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Geneva, 17 November 1997
Agenda item 8

**DRAFT REPORT OF THE COMMISSION ON TRADE IN GOODS AND SERVICES,
AND COMMODITIES ON ITS SECOND SESSION
(17-21 November 1997)**

Rapporteur: Mr. Petko Baev (Bulgaria)

Speakers:

Chairperson of the first session of the Commission	Sri Lanka (for Asian Group and China)
Chairperson (paras. 3 & 16)	South Africa (for African Group)
Deputy Secretary-General of UNCTAD Secretariat	Bangladesh (for LDCs)
Peru (for GRULAC)	Luxembourg (for European Union)
United States of America (paras. 15 & 17)	Dominican Republic
	European Commission

Note for delegations

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

Requests for amendments - to be submitted in English or French - should be communicated by **Friday, 30 November 1997, at the latest** to:

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INTRODUCTION

1. The second session of the Commission on Trade in Goods and Services, and Commodities was held at the Palais des Nations, Geneva, from 17 to 21 November 1997. In the course of the session, the Commission held ... plenary meetings (6th to ... meetings) and ... informal meetings.

Opening statements

2. The Chairperson of the Commission at its first session congratulated the Chairperson of the second session of the Commission on his election, and thanked all delegations and the UNCTAD secretariat for their support during the first session. The second session of the Commission could benefit from the work carried out during the first session, as well as from the results of the four Expert Meetings. Their reports should be analysed very carefully and could help the Commission in its main task, namely assisting member States in the formulation of their policies. He hoped that the topics for the Expert Meetings in 1998 would be interesting and constitute integral parts of the third session. The second session of the Commission should help to identify the role that UNCTAD's Commissions had to play and could play, especially with regard to the 1998 Mid-Term Review.

3. The Chairperson said that globalization and liberalization in the international economy were being pursued on two parallel tracks. On the one hand, States were intensifying efforts to set rules for economic activities. On the other hand, the private sector - and transnational corporations in particular - had established their own standards regarding trade, investment and transfer of technology. More often than not, there was no interaction between these two parallel processes. The problem was compounded by the often prolonged trade negotiations among States, with the result that any consensus reached was mostly irrelevant. Furthermore, standard-setting by the private sector rarely considered the social implications. This process was further complicated by different economic interests among States, often those within the same development category, such as the G-7. The same applied to international organizations, and UNCTAD was to be commended for striving to draw attention to the social dimension of trade liberalization. In this light and with a view to improving coherence and coordination among the various tracks of rule-setting for global economic activities, better lines of communication and understanding had to be created and utilized among the parties involved. UNCTAD and its commissions could play a crucial role in this respect, being the most universal forum for an integrated approach to trade and development issues. The private sector's involvement in UNCTAD intergovernmental deliberations had started and should be strengthened.

4. The Deputy Secretary-General of UNCTAD welcomed participants to the second session of the Commission. He recalled that since the mid-1980s, international trade had been growing at a brisk pace, as a result of globalization, the deepening of the international division of labour and the concomitant emergence of increasingly internationalized production patterns. Developing countries as a group had significantly increased their participation in international trade flows since the 1980s, both as exporters and importers. Moreover, trade among developing countries had almost quadrupled between the mid-1980s and the mid-1990s. A worrying feature of the situation, however, was the fact that the increased participation of developing countries in trade and investment flows had tended to be concentrated in certain countries and regions, raising the alarming prospect of marginalization of those countries that were structurally less able to share in the growth of investment and trade. They lacked basic infrastructure, both physical and human, and were beleaguered by lingering foreign debt problems.

5. Improvements in market access were a crucial component of international strategies aimed at making trade a lever for development. The ongoing liberalization had enhanced opportunities in international trade. However, in some sectors and products - notably those of special interest to developing countries - high tariff peaks still prevailed, while remaining tariff escalation in commodity-based trade introduced a bias against diversification and processing. Elsewhere, non-tariff measures continued to frustrate trade expansion. In addition, the preference margins which had hitherto been enjoyed by many developing countries were being eroded, and attention needed to be devoted to this problem.

6. The international trading scene was characterized by a process of continuous trade negotiations at the multilateral, regional and subregional levels, as well as by the rapid expansion of trade flows. In both trade in goods and trade in services, several new initiatives to change the multilateral framework were being pursued, be it in the context of the "built-in agenda" of the WTO or negotiations which were not foreseen in it. Thus, it was likely that the international trade agenda would continue to become more loaded and complex. For developing countries, this posed difficult challenges. At the same time as they were striving to tap the trading opportunities of the new context and adapt their institutions to the commitments made, they had to formulate their positive agenda for ongoing and future trade negotiations. This should take into consideration the issue of the asymmetries between countries at different levels of development. The multilateral trading regime had to be flexible enough to accommodate the need for differential treatment of different actors.

Chapter I

DIVERSIFICATION IN COMMODITY-DEPENDENT COUNTRIES

(Agenda item 3)

WAYS AND MEANS FOR IMPROVING THE OPPORTUNITIES FOR THE EXPANSION OF EXPORTS OF GOODS AND SERVICES FROM DEVELOPING COUNTRIES

(Agenda item 4)

7. For its consideration of agenda item 3, the Commission had before it the following documentation:

"Diversification in commodity-dependent countries: The role of governments, enterprises and institutions - Report by the UNCTAD secretariat" (TD/B/COM.1/12)

"Report of the Expert Meeting on Vertical Diversification in the Food Processing Sector in Developing Countries" (TD/B/COM.1/8-TD/B/COM.1/EM.2/3)

8. For its consideration of agenda item 4, the Commission had before it the following documentation:

"Ways and means for improving the opportunities for the expansion of exports of goods and services from developing countries: Report by the UNCTAD secretariat" (TD/B/COM.1/13)

"Report of the Expert Meeting on Strengthening the Capacity and Expanding Exports of Developing Countries in the Services Sector: Health Services" (TD/B/COM.1/7-TD/B/COM.1/EM.1/3)

9. The Senior Programme Manager of the Division on International Trade in Goods and Services, and Commodities said that globalization had opened up new opportunities for worldwide prosperity. From a development perspective, the challenges were to speed up the integration of developing countries into the world economy and to enable them to take advantage of new trading opportunities. He emphasized that diversification was a major challenge for commodity-dependent countries. Also, he noted that there were sectors in which developing countries had recorded dynamic export performances. The analysis of selected dynamic sectors could serve to increase knowledge of obstacles to export expansion on both the market access and supply sides, and to identify remedial policy

responses. In the post-Uruguay Round environment, developing countries had to rethink their policies in order to cope with new multilateral conditions.

10. The speaker stressed the importance of international trade in services for a great number of developing countries. The examination of the health services sector by the UNCTAD Expert Meeting held in June 1997 pointed to many challenges and opportunities for developing economies. Moreover, the Internet provided new opportunities for the expansion of trade in goods and services. He also noted that uncertainty cast a shadow over the future of traditional preferential trade arrangements. At the same time, however, trade preferences for LDCs had been strengthened in many instances.

11. In conclusion, he said that trade negotiations were a formidable challenge for many developing countries, and that support for those countries was necessary in this regard.

12. The spokesman for the Latin American and Caribbean Group (Peru) said that the Group agreed with the evaluation contained in the document that the UNCTAD secretariat had prepared on agenda item 3. He referred to its final part - "A proactive agenda for diversification" - and endorsed the possibility of applying it to one country in each of the developing regions. Moreover, some of its elements should be incorporated into technical cooperation activities. Regarding the Common Fund for Commodities, he expressed the Group's disappointment at the withdrawal of one important European country.

13. Turning to agenda item 4, he expressed the Group's concern regarding the persistence of market access barriers such as tariff peaks and escalation, and of non-tariff barriers, which jeopardized the market access of increasingly competitive developing countries. The impact of the new multilateral framework on industrial development strategies should be examined, particularly in the light of the revision of the WTO's Agreement on Subsidies and Countervailing Measures. Regarding the Agreement on Textiles and Clothing, the programme of integration did not have significance in terms of trade, since the commercial value of already integrated products was very low. Moreover, safeguard measures should be used sparingly. He added that the process of analysis in the WTO of the Agreement on Agriculture was satisfactory. However, it was important that the negotiations that would start in 1999 take into account special and differential treatment for developing countries, greater market access for them, and the implementation of the Ministerial Decision on Measures Concerning the Possible Negative Effects of the Reform Programme on Least Developed and on Net Food-Importing Countries.

14. Referring to sectors for possible further analysis, he stated that the fisheries and wooden furniture sectors were of particular interest to the Latin American and Caribbean region. Its exporters were facing market access problems as a result of the action of lobbies and of NGOs. As for services, developing

countries would put tourism, air and maritime transportation and software services on the agenda of coming negotiations. The modalities of application of Article IV of the General Agreement on Trade in Services had also to be examined. Moreover, an agreement on safeguards in services was necessary. Another issue in trade in services related to electronic commerce. In order to fulfil their trade expansion potential, developing countries needed access to information infrastructure. UNCTAD should deal with this question, including in its technical assistance activities. Moreover, it should undertake a study of the link between electronic trade and intellectual property in collaboration with the World Intellectual Property Organization.

15. The representative of the United States of America suggested an amendment to the agenda, so that the informal meeting could start right away, without the Commission listening to the official statements made by representatives of member Governments or negotiation groups. He said that many of the issues raised in the formal statements had been already raised at the session of the Trade and Development Board held last October. His amendment would allow the Commission to have sufficient time for in-depth discussions on the issues set out in the timetable of the Commission's meeting.

16. The Chairperson took note of the amendment proposed by the representative of the United States of America, but said that some participants from the national capitals had not had an opportunity to be present at the session of the Trade and Development Board.

17. The representative of the United States of America said that at the information session held a week before the Commission's meeting there had been no discussion on how official statements would be treated at the present plenary meeting. Had there had been a discussion, he could have raised the possibility of establishing a timetable that would have allowed the Commission to move directly into informal meetings after the opening session.

18. He commented on three issues that had been raised by the Senior Programme Manager of the Division on International Trade in Goods and Services, and Commodities in his opening statement. First, with regard to the post-Uruguay Round peak tariffs and tariff escalations in respect of products of interest to developing countries, he said that the 40 commodity-dependent developing countries themselves could have made much greater efforts for liberalization during the Uruguay Round negotiations. He suggested that in a setting such as that of multilateral trade negotiations, it would be important that they indicate their willingness to make concessions in exchange for greater market liberalization in other countries. Second, he asked how the secretariat had come to the conclusion that "shock therapy" did not exist with respect to strengthening competitive supply capabilities in the services sector in developing countries. He said that developing countries would need to speed up,

rather than slow down, their efforts to achieve further liberalization and globalization, noting that there had been several cases which had suggested that shock remedies sometimes had a significant effect. Third, he said that the list of possible subjects to be taken up by future expert group meetings, which had been provided by the secretariat, was rather disappointing. The subjects needed to be more action-oriented.

19. The spokesman for the Asian Group and China (Sri Lanka) said that diversification in commodity-dependent developing countries was a key factor in development and could not be made dependent on improved commodity prices. Four points were relevant. First, diversification was not an automatic outcome but an essential aspect of economic development. Second, diversification efforts by developing countries would not succeed unless they were accompanied by support from developed countries, international financial institutions and relevant organizations. Third, viable diversification necessitated an improvement in market access conditions. Fourth, technical assistance was needed to facilitate diversification, but it should not be a substitute for more favourable market access conditions, external capital and technology.

20. Some countries in Asia had shown that the commodity sector could be a basis for the diversification and structural transformation of the economy. Their experience suggested a judicious mix of government support to the commodity sector, coupled with active entrepreneurial involvement through joint ventures. It showed that appropriate trade and industrial policies were needed in order to remove some of the supply-side constraints. However, possible development policy choices might be limited by new multilateral disciplines, and this was a matter of concern to developing countries. Commodity dependence was a continuing problem in many developing countries, and for them diversification was needed so as to reduce the risk of marginalization in the world economy. In this respect, new forms of international support, including new technologies for trade via electronic means, were required in order to deal with the movement away from international support for many commodity development support measures. Also, the pattern of relatively high and escalating tariffs on processed commodities in developed countries acted as a significant barrier to diversification. Future multilateral liberalization efforts should address and remove tariff barriers in sectors of particular export interest to developing countries. Market access issues should be viewed in the wider context of development. In this connection, it was also necessary to further analyse and study ways and means to enhance the utilization of existing trade preferences such as the Generalized System of Preferences and ways of improving trade preferences and rules of origin, not least because of the trend towards greater reciprocity and graduation of countries receiving trade preferences and because of the proliferation of regional trading arrangements.

21. Economic liberalization had heightened competition, which could be addressed by developing countries *inter alia* through access to adequate

information, finance and risk management. Also, building efficient production capabilities required international cooperation in order to significantly increase the flow of concessional resources to developing countries, reduce the debt burden, expand research and development and technological cooperation, and facilitate remunerative returns and prices for developing country exports.

22. Finally, the service sector had considerable potential for developing countries. However, present market access barriers should be addressed, including those limiting the movement of natural persons, which could be an important mode of supply in export transactions for developing countries. At the same time, the liberalization of the services sector in developing countries was complex and required a cautious and progressive approach allowing countries to liberalize in accordance with their capacity and stage of development.

23. The spokesman for the African Group (South Africa) stated, in respect of diversification, that over 75 per cent of the workforce in Africa was engaged in commodity production and trade. At the same time Africa's commodity exports remained stagnant and their real value had fallen by 50 per cent. The erosion of the market share of weaker commodity exporters in world markets was a source of concern. It showed that domestic policy reform was a necessary condition for successful commodity diversification, but it had to be accompanied by a supportive international environment. However, conflicts could arise from differing policy objectives, for example between enhancing efficiency and generating employment. Hence the experiences of different countries in dealing with conflicting policy objectives needed to be analysed.

24. Export diversification remained a key objective in the development of African countries, and UNCTAD and the international community could assist in a number of ways. These included the provision of assistance, on a national or regional basis, in vertical and horizontal diversification as well as in related human capacities; creation of self-financing mechanisms for commodity diversification activities; and effectively addressing the weak technological base, market access problems and other commodity-related problems.

25. As regards the improvement of export opportunities for goods and services of developing countries, concern was expressed about the poor and declining performance of Africa in contrast with the positive trend in other developing regions. While the share of developing countries in world exports rose from 24 per cent in 1990 to 27 per cent in 1995, Africa's share fell from 3 per cent in 1985 to 2 per cent in 1995. The situation was intolerable and unacceptable. Furthermore, the trend was the same regarding the regionalization of trade among developing countries. While intraregional trade had grown in Asia and Latin America and the Caribbean, intra-African trade had declined at a rate of 9 per cent during the first half of the 1990s. Also, both the product mix and trade links of African countries maintained the traditional bias towards primary commodities and northern markets.

26. African countries remained committed to further liberalization in support of export growth. However, market access barriers and supply-side constraints hampered exploitation of export opportunities. UNCTAD should assist developing countries in identifying these market access barriers, including the use of new protectionist tools such as anti-dumping and safeguard measures, and propose ways of removing them. Similarly, supply-side constraints needed to be identified and ways and means found to deal with them. The information technology revolution, including the Internet, should be used to expand and exploit trading opportunities. In this regard, issues of requisite infrastructure, connectivity and access to information were important for developing countries. UNCTAD should also continue to help developing countries to strengthen their capacities in the services sector, including for trading. Assistance should also be extended to regional integration processes, in particular the African Economic Community established by the Abuja Treaty.

27. The spokesman for the least developed countries (Bangladesh) said that agenda items 3 and 4 had a direct relevance to the outcome of the High-Level Meeting on Integrated Initiatives for Least Developed Countries' Trade Development, held in Geneva last October under the auspices of the WTO. In this connection, he suggested that discussions on items 3 and 4 should closely follow what had been identified and suggested at the High-Level Meeting. At the same time, he requested UNCTAD to carry out preparatory work for the items that would be covered by the next WTO Ministerial Meeting, with particular attention to those relevant to the LDCs.

28. The speaker listed several issues that were pertinent to the economic development of the LDCs: (i) agricultural development; (ii) foreign direct investment (FDI); (iii) official development assistance (ODA); and (iv) trade in services. First, he referred to *The Least Developed Countries, 1997 Report*, and said that many LDCs had adopted various agricultural reform measures. However, he noted that agricultural exports from the LDCs continued to be undermined by commodity price volatility, as well as by existing tariff peaks and tariff escalations in the major importing countries. Second, he said that the FDI regimes in the LDCs had been substantially liberalized in recent years, but the FDI inflow to the LDCs remained minimal at best. He suggested that an in-depth study at government and enterprise level might be required in order to determine how this trend might be reversed so as to increase the flow of FDI to the LDCs. Third, he reminded the Commission that, given the financial and technical limitations the LDCs were facing, ODA still had major importance with respect to their capacity for formulating and implementing their development policies. Finally, regarding trade in services, he expressed the belief that the movement of natural persons in professional sectors would be a key issue for LDCs, as it could represent a major source of export earnings for those countries. UNCTAD could carry out studies in this area, in cooperation with the International Organization for Migration.

29. The representative of Luxembourg, speaking on behalf of the European Union, suggested with regard to the preparation of the Commission's meetings that an information session be held for the member States three weeks before each meeting. Had this been done, there would have been enough time to analyse the outcomes of the four expert group meetings, and their policy implications for the future activities of the Commission. The European Union found that the week available to it had been too short for a complete analysis of the documents. She said that at a later stage the European Union would distribute a written proposal that could be included in the report of the Commission.

30. The representative of the Dominican Republic said that the background documents prepared by the secretariat were of great value and were consistent with the mandate it had received in Midrand. He noted that developing countries would need support for the new phase of international trade negotiations due to start in 1999 as part of the "built-in agenda".

31. The Dominican Republic considered it particularly important that developing countries receive support in four areas of analysis. The first two areas were analysis of the new non-tariff measures which had been implemented since the end of the Uruguay Round with the aim of identifying appropriate rules and discipline for these measures, and analysis of the implications of the Agreement on Subsidies and Countervailing Measures. The latter analysis would be particularly relevant to developing countries, since the transitional period allowed to them was expiring and they needed to identify the measures they should resort to in order to minimize possible negative impacts due to the implementation of the Agreement. The other two areas were analysis of the relevance of the Uruguay Round Agreements for the new integration agreements, especially those which would involve countries at different levels of development; and analysis of ways and means of effectively applying Article IV of the General Agreement on Trade in Services in the new round of negotiations on services, for the purpose of avoiding sector-by-sector negotiations and having instead global negotiations. The latter were likely to achieve fairer results than those achieved during the previous three years of negotiations on services.

32. The representative of the European Community, responding to the representative of Peru, said that the decision to adhere to the Common Fund for Commodities was a Community decision adopted by the Council of Ministers of the European Union. The European Community, a member of the Common Fund, had never announced its withdrawal from the Fund.

Chapter II

ORGANIZATIONAL MATTERS

A. Opening of the session

33. The second session of the Commission on Trade in Goods and Services, and Commodities was opened on 17 November 1997 by Mr. Daniel Bernard, Chairperson of the first session of the Commission.

B. Election of officers

(Agenda item 1)

34. At its 6th plenary meeting, on 17 November 1997, the Commission elected its Bureau as follows:

<u>Chairperson:</u>	Mr. Bozorgmehr Ziaran	(Islamic Republic of Iran)
<u>Vice-Chairpersons:</u>	Mr. Agus Tarmidzi	(Indonesia)
	Mr. Federico Cuello	(Dominican Republic)
	Mr. Hesham Youssef	(Egypt)
	Mr. Dietrich Barth	(Germany)
	Mr. Peter Jenkins	(United Kingdom of Great Britain and Northern Ireland)
<u>Rapporteur:</u>	Mr. Petko Baev	(Bulgaria)

C. Adoption of the agenda and organization of work

(Agenda item 2)

35. At the same meeting, the Commission adopted the provisional agenda circulated in document TD/B/COM.1/11. Accordingly, the agenda for the second session was as follows:

1. Election of officers
2. Adoption of the agenda and organization of work
3. Diversification in commodity-dependent countries
4. Ways and means for improving the opportunities for the expansion of exports of goods and services from developing countries
5. Reports of the subsidiary bodies of the Commission

6. Provisional agenda for the third session of the Commission
7. Other business
8. Adoption of the report of the Commission to the Trade and Development Board

D. Provisional agenda for the third session of the Commission

(Agenda item 6)

[To be completed]

E. Other business

(Agenda item 7)

[To be completed as appropriate]

F. Adoption of the report of the Commission to the Trade and Development Board

(Agenda item 8)

[To be completed]