

Unclassified

DCD/DAC/RD(2006)1/RD2



Organisation de Coopération et de Développement Economiques
Organisation for Economic Co-operation and Development

09-Jan-2006

English - Or. English

DEVELOPMENT CO-OPERATION DIRECTORATE
DEVELOPMENT ASSISTANCE COMMITTEE

DCD/DAC/RD(2006)1/RD2
Unclassified

Cancels & replaces the same document of 09 January 2006

**6th WTO MINISTERIAL CONFERENCE, HONG KONG, 13 – 18 DECEMBER 2005
- THE DEVELOPMENT OUTCOMES -**

17 January 2006

This note is circulated for INFORMATION and DISCUSSION under item 7 of the agenda [DCD/DAC/A(2006)1/REV.1]. It sets out the development issues in the ongoing WTO negotiations and in particular areas where development agencies and the DAC/DCD will be called upon to play a role over the coming months.

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JT00196677

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**6TH WTO MINISTERIAL CONFERENCE, HONG KONG, 13 – 18 DECEMBER 2005
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1. Introduction

1. The WTO Hong Kong Ministerial Conference agreed on a Declaration¹ that kept the Doha Development Round on the rails and moved it forward in some important areas. A feature of the Hong Kong Declaration, like the Doha Declaration itself, is that development issues are increasingly embedded into WTO agreements and processes. From the DAC/DCD perspective this raises questions on how WTO provisions are aligned with optimal development strategies and, second, how to manage the demand for dedicated concessional aid in terms of aid disciplines and good practices.

2. The OECD Council will be briefed in January on the overall outcome of 6th WTO Ministerial Conference in Hong Kong. This note focuses on the development issues in the negotiations and in particular areas where development agencies and the DAC/DCD will be called upon to play a role over the coming months. This applies in particular to “aid for trade”, the Integrated Framework and WTO technical co-operation programme, trade facilitation, food aid and cotton (section 2). In addition, the note will comment briefly on other development issues where the DAC/DCD does not have a distinct programme of work (section 3). Finally, the note concludes with raising the issue how the DAC can address these issues and ensure a coherent approach by its Members through its programme of work on trade and development (section 3).

2. DAC Contributions: past, present and future

3. The 2005 -2006 Programme of Work and Budget and subsequent revisions provide the specific mandates for DAC/DCD work in the areas mentioned below.²

Aid for trade

4. Aid for trade has become a major item on the Doha Development Agenda. On the eve of the conference aid for trade pledges were made by the EU, the US and Japan. These and other trade related technical assistance and capacity building commitments from DAC Members and international organisations are recorded in the joint OECD/WTO database. The 2005 annual survey was published in time for and available at Hong Kong.

5. The Hong Kong Ministerial Declaration invites the WTO Director-General to create a task-force to provide recommendations on how to operationalise Aid for Trade and consult with WTO Members as well as with the IMF and World Bank, relevant international organisations, and the regional development banks, with a view to reporting to the General Council by July 2006 on appropriate mechanisms to secure additional financial resources for Aid for Trade, where appropriate through grants and concessional terms.

1. WT/MIN(05)/W/3/Rev.2

2. DCD/DAC(2004)23/REV1 and DCD/DAC/RD(2005)10/RD3

6. Following from Secretary-General Johnston's speech to the WTO Ministerial Council and in line with the conclusions of the April 2005 joint meeting of the bureaux of the Development Assistance Committee and Trade Committee and the October 2005 DAC special meeting on Aid for Trade, it is suggested that the Organisation, and in particular its aid and trade communities could contribute to work on these issues.³

Integrated Framework

7. The enhancement of the Integrated Framework was already agreed before Hong Kong, as was the setting up of a Task Force to work out the recommendations for improvements by April 2006 and entry into force no later than 31 December 2006. The OECD/DAC, in its capacity of observer to the Integrated Framework Working Group, has been invited to contribute to the discussion of the task force, which is composed of representatives from the Least Developed Countries and major bilateral donors.

Technical co-operation

8. The Declaration envisages a strengthening of the WTO structures and resources for delivering trade-related capacity building, including the Global Trust Fund. It encourages the WTO to continue to reinforce partnerships and coordination with other agencies in the design and implementation of its technical assistance programmes.

9. DAC/WTO cooperation has been one of the instruments here and a programme is underway to assess TRTA/CB activities, which is composed of (i) a desk study summarising the lessons and good practices emerging from recent thematic evaluations, and (ii) a compendium of donor's and partner's methodologies and indicators for monitoring and evaluating TRTA/CB;

10. A strategic review of the WTO's technical assistance programme that is carried out by members is noted in the Declaration. The DAC Networks on Development Evaluation and Governance might make contributions to what is proposed from an evaluation angle.

Trade facilitation

11. In the area of trade facilitation, the report by the chair of the negotiating group – the only report to be approved by Members ahead of Hong Kong - says that "good progress has been made in all areas covered by the mandate", although there remains considerable unfinished business. Developing countries are not ready to move to legal drafting on the substantive provisions of the agreement before more progress is made on the issue of technical assistance and capacity building.

12. Further clarity is needed on how developing country commitments would relate to issues such as their development needs and implementation capacities. The DAC and the Trade Committee are collaborating, together with a range of relevant international institutions, to develop best practices for capacity building for Trade Facilitation, which will become highly relevant to the negotiation of an agreement on measures and commitments for technical and financial support as part of the Single Undertaking of the Doha Round.

3. See COM/DCD/TD(2006)1 for an outline of a proposed joint paper for the DAC and the Trade Committee

Food aid

13. The Declaration calls upon Member to develop a set of disciplines on export subsidies, including on food aid, that are to be agreed by 30 April 2006 as part of the modalities. On food aid in particular, the text calls for "effective disciplines on in-kind food aid, monetisation and re-exports so that there can be no loop-hole for continuing export subsidisation." In addition, the Declaration calls for the creation of a 'safe box' for bona fide food aid to ensure that the new rules do not serve to impede it in emergencies. It is not yet clear how the development and aid effectiveness dimensions of the negotiations on food aid disciplines will be handled in the coming months.

14. The DAC study on the development effectiveness of food aid and the effect of its tying status contributed to the discussion preceding the decision to create new disciplines on food aid. There is broad, though not full support, for continued DAC work and involvement in helping to shape the debate on food aid, especially on the basis of aid quality considerations and consistent with the DAC goal to promote local and regional procurement of aid funded interventions.

Cotton

15. Cotton, and concrete action to meet the "ambitious and specific" criteria agreed in the July 2004 Framework document, was a critical issue in Hong Kong. Agreement was reached that developed countries will give duty free and quota free access to least developed country exports at the start of the implementation of the Doha Round agreements. Developed countries will eliminate export subsidies in 2006. The text also provides for faster and deeper reductions in trade-distorting domestic subsidies to cotton than the general schedules to be agreed for domestic farm subsidies.

16. In addition, the WTO Director-General is requested to explore -- together with bilateral donors and regional and multilateral institutions -- the possibility of establishing a "mechanism to deal with income declines in the cotton sector until the end of subsidies" and the development community is urged to "further scale up its cotton-specific assistance".

17. The contribution of the DAC has focused on the development dimensions, where the DAC held a special meeting last January, with the West African cotton producers present, in an effort to ensure that various aid programmes were well targeted and coordinated. The DCD will continue to participate in the Consultative Framework process led by the WTO on the development assistance aspects of the cotton issue.

3. Other development issues

18. In the other development issues mentioned below, the DAC is not undertaking any specific work.

Special Products and the Special Safeguard Mechanism

19. In the context of significant reduction of tariff barriers to agricultural trade, developing countries have obtained the right to self-designate a certain number of agricultural products that they wish to protect for development reasons. These special products are to be justified by reference to indicators based on the criteria of food security, livelihood security and rural development. In addition, developing countries will have the right to introduce special safeguard mechanisms based on price triggers as well as import quantity.

20. Again, there are major issues of development policy involved here and of donor support for market-oriented agricultural development. The developing countries themselves will need to consider these policy issues in regional contexts, e.g. how will they exercise these rights in the context of the Comprehensive African Action Plan for Agricultural Development (CAADP) adopted by NEPAD). Our work in POVNET on agriculture may also provide some perspectives on these issues.

Preference Erosion, Small and Vulnerable Countries and Commodity Issues

21. Preference erosion featured prominently as a concern from countries who defined themselves as “Longstanding Preference Countries” (LSPs) or small and vulnerable. These are to a large extent overlapping. The Hong Kong text instructs the NAMA Negotiating Committee to work on the assessment of the problem with a view to finding possible solutions. Similarly for the small and vulnerable economies, for whom flexibilities are to be provided, without however creating a new sub-category of WTO members.

22. In addition, agreement was reached to address trade-related concerns related to commodities in the context of the agriculture and NAMA negotiations. It recognises that developing countries and LDCs may need support and technical assistance and urges bilateral and multilateral donors to consider requests for such support favourably.

Services

23. On services there are deep divisions among developing countries. Indian interest in access to services markets was a key factor in making a Hong Kong Declaration possible at all. A vocal group of developing countries sought to have the crucial Annex C removed. Least developed countries are excused from making any offers at all. At the same time particular attention is to be given to sectors and modes of supply (e.g. contract labour services) of export interest to developing countries.

Special and Differential Treatment

24. No significant progress was made on the process of the review of all SDT measures to make them “more precise, effective and operational”. But donors and relevant international institutions are urged to increase financial and technical assistance for diversification of LDC economies and to provide additional financial and technical assistance “through appropriate delivery mechanisms” for fulfilling SPS and TBT requirements including those emerging from multilateral trade liberalisation.

25. Multilaterals and IFIs are also requested to coordinate to ensure that LDCs are not subject to conditionalities on loans and grants inconsistent with their rights and obligations under WTO agreements. This obviously has implications for the way in which trade policies are treated in poverty reduction strategies and associated budget and sectoral support packages and suggests that policy dialogue to underpin optimal choice of trade strategies by developing countries themselves in country and region specific contexts should be actively promoted.

26. Encouraging mutual learning among developing countries on the use of trade policy could be part of this approach. The WTO system, in which liberalisation is seen as a concession, essentially carries over the opt-out possibilities of the GATT and LDCs have been given a free ride in the Doha Round. What developing countries should do with this ‘policy space’ is largely a development policy issue to be treated within the national poverty reduction strategies with a strengthened trade/growth component supported by donors through an enhanced Integrated Framework and aid for trade provisions.

Duty Free-Quota Free access for LDCs

27. The agreement to provide LDCs with duty-free, quota-free access for 97 per cent of tariff lines was a centre piece of the Hong Kong meeting. LDCs had pushed for 100 per cent and it is clear that the remaining 3 per cent gives ample scope for developed countries (and developing country Members declaring themselves in a position to grant this treatment) to protect against highly competitive products from LDCs. Developed countries are required to declare the means by which they will give effect to this undertaking by July 2006.

4. Conclusion

28. The range of aid related trade matters that require agreement in the near future and over the longer time horizon suggests that the DAC might now need to consider some kind of ad hoc process for addressing these issues and ensuring a coherent and timely input for the aid community in the Doha negotiations. In a longer term perspective, there is likely to be a continuing need for such input beyond the conclusion of the Doha Round. This issue would be best addressed in the context of the discussion on the 2007 – 2008 programme of work and budget.