

**MARKET ACCESS FOR NON-AGRICULTURAL PRODUCTS**

Tariff Elimination in the Gems and Jewellery Sector

*Communication from Hong Kong, China; Japan; the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu; Singapore; Thailand and the United States*

The following communication, dated 20 September 2005 is being circulated at the request of the Delegations of Hong Kong, China; Japan; the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu; Singapore; Thailand and the United States.

**I. BACKGROUND**

**1. Nature and Potential of the Industry:**

The gems and jewellery industry includes several stages along the supply chain, which are conducted in many countries at different levels of development. The three main stages are: 1) mining 2) processing (cutting, polishing and setting) and 3) trading. The extraction of raw materials (mining) is mainly concentrated in South Asia, Southeast Asia, Southern Africa, North Africa and Australia; major processing is mostly conducted in developing countries like India, China, Israel and Thailand (but also in certain developed countries such as the United States and Italy); and trading is mainly done in developed countries such as the United States, Netherlands and Belgium.

The gems and jewellery sector has experienced continuous growth over the years. In the year 2000, the sector's aggregate trade accounted for US \$239 billion, which grew 9 percent to US \$261 billion in 2003.<sup>1</sup> Most importantly, the gems and jewellery sector has high potential for further expansion, as there are unsaturated markets in most economies because of trade restrictions. The elimination of tariffs will stimulate higher demand in most markets, as well as permit access to imports from countries endowed with rich natural resources that were not previously engaged in trade.

**2. Economic Growth and Development:**

Increases in trade can promote economic growth and higher standards of living. In developing countries, the gems and jewellery industry provides employment in the various stages, including mining, cutting, polishing and setting, which are conducted in both rural and urban areas. Therefore, an increase in trade in gems and jewellery will encourage job creation, as well as preserve traditional craftsmanship. This industry certainly provides opportunity for small and medium enterprises, which will increase investment over time, stimulating overall economic development. Elimination of tariffs will lower barriers for developing countries that are global traders, allowing these countries to develop into trading centers. All in all, the elimination of tariffs will benefit both

<sup>1</sup> United Nations Commodity Trade Statistics Database.

developed and developing countries by promoting trade at every stage of the supply chain of the gems and jewellery industry.

### **3. Quality and Specialization:**

For the gems and jewellery industry, consumers choose products according to many preference factors, such as quality, style, trust, and before and after sales service. The elimination of tariffs will induce domestic producers to improve their productivity, efficiency, and quality of products. In the long run, domestic producers will develop their strength to compete in the global market. The elimination of tariffs will also reduce the cost of inputs, which in turn lowers the cost of production. As the nature of this industry is composed of a complicated supply chain with value-added products, without tariffs, goods can flow freely from one step to another and each country can specialize according to their comparative advantage. In addition, the open market will provide consumers with a range of products, from expensive hand-crafted products to less expensive mass products. Developed countries with substantial investment capital and retail markets can focus on retailing and trading of the finished products.

### **4. Increase Demand**

Demand for jewellery in developing countries is relatively low compared to developed countries. The elimination of tariffs will stimulate demand by lowering prices and giving wider options to consumers.

## **II. PRODUCT COVERAGE**

The product coverage should be broad and cover a range of products within the supply chains of the gems and jewellery sector, while taking into account the diverse nature of these products. Therefore, product coverage of this sector should cover articles under Chapter 71 of the Harmonized System, which includes pearls, diamonds, precious stones, synthetic stones, silver, gold, platinum, jewellery, and other articles of the products aforementioned, imitation jewellery, and coin. Additional products of interest to participating members could also be included in the product coverage.

## **III. CRITICAL MASS**

The participation of key traders and other Members with an economic interest in gems and jewellery is crucial to determine successful liberalization. Therefore, the purpose of the critical mass approach is to bring together these Members and aim for tariff elimination in this sector.

## **IV. SPECIAL AND DIFFERENTIAL TREATMENT**

Flexibility in implementation of the process could be employed to suit the need of developing countries. The options may, *inter alia*, include the following:

- Longer implementation period
  - Limited products exclusion
  - Zero for X
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