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DUTY-FREE AND QUOTA-FREE MARKET ACCESS IMPLEMENTATION OF THE DECISION ON MEASURES IN FAVOUR OF LEAST-DEVELOPED COUNTRIES OF ANNEX F OF THE HONG KONG MINISTERIAL DECLARATION OF DECEMBER 2005

Communication from Zambia on behalf of the LDC Group

The following communication, dated 29 June 2006, has been received from the Delegation of Zambia on behalf of the LDC Group.

1. Introduction

In adopting the Decision on Measures in Favour of Least-Developed Countries (36) of Annex F, WTO Members agreed that developed country Members shall, and developing country Members declaring themselves in a position to do so should provide duty-free and quota-free (DFQF) market access on a lasting basis, for all products originating from all LDCs by 2008 or no later than the start of the implementation period of the Doha Round in a manner that ensures stability, security and predictability.

There are qualifications to this commitment which are as follows:

- (i) that if specified Members face difficulties at this time to provide 100 per cent duty-free and quota-free market access to LDCs, they would commit to 97 per cent defined at the tariff line level;
- (ii) developing country Members shall be permitted to phase in their commitments and shall enjoy appropriate flexibility in coverage.

The Ministerial Decision also specifies that Members shall notify the implementation of the schemes adopted under this decision annually to the Committee on Trade and Development. The Committee shall also annually review the steps taken to provide LDCs with DFQF market access and report to the General Council for appropriate action.

In the Closing Session of the Ministerial Meeting in Hong Kong, Ministers took note of their understanding that the text concerning the DFQF decision in sub-paragraph (a)(ii) of Annex F was a framework, and that developed Members and developing Members declaring themselves in a position to do so were urged to set out, by the end of 2006, the means by which they would implement this decision. (WT/MIN(05)/SR/12)

Follow-on work on the DFQF market access agreement will be done in the Committee on Trade and Development in Special Session (CTDSS) where it was dealt with in the run-up to the Hong Kong Ministerial Meeting and results thereof will form an integral part of the negotiations on Agriculture and NAMA.

LDCs reiterate their firm intention to implement policies and programmes which will allow them to graduate out of the LDC category and, by graduating, give up the market access provisions and other SDT provisions granted to LDCs in Annex F of the Hong Kong Ministerial Decision. However, for LDCs to graduate out of the LDC category, it is recognized that they require assistance from other WTO Members who should implement the decisions in the spirit that they were made and in recognition of the fact that LDCs require SDT in order for them to play a more meaningful role in the multilateral trading system.

This submission by the LDC Group makes proposals on how the decision taken on DFQF market access for LDCs shall be made operational.

2. Implementation of the WTO Ministerial Decision on DFQF Market Access

Given the very limited number of tariff lines which are exported by LDCs, Members are called upon to implement the decision on DFQF market access in a way which will be commercially meaningful to LDCs and in a way that will contribute to the expansion of LDC exports, so as to allow LDCs to use trade as a development tool to graduate out of the LDC category. Specifically, Members should implement the decision as follows:

- (i) In order to meet the minimum 97 per cent benchmark (with a view to achieving 100 per cent coverage), developed country Members should provide DFQF market access in tariff lines in which positive duties are still applied to LDC existing exports. The list of tariff lines, extracted from the World Trade Organization's (WTO) Integrated Data Base (IDB), which are not zero-rated for LDCs, is available on request.
- (ii) Those developing countries considering themselves in a position to provide LDCs with DFQF market access should make their positions known by the end of 2006, or in the shortest possible time. They should provide, as a first step, DFQF market access to products of export interest, and which are commercially meaningful, to LDCs, with a commitment to gradually achieving 100 per cent.
- (iii) DFQF market access that is provided to LDCs will be defined as the percentage of the total number of tariff lines which are zero rated for all LDCs.
- (iv) In providing DFQF market access to LDC exports as set out above, the origin of goods will be conferred to LDCs if they conform to the LDC Rules of Origin as set out in TN/CTD/W30.

- (v) In order to ensure that the improved market access provided under the DFQF market access provisions are not nullified by non-tariff barriers to trade, SPS provisions and other technical barriers to trade, WTO Members will work with LDCs to ensure that they receive the necessary trade-related technical assistance and capacity building and aid for trade to allow them to conform to non-tariff regulations which govern imports into WTO Member markets.

3. Notification and Negotiations

In Paragraph 36 of the Hong Kong Ministerial Declaration, Ministers took note of the work done on the Agreement-specific proposals, especially the five LDC proposals. Ministers also recognized that substantial work still remains to be done and committed themselves to address the development interests and concerns of developing countries, especially the LDCs, in the multilateral trading system, and recommitted themselves to complete the task they set themselves at Doha. Ministers accordingly instructed the Committee on Trade and Development in Special Session to expeditiously complete the review of all the outstanding Agreement-specific proposals and report to the General Council, with clear recommendations for a decision, by December 2006.

Annex F of the Hong Kong Ministerial Declaration is a framework agreement and work needs to be done to complete the implementation modalities of the framework agreement. This follow-on work will be done in the Committee on Trade and Development in Special Session (CTDSS) where it was dealt with in the run-up to the Hong Kong Ministerial Meeting and results thereof will form an integral part of the negotiations in Agriculture and NAMA.

Developed countries and developing countries declaring themselves in a position to provide DFQF market access to LDCs shall, by the time they submit their comprehensive draft schedules of concessions, indicate how they intend to implement the commitments they assumed under the *Decision on Measures in Favour of Least-Developed Countries* and as outlined above.

Developed countries and developing countries declaring themselves in a position to provide DFQF market access to LDCs shall provide a provisional list of the products they intend to exclude initially from DFQF market access, the steps they intend to take to progressively achieve compliance with the obligation to provide DFQF market access to all products from all LDCs, and the time frame within which they intend to complete those steps.

Once these steps are completed, developed countries and developing countries declaring themselves in a position to provide DFQF market access, will enter into negotiations with the LDC Group to allow the LDCs the opportunity to negotiate an improvement in market access.

4. Monitoring and Review

Members have decided that they shall notify the implementation of the schemes adopted under the decision taken under Annex F of the Hong Kong Ministerial Declaration every year to the Committee on Trade and Development. The Committee on Trade and Development shall annually review the steps taken to provide DFQF market access to the LDCs and report to the General Council for appropriate action.

In order to allow accurate monitoring of the implementation of the decision on DFQF market access to LDCs, Members shall provide preferential data to the IDB, which is currently done on a voluntary basis.

Technical Annex

I. LDC Export Profile¹

1. In 2004, LDCs as a group accounted for 0.6 per cent of world exports and 0.8 per cent of world imports (Table 1). In growth terms, their performance has been mixed over the past 15 years (Chart 1).

2. Of particular note is the significant growth rate of exports posted by LDCs in 2004, which was 34 per cent, compared to 21 per cent for world exports (Table 1). This figure, however, is for all LDCs and masks considerable variance in the performance of individual countries. Five oil exporters as a group, which account for 47 per cent of total LDC exports, experienced a growth rate of 52 per cent, whereas manufacturing and commodity exporters experienced growth rates of 19 per cent and 22 per cent respectively. Eight commodity exporting LDCs (Malawi, Liberia, Central African Republic, Comoros, Samoa, São Tomé and Príncipe, Kiribati and Tuvalu) experienced negative growth rates.

3. The diversity of export performance across countries is also important in absolute terms. Two LDCs accounted for 36 per cent of all LDC exports in 2004 - Angola, which is a fuel exporter and Bangladesh, which is predominantly a clothing exporter. Their performance, due to their size, determines, to a significant degree, the overall performance of the LDCs as a group.

4. Chart 2 illustrates a distinct shift in the relative importance of different product groups in the total exports of LDCs. In 1995, food was the most important export, representing 21.7 per cent of total exports, followed closely by fuels representing 21.5 per cent. By 2003, food became the fourth largest export behind fuel, which accounted for 36 per cent of exports. Clothing became the second most important export, representing 19.9 per cent of total exports. Much of this significant shift is due to changes in oil prices, but at the same time, it also represents a structural shift towards clothing exports.

5. In terms of specific country markets, Table 2 shows that the European Union and the United States continue to be the most important destinations for LDC exports. Although the EU's share of total LDC exports declined in 2004 to 29.2 per cent from 39.6 per cent in 1995, it is still the most important market. The share of LDC exports to the US has fluctuated over the ten-year period reported in Table 2, but is still, approximately, one fifth of total exports. China is the third most important market and after that the top ten markets have approximately the same share. These markets are: Thailand; Japan; India; Republic of Korea; the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu (Chinese Taipei); Canada; and Singapore.

¹ Sections I to III draw heavily on the WTO Secretariat paper entitled "Market Access Issues Related to Products of Export Interest Originating from Least-Developed Countries" (WT/COMTD/LDC/W/38) of 22 February 2006.

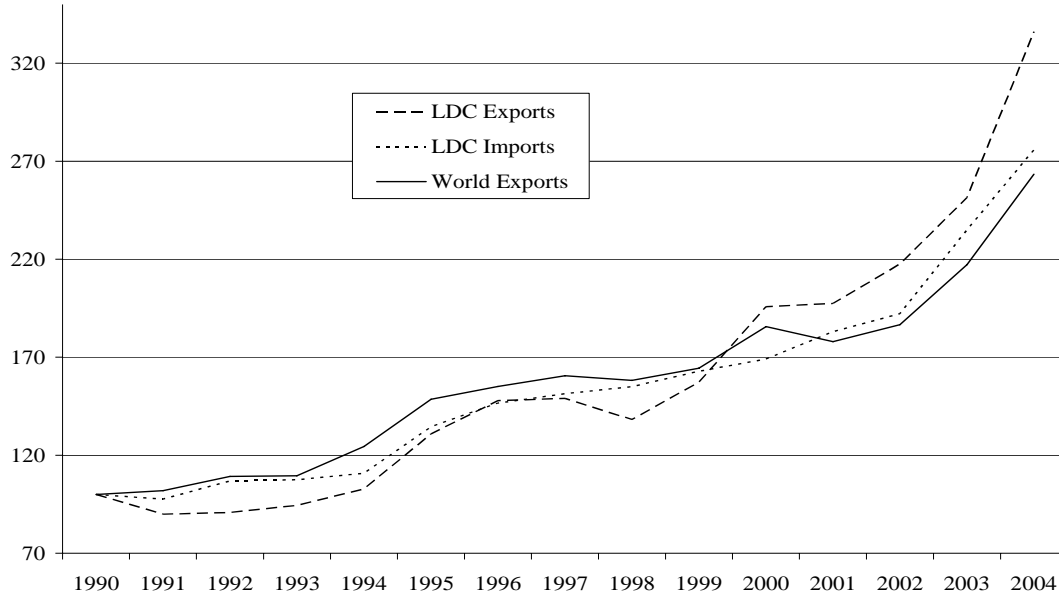
Table 1: Merchandise exports and imports of least-developed countries by selected country grouping, 2004
 (Million dollars and percentage)

	Exports					Imports				
	Value	Annual percentage change				Value	Annual percentage change			
	2004	2000-04	2002	2003	2004	2004	2000-04	2002	2003	2004
Least-developed countries	61825	14	10	16	34	71233	13	5	22	17
Oil Exporters	29168	18	17	20	52	16945	22	25	27	19
Angola	13850	15	27	14	46	6500	21	18	46	19
Equatorial Guinea	5190	47	21	33	76	1410	33	-29	142	15
Yemen	4150	0	-1	12	11	4190	16	18	26	14
Sudan	3778	20	15	30	49	4075	27	25	18	41
Chad	2200	86	-2	141	393	770	25	142	-38	-24
Exporters of manufactures	17022	9	5	9	19	23728	7	-6	18	14
Bangladesh	8150	6	1	14	17	12026	8	-5	21	15
Myanmar	2850	15	28	-18	15	2220	-2	-18	-11	6
Cambodia	2798	19	28	10	32	3170	13	11	12	22
Madagascar	990	5	-48	76	16	1230	5	-37	84	11
Nepal	756	-2	-23	17	14	1870	4	-4	24	7
Lesotho	726	35	33	29	51	1400	15	9	38	26
Haiti	391	5	2	24	13	1306	6	12	5	10
Lao People's Dem. Rep.	361	2	-10	20	1	506	-1	-18	12	5
Exporters of commodities	15635	15	7	17	22	30561	14	6	24	19
Zambia	1576	24	-6	2	67	2143	21	-4	24	38
Senegal	1529	14	6	25	15	2710	16	17	18	13
Mozambique	1504	43	-6	58	44	1970	14	19	39	12
Congo, Dem. Rep. of	1413	17	14	19	10	1873	16	35	28	33
Tanzania	1338	19	13	39	10	2490	13	-1	30	14
Mali	1123	19	21	5	22	1320	13	-12	31	16
Togo	771	21	20	44	25	1050	17	7	46	21
Guinea	700	1	-3	-14	15	690	3	11	-4	8
Benin	672	14	20	24	21	865	9	23	10	16
Ethiopia	639	7	5	5	27	3080	25	-8	29	44
Uganda	635	8	4	12	19	1491	-1	-29	14	15
Burkina Faso	445	21	10	33	37	1155	17	13	25	25
Malawi	441	4	-9	13	-4	792	10	23	1	13
Afghanistan	420	23	150	40	20	2300	43	50	53	0
Mauritania	410	3	-8	4	22	400	6	-5	1	11
Niger	370	7	3	22	9	560	9	8	23	14
Somalia	310	13	4	-25	39	610	15	1	14	18
Liberia	235	-8	-4	15	-13	900	8	-2	11	32
Maldives	172	12	20	15	13	645	13	0	20	37
Bhutan	165	13	7	18	24	400	23	3	26	61
Sierra Leone	139	81	69	88	51	286	18	45	15	-5
Central African Republic	120	-7	4	-17	-2	150	6	12	9	15
Rwanda	99	17	-24	-3	57	285	8	-12	4	10
Solomon Islands	97	9	23	28	31	100	2	-26	22	22
Guinea-Bissau	81	7	-14	28	17	86	10	-6	19	25
Burundi	47	-2	-22	25	24	176	4	-7	21	13
Djibouti	41	7	13	3	11	275	7	1	21	16
Vanuatu	37	9	0	35	37	128	10	-13	18	22
Eritrea	35	-1	174	-33	0	650	8	27	10	10
Gambia	22	10	30	-8	83	200	2	10	25	8
Cape Verde	15	8	10	18	15	386	14	18	27	10
Comoros	15	21	33	25	-25	115	13	20	33	-4
Samoa	11	-6	-7	7	-27	168	12	4	1	23
São Tomé and Príncipe	6	19	90	33	-10	45	11	9	36	7
Kiribati	2	-16	-29	-22	-20	48	5	5	-7	20
Tuvalu	0	78	736	9	-33	18	38	217	40	16
Timor Leste	...	...	...	...	...	...	...	...	...	...
Memorandum item:										
World a	9153000	9	5	16	21	9495000	9	4	16	21

a Includes significant re-exports or imports for re-export.
 Note: Data for 2004 are largely estimated.

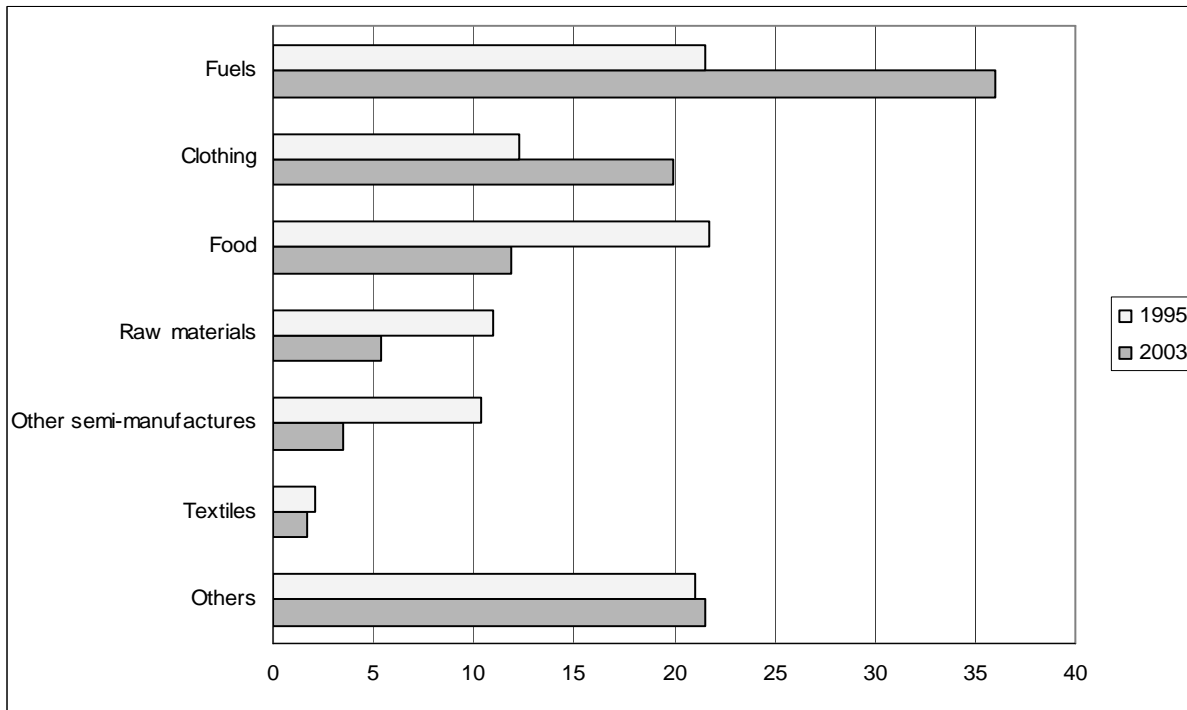
Source: WTO.

Chart 1: Growth in the value of LDC merchandise trade, 1990-2004
 (Indices 1990 = 100)



Source: WTO.

Chart 2: Exports of least-developed countries by major product, 1995 and 2003
 (Percentage)



Source: WTO.

Table 2: Top 10 markets for LDC exports, 1995-2004
 (percentage)

Rank		1995	1996	1997	1998	1999	2000	2001	2002	2003	2004*
1	EU 15	39.6	36.9	34.9	37.3	34.6	31.1	33.4	32.8	30.6	29.2
2	USA	20.5	21.5	22.8	23.5	24.7	26.4	25.6	23.8	24.8	22.7
3	China	3.5	4.2	6.1	3.5	4.9	10.7	7.7	8.7	13.5	17.8
4	Thailand	3.9	3.5	3.8	3.1	3.8	3.7	4.9	4.9	5.1	5.0
5	Japan	6.5	6.4	4.7	4.0	3.6	3.3	2.9	4.0	3.4	4.2
6	India	2.7	2.6	2.7	3.0	4.1	2.5	3.4	3.3	3.1	2.9
7	Chinese Taipei	1.7	2.4	1.5	2.2	2.0	1.8	1.9	2.2	2.2	2.9
8	Korea, Rep. of	2.8	2.5	3.8	2.0	4.8	4.9	2.6	2.5	1.9	1.8
9	Canada	0.9	1.2	1.0	1.0	0.8	0.8	0.9	1.0	1.7	1.5
10	Singapore	2.8	2.2	1.5	2.7	2.0	1.6	1.9	1.4	1.1	1.2

* Preliminary estimates.

Source: WTO.

II. Market Access in Developed Countries

6. Developed countries provide preferential market access to products originating from LDCs on a non-reciprocal basis through their GSP schemes²

7. The difference between the current status of the tariff treatment of LDC exports in developed country markets and complete DFQF treatment is dependent on what measurement indicators are used. There would appear to be two ways to measure the value of DFQF market access:

- (i) The percentage of imports from LDCs into developed markets that are duty free. Using data from Table 3, this figure was 82.2 per cent in 2003, but figures from Table 3 also show that 97 per cent of this value is accounted for by imports into just two markets – Japan and the US. Japan provides duty-free treatment to 51 per cent of its imports from LDCs and the US to 62 per cent. Other developed countries offer duty-free access to 100 per cent, or at least 95 per cent, of products originating from LDCs.
- (ii) The number of duty-free tariff lines over the total number of tariff lines. Using this method, the US has almost 82 per cent of its total lines duty free (and if the lines with positive duties but no imports from LDCs are eliminated, this figure jumps to 94 per cent) although, in terms of value, 38 per cent of LDC exports to the US are dutiable. Similarly, Japan can claim to have only 1 per cent of its lines applying a duty to LDC imports, or 86 per cent of its lines duty free. Yet, in value terms, almost 50 per cent of imports are dutiable.

² A non-exhaustive list of preferences granted to LDC exports in developed and developing countries can be found in Annex 2 of WT/COMTD/LDC/W/38 (TN/MA/S/19) of 22 February 2006

Table 3: Tariff treatment of LDC exports in selected developed country markets, 2003

Market	Sector	Number of Tariff Lines				Imports (millions \$US)			Duty-Free Status (per cent)	
		MFN	LDC			MFN	LDC		Tariff Lines	Imports
		Total	Dutiable	With Imports	Dutiable with Imports	Total	Total	Dutiable		
Australia	Agri	6,102	0	655	0	84,366	89	0	100	100
	NonAg	773	0	73	0	3,975	14	0	100	100
		5,329	0	582	0	80,392	135	0	100	100
Canada	Agri	8,497	97	1569	1	234,984	769	0	98.9	100
	NonAg	1,372	97	194	1	14,531	36	0	92.9	100
		7,125	0	1375	0	220,454	733	0	100	100
European Communities	Agri	10,404	67	3517	19	992,010	13,705	120	99.4	99.1
	NonAg	2,115	42	505	17	66,248	1,562	120	98.0	92.3
		8,289	25	3012	2	925,762	12,143	0	99.7	100
Japan	Agri	9,296	1,350	776	89	376,941	1,564	766	85.5	51.0
	NonAg	1,858	938	121	31	37,152	177	5	49.5	97.2
		7,438	412	655	58	339,789	1,387	760	94.5	45.2
New Zealand	Agri	7,414	59	521	3	18,439	31	0	99.2	100
	NonAg	1,026	36	51	2	1,543	7	0	96.5	100
		6,388	23	470	1	16,896	24	0	99.9	100
Norway	Agri	7,165	261	509	2	39,765	81	0	96.4	100
	NonAg	1,337	258	55	2	2,724	12	0	80.7	100
		5,828	3	454	0	37,041	70	0	99.9	100
Switzerland	Agri	8,477	1,167	818	47	96,177	118	5	86.2	95.7
	NonAg	2,227	1,156	185	47	6,418	41	5	48.1	87.8
		6,250	11	633	0	89,759	77	0	99.8	100
United States	Agri	10,496	1,911	1421	581	1,196,833	10,489	3,991	81.8	62.0
	NonAg	1,808	274	183	3	49,988	361	2	84.8	99.4
		8,688	1,637	1238	578	1,146,845	10,128	3,989	81.2	54.5

Source WTO.

III. Market Access in Developing Countries

8. Preferences by developing countries can generally be classified into three categories:
- non-reciprocal preferential market access schemes;
 - preferential market access granted on a bilateral or regional basis; and
 - the Global System of Trade Preferences (GSTP).

9. However, preferential access offered by developing countries to LDCs is limited in terms of its depth and coverage, and market access conditions facing LDC exports in these markets are determined primarily by MFN rates.

IV. DFQF Market Access Requirements

10. The main exports, by value, from LDCs consist of petroleum products, garments, aluminium and gemstones and come from a small number of LDCs (mainly, by value, from Angola, Yemen, Sudan, Equatorial Guinea, Bangladesh, Mozambique, DR Congo, Tanzania, Cambodia and Guinea). These exports account for well over 50 per cent of the total value of imports from LDCs, with petroleum products taking up a large share of this value.

11. An examination of the IDB shows that tariff lines which are not free of quotas and duties are mainly those of export interest to LDCs. Chapters 1 to 24 of the Harmonized System are agricultural goods and most tariffs applied to LDC products by developed countries are either in these Chapter Headings or those which apply to textiles and apparel, which is another sector in which LDCs have a competitive advantage.

12. Of equal importance to LDCs as DFQF market access is the ability to take advantage of the improved market access conditions on offer. There are a number of examples where imports from LDCs, theoretically, are not dutiable, but where duties are paid. This is true, for example, for EU15 imports of garments from LDCs despite the fact that the LDC GSP of the EU covers "everything-but-arms" (arms being Chapter Head 93). The reason for this is that all imports into developed countries under existing GSP schemes must conform to the particular GSP Rules of Origin. If origin is not conferred, perhaps because the process is complicated (as is the case for the EU's GSP Rules of Origin for textiles and garments as these products have to go through a "double-transformation" process, meaning that, in effect, garments should be manufactured from cloth originating from the LDCs) or expensive to prove, then the import is charged the MFN tariff.

13. There is an obvious need for LDCs to expand the volume and values of existing exports and diversify their export bases. The developed and some developing countries could assist LDCs to do this by improving market access for LDCs by removing tariffs for not only existing exports but also to remove tariffs on goods in which LDCs have a comparative or competitive advantage. This, combined with a simple and single set of criteria conferring origin, would assist LDCs to not only expand the values and volumes of exports but also to diversify their export bases, which would have obvious welfare benefits to not only the poor in LDCs but also for consumers in importing countries.
