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**REPORT OF THE COMMISSION ON TRADE IN GOODS AND SERVICES, AND
COMMODITIES, ON ITS NINTH SESSION**

Held at the Palais des Nations, Geneva,
from 14 to 18 March 2005

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Chapter I

AGREED RECOMMENDATIONS ADOPTED BY THE COMMISSION AT ITS NINTH SESSION

1. The Commission expresses satisfaction with the secretariat's implementation of the recommendations of the eighth session and its contributions to intergovernmental deliberations and consensus building in research and policy analysis, technical assistance and capacity building. It appreciates in particular the policy and technical analyses provided in the documentation for the ninth session. It also welcomes the useful contributions by the eminent personalities and panelists in the panel discussions during the ninth session. The Commission further expresses appreciation to all donors contributing resources to the Trade Sub-programme of UNCTAD. In all these areas of work, particular consideration should be given to the needs of least developed countries (LDCs).

A. Trade and Millennium Declaration goals

2. In view of UNCTAD's contribution to the implementation of international development goals, including those contained in the Millennium Declaration, and to the 2005 comprehensive review of the latter, the Commission recommends that UNCTAD should:

- (a) Contribute to the mainstreaming of development into international trade and trade negotiations, in particular the Doha negotiations, through its work on consensus-building, analytical work, technical assistance and capacity building, in line with the mandate contained in the São Paulo Consensus;
- (b) Contribute to the preparatory process for the high-level plenary meeting of the General Assembly to review progress in fulfilment of commitments contained in the UN Millennium Declaration in September 2005, in particular on the role of trade and trade negotiations in the achievement of development objectives and targets; and
- (c) Support capacity building efforts in developing countries in trade policy formulation, trade negotiations, including WTO accession negotiations, and commodities, as provided in the São Paulo Consensus (paragraph 95). It should also strengthen technical assistance to address the special needs of developing countries, in line with paragraph 66 of the São Paulo Consensus.

B. New and dynamic sectors of world trade

3. The Commission takes note of the report of the Expert Meeting that launched the process of sectoral review of new and dynamic sectors in world trade and considered outsourcing of IT-enabled services; renewable energy products, including bio-fuels; and textiles and clothing. It welcomes the particular attention given to the needs of developing countries, including LDCs. It decides that annual sectoral reviews of new and dynamic sectors of world trade should continue to be held by an expert meeting. It also recommends that UNCTAD undertake capacity building activities at national, subregional and regional levels through pilot projects to assist developing countries to participate in such sectors, including those contained in the report of the Expert Meeting (TD/B/COM.1/EM.26/3). The Commission invites donor countries and institutions to support such capacity-building efforts.

C. Market access, market entry and competitiveness

4. The Commission agreed that UNCTAD should enhance its work on the interrelationships between market access, market entry and competitiveness factors and their impact on exports of developing countries. UNCTAD should also examine the effects of non-tariff barriers. It should continue to work on the challenges and opportunities of trade liberalization, particularly in the area of preference erosion, as well as utilization and improvement of preferential schemes. UNCTAD should continue to support South-South trade initiatives, including the GSTP.

5. The Commission took note that the Fifth UN Conference to Review all Aspects of the UN Set of Principles and Rules for the Control of Restrictive Business Practices that will take place in Antalya (Turkey) in November 2005 should provide a good opportunity to address anti-competitive practices that affect effective market entry of exports of developing countries.

D. Commodities

6. As emphasized in paragraphs 64, 74 and 100 of the São Paulo Consensus, and as a contribution to fulfilling the international development goals, including those contained in the Millennium Declaration, and taking note of the report of the Expert Meeting on Financing Commodity-based Trade and Development: Innovative Financing Mechanisms (TD/B/COM.1/EM.24/3), UNCTAD should:

- (a) Continue to implement a comprehensive approach in its efforts to contribute to commodity sector development, diversification and more effective participation in the supply chain, and in this regard implement fully the tasks assigned to it;
- (b) Establish as soon as possible the International Task Force on Commodities, announced at UNCTAD XI in São Paulo; interested donors and institutions are invited to contribute to operationalizing the Task Force;
- (c) Enhance its work in the area of commodity finance, in both the conceptual development of innovative schemes and assistance in their implementation, focusing on the contribution of finance to the generation by the commodity sector of overall development gains and benefits, and the dissemination of successful approaches; and
- (d) Implement strong and broad-based capacity- and institution-building programmes in this area, covering both the public and the private sectors and national and international policies and actions.

7. The Commission invites the international donor community to enhance extra-budgetary support to UNCTAD in fulfilling its mandate in the area of commodities.

E. Trade in services and development implications

8. In line with São Paulo Consensus paragraph 99, and taking note of the report of the Expert Meeting on Trade and Development Aspects of Professional Services and Regulatory Frameworks (TD/B/COM.1/EM.25/3), UNCTAD should continue to strengthen its policy-oriented analysis, consensus building and capacity-building activities on services, with the support of the donor community, to contribute to assuring development gains for developing countries in the following areas:

- (a) Assisting developing countries in strengthening their domestic supply capacities and increasing their participation in services trade;
- (b) Carrying out assessments of trade in services in line with paragraph 95 of the São Paulo Consensus;
- (c) Undertaking sector-specific studies in areas, sectors and modes of interest to developing countries;
- (d) Deepening work on business and professional services in the areas identified in the above-mentioned report of the Expert Meeting, including outsourcing of such services;
- (e) Helping develop capacities in developing countries to establish their own negotiating priorities and negotiate trade agreements, including on GATS and regional trade agreements; and
- (f) Analysing domestic regulations and GATS rules from a development perspective.

F. Trade, environment and development

9. UNCTAD should continue its policy-oriented analysis, consensus building and capacity building activities, with the support of the donor community, in the areas of trade, environment and development, and in particular:

- (a) Further develop the Consultative Task Force (CTF) on Environmental Requirements and Market Access for Developing Countries, as a project-based activity; and encourage interested member States to participate actively in relevant country- and sector-specific CTF activities;
- (b) Strengthen its work under the BioTrade Initiative, in particular national BioTrade programmes, and follow up partnerships launched at the World Summit on Sustainable Development and at UNCTAD XI to promote trade, export diversification and investment in biotrade;
- (c) Assist developing countries to make use of the trade and investment opportunities arising from the Kyoto Protocol, including the Clean Development Mechanism (CDM), as a project-based activity;
- (d) Continue and strengthen its work on environmental measures affecting trade of developing countries, and in the area of environmental goods and services;
- (e) Assist developing countries in identifying tariffs and regulatory measures affecting trade in renewable energy goods and equipment, in ascertaining which developing countries have - or can develop - the capacity to supply components for such equipment, and in their possible inclusion under the mandate provided for in paragraph 31(iii) of the Doha Ministerial Declaration; and
- (f) Continue exploring trading opportunities for environmentally preferable products; the Commission welcomes the work carried out by the International Task Force (ITF) on Harmonization and Equivalence in Organic Agriculture of UNCTAD, FAO and the International Federation of Organic Agricultural Movements (IFOAM).

Chapter II

OPENING STATEMENTS

1. The **Officer-in-Charge of UNCTAD** stressed that this was the first session of the Commission on Trade in Goods and Services, and Commodities since UNCTAD XI and it therefore provided an opportunity to address the substantive issues on the agenda from the perspective of implementing the São Paulo Consensus. The current year would also be marked by the five-year review of the implementation of the Millennium Declaration and the Millennium Development Goals (MDGs). These events were closely interlinked through their common goal of promoting trade as an engine for growth, development and poverty eradication. The Commission, under agenda item 3, would examine how access to commodity trade finance affected the competitiveness and market entry capacities of developing countries, especially commodity-dependent ones. Given the importance of commodity issues, as comprehensively reflected in the São Paulo Consensus (paragraph 100), the Commission might wish to consider inserting the issue of commodities as a regular item in its future agendas. Regarding competitiveness, a growing number of developing countries, including LDCs, recognized that national and international competition law and policy were important for their development and poverty reduction objectives. In this respect, the Fifth Conference to Review All Aspects of the UN Set of Principles and Rules for the Control of Restrictive Business Practices would take place at Antalya, Turkey, in November 2005.

2. Under agenda item 4, the Commission would examine the increasing role of developing countries in international trade in services, as well as experiences and challenges in the ongoing multilateral and regional negotiations on services. Many developing countries had embarked on reform processes, but the liberalization of trade in services might not produce the expected results or gains without complementary policies. Many LDCs had been witnessing a decline in the share of services in their GDP since the 1990s. Market access liberalization in services trade could not be considered without taking into account progress in the GATS rules negotiations and disciplines on domestic regulations. One issue here was the role of adequate regulatory frameworks if trade liberalization was to generate beneficial results.

3. On agenda item 5, he underlined UNCTAD's support for developing countries in their participation in the Doha Work Programme and beyond, which included market access and supply-side capacity issues on the nexus between trade, environment and development. Some of these issues lay outside the scope of the WTO, including innovative ways of making trade work for sustainable development, such as the BioTrade Initiative. The Kyoto Protocol's entry into force in February 2005 had been an important development, and UNCTAD stood ready to continue working with the secretariat of the UN Framework Convention on Climate Change to assist developing countries in trade and investment-related issues in the area of climate change, for instance to promote greater trade and investment opportunities under the Clean Development Mechanism. He also stressed the importance of the Consultative Task Force (CTF) on Environmental Requirements and Market Access for Developing Countries, a project-based activity launched during the Rio Trade Week preceding UNCTAD XI.

4. The Expert Meeting on New and Dynamic Sectors in World Trade in February 2005 had discussed outsourcing of IT-enabled services, textiles and clothing, and renewable energy and bio-fuels. He recommended that the Commission consider possible follow-up action to sectoral reviews, including field projects, as well as holding another expert meeting on new and dynamic sectors during the present biennium.

5. The representative of the **Democratic Republic of the Congo**, speaking on behalf of the **Group of 77 and China**, said that UNCTAD's support would be needed for two major events in 2005: the preparatory process for the five-year review of the implementation of the Millennium Declaration and the 6th WTO Ministerial Conference in Hong Kong.

6. For many commodity-dependent developing countries, the negative impact of commodity-finance-related market entry barriers needed to be addressed. The São Paulo Consensus provided a roadmap for UNCTAD's work in the area of commodities, and in this connection the Commission should take up commodities as a standing item on its agenda. He expressed support for the International Task Force on Commodities. Also, efforts were required to make global markets more efficient, fairer and more equitable by preventing and dismantling anti-competitive structures and practices of global enterprises where these adversely affected developing country exports, including commodity exports. The Fifth UN Conference to Review all Aspects of the UN Set of Principles and Rules for the Control of Restrictive Business Practices would be a good opportunity to deal with anti-competitive practices. He welcomed the work on new and dynamic sectors of world trade. UNCTAD should continue such activities as a matter of high priority and extend them to capacity-building.

7. On trade in services, he fully endorsed the assessment of the UNCTAD secretariat contained in section V of document TD/B/COM.1/71. More labour-intensive services sectors were of particular interest to developing countries, and they should be given priority in GATS negotiations. Developing countries sought deeper and binding commitments by developed countries on modes 4 and 1 and on the operationalization of GATS Article IV. They needed support to develop competitive services supply capacity, strengthen institutional and regulatory capacity building, and retain the necessary policy space to ensure an appropriate balance between various development objectives. A necessary prerequisite was a clear assessment of both services trade potential and GATS negotiation objectives and their broader implications for development. Developing countries attached great importance to UNCTAD's work in this regard and called for further analysis by UNCTAD on means of building competitive services sectors and infrastructural services that would support and enhance competitiveness and development.

8. He commended UNCTAD's work on a wide variety of trade and environment issues, in particular on environmental goods and services, environmental requirements and market access, export opportunities for organic products, and the BioTrade initiative. UNCTAD's new initiative on the Consultative Task Force on Environmental Requirements and Market Access for Developing Countries was also encouraged, as was its assistance during WTO negotiations on identifying environmental goods of export and sustainable development interest to developing countries.

9. He expressed satisfaction with the comprehensive treatment by the secretariat of the recommendations made at the Commission's eighth session. The focus on LDCs and African countries in trade-related work needed to continue, given the specific and pressing needs of these countries. The financial support provided by donors to UNCTAD to implement technical cooperation activities was acknowledged, but such support should be increased in the light of the enhanced mandate from UNCTAD XI. His Group reiterated its commitment to the new round of GSTP negotiations and looked forward to UNCTAD's continued support.

10. The representative of the **Philippines**, speaking on behalf of the **Asian Group and China**, expressed appreciation for the initiative by the secretariat in organizing a discussion on trade and MDGs and looked forward to a more direct contribution by UNCTAD's intergovernmental process to the sixtieth session of the UN General Assembly and in

particular to the high-level plenary on the review of the MDGs. He also expressed appreciation for the secretariat's analysis of commodity finance mechanisms and to development partners for their support for such schemes in Asia. One suggestion was to include commodity finance within corporate social responsibility programmes of multinational companies and to take account of commodity issues during the Fifth UN Conference to Review the Set of Principles and Rules on RBPs. UNCTAD's work on new and dynamic sectors was encouraged, and other sectors such as environmental goods and services, as well as textiles and clothing in the post-ATC setting, should also be considered.

11. He emphasized the urgent need to address supply capacity constraints in the area of services and obstacles to developing country exports of services, in particular mutual recognition agreements, essential needs tests, visas, technical requirements and domestic regulation. Developed countries should recognize the importance of Mode 4, as well as modes 1 and 2, for economic development. Given the importance of trade in services, he welcomed UNCTAD's focus on the services sector in all pillars of its work, as well as on services assessment.

12. He recalled the commitment made during UNCTAD XI to monitor environmental measures affecting exports of developing countries. Such requirements had become pivotal factors for market access and market entry. In many instances, environmental requirements had adversely affected Asian countries, and a number of suggestions made by the secretariat deserved full endorsement. The involvement of the private sector in the Consultative Task Force on Environmental Requirements and Market Access for Developing Countries was commended. The positive role of the BioTrade Initiative was stressed, and the secretariat should launch it in other countries in the region.

13. The representative of **Egypt**, speaking on behalf of the **African Group**, stressed that most African countries were commodity-dependent. Problems arising from lack of capital, technology and human resources in complying with product standards had to be addressed, including through innovative financial mechanisms. The appropriate role of the state had to be acknowledged. Small producers had to be supported, "decent" prices paid and partnerships between producers in developing countries and commodity distributors promoted. African producers were concerned about trade barriers imposed by adverse international market structures and enterprise-level barriers. UNCTAD had undertaken important work in this area, and analytical work to assist developing countries on issues related to competition law and policies, including at the regional level, should be strengthened.

14. Trade in services provided opportunities for African countries in achieving the MDGs. The development of infrastructural services sectors was of crucial importance to economic development, but most African services suppliers suffered from limited resources and lack of competitiveness. Services were important for improving welfare, and Governments had a major regulatory role to play to ensure the attainment of social objectives. Liberalization and privatization of infrastructural services also needed to be accompanied by appropriate competition and legislation measures. The Commission could play a role in adopting specific recommendations to foster dynamism in domestic services industries, access to technology through modes of supply, and movement of natural persons.

15. African countries had difficulties in adjusting to environmental and environment-related food safety requirements in their key export markets. They were concerned about pesticide regulations and private sector standards. In this regard, the work of the Consultative Task Force on Environmental Requirements and Market Access for Developing Countries was appreciated, as was that of the UNCTAD/FAO/IFOM International Task Force on Harmonization and Equivalence in Organic Agriculture. Owing to food security and

environmental concerns, African countries welcomed planned projects under the UNEP-UNCTAD Capacity Building Task Force on Trade, Environment and Development and the BioTrade Initiative, which was being expanded into Africa. UNCTAD's work on biodiversity and traditional knowledge was also important, as the majority of Africans relied on traditional knowledge to meet food and health needs. There was also potential for UNCTAD capacity building in connection with the Clean Development Mechanism under the Kyoto Protocol to assist African countries, which were presently at a disadvantage.

16. The initiative on new and dynamic sectors of international trade offered an important opportunity for African countries to diversify their production and exports. The initiative must now be extended to the third pillar of UNCTAD's activities, namely capacity building, especially for Africa, including country-level and subregional pilot projects, given that Africa had yet to build up capacity in such new and dynamic sectors.

17. The post-Doha work under JITAP was very important. Other specific technical cooperation activities deserving special mention related to trade and the environment, trade and competition, commodity issues, WTO accession, ACP-EU negotiations, and GSTP. UNCTAD was an important partner for Africa in the search for a successful conclusion to the Doha Work Programme and to the realization of its development goal. He expressed satisfaction with the work carried out by the secretariat, as outlined in document TD/B/COM.1/69.

18. The representative of **Costa Rica**, speaking on behalf of the **Latin American and Caribbean Group**, said that UNCTAD should continue its fruitful work in the area of trade and development, focusing on three major areas: (a) the role of trade in economic development, and the link between trade liberalization, economic growth and poverty alleviation; (b) the interrelationship between multilateralism and regional integration, both of which were compatible and complementary; and (c) multilateral negotiations and continued support for developing countries in their participation in the Doha Work Programme.

19. Concerning services, the role of developing countries in international trade in services must be increased. Many countries in the region had embarked on reform processes in services, but their share in international trade in services was still very modest, at about 3.5 per cent, and lower than trade in goods, which stood at 5.3 per cent of total world trade. Countries in the region expected to reap benefits from services negotiations through the temporary movement of natural persons supplying services (Mode 4). UNCTAD had been providing assistance to developing countries in this area, and that assistance should be enhanced. It was also important to examine best practices in services that would reinforce South-South trade in services.

20. The Group attached importance to the link between trade, investment and environment objectives, given the extensive biodiversity resources in the region. It supported UNCTAD's work on organic agriculture, the BioTrade Initiative, climate change and sustainable tourism. It looked forward to the success of the Consultative Task Force on Environmental Requirements and Market Access for Developing Countries, and it appreciated UNCTAD's work on environmental goods and services.

21. The entry into force of the Kyoto Protocol was an important development bringing new opportunities. UNCTAD had a role in assisting developing countries in trade-and-investment-related issues in the area of climate change, for instance promoting greater trade and investment opportunities under the Clean Development Mechanism, rural development, energy supply diversification, production of bio fuels, and the use of commodities to produce

energy. The Group expressed gratitude to the United Kingdom Government for its project on environmental requirements, which benefited eight countries in the region.

22. The representative of **Luxembourg**, speaking on behalf of the **European Union**, said that, as evidenced by the Commission's agenda, the role of UNCTAD went beyond capacity building for trade negotiations and implementation of trade agreements. The Commission offered a good opportunity to reflect upon the linkages between trade and the MDGs, and the EU endorsed the conclusion of the UN Millennium Project Report on MDGs that trade could be a powerful engine for economic growth and poverty reduction. In this connection, the EU agreed that agriculture, non-agricultural market access, services, trade facilitation and special and differential treatment were not only critical elements for the current negotiations but also key factors in the achievement of MDGs. The EU also endorsed the recommendation of the UN Millennium Project Report regarding the extension of EBA-like schemes in favour of LDCs by all developed countries. Preferential market access for LDCs in developing countries would also facilitate South-South trade.

23. The EU appreciated the efforts made by UNCTAD to promote the issue of commodity finance, and the approach suggested in the secretariat's background paper was very appropriate. The EU was examining several means to support UNCTAD's work in this area, particularly work aimed at promoting best practices in commodity-dependent developing countries.

24. The EU agreed with the UNCTAD secretariat on the increasing importance of services and their development potential, including the importance of mode 4 for all trading partners, in particular developing countries. Given its importance, the EU had made a substantial initial offer on mode 4. Moreover, international remittances were still affected by high transaction costs, and such costs should be reduced by increased competition and efficiency in the financial services sector. Regarding the current GATS negotiations, progress would be dependent upon the participation of all trading partners in the request-offer process. The EU was ready to take into account all the flexibilities available under GATS and the negotiating guidelines in favour of LDCs, and specific attention would be given to the interests of developing countries in its revised services offer, as required by the July Package.

25. On trade, environment and development, the EU, via certain member States, was cooperating closely with UNCTAD, particularly on technical assistance activities. Concerns over environmental norms implied not that such standards should be lowered but that support should be provided to exporters to help them conform to the standards. The work carried out by UNCTAD on certain economic sectors provided useful lessons in that respect.

26. The representative of **Benin**, speaking on behalf of the **least developed countries**, called on the international community to provide the developing countries and in particular the LDCs with a rapid solution to their specific problems in respect of foreign debt, the decline in ODA, low levels of investment, declining terms of trade, protectionism in export markets, unstable prices for commodities and the absence of sufficient infrastructure and production facilities.

27. The production and export of commodities was of primary importance to LDCs, since the share of commodity exports as a percentage of their total export revenue was often above 90 per cent. However, only a small percentage of these exports consisted of processed products. LDCs suffered from declining commodity prices, which caused social and balance-of-payment problems. UNCTAD's analysis in this respect was very helpful.

28. A major question was how LDCs could benefit from their opportunities and from their comparative advantages in commodity sectors. There was need for the reduction and/or

elimination of export subsidies, domestic support, tariff peaks and escalation, and non-tariff barriers. Trade facilitation was also very important and had to be strengthened. Production capacities had to be developed, and technical assistance should be provided for developing countries and in particular LDCs in that respect. Development of infrastructure and trade capacity would be a priority in attracting the investments necessary for self-sufficient economic growth and development.

29. Regarding the link between trade and poverty reduction, important factors included the improvement of market access, infrastructure building and education. The objective of providing 0.7 per cent of GDP as ODA was also stressed. LDCs should be supported in moving from primary commodities towards processed products. It would be important to invest in physical, human and institutional capacity in LDCs, especially transportation systems. Other important factors included the coherence of international trade policies and domestic development strategies in order to achieve the MDGs. Three important measures to assist LDCs were the opening of markets for products originating in LDCs, the provision of micro credit, and the cancellation of LDC debts.

30. Regarding the services sector, services such as transport, energy, insurance, banking, health, education, tourism, and professional services were critical for economic development, and LDCs' competitiveness in those sectors would have to be improved and technical assistance provided. Benefits would arise from the GATS negotiations, especially from the movement of natural persons.

31. LDCs acknowledged the link between trade, environment and sustainable development. The protection of the environment was important for sustainable development, and LDCs attached great importance to the implementation of decisions and recommendations under Agenda 21. The formulation of standards, including environmental norms, should take LDCs' specific circumstances into account, and SMEs in LDCs should be assisted in meeting such standards. Finally, he expressed appreciation to donors for their support for UNCTAD technical cooperation programmes and called for such support to be enhanced in support of the development of LDCs.

32. The representative of **India** said that the third round of GSTP negotiations was expected to entail a package of substantial trade liberalization commitments based on mutual advantage and equitable distribution of benefits to all participants, promote economic complementarities and include concrete preferential measures for LDCs. A Negotiating Committee had been set up, with two Negotiating Groups that met every week (one on rule-making and the other on market access). A timetable had been drawn up with the aim of completing the round by November 2006. Members of the Group of 77 and China had been invited to join the negotiations and had attended the formal and informal sessions of the two working groups. The accession of new members would be dovetailed with the ongoing negotiations. Participants expected the round to be a successful, meaningful and mutually beneficial one. She expressed appreciation for UNCTAD's assistance to the GSTP.

33. UNCTAD's knowledge, experience and expertise would be invaluable in contributing to the five-year review of the MDGs and the 6th WTO Ministerial Conference in Hong Kong. The renewed mandate from UNCTAD XI and the results from expert meetings should be reflected in UNCTAD's work. The need for financial and technical assistance for supply-side capacity building was brought out clearly in UNCTAD documents. Positive examples from several developing countries, including India, showed that it was possible to design viable and sustainable financing schemes for commodity producers, processors and traders, and UNCTAD should undertake further initiatives in this regard.

34. UNCTAD was expected to promote coherence in the international financial, monetary and trading system, based on the principle of preserving “policy space” and flexibilities for developing countries, which should be seen not as concessions or exceptions to the rule but as built-in features of the architecture of the multilateral trading system. The WTO institutional structure needed reform in terms of both process and substance. The decision-making process must be transparent, inclusive and participatory, and the substance should integrate the development dimension; UNCTAD was expected to continue to play a positive role in achieving this objective. UNCTAD’s work on new and dynamic sectors was commendable and should be followed up by capacity building support at the national, subregional and regional levels. Work could be extended to other sectors, including the audiovisual sector, tourism, biotechnology, environmental goods and services, and pharmaceuticals. UNCTAD’s pioneering work in Mode 4 should also continue. Regarding trade and the environment, the creation of new barriers through environmental and health requirements remained an issue of concern. Multilateral negotiations should take the environmental goods and services of export interest to developing countries fully into account. Traditional knowledge was another important issue, and UNCTAD’s assistance in exploring holistic approaches to the protection, promotion and preservation of traditional knowledge and its integration into development strategies was welcome. UNCTAD should continue its work on traditional knowledge, working closely with other international organisations including WTO, UNEP, CBD, FAO and WIPO.

35. The representative of **China** emphasized the importance of financing trade in commodities. Developing countries’ efforts in this area would not be enough and would therefore have to be supported by developed countries and international organizations. UNCTAD’s work was appreciated in this regard, and its work on primary commodities should be strengthened. On services, the importance of mode 4 for sustainable development was very important. Since developing countries lacked competitiveness in trade in services, developed countries should focus on liberalizing services sectors of specific interest to them, especially services involving the movement of natural persons. Non-tariff barriers acted as major barriers to exports from developing countries and should be addressed in the WTO negotiations. UNCTAD’s work in this area had an important role to play.

36. The representative of the **Russian Federation** emphasized the importance of UNCTAD’s work regarding WTO accession and regional integration. The agenda for the Commission allowed member States to address extremely complex but very interesting issues at the centre of international trade.

Chapter III

HIGH-LEVEL EVENT ON TRADE AND THE MILLENNIUM DEVELOPMENT GOALS

Chairman's summary

A. Objective, keynote speakers and discussants

37. The High-level Event was convened taking into account the five-year review of the Millennium Declaration and the Millennium Development Goals (MDGs) that will culminate with a General Assembly high-level plenary of Heads of State in September 2005; the outcome of UNCTAD XI; and the 6th WTO Ministerial Conference in December 2005. The Officer-in-Charge of UNCTAD opened the High-Level Event, to which a number of eminent personalities contributed.¹

B. What role can trade play in helping developing countries achieve the MDGs and under what conditions?

38. Trade, trade negotiations and trade liberalization should be seen as means of assuring development gains, including achieving the Millennium Development Goals (MDGs). Trade is inextricably linked with the MDGs, as trade policy can be a powerful tool for development, and in turn development promotes further trade. The potential developmental benefits from trade are huge. UNCTAD estimates that developing countries might gain up to US\$ 300 billion annually from trade liberalization in agriculture, manufactures and services (especially in Mode 4).

39. Developing countries, especially LDCs and those with weak and vulnerable economies, will be able to realize the full potential of trade if they have the necessary competitive capacities in trade in goods and services; transport infrastructure; efficient administrative procedures; human resources through educational policies; financial resources; and appropriate domestic policies and regulatory frameworks. Accordingly, efforts to increase trade need to be accompanied by parallel investment in the development of the supply side and related economic and social infrastructure. This should be complemented by enabling international markets without unfair restrictions and distortions; removal of market entry barriers (non-tariff barriers, excessive standards requirements, SPS measures), anti-competitive practices and monopolistic market structures; and addressing the erosion of trade preferences, as well as low and unstable prices of primary commodities.

40. Goal 8 of the MDGs includes a commitment to an open, equitable, predictable and rule-based multilateral trading system (MTS). To that end, there should be continued focus on the integration of development considerations into the principles and workings of the multilateral trading system, and more significantly into the negotiations on trade rights and obligations. The particular needs of LDCs, landlocked and transit developing countries, small island developing States, and countries lagging far behind in the achievement of the MDGs have to be given appropriate attention by the international community.

¹ H.E. Mr. Dipak K.A. Patel, Minister of Commerce, Trade and Industry of Zambia, and Mr. Patrick A. Messerlin, Professor of Economics, Institut d'Etudes Politiques de Paris, made keynote presentations. Lead discussants were H.E. Mr. Alejandro Jara, Ambassador of Chile to the WTO; H.E. Mr. Carlo Trojan, Ambassador of EC to the UN and the WTO; H.E. Mr. Hardeep S. Puri, Ambassador of India to the United Nations; H.E. Mr. Ransford A. Smith, Ambassador of Jamaica to the UN; H.E. Mr. Fernando de Mateo, Ambassador of Mexico to the WTO; H.E. Mr. Joseph Ayalogu, Ambassador of Nigeria to the UN; H.E. Mr. Enrique A. Manalo, Ambassador of the Philippines to the UN; and Mr. Richard Fallon, Deputy Permanent Representative of Ireland to the UN.

C. Five years after the adoption of the Millennium Declaration, what are the constraints and the opportunities in achieving an open, equitable, rule-based, predictable and non-discriminatory multilateral trading system? What progress has been made, as measured by the MDG targets and indicators?

Sachs Report

41. The UN Millennium Project Report entitled *"Investing in Development: A Practical Plan to Achieve the Millennium Development Goals"*, in its chapter on "A global breakthrough in trade", makes a useful contribution to the MDG+5 review process. It makes a compelling case for liberalization in agriculture, non-agricultural market access (NAMA) and services in areas of export interest to developing countries. Its recommendations on the trade-related aspects of intellectual property rights, environment protection and standards, and free trade areas are useful guides to further action. It draws attention to the special challenges facing LDCs, landlocked countries and small island developing States in meeting the MDGs and calls for complementary measures in support of these countries. The call for a trade adjustment fund is one of Report's salutary aspects.

42. However, concerns were raised with regard to the approach taken by the Report vis-à-vis a customized and differentiated approach to special and differential treatment (SDT); overstating the problem of trade preferences; proposing ambitious timeframes for achieving total free trade by 2025 with universal enforcement of reciprocity and non-discrimination, as well as for elimination of export subsidies and limiting severely domestic support in agriculture; and the call for ambitious liberalization without accompanying measures to build supply capacities to take advantage of market access. The ambitious trade liberalization schedule seems unrealistic, given the current negotiating dynamics, and would certainly be inappropriate for developing countries, most of which are likely to face considerable trade adjustment problems. A more incremental process was suggested, with a view to achieving steady progress through an accumulation of a series of modest targets. Also, the Report does not adequately treat the important issue of commodities.

Making the international trading system more MDG-friendly

43. An MDG-friendly international trading system would put development issues first and provide a nurturing environment that responds to the development needs and concerns of developing countries. The MTS should emphasize equity and fairness, with SDT that allows developing countries to maintain policy flexibility to implement trade, economic and development policies in line with their development needs and priorities. Policy space should be seen as a means of fostering a better use of available development friendly policies and options.

44. Since the signing of the Uruguay Round results and the implementation of WTO Agreements, little practical value has been drawn from SDT. An immediate resumption of substantive negotiations on SDT was considered a matter of priority, together with an increase in the level of trade-related assistance, with the G8 Summit and the MDG review as catalysts in the process. Some advocated that SDT should (a) not lead to blanket exemptions and carve-outs from obligations or liberalization commitments, and (b) be based on "differential flexibility" and not permanent opt-outs. Others rejected such an approach based on differentiation, noting that some developing countries seen as having stronger economies have in reality a greater percentage of their population living below the poverty level.

45. Agriculture liberalization should initially focus on those highly protective measures granted to producers and exporters in developed countries. Market access (reduction of high tariffs on agriculture products) remains to be effectively addressed. An improved international and domestic food aid system and social safety net is needed to ease potential negative impacts of

liberalization on the poor and vulnerable groups. The possible gains from removing barriers in agriculture and enhancing South-South trade in this area should be explored.

46. In NAMA, the focus of the negotiations should be on specific products and sectors of export interest to developing countries that are highly protected by high tariffs, tariff peaks and tariff escalation in developed countries. It was proposed that, to achieve potential gains, there is a need to apply uniform protection, i.e. by harmonizing tariff rates across products, which would reduce the pressure from domestic industrial lobbies, simplify fiscal issues and custom procedures, and drive investment via true competitive advantage leading to diversification. Some suggested that liberalization in NAMA needs to be undertaken by all countries, with flexibility only for LDCs. At the same time, it was recognized that developing countries would face significant adjustment costs, which should be supported by the international community.

47. One practical initiative could be for all developed countries to implement schemes similar to the Everything but Arms (EBA) scheme in favour of LDCs and for the rules of origin governing such schemes to be simplified. This initiative could also be complemented by a broader set of supportive policies.

48. Negotiations on services were seen as more problematic than negotiations in goods sectors, as restrictions in services industries are embedded in domestic regulations. Potential gains from liberalization in Mode 4 are huge. Other modes of services supply should also be liberalized. Other types of services that are important include those that strengthen the linkages between trade, capacity building and development, such as transport, distribution and postal services. It was also argued that there is a gap between binding commitments and actual services liberalization.

49. International systemic coherence is an important issue in reaping full development gains from the MTS. Hence, progress should be made in the WTO and in the international financial architecture, as agreed at the 2002 International Conference on Financing for Development in Monterrey, to complement and enhance gains achieved in the MTS. To facilitate such policy coherence, UNCTAD should continue to focus on a broad development agenda of trade, finance and global economic management.

D. What can UNCTAD do to further the realization of the MDGs?

50. Maximizing the contribution of trade to development has been the *raison d'être* and life-long vocation of UNCTAD. It is therefore natural that UNCTAD seeks to integrate into its work the key trade aspects of the MDGs. At UNCTAD XI, the São Paulo Consensus emphasized the imperative of assuring development gains from the international trading system and trade negotiations. UNCTAD, as an intellectual centre for development, should continue to generate ideas and serve as a forum for debate on trade for development. UNCTAD's policy analyses, technical assistance and intergovernmental consensus-building work should continue to pay special attention to the MDGs.

Chapter IV

STRENGTHENING PARTICIPATION OF DEVELOPING COUNTRIES IN DYNAMIC AND NEW SECTORS OF WORLD TRADE: TRENDS, ISSUES AND POLICIES

Chairman's summary

A. Introduction

51. At its eighth session (2004), the Trade Commission decided to convene for the first time an Expert Meeting on Strengthening Participation of Developing Countries in Dynamic and New Sectors of World Trade. Also, the São Paulo Consensus decided that UNCTAD should conduct sectoral reviews of dynamic sectors of world trade,² which would constitute a new mandate for the organization. The Expert Meeting was held in Geneva from in February 2005 and reviewed national and international policies and actions to enhance developing country participation in three sectors: (a) IT-enabled outsourcing of services; (b) renewable energy products, including bio-fuels; and (c) textiles and clothing. Besides examining trends, issues and policies in each of these sectors, the Expert Meeting highlighted the role of UNCTAD in support of developing countries.

B. Outsourcing of ITES

52. Outsourcing of IT-enabled services is increasingly becoming a key area of interest for a number of developing countries. Significant scope for outsourcing exists for work in this multi-billion dollar industry, estimated to exceed \$1 trillion by 2006. Increased participation of developing and less developed countries in this sector can play a significant role in the realization of a number of MDGs, including development of decent and productive work for young people; the promotion of gender equality and empowerment of women; availability of the benefits of new technologies, especially ICTs; and the possibility of sustainable economic growth without taxing a country's environmental resources. Outsourcing has important linkages with different GATS modes of service supply, and this makes it imperative for national policy makers and trade negotiators to take a holistic view of these linkages.

C. Renewable energy products, including bio-fuels

53. For developing countries, including LDCs and African countries, renewable energy (RE) offers opportunities to reduce dependence on fossil fuels. It also has the potential to increase agriculture-based exports of bio-fuels such as ethanol and vegetable oils, thus augmenting agricultural export revenues. A number of developing countries have large domestic markets and significant export potential for RE. A stronger renewable energy market could have important implications for both developed and developing countries. Countries and regions in Latin America, Europe and Asia have set themselves new goals for increasing the use of RE. While the main drivers for renewable energy in developed countries lie in environmental protection, particularly the role that renewable energy can play in meeting greenhouse gas reduction targets, in developing countries it is the shortage of energy that is the main factor. Furthermore, bio-fuels are beneficial for rural development and can make significant contributions to achieving the MDGs, particularly poverty eradication. Local communities growing oilseeds and producing their own bio-fuels to run power generators can gain independent access to power, thus improving the quality of life.

² São Paulo Consensus (TD/412), para. 95.

Moreover, deforested areas can be recovered and restored for bio-fuel cultivation; this limits the use of firewood, which is associated with health hazards.

D. Textiles and clothing

54. The Commission held a High-level Panel on New and Dynamic Sectors of International Trade with a focus on Textiles and Clothing to address issues raised during the Expert Meeting with particular relevance for this sector.³

Post-ATC context in textiles and clothing trade

55. Given the special export structure created by the quota restrictions imposed over 40 years, the expiry of the Agreement on Textiles and Clothing (ATC) will intensify competition in trade in textiles and clothing and inevitably require some short-term adjustments. Countries and enterprises that lack competitiveness and those that benefited from preferential access will be most affected in the post-ATC period. However, caution is necessary so as not to overstate the impact of quota elimination. Other factors such as tariff preferences, market entry conditions, labour costs, geographical location, technology and trade policy of the major trade partners will have notable impacts on textiles and clothing trade as well. Support must be given to LDCs and small countries that are heavily affected by the ATC expiry, but this must be done by means of financial and technical assistance, and not through protectionist measures.

56. Participants expressed appreciation for UNCTAD's paper on "Assuring development gains from the international trading system and trade negotiations: Implications of ATC termination on 31 December 2004" (TD/B/51/CRP.1).

Dynamic products and their competitiveness factors

57. It was noted that the textiles and clothing industry is a mature sector, but it will continue to be a dynamic sector driven by demand, changes in demography, increasing living standards, and emerging opportunities for innovation, diversification and niche-product development. This is the area where developing countries have a clear comparative advantage, and it also contributes significantly to poverty reduction, employment creation, gender empowerment, and skill and economic development in those countries.

58. Lifting quota restrictions has made almost all cotton and man-made fibre product lines potentially dynamic. Identifying a dynamic product will be a matter of national and enterprise strategic engineering of niche products through diversification and specialization in the production value chain. Man-made fibre products have particularly significant prospects, since the demand for them exceeds supply by about 250,000 tons a year. Production-related determinants of success include productivity, the ability to produce niche products, speed, reliability, and the ability to meet market entry conditions. Market-access-related factors are tariffs, preferential access and rules of origin, which determine the possibility for producers of using the most competitive raw materials. Also, proximity to markets is becoming increasingly important.

³ The panelists were: Mr. Sivaramen Palayathan, Trade Advisor, Mauritius Mission; Mr. Munir Ahmad, Executive Director, International Textiles and Clothing Bureau (ITCB); Professor Patrick Conway, University of North Carolina; and Mr. Magdi Farahat, Minister Plenipotentiary, Egyptian Mission to WTO and Acting Chairman of the ITCB.

Domestic concerns

59. Some countries have already begun to feel the impact of the ATC integration programme and have introduced domestic adjustment measures. These include creating special institutional arrangements to support textiles and clothing producers, expanding international production networks, enhancing financial assistance for producers, and establishing special production arrangements⁴ with the major importers of textiles and clothing to secure preferential access. North-South and South-South free trade agreements are also being sought in the expectation that they may help to ease the post-ATC impact.

60. Access to technology and availability of adequate resources to modernize the industry were stressed as highly important aspects for maintaining competitiveness and moving into the dynamic segments of textiles and clothing trade. Small and medium-size manufacturers need help to improve their competitiveness, and one way to do this is to build partnerships with manufactures in industrialized countries, which are also looking for partners to enhance their competitiveness.

International concerns

61. A view was expressed that, in the context of the Negotiating Group on Non-Agriculture Market Access (NAMA) in the Doha negotiations, the question of erosion of preferences for LDCs and other preference-receiving countries should be given special consideration in order to help them continue to benefit from their exports of textiles and clothing. Several participants suggested that exclusion of textiles and clothing from the proposal for the sectoral initiatives negotiations should be considered. It was also proposed by some participants that the negotiations taking place in the Negotiating Group on Rules could also consider measures to support LDCs and small countries that are seriously affected by the ATC expiry, as well as measures to prevent the use of contingency protection measures for the purpose of protectionism. The WTO Cotton Initiative should help producing LDCs to develop domestic textile industries with improved foreign exchange earnings.

62. Improvement of the non-reciprocal preferential agreements could also be an important adjustment support measure. Developing countries that are eligible for preferential access to the markets in the major importing countries often have low rates of preference utilization caused by highly restrictive preferential rules of origin. Flexible rules of origin are therefore necessary if these countries are to increase their benefits from preferential market access. Also, coverage of preferences should be improved, and duty-free access should be extended to all LDCs for all textiles and clothing products.

63. Preferential rules of origin on textiles and clothing are discriminatory in respect of exporters in countries that do not participate in regional trade agreements. On the other hand, countries that have regional trade agreements with the major importing countries have, in certain cases, to source their inputs in the preference-giving countries to benefit from preferential market access, thereby driving down the value of preferences. Moreover, the confluence of high tariffs and restrictive rules of origin has become a major barrier for trade in textiles and clothing.

64. Non-tariff barriers (NTBs), including measures relating to labour standard and the environment, are increasingly affecting exports of textiles and clothing from developing

⁴ For example export processing areas and qualified industrial zones.

countries and need to be addressed to enable them to increase their participation in the dynamic segments of trade in these products.

65. South-South cooperation can play a catalytic role in enabling developing countries to move to the dynamic segments of trade in textiles and clothing and to ease the post-ATC impact. The negotiations on the Global System of Trade Preferences among Developing Countries (GSTP) should enhance this cooperation. Cooperation can also be enhanced by investments, although flexible preferential rules of origin are a critical incentive for investors.

66. The IMF's Trade Integration Mechanism (TIM) may be a useful instrument. However, some participants mentioned that it does not address competitiveness issues, nor does it involve additional funding. It was also pointed out that the conditionalities of the TIM, its relatively small financial package, and its debt-creating effects are major concerns for those countries that need assistance. It was noted by several participants that new initiatives such as the Trade Adjustment Fund recently proposed by the EU and the establishment of new funds for post-ATC adjustments under the Bretton Woods Institutions would be necessary.

Role of UNCTAD

67. UNCTAD should continue its analytical and capacity-building work on textiles and clothing with a view to assisting developing countries to strengthen their participation in this dynamic segment of trade, especially LDCs and small countries that require post-ATC adjustment support. UNCTAD should undertake policy-oriented analytical work and provide technical assistance with the objectives of improving market access and entry and enhancing competitiveness for textiles and clothing from developing countries.

Chapter V

MARKET ACCESS, MARKET ENTRY AND COMPETITIVENESS

68. For its consideration of this item, the Commission had before it the following documentation:

“Market entry for commodities: The role of trade and investment finance: Background note by the UNCTAD secretariat” (TD/B/COM.1/72);

“Report of the Expert Meeting on Financing of Commodity-based Trade and Development” (TD/B/COM.1/EM.24/3).

Chairman's summary

69. The session focused on the finance-related obstacles to developing countries' market entry for commodities. The background to the discussions was the dramatic decline during the 1980s and 1990s in support for agricultural finance by donor agencies and national Governments alike. Lack of access to financing is making it hard for producers, processors and exporters to meet the increasingly stringent entry requirements of many markets. For many products, farmers, processors and exporters have to comply with stringent standards concerning quality, the production process, environmental impact, and so on. Inability to meet market entry requirements contributes to the marginalization of many of the more than 2 billion people who rely on commodities for their livelihood, a disproportionate part of whom are already living in poverty. It was noted that in recent major international reports on development—the Sachs report and the report of the Commission for Africa—the reality of the poor performance of commodity-dependent countries was recognized. However, these reports failed to provide solutions, other than a call for diversification. In practice, however, diversification cannot take place overnight, given the scale of dependence on primary commodities in many developing countries.

70. The participants heard a presentation on the findings and recommendations of the Expert Meeting on the Financing of Commodity-based Trade and Development (November 2004).⁵ The Expert Meeting examined innovative approaches to agricultural finance. Successful experiences have allowed better management of agricultural sector finance risks by shifting from the credit risk approach of traditional financing methods (will the borrower repay?) to a performance risk (will the borrower pursue his activities and produce or process commodities? If he does not go out of business, then the loan is automatically reimbursed). The new approaches include schemes providing farmers with seasonal credit through a broad-based credit card programme, schemes allowing them to gradually become owners of new commodity processing facilities, and finally schemes that make capital market investors (pension funds and the like) compete for the right to lend to farmers and livestock holders. Some approaches show that micro-finance institutions can adapt their practices and set up viable agricultural lending schemes.

71. The potential of innovative financing schemes in enabling new and dynamic exports was highlighted on the basis of recent experiences in horticultural financing in Southern Africa. Such financing schemes not only enable farmers and processors to invest in the means of production

⁵ Report of the Expert Meeting on Financing Commodity-based Trade and Development: Innovative Financing Mechanisms (TD/B/COM.1/EM.24/3, 15 December 2004).

required to meet the market entry requirements imposed by buyers,⁶ but also make it possible to attract investment in critical infrastructure (notably dams for the supply of clean drinking water, electricity and irrigation). However, finance is not a panacea; even if finance is readily available, there are still many other roadblocks to growers and prospective exporters, including their weak position in the marketing chain, which allows large traders and banks to appropriate many of the benefits of a financing scheme. Successful innovative agricultural financing schemes rely on a supply chain approach, which makes it possible to organize developing country suppliers to strengthen their negotiating position vis-à-vis large buyers such as supermarket chains.

72. Some participants wondered whether the innovative financing approaches discussed are not applicable only to relatively small markets for new, dynamic products. Others noted that such schemes have been used successfully for such “traditional” crops such as cocoa, coffee, cotton, maize and vegetable oils. They have helped to improve competitiveness, allow entry into new markets, and revive commodity-processing industries in some countries.

73. Participants agreed that Governments and donor agencies should revisit the issue of agricultural sector financing. Also, developing country export-import banks can play an important role in introducing appropriate lending schemes in support of their countries' agricultural sectors. Financing techniques and methods have evolved, and as experience in several countries has shown, it is possible to design viable and sustainable financing schemes that meet the needs of commodity producers, processors and exporters. It was noted by some participants that an important reason that new approaches to commodity finance are underutilized in their countries is a lack of awareness and information. It was stressed that approaches to dealing with commodity problems should take into account the low levels of real prices for commodities, the long-term declining trend in terms of trade, excessive price fluctuations and difficulties associated with market access and market entry conditions, as well as effective participation in supply chains.

⁶ Mostly large Western supermarket chains.

Chapter VI

TRADE IN SERVICES AND DEVELOPMENT IMPLICATIONS

74. For its consideration of this item, the Commission had before it the following documentation:

“Trade in services and development implications: Note by the UNCTAD secretariat” (TD/B/COM.1/71);

“Report of the Expert Meeting on Trade and Development Aspects of Professional Services and Regulatory Frameworks” (TD/B/COM.1/EM.25/3);

“Report of the Expert Meeting on Strengthening Participation of Developing Countries in Dynamic and New Sectors of World Trade: Trends, Issues and Policies” (TD/B/COM.1/EM.25/3).

Chairman's summary

A. Trends in services trade

75. Services trade accounts for one fifth of global trade and 5 per cent of global GDP. The share of services employment on average is around 40 per cent in developing countries and goes up to 70 per cent in the developed countries. Trade in services offers interesting opportunities for developing countries. Gains from liberalizing the movement of natural persons are estimated to exceed by a factor of 10 those arising from other areas of WTO negotiations. The movement of natural persons can contribute to the implementation of the MDGs through, for instance, alleviation of poverty and gender mainstreaming into services industries.

B. State of play of services negotiations in the WTO

76. To date, progress in the WTO services negotiations has been mixed. There are 50 offers on the table. The number and quality of initial offers are considered unsatisfactory. Similarly, while negotiations on services rules have been conducted for the last 10 years, concrete outcomes are still unsatisfactory. As to the reasons for the current state of affairs, advocates of services liberalization are considered to have failed to ensure balance, both within the services negotiations (e.g. meaningful engagement on Mode 4 and delivery on the development pillars of the GATS such as Article IV and an emergency safeguard mechanism (ESM)) and in other negotiating areas. Recent WTO dispute settlement cases⁷ highlighted the complexity of classifying services sectors, scheduling commitments and foreseeing the potential implications of scheduled commitments. These rulings substantiated pre-existing caution about making legally binding commitments and test the flexibilities of GATS, highlighting the need to schedule intended commitments carefully.

C. Infrastructure services

77. Infrastructure services determine the economic and trade competitiveness of countries. Developing countries face major problems in ensuring availability of those services and in improving access to them. Since infrastructure sectors are capital-intensive, private investment, including FDI, is needed. Liberalization and privatization have produced mixed results, and thus they should proceed in a cautious and judicious manner. In some sensitive areas,

⁷ Telmex and Gambling.

such as health and education services, developing countries have made commitments during the Uruguay Round in excess of those made by developed countries. Some commitments may limit their ability to subsidize these sectors. Trade in health services can facilitate providing care to remote and under-served areas, generate foreign exchange earnings and remittances, and create new employment opportunities and new services. However, it may also lead to diversion of resources and internal and external brain drain. GATS provides countries with flexibility and does not force them to make liberalization commitments that are not in their interest. Strengthening health ministries to enable them to tackle trade-related issues is of great importance.

D. Professional services

78. Professional services are recognized for their importance as knowledge-intensive infrastructure services ensuring broad economic efficiency. However, the relative importance of the professional services trade of developing countries has been declining as compared to that of the developed economies. Developing countries face challenges in regulating professional services effectively because of their institutional and regulatory weaknesses. In many developing countries, services export policy, access to credit without collateral, and finance and export infrastructure are lacking. At the same time, they face export barriers in all GATS modes of supply, such as economic needs tests, cumbersome visa procedures, residency or nationality requirements, and lack of transparency in regulations.

E. Services development policy and increasing participation of developing countries

79. Developing countries need to devise “master plans” and comprehensive national strategies on services such as those supporting industrial and agricultural development. The lack of statistics and information in the area of services trade is a serious limitation on the development of effective domestic trade policy in developing countries. The private sector has limited knowledge of multilateral trade rules, and its input to the negotiations is marginal. As a result, the multilateral trade rules are perceived as having little relevance for addressing export concerns. Other factors to be taken into account include: access to Internet, FDI stock, movement of natural persons, knowledge of the languages of export markets and market intelligence in general, fiscal incentives and subsidies. Furthermore, minimum price requirements for services and advertising restrictions in host markets, excessively large capital requirements in public procurement, difficulties for service firms in obtaining credit without collateral, and liability or malpractice insurance constitute barriers to services exports from developing countries. Access to new technology and R&D, meeting international quality standards, and international service quality certification by developing country firms are essential. In the context of GATS, developing countries need to focus not only on traditional services but also on dynamic and fast-growing services. So far, their comparative advantage seems to lie in tourism, outsourcing, professional services and GATS Mode 4. Some developing countries are constrained by stigmatization and blacklisting, travel warnings and opacity in assigning standards for safe travel.

80. Though GATS recognizes that liberalization has to be progressive and reflect the development needs of countries, in reality developing countries have weak bargaining power and often make concessions as a result of conditionalities in structural adjustment programmes and pressures from leading trade partners. Even LDCs acceding to the WTO are expected to make commitments exceeding those of existing WTO members. Developing countries are often not fully aware of those areas in which they have effective or potential services trade interest, and this undermines their capacity to make meaningful initial offers and requests. Technical assistance and clear definition of negotiating objectives reflecting development concerns would contribute to a balanced outcome of negotiations.

and clear definition of negotiating objectives reflecting development concerns would contribute to a balanced outcome of negotiations.

F. Regional integration

81. Increasingly, regional/bilateral trade agreements cover services. Regional trade agreements may allow faster progress in liberalization than would be possible multilaterally, but they may include provisions restraining flexibility in services sectors, especially by linking services and investment. Regional integration supported by mutual recognition of qualifications is one way to facilitate and promote trade through Mode 4. Access to existing mutual recognition agreements by developing countries is crucial, and it could be facilitated by utilizing GATS provisions.

G. Difficulties developing countries are facing

82. A significant number of representatives underlined the inherent difficulties developing countries face. Domestically, developing countries, and especially LDCs, have weak economic, institutional and regulatory frameworks, and this contributes to supply constraints. These problems are compounded by the absence (or inadequacy) of mechanisms for multi-stakeholder consultations and for reflecting priorities in concrete negotiating positions. Coordination and linkages between Geneva and capital-based experts/regulators are missing. Assistance is needed, including in helping developing countries, particularly LDCs, to further articulate a positive agenda. At the WTO, the pace, complexity and overly ambitious nature of market access requests have had a detrimental effect on the comfort of developing country negotiators.

H. Assessment of trade in services

83. An assessment of trade in services is key in ensuring that liberalization efforts will translate into real economic and development gains. It can attend to existing concerns with services liberalization, including those relating to human development and the achievement of the MDGs. While an assessment is mandated by the GATS and in the Negotiating Guidelines, and while it is stated that services negotiations shall be adjusted with respect to the outcome of the assessment, no satisfactory results have so far been produced. An adequate assessment would constitute a means of evaluating in overall and sectoral terms how the objectives of the GATS are being met, particularly in terms of increasing the participation of developing countries in services trade. Priority areas for assessment should be modes and sectors of interest to developing countries. Analysis is also needed on South-South trade flows, including in Mode 4.

I. Emergency Safeguards Mechanism

84. Including an ESM in the GATS could be a possible response to difficulties in foreseeing the effects of services trade liberalization and could encourage deeper offers and commitments. There are several suggestions on ways to overcome technical difficulties in WTO negotiations on an ESM, including formulating rules that give countries leeway to define concepts⁸ while placing stringent requirements and disciplines on the application of emergency safeguard measures.⁹ There is a need for political will to acknowledge the desirability and feasibility of devising an ESM for the GATS.

⁸ Such as domestic industry or likeness.

⁹ Including through a necessity test.

J. Subsidies

85. On subsidies, a presentation was made on the preliminary findings of UNCTAD's work in that area. This work suggests that state support is widespread worldwide and can be found in every services sector. It identifies two dimensions to state support, namely measures aimed at mitigating effects of undesirable market outcomes, and measures that have a potential distorting effect on competition and international trade in markets in which firms participate. These measures can be classified as aiming at benefiting households or consumers, service providers or society as a whole. Measures benefiting services providers were considered the most important category for the purpose of discussions under the GATS mandate on subsidies with trade-distortive effects. State support can lead to export enhancement, import displacement or investment diversion, but so far data are still scanty.

K. Way forward

86. There was much discussion of the way forward up until the 6th WTO Ministerial Conference in December 2005. Several elements were considered crucial for moving services trade negotiations forward successfully. One is strong political will and guidance. This would require considering services negotiations a priority and providing negotiators with the necessary resources and decision-making mechanisms. Similarly, overcoming the "crisis" in services negotiations would require *demandeurs* to take responsibility, including by moving forward on key issues of interest to developing countries.

87. The objectives of current negotiations are set out in GATS Articles IV and XIX, the Negotiating Guidelines, the LDC Modalities and the July Package. Developing countries have articulated their negotiating objectives in sectors of interest to them and in particular in Mode 4. Some emphasized the need of countries to know what their interests are (and their difficulties in that respect) and to be more precise in their ambitions (e.g. to move beyond generalities in Mode 4). Some suggested that autonomous/existing liberalization constitutes a useful starting point for binding liberalization, while avoiding the pitfalls of uncontrolled liberalization. Others, in turn, made the point that the level of ambition needs to be determined at the national rather than the multilateral level. Assessment should focus on certain sectors and country-specific characteristics to allow developing countries to identify their negotiating interests. It was emphasized that binding market access commitments should not be considered a panacea for all.

L. Future work for UNCTAD in the services area

88. UNCTAD has played a valuable role in supporting developing countries in services trade negotiations at the multilateral and regional levels. The background document for the Commission (TD/B/COM.1/71) was commended as an important contribution to the discussion and to domestic policy formulation and trade negotiations. UNCTAD was invited to continue analytical work and policy dialogue to further full understanding of implications and welfare gains under mode 4, dynamic sectors, including outsourcing, infrastructural services, and tourism. Priority areas mentioned were sectoral studies and national assessments, analytical work, including on individual services sectors,¹⁰ the particularities of LDCs, small economies, RTAs, South-South cooperation and trade flows (including in Mode 4), domestic regulation issues, and the identification of sectors and subsectors of interest to developing countries and LDCs. The issue of Mode 1 and outsourcing was also underlined. UNCTAD was requested to continue and further expand its activities in providing targeted and customized technical assistance. It should strengthen its technical assistance programme to assist small economies to overcome their

¹⁰ For example, distribution as a sector of key importance to developing countries.

vulnerability, monitor their participation in trade in services, and capitalize on benefits from new services sectors. There was also a strong call for increasing financial contributions to UNCTAD technical assistance and capacity building on services negotiations.

Chapter VII

TRADE, ENVIRONMENT AND DEVELOPMENT

89. For its consideration of this item, the Commission had before it the following documentation:

“Trade, environment and development: Background note by the UNCTAD secretariat” (TD/B/COM.1/70).

Chairman's summary

A. Environmental requirements and market access

90. It was noted that environmental and related health requirements (ERHRs) are becoming more frequent and stringent in key export markets for developing countries, whether they are in the form of government regulations, private sector supply chain requirements or nongovernmental standard and certification schemes. Although only a few international standards on ERHRs exist, many ERHRs in key export markets are becoming “transnationalized” through supply chains. Such requirements are at times created with little or no regard for developing country environmental situations, trade concerns or developmental priorities. It is important to ensure that ERHRs promote environmental and health protection, not trade protection. Whether ERHRs are indeed an important catalyst for greater environmental sustainability or a disguised trade hurdle for developing countries requires sector-specific case analysis.

91. However, meeting ever-changing ERHRs in export markets has not only a market access aspect but also a sustainable development dimension. Implementing ERHRs often leads to competition for scarce resources and capacities at the national level in developing countries, in particular least developed countries and small island developing States. They also pose a serious development challenge to small and medium-size enterprises.

92. Support was expressed for the recently created Consultative Task Force (CTF) on Environmental Requirements and Market Access for Developing Countries. The CTF will assist developing countries in analysing key trends in ERHRs and exchanging national experience on proactive approaches to meeting such requirements with a view to maintaining market access, harnessing developmental gains and safeguarding social welfare. By including organizations involved in voluntary standards into its work, by focusing on country- and sector-level analysis, and by exchanging national experiences, the CTF can provide useful inputs to the WTO process on environmental requirements and market access for developing countries.

93. International markets for environmentally preferable products such as organic products have been very dynamic and could provide export opportunities for many developing countries, in addition to national environmental, social and developmental benefits. The hundreds of regulations and standards for organic agriculture and related trade are, however, posing a serious challenge for exporters from developing countries. Often-required multiple certification eliminates economic export incentives. Since 2001, the International Task Force (ITF) on Harmonization and Equivalence in Organic Agriculture¹¹ has been considering conceptual and practical issues

¹¹ Jointly created by UNCTAD, FAO and the International Federation of Organic Agricultural movements (IFOAM).

of moving towards greater harmonization of regulations and standards with a view to facilitating market access and entry for exports from developing countries.

94. General appreciation was expressed for UNCTAD's technical cooperation and capacity building activities on trade, environment and development. Several delegations welcomed efforts to further expand the geographical coverage of activities to African countries, LDCs and small island developing States, including through the Capacity Building Task Force (CBTF) of UNCTAD and UNEP.

B. Climate change

95. The costs of unmitigated climate change are enormous, and for the United Kingdom's Presidency of the G8 in 2005, climate change and Africa are the priorities on the agenda. The poorest countries, which have contributed least to the problem, will suffer most from the implications of climate change. Turning the threat into an opportunity and assisting countries in understanding the risk and policy response options must be a priority. There are immense business opportunities in sustainable growth and in moving to a low carbon economy. UNCTAD can help by identifying investment opportunities of the Clean Development Mechanism (CDM) under the Kyoto Protocol. The Kyoto Protocol, which entered into force in February 2005, represents only a first step in reducing the greenhouse emissions of industrialized countries. However, it is a solid foundation for the next stage of climate diplomacy.

96. Relevant intergovernmental organizations, public institutions, the private sector and civil society should play a proactive role in addressing the environmental, economic and business aspects of climate change as part of a new approach in building a virtuous cycle that produces sustainable development. The carbon market is being created as a push/pull mechanism between private and public sectors. Major corporations are now positioning themselves for a less carbon-intensive economy. Many companies are combining different instruments to diversify experience and risk. For the Kyoto Protocol to be truly successful, there is a need to move beyond it.

97. Measures to address climate change offer win-win situations to developing countries. For example, bio-fuel production addresses climate change and sustainable development priorities and, at the same time, offers good prospects for developing countries to expand their share in the international market. UNCTAD was requested to assist developing countries in seizing the opportunities presented by the international carbon market created by the Kyoto Protocol.

C. Bio-Trade

98. Several developing countries are implementing bio-trade national programmes as part of their national biodiversity strategies and their commitment to the objectives of the Convention on Biological Diversity. Appreciation was expressed for the financial support received from the Governments of Switzerland and the Netherlands, the United Nations Foundation (UNF) and the Global Environmental Facility (GEF). Participants welcomed the cooperation between the Bio-Trade Initiative and the Andean Development Corporation and the Andean Community, as well as efforts to promote regional activities in the context of the Amazon Cooperation Treaty Organization.

99. Interest was expressed in the Bio-Trade Initiative as a means to contribute to the MDGs. Its activities provide a valuable contribution to the sustainable promotion of trade in products and services. The potential for South-South cooperation, in particular in the Andean and Amazonian regions, was also highlighted. Several delegations expressed the interest of their countries in implementing bio-trade national programmes.

100. The high potential of bio-trade products in export diversification and rural development was highlighted. One country recognized the joint work of several organizations from the private and public sectors to promote native bio-diversity products and services in national and international markets. Assistance was requested from UNCTAD and developed countries in meeting regulations in international markets, particularly in the field of novel foods.

101. The launching of the Bio-Trade National Programme in Uganda in 2003 highlights the important role Bio-Trade can play in Africa as a mechanism for mainstreaming and integrating rural poor communities into international trade, addressing global climate change, increasing South-South trade and facilitating policy formulation.

D. Environmental Goods and Services

102. The negotiations on “environmental goods” under paragraph 31(iii) of the Doha Ministerial Declaration were cited as an example of benefits derived from the synergy in the activities of UNCTAD and the WTO. Several delegations welcomed UNCTAD's contribution to the work of the WTO Committee on Trade and Environment in Special Session (CTESS) and its useful role in supporting developing countries in their participation in these negotiations.

103. It was mentioned that the meeting of the CTESS on 24-25 February had demonstrated a lack of critical mass and balance in the negotiating proposals. Developing countries had been encouraged to present proposals on environmental goods. Some developing countries had called for SDT and had emphasized the key importance of capturing the technology side of environmental goods. Several developing countries had requested UNCTAD's assistance in drawing up national lists of such goods. UNCTAD is responding to such requests through ongoing and new projects.

Chapter VIII

ACTION BY THE COMMISSION AND CLOSING STATEMENTS

Action by the Commission

104. At its closing plenary meeting, on 18 March 2005, the Commission adopted its agreed recommendations on agenda items 3, 4 and 5 (see chapter I above). In that connection, it took note of the reports of the expert meetings contained in documents TD/B/COM.1/EM.24/3, TD/B/COM.1/EM.25/3 and TD/B/COM.1/EM.26/3. It also took note of the secretariat's progress report on the implementation of the agreed conclusions and recommendations of the Commission at its eighth session, including post-Doha follow-up (TD/B/COM.1/69), as well as of the 2004 activities report of the Division on International Trade in Goods and Services, and Commodities (UNCTAD/DITC/MISC/2004/9). It further took note of the "Report of the Meeting of Eximbanks and Development Finance Institutions and the Way Forward".

105. At the same meeting, under agenda item 7, the Commission approved the provisional agenda for its tenth session (see annex I below), as well as the topics for expert meetings for 2005 (see annex II below). It was understood that there would be an ad hoc expert meeting on the insurance sector back-to-back with the expert meeting on distribution services.

Closing statements

106. The representative of the **United States of America** appreciated the efficient and businesslike way in which the ninth session of the Commission had been conducted and welcomed the fact that it had been possible to complete the Commission's work sooner than planned. That should be borne in mind for the Commission's next session.

107. The representative of **Jordan** commended the Export-Import Bank initiative, as well as the report on technical assistance in the area of environmental goods trading.

108. The representative of **Japan**, also speaking on behalf of the **United States, Switzerland, Canada, Australia, Norway and New Zealand**, said he hoped that UNCTAD would make a greater contribution to important development meetings, including the high-level General Assembly meeting to review implementation of the Millennium Development Goals. It should contribute through all three pillars of its activities.

109. The representative of the **Democratic Republic of the Congo**, speaking on behalf of the **Group of 77 and China**, said that the Commission's session had been very successful, but his Group's participation had been affected by the fact that other important meetings had been going on at the same time. The secretariat should try to avoid such clashes in the future.

110. The **Director of the Division on International Trade in Goods and Services and Commodities** said that Commission sessions were programmed a year in advance, and other organizations should be encouraged to keep UNCTAD's calendar in mind when scheduling their meetings. The Commission's ninth session had successfully delivered key messages on the development aspects of the issues before it.

Chapter IX

ORGANIZATIONAL MATTERS

Opening of the session

111. The ninth session of the Commission on Trade in Goods and Services, and Commodities was held at the Palais des Nations, Geneva, from 14 to 18 March 2005. The session was opened on 14 March 2005 by the Director of the Division on International Trade in Goods and Services and Commodities.

Election of officers

112. At its opening plenary meeting, on 14 March 2005, the Commission elected its Bureau as follows:

President:	Mr. Dacio Castillo (Honduras)
Vice-Presidents:	Ms. Fatima Al-Ghazali (Oman)
	Ms. Carmen Domínguez (Chile)
	Ms. Barbara Rietbroek (Netherlands)
	Mr. Dmitri Godunov (Russian Federation)
	Mr. Emmanuel Farcot (France)
Rapporteur:	Mr. El Mostafa Ait Amor (Morocco)

Adoption of the agenda and organization of work

113. At the same meeting, the Commission adopted the provisional agenda circulated in document TD/B/COM.1/68. Accordingly, the agenda for the ninth session was as follows:

1. Election of officers
2. Adoption of the agenda and organization of work
3. Market access, market entry and competitiveness
4. Trade in services and development implications
5. Trade, environment and development
6. Implementation of agreed conclusions and recommendations of the Commission, including the post-Doha follow-up
7. Provisional agenda for the tenth session of the Commission
8. Other business
9. Adoption of the report of the Commission to the Trade and Development Board

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

114. At its closing plenary meeting, on 18 March 2005, the Commission decided that the Chairperson's summaries on items 3, 4 and 5, as well as on the high-level panel on trade and the MDGs and the high-level panel on new and dynamic sectors of international trade, should be incorporated into its report. It adopted its draft report (TD/B/COM.1/L.30) and authorized the Rapporteur to complete the report in the light of the proceedings of the closing plenary.

Annex I

PROVISIONAL AGENDA FOR THE TENTH SESSION OF THE COMMISSION

1. Election of officers
2. Adoption of the agenda and organization of work
3. Commodities and development
4. Market access, market entry and competitiveness
5. Trade in services and development implications
6. Trade, environment and development
7. Implementation of agreed conclusions and recommendations of the Commission, including post-Doha follow-up
8. Provisional agenda for the eleventh session of the Commission
9. Other business
10. Adoption of the report of the Commission to the Trade and Development Board

Annex II

TOPICS FOR EXPERT MEETINGS FOR 2005

Topic 1: Sectoral review of new and dynamic sectors of world trade

The São Paulo Consensus, in paragraph 95, provided *inter alia* that UNCTAD should convene sectoral reviews on dynamic sectors of world trade. In line with this mandate and the decision of the eighth session of the Commission in this regard, the sectoral review process commenced with the convening of the Expert Meeting on New and Dynamic Sectors of World Trade, held from 7 to 9 February 2005. The Meeting considered outsourcing of IT-enabled services; renewable energy products and bio-fuels; and textiles and clothing. It is proposed that another sectoral review should also be conducted by an Expert Meeting. It is further suggested that this meeting could consider the following three sectors: electronics; marine products; and steel and related specialty products.

Proposed topic 2: Non-tariff barriers

The São Paulo Consensus, in paragraph 77, provided that efforts at extending market access liberalization for non-agricultural products under the Doha Work Programme should be intensified with the aim of reducing or, as appropriate, eliminating *inter alia* non-tariff barriers (NTBs), in particular on products of export interest to developing countries. Bearing this in mind, it is proposed that during 2005 an Expert Meeting under the Commission should take up the question of non-tariff barriers with the objective of: clarifying methodologies for defining NTBs; classifying NTBs according to their nature and source, including clusters that are already subject to WTO disciplines; considering how to deal with NTBs; and analytical and capacity building support for developing countries, including LDCs and African countries. Relevant activities and preliminary findings of the Consultative Task Force on Environmental Requirements and Market Access for Developing Countries would be brought to the attention of the Expert Meeting.

Proposed topic 3: Distribution services

The São Paulo Consensus, in paragraphs 78 and 99, provide that negotiations on the liberalization of infrastructure services should give due attention to the concerns of all countries, especially developing ones, and UNCTAD should examine all issues related to trade in services and domestic services capacity of developing countries. Given the importance of distribution services amongst infrastructural services, their contribution to the competitiveness of economies and their role in international trade, it is suggested that an Expert Meeting be organized on the distribution services sector. The Meeting could analyse the impact of current trends, the effect of countries' structural characteristics, and public policies, assess supply constraints of developing countries and ways and means of building supply capacities, trade barriers in different modes of supply and other barriers including anti-competitive practices, and issues arising from the current WTO negotiations including obligations under GATS Article IV.1(a) in terms of contributing to the increasing participation of developing countries through commitments relating to developing countries' access to distribution channels and information networks.

**Annex III
(English Only)**

ATTENDANCE *

1. The following States members of UNCTAD were represented at the session:

Algeria	Libyan Arab Jamahiriya
Australia	Luxembourg
Austria	Madagascar
Bangladesh	Malaysia
Barbados	Mali
Belarus	Mauritius
Belgium	Mexico
Benin	Morocco
Brazil	Nepal
Brunei Darussalam	Netherlands
Bulgaria	New Zealand
Cameroon	Nigeria
Chile	Oman
China	Papua New Guinea
Colombia	Peru
Costa Rica	Philippines
Cuba	Portugal
Czech Republic	Republic of Korea
Denmark	Romania
Democratic Republic of the Congo	Russian Federation
Dominican Republic	Saudi Arabia
Egypt	Serbia and Montenegro
El Salvador	Slovakia
Ethiopia	Spain
Finland	Sudan
France	Switzerland
Germany	Syrian Arab Republic
Greece	Thailand
Guatemala	Tunisia
Haiti	Uganda
Honduras	Uruguay
India	United Kingdom of Great Britain and Northern Ireland
Iran (Islamic Republic of)	United States of America
Ireland	Vanuata
Italy	Yemen
Jamaica	Zambia
Japan	Zimbabwe
Jordan	
Kenya	

* For the list of participants, see TD/B/COM.1/INF.9.

2. The following intergovernmental organizations were represented at the session:
African, Caribbean and Pacific Group of States
African Union
European Community
International Textiles and Clothing Bureau
Organization for Economic Co-operation and Development
Organization of the Petroleum Exporting Countries
South Centre
3. The following United Nations agency was represented at the session:
International Trade Centre
4. The following specialized agencies and related organizations were represented at the session:
United Nations Industrial Development Organization
World Health Organization
World Trade Organization
5. The following non-governmental organizations were represented at the session:
General Category
International Centre for Trade and Sustainable Development
International Confederation of Free Trade Unions
International Federation of Business and Professional Women International
Special Category
International Food Policy Research Institute
International Federation of Organic Agriculture
6. The following special invitees attended the session:
Mr. Noordin Abbas, CEO, Export-Import Bank, Malaysia
Mr. Luis Abugattas, expert
Mr. Patrick Conway, University of North Carolina, United States of America
H.E. Mr. Jose Maria Figueres, former President of Costa Rica and Managing Director, World Economic Forum, Geneva
Mr. Mariano Jordan, MM Asociados, Global Affiliate of Manatt Jones Global Strategies, Washington, D.C.
Mr. Lew Falton, International Energy Agency
Mr. Mario Marconini, Global Strategies, Washington D.C.
Mr. Patrick Messerlin, Paris, France
Mr. Edwin Moyo, CEO, Trans Zambezi Industries, Lusaka, Zambia
Mr. Jaime Andres Niño, Professor, National University, Colombia
Mr. Rick Sellers, International Energy Agency
Mr. S. Sridhar, Executive Director, Exim Bank of India