the Doha Ministerial Declaration indicates the intention of delegates to seek to reduce protection, albeit without specifically mentioning tariffs. As stated in Paragraph 13:

“We recall the long-term objective referred to in the Agreement to establish a fair and market-oriented trading system through a programme of fundamental reform encompassing strengthened rules and specific commitments on support and protection in order to correct and prevent restrictions and distortions in world agricultural markets. We reconfirm our commitment to this programme. Building on the work carried out to date and without prejudging the outcome of the negotiations we commit ourselves to comprehensive negotiations aimed at: substantial improvements in market access; […]”

On-going negotiations in the context of the Doha Development Agenda under the auspices of the WTO are addressing a range of agricultural issues including the extent to which average tariffs should be cut and the need to progressively reduce particularly high tariffs and tariff escalation. Discussions have also covered disciplines regarding tariff quota administration and potential expansion of imports under tariff-rate quotas. In addition to market access issues, the agriculture negotiations are addressing a variety of other areas including non-trade concerns.

The Doha Ministerial Declaration further delivers a special negotiating mandate with respect to tariffs in the case of environmental goods. Paragraph 31 states: “With a view to enhancing the mutual supportiveness of trade and environment, we agree to negotiations, without prejudging their outcome, on: […] (iii) the reduction or, as appropriate, elimination of tariff and non-tariff barriers to environmental goods and services.”

Background

Successive rounds of Multilateral Trade Negotiations have helped to increase the emphasis on non-discriminatory tariffs as a principal means of trade protection while achieving substantial cumulative
reductions in these import duties. Once fully implemented, the Uruguay Round (1986-93) will have resulted in a reduction in the average (trade-weighted) most-favoured-nation (MFN) tariff rate on industrial goods to 4%. Advances have come more slowly in tariff reductions for agricultural products than for industrial goods, but there has been progress. The range of tariffs on agricultural trade varies substantially across countries, both within the OECD area and among non-OECD countries. (Measurement is complicated by the extensive use of tariff-rate quotas, with differential tariff rates inside and outside of the quotas.) One post-Uruguay Round study of OECD Member countries and 13 non-members found that mean bound tariffs in agriculture amounted to 36% for OECD countries and 63% for the selected non-OECD countries (calculated using out-of-quota rates, where applicable). In comparison, the mean bound tariff rates for all products were 15% for OECD countries and 43% for the non-OECD countries.

Tariffs continue to play an important role influencing trade patterns both through the absolute levels of protection they afford and through distortions associated with the structure of tariffs. Tariffs in many non-OECD economies remain substantially higher than in the OECD area, impeding so-called South-South trade, among other disadvantages. Average MFN tariffs tend to be highest in South Asia, Latin America, North Africa and the Middle East, and Sub-Saharan Africa. There are also relatively high average rates for certain product categories of particular interest to developing countries including primary agricultural and processed agricultural products, as well as textiles and clothing. In part, this structure is the result of the failure or inability of some developing countries to engage fully in the negotiating process.

Observers continue to express concerns about certain other aspects of the structure of tariff regimes. For example, tariff dispersion remains a problem, particularly as it is associated with substantial numbers of tariff peaks (both so-called “international peaks” where duties are above 15% and “national peaks” where duties are 3 times or greater than the national mean tariff). Moreover, the practice of tariff escalation continues to plague some sectors, whereby tariff rates vary positively according to the degree of processing for each product. High levels of effective protection can result from an uneven tariff structure where some high nominal rates are stratified along the different stages of production. Such “structural” issues with respect to tariff regimes have detracted from the ability of developing country exporters, in particular, to capitalise on the full potential of trade liberalisation and advance toward exporting products that embody increasing levels of value-added content.

**Economic importance**

Research shows that there is still ample scope for benefits to accrue from multilateral tariff liberalisation. For example, recent OECD studies have employed various models and assumptions to consider the potential gains. Depending on the methodology and scenario in question, the studies show countries on average enjoying welfare gains ranging from 0.4% to 5% of their GDP. Relative to the size of their domestic economies, in each of the scenarios considered developing countries on average stand to reap greater welfare gains from multilateral tariff liberalisation than the developed countries.

### VIII.4 Non-tariff Barriers in Non-agricultural Markets

**Relationship with the Doha Ministerial Declaration**

Successive multilateral trade negotiations have put into place disciplines covering a wide variety of non-tariff barriers (NTBs). As a result, many GATT rules and WTO commitments relate to NTBs. Still, such barriers remain a significant issue for exporters and the Doha Development Agenda provides for a continued effort to remove or discipline their use, in particular in the non-agricultural field. This is
reflected in the mandate that Ministers in Doha provided to the Negotiating Group on Market Access. Paragraph 16 of the Doha Ministerial Declaration states:

“We agree to negotiations which shall aim, by modalities to be agreed, to reduce or as appropriate eliminate tariffs, including the reduction or elimination of tariff peaks, high tariffs, and tariff escalation, as well as non-tariff barriers, in particular on products of export interest to developing countries. Product coverage shall be comprehensive and without a priori exclusions.”

This mandate is formulated in broad terms, leaving it up to WTO members to identify problem areas and determine how to proceed with the NTB negotiations. The special needs and interests of developing and least-developed countries are to be taken into account and the modalities of the negotiations are to include appropriate studies and capacity-building measures to assist least-developed countries to participate effectively in the negotiations.

Some issues relating to non-tariff barriers are also identified under other mandates of the DDA. This includes the mandate of the Negotiating Group on Rules, the Working Group on Transparency in Government Procurement and, for trade facilitation, the Council for Trade in Goods. Similar issues in the services field are dealt with in the Negotiating Group on Services. The implementation mandate governed by the provisions of para. 12 of the Doha Ministerial Declaration is also relevant. Finally, a number of WTO Committees that do not take part in the DDA negotiations examine and review non-tariff issues as part of the WTO’s regular work programme (such as the Committee on Customs Valuation or the Committee on Technical Barriers to Trade).

**Background**

In many regards, NTBs are complex and their quantification much more difficult than tariffs. First, these barriers encompass a potentially unlimited range of diverse measures and policies that restrict or distort international trade in goods. They comprise such well-known trade-distorting measures taken at the border as quotas, import prohibitions and import licensing. They also include various behind-the-border policies in importing countries such as product standards and conformity assessments or access to distribution systems. In fact, concerns of traders have changed over time, pointing to an increase in the apparent importance of non-border measures and other factors affecting market access.

Second, the rationale of many NTB is not simply to shield domestic producers from international competition. These measures often serve legitimate goals of public policy, including the protection of safety, health or the environment, but they may also reduce trade opportunities. In particular developing countries have voiced concerns about difficulties arising in such areas as product standards, conformity assessment procedures and other behind-the-border policies in importing countries.

Third, business complaints often extend to the way such border and behind-the-border policies are implemented. For example, policies that (directly or indirectly) affect imports can be designed, applied or enforced in a non-transparent or arbitrary manner. These procedural aspects themselves pose additional impediments to the smooth development of free trade. Also, they tend to be not policy-specific. For example, problems of non-transparency or arbitrariness can occur in the implementation of quotas as well as in the implementation of technical measures. WTO disciplines covering various types of non-tariff measures consist of more or less detailed provisions designed to prevent or at least minimise the adverse effects resulting from procedural factors. Examples are the Agreement on Import Licensing Procedures, the Agreement on Customs Valuation, the Agreement on Technical Barriers to Trade and the Agreement on Sanitary and Phytosanitary Measures. Yet many exporters and policymakers continue to perceive
procedural barriers as significant impediments to trade and look towards further improvement of existing rules.

Good data indicating what types of barriers exist and their relative economic importance are scarce. Available business surveys as well as initial submissions by WTO Members in the Negotiating Group on Market Access for Non-Agricultural Products provide a rich account of a wide range of barriers or issues that are of concern to traders and governments.

Because different NTBs have different characteristics and data about their incidence are seldom systematically collected, their impact (the economic costs and consequences of existing measures for traders, consumers and economies overall) on global trade is difficult to measure in quantitative terms and, in contrast to tariffs, such estimates are largely unavailable. A more modest but practical approach to analysing market access in the field of non-tariff barriers and making more information available for possible use by negotiators and policymakers consists of examining particular types of measures with a view to deepening understanding of the extent to which they represent impediments to trade, and under what conditions, and the nature of the problems they pose in such cases.

Work undertaken by OECD along these lines for example suggests that simplified and more efficient procedures in licensing systems could be a way to increase participation in international trade. While, in line with existing WTO disciplines, import licensing for the purpose of protecting domestic producers from import competition has largely disappeared, licensing for non-economic reasons, e.g. in support of domestic regulation relating to security, protection of health, safety or the environment, is widely used across WTO members. Nevertheless, traders feel that there are still problems in such areas as transparency, formalities and requirements.

Other OECD work suggests that export duties and other types of export restrictions be given more attention than in past multilateral trade negotiations, whose focus has been to reduce import tariffs and non-tariff import restrictions. Imposed usually for fiscal reasons or used to restrict exports of products in order to reserve domestic supply for local industries, export duties are applied by a relatively large number of countries. The growing tendency to abolish export duties in the context of bilateral and regional integration schemes would seem to make it an opportune time for governments to address export duties as well as other types of export measures also in the WTO, where disciplines are not clearly defined in this area.

VIII.5 Textiles and Clothing

The deadline for the elimination of the quantitative restrictions under the Multi-Fibre Arrangement (MFA) coincides with the deadline set for the conclusion of the Doha Development Agenda (DDA) that may bring changes to existing WTO rules or introduce new WTO disciplines, and as such will also have an impact on international trade in textiles and clothing. During these negotiations, WTO Members have an opportunity to deal with remaining trade protection and trade distorting measures with a view to establishing a framework of multilateral disciplines that provides for both improved competitive conditions and enhanced market access opportunities across the globe.

The textile and clothing sectors constitute an important source of income and employment in many countries, especially the developing countries. Together, these sectors account for about 14 per cent of world employment and 7.7 per cent of world merchandise exports in 2001. Although the Uruguay Round Agreement on Textiles and Clothing (ATC) brought considerable market improvement in textiles and clothing, the overall tariff protection remains high almost everywhere. Bound tariffs for textiles and
clothing average 9 per cent in the Quad (versus 4.4 per cent for all industrial products), 12 per cent in developed countries as a whole, and 29 per cent in developing and transition economies. Tariffs imposed on textile and clothing products are also characterised by a high incidence of tariff peaks in many countries.

The scheduled elimination of MFA restrictions at the end of December 2004 is challenging the global sourcing channels established during the MFA period and represents a systemic change in trade policies. In the meantime, stakeholders are reassessing their global sourcing channels not only on the basis of price competitiveness but increasingly on the dynamics of inter-firm networks that can react quickly and can meet the ever stringent specifications required by large retail groups in terms of production quality and social requirements.

There is a challenging perspective ahead in the quota-free period for all textile and clothing suppliers to adapt their production mix to meet ever-changing consumer requirements in terms of design, quality and prices while setting up efficient and competitive production process. For all governments, the challenges rest on devising a coherent textile and clothing policy framework that strengthens the capacity of domestic producers to deal with rapid change and growing competition, and to capture more effectively trade opportunities that are being created through improved market access.

VIII.6 Trade in Services

Relationship with the Doha Ministerial Declaration

As part of the WTO's "built in agenda", further negotiations under the General Agreement on Trade in Services (GATS) commenced on 1 January 2000, with "Guidelines and Procedures" for the negotiations adopted on 28 March 2001.

Paragraph 15 of the Doha Ministerial Declaration reaffirmed these Guidelines as the basis for continuing the General Agreement on Trade in Services (GATS) negotiations and set deadlines for initial requests (30 June 2002) and initial offers (31 March 2003).

The GATS and the WTO

The Guidelines for the negotiations state that all sectors and modes are subject to negotiation, with the main method being request-offer. They set a deadline for negotiations on safeguards, with negotiations on domestic regulation, subsidies and government procurement to be completed prior to the conclusion of negotiations on specific commitments.

The Guidelines also stress developing country concerns, including special attention to sectors and modes of their export interest, flexibility to open fewer sectors and to condition access, and implementation of Article IV (Increasing Participation of Developing Countries). The Guidelines also state that negotiations are to be informed by the ongoing assessment of trade in services mandated under Article XIX.

Economic importance of trade in services

Services trade is vast, covering sectors as diverse as telecommunications and energy, communications and retail. Services are generally governed by often complex regulatory structures serving a range of policy objectives. The way services are supplied also varies enormously; a mix of state and private sector suppliers, monopolies and competitive markets and now electronic means are used. Many sectors have
seen enormous technological change, which has transformed the nature and supply of services. It is against this dynamic and shifting backdrop that further liberalisation is being negotiated.

Between the end of the Uruguay Round and the start of the new negotiations, significant unilateral liberalisation was undertaken by both developed and developing countries, with global trade in services now estimated at US$ 2.1 trillion annually.

This is not simply a developed country phenomenon: the share of services in total trade has also increased in developing countries, with services accounting for approximately 30% of trade for both developed and developing countries. Trade in services, especially infrastructure services (e.g., transport, financial services) has also underpinned growth in trade in goods.

The challenge for all WTO Members, in particular developing countries, is to harvest this unilateral liberalisation and to develop the sound regulatory frameworks necessary for successful liberalisation.

VIII.7 Trade Facilitation

Relationship with the Doha Ministerial Declaration

The Doha Ministerial Declaration (paragraph 27) recognises the case for further expediting the movement, release and clearance of goods, including goods in transit, and the need for enhanced technical assistance and capacity building in this area. Accordingly, it identifies trade facilitation as an area in which negotiations should begin after the 5th Ministerial, once consensus is reached on negotiating modalities.

In the meantime, the Council for Trade in Goods is mandated to review and, as appropriate, clarify and improve relevant aspects of Articles V, VIII and X of the GATT 1994 and identify the trade facilitation needs and priorities of Members, in particular developing and least-developed countries.

Trade Facilitation in the WTO

Trade facilitation is not a new issue for the GATT/WTO. Specific provisions related to the simplification and harmonisation of trade procedures, including transparency and predictability requirements, are already contained in the WTO legal framework, such as Articles V (Transit), VII (Customs Valuation), VIII (Fees and Formalities) and X (Publication and Administration of Trade Regulations), as well as in the Agreements on Customs Valuation, Import Licensing, Pre-shipment Inspection and Rules of Origin.

However, linking these issues under the common umbrella of “Trade Facilitation” is new since the 1st WTO Ministerial, held in Singapore in 1996. Since that time, the WTO has pursued exploratory and analytical work under the Council for Trade in Goods. Work has mainly focused on customs and border-crossing procedures, including import and export documentation requirements, transport and transit of consignments and payments, electronic facilities and technical co-operation and development issues.

Economic importance

The inclusion of trade facilitation in the Doha Development Agenda reflects widespread recognition by governments and business that national procedures relating to the international movement of goods are probably one of the major bottlenecks in trade today. This problem can have widespread implications due to backward and forward linkages throughout the global chains for supply, production and marketing.

Estimates of trade transaction costs range from 7 to 15 per cent of the value of world trade. These figures should be compared to the WTO estimate that the post-Uruguay Round weighted average tariff of
developed countries on industrial goods, excluding petroleum, is 3.8 per cent. In some product sectors, such additional burden may entirely neutralise some of the past tariff reductions and damage firm and country competitiveness. Among countries with similar economic endowments, differences in border efficiency may be a critical factor in firms’ investment location decisions, especially where the domestic market is not sufficiently large to justify production exclusively oriented towards domestic consumption.

VIII.8 Trade in Agriculture

Relationship with the Doha Ministerial Declaration

The Doha Ministerial Declaration (paragraphs 13-14) recognises the work already undertaken in the negotiations initiated in early 2000 under Article 20 of the Uruguay Round Agreement on Agriculture (URAA) signed in April 1994. The Declaration recalls the long-term objective referred to in the URAA to establish a fair and market-oriented trading system through a programme of fundamental reform encompassing strengthened rules and specific commitments on support and protection in order to correct and prevent restrictions and distortions in world agricultural markets.

The Doha Ministerial Declaration provides that the agriculture negotiations already initiated in 2000 have become part of a single undertaking in which the linked trade negotiations are to conclude before the end of 2004.

Trade in Agriculture in the WTO

With the URAA, WTO member countries undertook reduction commitments in respect of border protection, domestic support and export subsidies, generally referred as the “three pillars”. A separate Agreement on regulations concerning food safety and animal and plant health standards (Sanitary and Phytosanitary Measures) was agreed which aims to ensure that strict health and safety regulations are not being used as an excuse for protecting domestic producers.

The URAA has been implemented over a six-year period (ten years for developing countries), that began in 1995. Participants agreed to initiate negotiations for continuing the reform process one-year before the end of the implementation period. These follow-up negotiations are underway since 2000.

Developing countries do not have to cut their subsidies or lower their tariffs as much as developed countries, and they are given extra time to complete their obligations. Special provisions deal with the interests of countries that rely on imports for their food supplies, and the least developed economies. In particular, a WTO Ministerial Decision sets out objectives, and certain measures, for the provision of food aid and aid for agricultural development. It also refers to the possibility of assistance from the International Monetary Fund and the World Bank to finance commercial food imports.

Economic importance

Agricultural trade offers an important route through which developing countries can more effectively integrate into the world economy. Many developing countries have a comparative advantage in some form of agricultural activity, due to either a relative abundance of labour or suitable land, and should therefore benefit from the improved opportunities offered by more open agricultural trade.

Despite the progress made in the URAA, protection in agricultural trade remains high. Sensitive commodities are insulated from competition in many countries by prohibitive tariffs and export subsidies. Domestic policies that foster production and increase income levels are often at the root of protective trade
policies. Also, domestic regulation in the area of food safety and quality, environment or animal welfare is increasingly affecting trade.

According to OECD estimates, total support to agriculture in OECD countries amounted to 318 billion USD, or 1.2 per cent of GDP, in 2002. Around three-quarters went to producers while 17% went to sector-wide policies and institutional services such as research, education, inspection and control and marketing. More than 70 per cent of the support that goes to agricultural producers is generated through market price support and output related payments. These forms of support insulate farmers from world markets and impose a significant burden on consumers and taxpayers. They also have strong impacts on production and trade, both for OECD and non-OECD countries.

Opportunities of Current WTO Negotiations

A key conclusion of OECD work is that while the Uruguay Round Agreement on Agriculture (URAA) was a watershed, in that agriculture was finally brought under the auspices of global trade rules, it nevertheless left high levels of support and protection in place. Current WTO negotiations offer an opportunity to consolidate the gains from the Uruguay Round by strengthening reforms in the key areas of market access, export subsidisation and domestic support.

From a political standpoint, trade reforms would put pressure on the most ineffective domestic policies. In particular, commitments to improve market access (notably via tariff cuts) and to eliminate export subsidization would make price supports less tenable, and reinforce the shift to direct forms of support which are not linked to production and are less trade distorting. Equally, domestic reforms, by reducing the need for border measures, make it easier for reforming countries to reach agreement in a multilateral context.

Despite the prospect of aggregate gains, not everyone gains from liberalisation, at least in the short run. Some countries (notably some low income developing countries) may lose from agricultural trade liberalisation, including exporters with preferential trading arrangements who could see their preference margins eroded, and net food importers who could see their food import bills rise relative to what they would otherwise be. However, these countries can gain from a multi-sector agreement, and the challenge is to find ways of addressing their specific concerns in the context of a liberal trading environment (e.g through Special and Differential Treatment), rather than to use such effects as a reason not to reform. Within countries, there will inevitably be winners and losers, with those who formerly benefited from protection standing to lose. Again, the optimal approach is to address those issues directly, via policies that ease the transition into more productive (and ultimately remunerative) activities, rather than to eschew reform altogether.

VIII.9 Trade and Environment

Relationship with the Doha Ministerial Declaration

The Doha Ministerial Declaration contains several references to trade and the environment. Indeed, a separate section is devoted to it (paragraphs 31-33). In Paragraph 31 Ministers agreed to launch negotiations on the relationship between existing WTO rules and specific trade obligations set out in multilateral environmental agreements (MEAs). They also agreed to negotiations on the reduction or elimination of tariff and non-tariff barriers to environmental goods and services (EG&S). Examples of EG&S are catalytic converters, air filters or consultancy services on wastewater management.
In Paragraph 32, Ministers instructed the Committee on Trade and Environment (CTE), in pursuing work on all items on its agenda within its current terms of reference, to give particular attention to several issues: (i) the effect of environmental measures on market access, especially in relation to developing countries, in particular the least-developed among them, and those situations in which the elimination or reduction of trade restrictions and distortions would benefit trade, the environment and development; (ii) the relevant provisions of the Agreement on Trade-Related Aspects of Intellectual Property Rights; and (iii) labeling requirements for environmental purposes.

Finally, in Paragraph 33, Ministers encouraged that expertise and experience be shared with members wishing to perform environmental reviews at the national level.

Background

Issues relating to sustainable development, trade and the environment have been discussed in the GATT and in the WTO for many years. While the WTO has no specific agreement dealing with the environment, a number of the WTO agreements include provisions dealing with environmental concerns. The objectives of sustainable development and environmental protection also appear prominently in the preamble to the Agreement Establishing the WTO, and are reaffirmed in the opening paragraphs of the Doha Development Agenda.

Since 1995, work has been conducted in the WTO’s Committee on Trade and Environment (CTE) pursuant to a comprehensive work programme. At the Fourth Ministerial Conference in Doha, Qatar, in November 2001, Ministers agreed to start negotiations on specific issues relating to the trade and environment linkage. These negotiations are being conducted in Special Sessions of the Committee on Trade and Environment.

Economic importance

WTO Ministers have stressed on many occasions, and again in Paragraph 6 of the Doha Declaration, that the aims of upholding and safeguarding an open and non-discriminatory multilateral trading system, and acting for the protection of the environment and the promotion of sustainable development, can and must be mutually supportive. The mandated negotiations and work programme, by improving policy coherence in this area, could support this objective:

Ensuring that the multilateral trading system and environmental policies (including those embodied in multilateral environmental agreements) are mutually supportive would help both to prevent avoidable disruptions in trade and avoid trade rules preventing the pursuit of legitimate environmental objectives. Reducing barriers to trade in environmental goods and services could reduce the costs of environmental protection. Understanding the effect of environmental measures (including labelling requirements) on market access for developing countries, in particular LDCs, could help improve the design and implementation of environmental policies and associated technical assistance. The purpose of the CTE’s deliberations is to strike an appropriate balance between trade and environmental objectives.

VIII.10 Transparency in Government Procurement

Relationship with the Doha Declaration

The Doha Ministerial Declaration recognised the case for a multilateral agreement on transparency in government procurement and the need for enhanced technical assistance and capacity building in this area.
In particular, the Ministers agreed “that negotiations will take place after the Fifth Session of the Ministerial Conference on the basis of a decision to be taken, by explicit consensus, at that Session on modalities of negotiations” (paragraph 26).

These negotiations will build on the progress made in the Working Group on Transparency in Government Procurement by that time and take into account participants’ development priorities, especially those of least-developed country participants. Negotiations shall be limited to the transparency aspects and therefore will not restrict the scope for countries to give preferences to domestic supplies and suppliers.

*Transparency in government procurement and the WTO*

Until the Tokyo Round Agreement on Government Procurement (GPA) entered into force in 1981, governments faced virtually no restraints when favouring national suppliers over foreign competitors. The GPA extended the MFN and national treatment principles to procurement of goods above certain thresholds by central government entities. With the Uruguay Round, the GPA extended disciplines to services, construction work and sub-central governments as specified in national schedules of commitments. However, the GPA is a plurilateral agreement as it applies only the countries that have specifically agreed to it.

At the 1996 WTO Ministerial Conference in Singapore, a Working Group on Transparency in Government Procurement Practices was set up to study transparency in government procurement practices and to develop elements for inclusion in a multilateral agreement that would apply to all WTO country members.

*The economic importance*

Governments are significant purchasers of goods and services and these markets represent huge opportunities for international trade. OECD calculations on the size of government procurement markets, estimate purchases by government entities to represent on average about 20% of an OECD country’s Gross Domestic Product (GDP) and about 14.5% of a non-OECD country’s GDP.

The world total government procurement is estimated to amount to $5550 billion in 1998, which is equivalent to 82.3% of the world merchandise and commercial services exports in 1998. The world value of government procurement that is potentially opened up to international trade is estimated at $2083 billion, which is equivalent to 7.1% of the world GDP or 30.1% of the world merchandise and commercial services exports.

**VIII.11 Regulatory reform and market openness**

*Relationship with the Doha Ministerial Declaration*

“Regulatory issues” or “regulatory reform” do not figure as specific headings under the DDA Work Programme; nevertheless, many of the negotiating topics under the program are linked either explicitly or implicitly to regulatory issues. The OECD has since 1998 been reviewing trade-relevant regulatory practices in a number of its member countries, inter alia on the basis of an analytical framework for assessing how domestic regulatory regimes, processes and practices contribute to and enhance market openness. The work completed so far provides valuable insights into which regulatory practices and approaches reduce discriminatory effects and are useful in avoiding trade restrictiveness.
While improved regulatory quality and processes are first and foremost in the interest of the domestic economy, they can also underpin market openness. To this purpose, six principles have been identified by the OECD member countries to guide sound regulatory processes:

- Transparency and openness of decision-making
- Non-discrimination
- Avoidance of unnecessary trade restrictiveness
- Use of internationally harmonized measures
- Recognition of equivalence of other countries’ regulatory measures and
- Application of competition principles.

Regulatory reform and market openness in the WTO

It is often misconstrued that regulatory measures, technical, administrative or other regulations, are inherently in contradiction to trade liberalization. The WTO, however, acknowledges the right of countries to regulate. The Doha Ministerial Declaration explicitly refers to governments’ “right to regulate in the public interest”, in particular “the right of Members... to regulate, and to introduce new regulations on, the supply of services” and the legitimacy of measures to protect human, animal or plant life or health.

Further, the multilateral trading system itself has, as its basic principles, key elements of good regulatory practice, such as, transparency and non-discrimination. Transparency requirements - e.g. making trade-related rules and regulations publicly available, via publication or otherwise at the national level, or informing other WTO Members via notification to the WTO - are included in all WTO agreements, and are an important pillar of the system itself. Another important pillar is non-discrimination, to which two disciplines apply: most favored nation (MFN) treatment and national treatment (NT). MFN requires that WTO Members cannot discriminate amongst each other: that is, treatment granted to one WTO Member must be extended to all. National treatment requires that like foreign products be subject to treatment no less favorable than that accorded to domestic products. While non-discrimination is mandatory in goods trade, in the case of trade in services, limited exceptions are allowed for MFN while national treatment is discretionary.

Economic importance

Regulation is an essential part of a well-functioning economy. While aiming to achieve their objectives, particular regulations may also have effects in areas that are not their primary target, e.g. on trade. Such effects may be unavoidable. Yet there may also be cases where regulations have unnecessarily distorting or restrictive effects on market access granted to trading partners, and where regulatory reform or improved regulatory quality might make it possible to reduce such effects. There are also examples of attempts to protect some industries by imposing very specific requirements that affect imports but not domestic production or that give domestic producers a significant advantage over their foreign competitors. Again the use of good regulatory practices may make such potential effects evident prior to implementation.

The progressive liberalization of trading barriers to trade at the border and the expansion of the scope and coverage of international trade rules have had two complementary effects on trade-related regulations. On the other hand, the trade effects of regulations have become more apparent. Liberalization of trade has also led to the introduction of new or modified regulations to safeguard specific concerns, particularly in areas such as health, safety and the environment. OECD’s Regulatory Reform Programme has explored the various ways in which Members have implemented good regulatory practices in terms of market openness perspective.
VIII.12 Updates - CD ROM Tool Kit II

An OECD Tool Kit for Trade Policy Makers II – The Market Access Challenge in the Doha Development Agenda

This CD ROM Tool Kit II provides, like the first CD ROM of this series published in September 2002, a valuable tool for governments and the public to enhance their understanding of trade policy issues and negotiating procedures in the context of the Doha Development Agenda (DDA).

The Tool Kit II puts together OECD work related to the DDA and is a contribution to co-ordinated international efforts to strengthening trade-related technical assistance and capacity building in favour of developing countries.

Users will find the video proceedings of discussions at the OECD Global Forum on Trade held at OECD Headquarters in Paris in June 2003, which focused on the market access challenge in the Doha Development Agenda. In addition to these video proceedings, interviews have been included with some lead speakers and staff members of the OECD Trade Directorate. The text of the speeches and discussion papers of the Forum are also available on this CD-ROM, along with 23 recent OECD analytical papers and publication on trade issues of relevance to the Doha Development Agenda.

This Website provides access to DDA analytical work that was finalized after the CD ROM Tool Kit II was released. Users are invited to visit this site regularly to obtain the most recent analytical work done by the OECD on DDA issues.

The analytical materials are classified under the following themes:

- Tariff liberalization
- Non-tariff barriers
- Trade in services
- Trade facilitation
- Trade in agriculture
- Trade in textiles and clothing
- Trade and environment
- Government procurement
- Regulatory reform

The OECD analytical papers and publication contained in the CD-ROM Tool Kit II were selected among the trade documentation already available to the public and accessible through the "Documentation" section of the Trade Directorate's Web site. Users have access to a wider selection of trade-related materials through the Web site than the CD-ROM, which focused on trade policy issues of relevance to the Doha Ministerial Declaration. For the complete list of documentation on the Tool Kit II, [click here](#).