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IMPROVING MARKET ACCESS FOR LEAST DEVELOPED COUNTRIES

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IMPROVING MARKET ACCESS FOR LEAST DEVELOPED COUNTRIES

INTRODUCTION

The increasing marginalisation of the LLDCs within the international trade and the international trading system has been recognised by the international community as a serious problem. WTO Ministers in Singapore have agreed upon initiatives that concern both the improvement of market access and the coordination of technical assistance by adopting a comprehensive Action Plan in favour of the LLDCs and organising a High-Level Meeting for late June.

The present communication suggests a long-term strategy for improving the preferential market access given by the EC for LLDCs on the basis of the options suggested in the WTO Action Plan. The first element of this strategy foresees the harmonisation of the preferences given to LLDCs that benefit today of two different schemes - LOME and GSP - and provides for a more flexible implementation of the rules of origin. Finally the option of a consolidated preferential scheme could be considered at a later stage within the next round of tariff negotiations.

This document does not deal with the broader question of technical assistance needed by LLDCs, to enable them to take better advantage of the opportunities offered to them by trade liberalisation. Initiatives on this front are the main focus of the High Level Meeting, agreed in the WTO Ministerial Conference in Singapore and due to take place later this year in Geneva.

The Issue

1. The participation of the LLDCs¹ in international trade and investment remains worryingly low. Against a background of expanding world trade, both their share of total world exports and the absolute value of these exports have actually been declining in recent years, while their imports have stagnated. Given the declining share in world trade, the sustained weakness of prices, and the high price volatility of primary commodities, the continued dependence of LLDCs on those products explains a great extent their poor export and growth performance as well as their economic vulnerability. Similarly with investment: while the developing countries as a whole have seen their share of FDI rise dramatically in recent years, this has in the main been directed to around twenty countries in East and South-East Asia and Latin America with the LLDCs receiving relatively little FDI.
2. In terms of trade LLDCs represent a very small percentage of world trade, less than a half of 1% in 1993 (the latest year for which full statistics are available). However, this can account for a sizeable share of their foreign exchange needs. LLDCs exports when expressed as a proportion of GDP represent 9% of GDP, whereas, imports are the equivalent of 16% of GDP. Clearly any improvements in access to export markets for LLDCs would assist them in reducing this major imbalance. By way of comparison ODA represented just over 8.5% of LLDC GDP in 1993.

The structure and scale of imports from LLDCs is in part explained by their production structures, generally weak, and by the trade preferences they are already offered by the developed nations.

Developed country imports from LLDCs have tended to fluctuate along with commodity prices. While the composition of trade varies between LLDCs, commodity exports are important for most of them with manufactured goods also of importance. The degree to which the latter is traded depends in part upon the host market and the trade regime in place.

The International Orientations

3. The G-7 Leaders, in their 1996 Summit in Lyon, recognised the seriousness of this problem and focused particularly in the integration of the least-developed countries into the world economy. They recognised that all policy instruments -not only trade policy- need to be mobilised to realise this objective but they regarded improved market access for LLDCs exports as an important element in the process and declared:

“In this context, we will examine what each of us could do to improve their access to our markets and encourage others to do the same, including other developing countries.”

¹ As defined by the United Nations' criteria (listed in Annexes I and II).

4. These ideas have been carried on within the works of the WTO and served as guidelines for the Ministerial Declaration in Singapore by which WTO Members agreed to the following initiatives concerning the least-developed countries:

- “a Plan of Action, including provision for taking positive measures, for example duty-free access, on an autonomous basis, aimed at improving their overall capacity to respond to the opportunities offered by the trading system;
- seek to give operational content to the Plan of Action, for example, by enhancing conditions for investment and providing predictable and favourable market access condition for LLDCs’ products, to foster the expansion and diversification of their exports to the markets of all developed countries; and in the case of relevant developing countries in the context of the Global System of Trade Preferences; and
- organize a meeting with UNCTAD and the International Trade Centre as soon as possible in 1997, with the participation of aid agencies, multilateral financial institutions and least-developed countries to foster an integrated approach to assisting these countries in enhancing their trading opportunities.”

The Objectives for Europe

5. The European Community has played a very active role in the debate that was launched in the WTO concerning the LLDCs and contributed to the successful outcome of the Ministerial Conference. On this occasion, the Council has reiterated its political engagement towards the poorest countries by the following declaration:

“In this context, the European Union considers the Plan of Action submitted for approval to the WTO Ministerial Conference and contained in the report of the WTO Committee on Trade and Development to be a useful instrument for initiating further efforts to improve market access of LLDCs. The European Union for its part is ready to make commitments with a view to opening further its market to imports from all LLDCs and, in this regard, will study in a constructive spirit with all its partners the different options advanced in the plan of action with a view to defining in a coordinated way, in the WTO, concrete contributions by all involved for an early implementation.”

6. It is important not to over-estimate the economic significance for LLDCs of possible improvements in access to developed country markets. In the first place, access is already quite generous; in the second place, production rather than access is the fundamental problem of these countries; finally LLDCs also face difficulties to respond to export opportunities because of distribution and marketing problems, inability to meet international standards, etc. However, trade and development should not be viewed in isolation and further opening of the markets should be combined with technical assistance in order to help LLDCs to enhance trade opportunities.

In this respect the Community is working hard for the success of the High Level Meeting due to take place in Geneva later this year. That will focus on a coordinated approach to international technical assistance, notably between the activities of the trade policy and aid communities. The WTO, the ITC and the UNCTAD Secretariats, with the support of World Bank and the IMF, are closely collaborating on concrete contributions that will be discussed in the framework of the WTO Committee on Trade and Development. The Community aims to achieve concrete results that will help meet the different needs of the developing world (with particular attention to the training of human resources) and will divide up the tasks between the executive agencies.

In addition, helping LLDCs to participate more fully in the WTO and other relevant institutions, while having a modest short-term economic impact, could be a useful political gesture. Within the WTO European Community support for the LLDCs in the form of working towards an initiative on market access would be a very important political demonstration of our commitment, not only to LLDCs, but also to the principle that WTO membership should be beneficial for all its members. We should also press forward with the idea of encouraging richer developing countries to open their markets to the least-developed to match what the EC has already done, in a significant manner.

1. EUROPEAN COMMUNITY TRADE POLICY FOR LLDCs

1.1. MARKET ACCESS CONDITIONS

The beneficiaries:

The European Scheme of Generalised Preferences defines a list of 50 least-developed countries (Annex I) that benefit from extended tariff preferences for industrial and agricultural products, beyond those available to other GSP eligible developing countries. This list is very close to the one established by the United Nations (48 LLDCs: Annex II), with two exceptions: under the European GSP scheme Botswana and Tonga are eligible as LLDCs while Angola is not.

Of the 50 LLDCs eligible under the European GSP scheme, 41 are also signatories of the LOME Convention and therefore benefit as well from the trade conditions set out in this Agreement. Of the two schemes, the LOME Convention is more generous in terms of markets access provisions and, as a result, in practice only the remaining 9 non-ACP LLDCs² receive the extended GSP preferences. A detailed analysis of the two regimes is as follows:

– LOME Trade regime for ACP LLDCs

INDUSTRIAL PRODUCTS: The Lomé Convention gives free access without quotas for all industrial products. One result of this regime is that the EC is the largest importer of manufactured goods from ACP-LLDCs. In 1994 the EC imported 1.8 Becu of manufactured goods from these countries. Total imports of all industrial goods (NC chapters 25-97 including: oil, mineral products and base metals) amounted to about 2.9 Becu in 1994.

AGRICULTURAL PRODUCTS: Of the EC's total imports of agricultural products from ACP LLDCs (1.3 Becu in 1994) about 97% enter tariff free due to the LOME trade regime. On the remaining part (products which are under a Common Market Organisation), most imports receive some degree of preferential access in the form of an unlimited tariff preferences or in a few cases, for example fruit and vegetable products, through a tariff preference within a quota. It should be noted that the Lomé Convention also grants duty free access to fish products (Imports of 267 Mecu in 1994).

² List of non-ACP Least Developed Countries: Yemen, Afghanistan, Bangladesh, Maldives, Nepal, Bhutan, Myanmar, Laos, Cambodia.

To be noted that the Commission has proposed to the Council to withdraw the GSP preferences for Myanmar for violation of the international conventions concerning the prohibition of forced labour.

SPECIAL PROTOCOLS: In addition to the general Lomé trade regime, the Lomé protocols offer additional benefits to some ACPs. One ACP LLDC, Madagascar, enjoys under the beef and veal protocol, a reduction of 92% of the specific duties (ad valorem component of the tariff is waived for all ACPs) for its exports of boneless beef to the EC within an annual quota of 7579 tons. Moreover, four ACP LLDCs -Madagascar, Malawi, Uganda and Tanzania- benefit under the Sugar protocol from the selling to the EC at guaranteed prices of specific but different annual quantities of sugar (10000, 20000, 5000 and 10000 tonnes, respectively).

– GSP Trade regime applied in practice to non-ACP LLDCs

Non-ACP LLDC countries benefit from a special GSP regime under which:

INDUSTRIAL PRODUCTS: Duty free access is provided for practically all manufactured exports to the Community. The only exclusions are some primary products and non-ferrous metals³. However in reality these exclusions touch very little of the non-ACP LLDCs actual trade with the European Community. According to 1994 figures the only imports of industrial products which are not eligible for tariff preferences were around 7 MECU (Annex III). Moreover, they concerned leather imports for which the MFN duties will be reduced, as a result of the Uruguay Round.

In the textiles and clothing sector LLDCs also benefit from a duty free treatment (which is not the case of the other major textiles importer, the US which does not grant GSP benefits at all for textiles and clothing exports).

AGRICULTURAL PRODUCTS: Duty free access is provided for practically all agricultural products, with the exception of most products which are under a Common Market Organisation. Again, these exclusions concern very little of actual trade. Under the revised GSP which came into force in 1997, it is estimated that only 0.2 Mecu of 1994 agricultural trade with non-ACP LLDCs is not eligible for preferential treatment. In fact the Community has already made an effort to include more agricultural products under preferences since under the old GSP and 1994 figures 3 MECUs of agricultural imports were not eligible for preferential access.

– Overall assessment

The EC through Lomé and its generous GSP for industrial goods is supportive of manufacturing in LLDCs. As a result, the Community's imports from LLDCs contain a higher share of manufactured products notably textiles and clothing than do the other Quad members. To give the most stark example, in 1995 the EC imported \$3.5 bn of manufactured goods from LLDCs compared with \$1.5 bn of imports by the US and \$0.06 bn by Japan (Annex IV). Of the QUAD it is the Union which has the highest share of imports of manufactured goods in its total imports from non-ACP LLDCs.

Although the agricultural products do not benefit from the same generous conditions as industrial ones, the European Community still has better results than the other QUAD countries. This is true in absolute terms of the value trade, but also in relative, the European Community importing from the LLDCs $\pm 4\%$ of its total agricultural imports.

³ *Annex IX of the GSP regulation (EC) n° 3281/94*

However, more needs to be done across the board to expand the potential market available to LLDC exporters. The European Community is well placed to call for improved treatment for LLDCs by virtue of the efforts which we have made to date. In this effect, the results of the High Level Meeting on technical assistance will be extremely useful in helping LLDCs to avail of the opportunities offered.

1.2. THE POTENTIAL FOR FURTHER LIBERALISATION

- Agricultural trade

At present very little of the EC's agricultural trade with the LLDCs does not receive some sort of preference. However, the specific products not covered by any preferential trade represent several hundreds of tariff lines. The potential results of the liberalisation for these products are highly unpredictable. Under most of the headings concerned LLDCs export nothing to EC. It is difficult to say if this is primarily because of our protection or whether LLDC would in any case be uncompetitive in these products.

It is true that an analysis of the effects of lifting restrictions is difficult but any concern about the EC market being "flooded with imports" must be seen in the light of the LLDCs potential to expand exports in the future. In the short term at least, this potential would appear very limited:

- Total agricultural production of the LLDCs is around 40 Becu (1993 figure⁴). (P.M. roughly equal to two-thirds of EC's annual agricultural imports)
- In 1994 LLDCs agricultural exports to the Quad totalled approximately 5.2 Becu. Even if twice this amount were exported to the EC alone, it would amount to about 7.7% of the EC's total agricultural imports.
- Furthermore, any increased export potential which might be developed as a result of the lifting of restrictions would develop over the medium to long term and would not be concentrated on the EC alone. The Singapore Declaration implies that Quad but also other developed and developing WTO Members must also look to liberalise their trade and other markets with higher levels of protection (i.e. Japan) would be more likely to witness a large increase in imports from LLDCs. (P.M. the EC already has the highest share and value of LLDC imports in its total agricultural imports.)

⁴ calculation based on data in UNCTAD Yearbook 1994

There are nonetheless some products where the potential to expand production to levels which might create difficulties on the European market (if production were converted into exports to the EC). Rice, bananas, manioc and bovine meat are perhaps the most obvious examples. Current imports from LLDCs of these products vary greatly in magnitude: 48 Mecu for bovine meat, 10.3 Mecu for bananas 6.5 Mecu for manioc and for rice just 50,000 Ecu. However, the concern is that production of these products could be rapidly increased if liberalisation took place: witness the increase in production of manioc following liberalisation agreed during the Kennedy Round⁵.

Any package of liberalisation measures should contain adequate safeguard mechanisms to protect against unforeseen surges in trade. A liberalisation package could for example include duty-free treatment for some agricultural products but subject to quantitative limits (as is the case for certain products under the LOME Convention), or could foresee gradual liberalisation by stages before arriving at total exemption of duties. It should also be possible for the EC on the basis of the current understanding of LLDCs' production capability and with some further analysis to draw up a short list of products to be excluded from any liberalisation package. Thus protected the EC would be in a position to advance the case for preferential liberalisation for LLDCs in the agricultural sector at the WTO.

– Take up of GSP preferences by non ACP-LLDCs:

Rules of origin

In practice, it is difficult for non ACP LLDCs to benefit from these generous access conditions, the most frequently quoted reason being the complex rules of origin requirements. In fact non ACP-LLDCs face, within the GSP scheme, non-flexible rules of origin such as the double transformation requirement in the textiles sector. ACP-LLDCs also face the double transformation requirement but benefit from the possibility of cumulation between ACP and E.U. countries. Other GSP countries do benefit from the possibility of cumulation with the E.U. countries but on an individual basis while cumulation between them is not foreseen, with the exception of certain cases of regional cumulation (ASEAN).

The purpose of the specific rules of origin is justified by the necessity to make sure that the benefits of the scheme effectively apply to the GSP beneficiaries and help to attract and maintain investment within those countries who mostly need it. A relaxation of these rules may lead to the development of economic activities that produce very little or no value added at all.

⁵ For a broad sectoral analysis of the agricultural potential of the LLDCs, including fruit and vegetables, fats and oil and dairy products, see annex V.

In 1994, the latest year for which data is available, EU preferential treatment was claimed for 41.2 percent of textile and clothing imports from non-ACP LLDCs; therefore the remaining 58.8 percent had to pay the normal MFN rate, which is in the vicinity of 12-13 percent at the moment. As textile and clothing imports account for more than 60 percent of all our imports from non-ACP LLDCs, the importance of rules of origin requirements is evident. Laos, Cambodia, Bangladesh and others, which encounter difficulties with these specific rules of origin for a part of their exports have consequently introduced a request for a derogation (as foreseen in Regulation (CE) n° 2454/93) in order to be able to export on preferential terms.

Consideration should be given, therefore, to improving the rules of origin. This improvement should be in two forms:

- simplification, in which the first stage would be the derogations, as well as the application of existing regional cumulation facilities for the benefit of LLDCs and
- clarification of the conditions for applying preferences in practice (fraud, discrepancies).

For the latter point, the Commission will put forward, presently, its understanding of the situation and will propose methods for avoiding these difficulties; this would be in the interests of the beneficiary countries (preventing other countries from using preferences in their stead), of Community importers (responsible for paying customs duties) and of safeguarding the Community's own resources.

Only with these conditions can the rules of origin be made more flexible, without making the preferences more cumbersome to apply.

Other factors which might affect the level of preferential access to our market for non-ACP LLDCs are:

- incomplete coverage of our GSP scheme. Only 0.45% of 1994 imports from non-ACP LLDCs do not receive preferential treatment. However, the effects of granting preferences for the products not already included in the GSP scheme on potential trade are difficult to quantify. For certain cases the effect might be limited since no sufficient production exists. In other cases further preferences may incite an increase on production.
- under-utilisation of GSP: there are also sectors where the utilisation of the GSP is rather low (for example only two-thirds of non-sensitive industrial products imported, receive preferential treatment), whether because the preferential margin is too small because they are not aware of the possibility of claiming preferential treatment, or because the administrative cost of following the necessary procedures is too high.

- The Green Paper on the future of the relationship between the EC and the ACP countries

The present Lomé Convention, which includes the trade regime the EC applies to the ACP countries, expires on February 2000. In order to prepare for negotiations on the relationship beyond that date, which have to start in 1998, the Commission has sent to the Council a Green Paper on the future of these relations (Doc. N° 262/96 (ACP)). This Green Paper is intended to lead to a large debate inside the Community and in the ACP countries as well as between all other concerned people about the options which appear open in the beginning of the next century. As such, the Green Paper only presents the different possible options, without engaging the EC, at this stage, in favour of a particular one. The Commission, however, will have to define, in the light of the results of the debate, the options to follow later in this year, when it has to present to the Council a proposal for negotiating directives with the ACP States.

In the trade field, the Green Paper presents three basic options for the future:

- a reciprocal trade agreement or several reciprocal agreements in conformity with GATT/WTO rules;
- keeping the ACP countries only under GSP treatment;
- or maintaining the present features of the trade regime with some improvements.

Each of these three basic options will have different implications for the future commercial treatment of the ACP countries and consequently of the LLDCs, since 41 of the 49 ones on the UN list are ACP States. The Green Paper also mentions the option of unifying the trade treatment for all LLDCs by including in the future trade deal the nine LLDCs which are not ACP.

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2. THE RESULTS OF THE MINISTERIAL CONFERENCE IN SINGAPORE AND THE ROLE OF THE EUROPEAN COMMUNITY

2.1. THE WTO ACTION PLAN

The Ministerial Declaration in Singapore clearly defines as an essential objective the integration of the Least-Developed Countries in the multilateral environment that has emerged from the Uruguay Round negotiations. In order to fulfil this objective WTO Members have adopted a Comprehensive and Integrated WTO Action Plan for the Least-Developed Countries. Therefore, WTO Members recognised that although the reasons for the LLDCs marginalisation may lie with the incapacity of their economic structures to produce and export, policies applied by the developed and developing economies may help the poorest countries to take advantage of the trading opportunities that are offered and attract investment.

The WTO Action Plan covers measures and suggests options that aim not only to improve the trading performance of the LLDCs but also their better integration and participation in the multilateral trading system. Therefore it covers in a comprehensive approach the effective implementation of the Decision on Measures in Favour of Least-Developed Countries with steps that have to be taken in the multilateral context within the various WTO Bodies and Committees.

Secondly, the WTO Action Plan deals with the area of Human and Institutional Capacity Building underlining the need of cooperation between the WTO Secretariat and other international institutions in matters of technical assistance.

Finally, in terms of improving market access, the WTO Action Plan suggests various options to be considered by WTO Members, in order to take initiatives on an autonomous basis. As such the dispositions of the WTO Action Plan on market access represent suggestions for voluntary contributions.

In the market access area the WTO Action Plan introduces two qualitative elements to be taken into account:

* a multilateral approach:

As such, the WTO Action Plan already constitutes a framework for multilateral coordination of autonomous actions taken by WTO Members and it is mentioned that "Further consideration should be given to additional multilateral action and coordination in this endeavour". Moreover, in Part IV it is also suggested that individual members may study the feasibility of binding a multilateral preferential scheme to be applied only to LLDCs.

* burden sharing:

According to the Action Plan, not only developed but also developing countries would explore the possibility of granting preferences to the LLDCs. The Plan does not give any objective as to the extent of these preferences but provides for the possibility of exceptions.

2.2. THE OPTIONS FOR FURTHER IMPROVING MARKET ACCESS: CHALLENGES FOR THE EUROPEAN COMMUNITY

If least-developed countries are to diversify their exports base and reduce their reliance on exports of primary products they need to face international trading environment which is conducive to this process.

The different options suggested by the Action Plan on market access constitute a basis upon which the European Community, along with other WTO Members, can construct a multilateral strategy in order to fulfil the objectives designed by the Council Declaration on LLDCs.

In order to be in the strongest possible position to provide the opening of the markets for LLDCs' exports in other developed and more advanced developing countries, the European Community should itself take further steps towards trade liberalisation.

- a) **“Developed country Members and developing country Members, on an autonomous basis, would explore the possibilities of granting preferential duty-free access for the exports of least-developed countries. In both cases, exceptions could be provided for.”**

Preferential duty-free access:

The establishment of duty free access for all imports coming from LLDCs does not have the same economic and legal consequences for industrial and agricultural products either for ACP or for non-ACP LLDCs.

For industrial products, establishing free access will mean that non-ACP LLDCs will benefit from the same conditions as ACP ones and will concern, according to 1994 figures, 7 MECUs of trade.

For agricultural products, establishing duty-free access will mean that all LLDCs will see their preferences improved further than those foreseen by the Lomé Convention, or the GSP scheme.

Leaving apart the already explained risks of a further agricultural liberalisation and the need for exceptions there are also further problems, that are linked with the contractual character of the Lomé Convention.

Contrary to the GSP, trade preferences granted to ACP countries are established in the Lomé Convention which is a contractual agreement between all the signatories. One of its basic principles in the trade field is the non discrimination clause between ACP countries as provided for in article 174, b) of the Convention (“The Community shall not discriminate between ACP states in the field of trade”). This makes it legally impossible for the Community, as long as the present Lomé Convention is in force, to extend the scope of trade preferences for ACP LLDCs without extending them, at the same time, to the other 29 ACP countries, which will go well beyond the intended EC action in this document.

As stated earlier, the present Lomé Convention expires in February 2000. In the meantime, the EC could extend to the non-ACP LLDCs trade preferences equivalent to those granted to the ACP countries; this would require quotas and calendars for the imports of some sensitive agricultural products which are granted preferential access within quotas and calendars in the Lomé trade regime.

Those sensitive agricultural concessions, which are granted under Lomé special protocols and Lomé quotas (sugar, bananas, rice, rum, veal and beef) and only apply to a handful of ACP countries, should not be extended to the non-ACP LLDCs.

Rules of origin

Improving market access does not only mean applying zero tariffs and eliminating quantitative restrictions but also facilitating the access of LLDCs to these open conditions.

Where the European Community could make real progress is in the area of rules of origin, which, as described above, limit the accession of non-ACP LLDCs to the GSP preferences. However, any improvement in the field of rules of origin should be carefully geared so as to make sure that it contributes to achieve the right objective, that is the development of the existing industrial infrastructure and the creation of new industries in the beneficiary countries. In order to avoid the risk that other-countries try to take undue advantage from any further concession appropriate administrative instruments (i.e. bilateral textile monitoring agreements with non-WTO countries or administrative arrangements on textiles trade, as well as the reinforcement of the customs cooperation mechanisms) should be considered as useful or necessary accompanying measures.

Solution could be sought in the direction of providing for regional cumulation (as it is the case for example for ASEAN and as it could be the case for SAARC⁶). This is already foreseen in the framework of the derogations the Commission is going to propose to the Customs Code Committee.” Moreover, this will also encourage the process of regional integration between LLDCs and developing countries that is one of the objectives of the Community’s development policy.

Participation of other WTO Members

As mentioned in the Action Plan, developed and developing Members could contribute to improving market access for the least-developed. In fact, developing countries and least-developed ones do give preferences to each other in the context of regional integration, that is on a reciprocal basis. The establishment of non-reciprocal, non-discriminatory autonomous preferences to LLDCs given by developing countries should not have a negative effect on the process of regional integration.

⁶ ASEAN: Association of South East Asian Nations
SAARC: South Asia Association for Regional Cooperation

Developing countries, and especially the more advanced among them⁷, should participate but according to the level of their development. For example, the degree of exceptions in their preferential schemes could be greater than in the case of developed countries. This could diminish any conflict between autonomous preferences and regional integration since in the latter case, the coverage of products will be larger. The establishment of preferential autonomous schemes can even be a motivation for joining a free trade area which will give the opportunity for the joining partners to achieve, further liberalisation than they would receive under the preferential schemes.

b) WTO Members should endeavour to make use, when possible, of the relevant provisions of the Agreement on Textiles and Clothing to increase market access opportunities of least-developed countries.

The European Community does not apply any quantitative restrictions to textile products originating in the least-developed countries. Within the Textiles and Clothing Agreement the European Community has only one bilateral Agreement with Bangladesh that concerns a monitoring system.

Moreover, LLDCs benefit from tariff preferences for all textile products in the context of the LOME Convention, and under the GSP scheme.

As is the case with imports of manufactured goods as a whole, the openness of the EC trade regime with regards to imports of textiles and clothing from LLDCs has been beneficial. In terms of absolute value and share of imports in the sector the EC is the most important of the QUAD market for LLDCs.

The European Community can legitimately fix as an objective, in the multilateral context, liberalisation measures to be taken by the other developed countries who maintain bilateral textile agreements imposing quantitative restrictions. On the same occasion the European Community could seek improvements of the preferential schemes applied by other WTO Members by extending the coverage to textile products.

However, the abolition of quantitative restrictions for textile products originating in least-developed countries might provoke reactions from textile exporting developing countries, for which quantitative restrictions will remain. These last ones may argue that the maintenance of quotas for their textiles products puts a ceiling on their market share, and artificially create a market space for the LLDCs' products for which quotas are abolished.

⁷ For example, countries listed in the Annex VII of the GSP regulations.

- c) **“Whenever provided for in the WTO Agreements, Members may decide to extend unilaterally and on an autonomous basis, certain benefits to least-developed countries’ suppliers.”**

The European Community could examine if, in the case of the Agreement on Government Procurement, the market opening benefits could be extended to suppliers in LLDCs, whether or not they are a Party of the Agreement. This extension should be done on an autonomous basis and would be not legally binding. It could constitute a bilateral or a multilateral action if other WTO Members agree to do so.

d) **Part IV point 17 of the WTO Action Plan:**

“Individual Members may study the feasibility of binding preferential tariff rates in the WTO preferential scheme which could be applicable to least-developed countries only.”

Binding preferential rates for LLDCs would introduce an element of stability and predictability for LLDCs’ exports that might attract investment and allow long-term planification. On the other hand, it would introduce an element of rigidity for the donor country. In fact, tariff preferences would not be given on an autonomous basis but would constitute a bound obligation. In a bound preferential scheme neither the list of the products nor the rates, nor the beneficiaries may be modified.⁸

Therefore, bound preferences would contribute, by their stability, to the development process, but, on the other hand, they would not allow the doner country to use them for development policy purposes.

The establishment of a WTO preferential scheme would have a meaning only if all non-LLDCs members would make such a commitment. Of course, the degree of the engagements and the timing might vary according to the level of development of the donor.

However, there are also questions relative to the WTO legal basis for a non-autonomous preferential scheme that would be a bound exemption to the most-favoured nation treatment. All this will require a strong political initiative that will be opposed by many WTO members. In fact, the other QUAD Members have already shown great reluctance in moving towards a further opening of the markets for the LLDCs. This reluctance was turned into a total negative attitude to the suggestion of a bound preferential scheme for market access. Too much insistence for a binding scheme, at this stage, will undermine the few advances that could be made in further opening of the markets on an autonomous basis.

⁸ As it is the case today, for example for Myanmar, for which GSP preferences will be withdrawn *for violation of the international conventions concerning the prohibition of forced labour.*

Finally, a binding preferential scheme applicable only to least-developed countries would constitute a consolidated concession. As such it is no more a benefit given unilaterally by a donor country, but a part of the general balance of rights and obligations of the WTO members as a whole.

For all these reasons, the idea of a binding preferential scheme would be best considered only in the context of the next round of negotiations as a possible part of the concluding package.

III. CONCLUSIONS / PROPOSITIONS

The European Community gives a priority to the issue of least-developed countries and has fixed as an objective to contribute to their integration in the international trade and trading system. Within the multilateral framework, the European Community has supported the WTO Comprehensive Action Plan as well as the organisation of a High Level Meeting for the coordination of the technical assistance, in order to help them benefit from the opportunities that trade liberalisation is offering.

For Europe, trade and development aspects are strongly linked and this linkage is expressed within the policy applied towards the poorest countries. Therefore, any initiative or reorientation of the preferences given to the LLDCs has to be taken in harmony with the general evolution of the European development policy. Any initiative for the least-developed countries has to take into consideration the fact that the Lomé Convention, that covers not only LLDCs but other developing countries, will expire by the year 2000.

In the light of the analysis made in the present Communication, the trade regime already applied by the European Community seems quite generous but margins for further liberalisation still exist. These margins concern limited amounts of current trade but it is difficult to estimate the effect that trade liberalisation will have on trade flows, especially as most of the products for which restrictions and tariffs still exist are agricultural ones.

The Commission therefore suggests to the Council to adopt a long-term, staged strategy with initiatives that:

- would aim to give all LLDCs a similar preferential treatment and equal opportunities to the Community market;
- would be on an autonomous basis but coordinated and valorised on the multilateral context;
- would use the possibilities offered already by the Community's preferential trade policy instruments.

In the short term the European Community should present, within the Committee on Trade and Development, autonomous initiatives in the following areas:

- the harmonisation of the European Community's preferential trade policy towards the least-developed countries. This can be realised in the short term by adjusting the trade regime given to all LLDCs to the level of the LOME tariff preferences, with certain exceptions for sensitive products, notably agricultural products under Lomé quotas and Lomé protocols;
- as far as rules of origin are concerned, the Community could promote the application of existing regional cumulation facilities for the benefit of least-developed countries; should give positive answers to the derogations requested by certain LLDCs; while in the near future, a specific Communication to the Council could contribute, inter alia, to the clarification of the conditions of applying preferences in practice.

On the basis of these initiatives the European Community should call upon the other WTO members, including advanced developing countries, to present further improvements on the basis of the WTO Action Plan for further opening of their markets that should be comparable to the ones already realised by the EC.

Finally, the idea of a binding preferential scheme would be best considered only in the context of the next round of negotiations as a possible part of the concluding package.

ANNEX I

List of least-developed developing countries

Sudan	Tanzania
Mauritania	Mozambique
Mali	Madagascar
Burkina Faso	Comores
Niger	Zambia
Chad	Malawi
Republic of Cape Verde	Botswana
Gambia	Lesotho
Guinea-Bissau	Haiti
Guinea	Yemen
Sierra Leone	Afghanistan
Liberia	Bangladesh
Togo	Maldives
Benin	Nepal
Central African Republic	Bhutan
Equatorial Guinea	Burma (Myanmar)
São Tomé and Príncipe	Laos
Zaire	Kampuchea (Cambodia)
Rwanda	Solomon Islands
Burundi	Tuvalu
Ethiopia	Kiribati
Eritrea	Vanuatu
Djibouti	Tonga
Somalia	Western Samoa
Uganda	Angola

ANNEX II

UN Definition of Least Developed Countries

Least Developed Nation status is conferred upon states by the United Nations General Assembly on the recommendations of the Committee for Development Planning through ECOSOC.

The list of LDCs as well as the criteria are reviewed every three years - the next review is due in 1997.

The criteria are as following:

- 1) per capita GDP
- 2) augmented physical quality of life index (APOLI) comprising four indicators:
life expectancy at birth, per capita calorie supplies, combined primary and secondary enrolment ratio, and adult literacy rate
- 3) an economic diversification index comprising:
the share of manufacturing in GDP, the share of employment in industry, per capita electricity consumption and an export concentration ratio.

UN List of Least Developed Countries

Afghanistan	Gambia	Niger
Angola	Guinea	Rwanda
Bangladesh	Guinea-Bissau	Samoa
Benin	Haiti	Soa Tome and Principe
Bhutan	Kiribati	Sierra Leone
Burkina Faso	Lao People's Democratic Republic	Solomon Islands
Burundi	Lesotho	Somalia
Cambodia	Liberia	Sudan
Cape Verde	Madagascar	Togo
Central African Republic	Malawi	Tuvalu
Chad	Maldives	Uganda
Comoros	Mali	United Republic of Tanzania
Djibouti	Mauritania	Vanuatu
Equatorial Guinea	Mozambique	Yemen
Eritrea	Myanmar	Zaire
Ethiopia	Nepal	Zambia

ANNEX III

EC Imports from non-ACP LLDCs¹ not receiving preferential treatment,
1994 (thousand ECU)

CN CODE	DESCRIPTION	IMPORTS	TARIFF 1996	TARIFF 1/7/97	UR final Commitment ²
41061900	Goat or kid skin leather, other	4,237	2.4		2
41061200	Goat or kid skin leather, otherwise pre-tanned	2,039	2.4		2
41051990	Sheep or lamb skin, other, split	485	2.2		2
41051910	Sheep or lamb skin, other, not split	226	2.2		2
07032000	Garlic	118	11.6	10.8	9.6
41061190	Goat or kid skin leather, vegetable pre-tanned, other	58	2.4		2
41051210	Sheep or lamb skin, otherwise pre-tanned, not split	39	2.2		2
41041091	Leather, not further prepared than tanned	35	6.7		6.5
10063025	Semi or wholly milled rice	25	611 ECU / ton	533 ECU / ton	416 ECU / ton

¹ Yemen, Afghanistan, Bangladesh, Maldives, Nepal, Bhutan, Myanmar, Laos, Cambodia

² Industrial products: 1 January 1999

Agricultural products: 1 July 2000 (if not other specified)

CN CODE	DESCRIPTION	IMPORTS	TARIFF 1996	TARIFF 1/7/97	UR final Commitment
10063044	Semi or wholly milled rice	14	611 ECU / ton	533 ECU / ton	416 ECU / ton
02013000	Boneless meat	10	18.8 + 445.6 ECU / 100 Kg	16.4 + 388.7 ECU / 100 Kg / net	12.8 + 303.4 ECU / 100 Kg
41072910	Other leather	9	2.5		2
17039000	Molasses, other	8	43 ECU / 100 Kg	0.4 ECU / 100 Kg / net	0.35 ECU / 100 Kg
10063094	Semi or wholly milled rice	7	611 ECU / ton	533 ECU / ton	416 ECU / ton
10063063	Semi or wholly milled rice	5	611 ECU / ton	533 ECU / ton	416 ECU / ton
10063092	Semi or wholly milled rice	4	611 ECU / ton	533 ECU / ton	416 ECU / ton
	TOTAL without preferences	7,320			
	TOTAL IMPORTS	1,624,477			

³ Industrial products: 1 January 2000

Agricultural products: 1 July 2000 (if not other specified)

TOTAL IMPORTS FROM LEAST DEVELOPED COUNTRIES TO QUAD

European Community (15)

	Value(000 Ecu)	Share (%)
1989	7833161	1,8028
1990	7552554	1,6986
1991	6509104	1,3753
1992	6418896	1,3787
1993	5682344	1,1946
1994	6373539	1,2232
1995	7199627	1,3217

US

	Value(000 Ecu)	Share(%)
1989	3924983	0,8771
1990	3614505	0,8894
1991	3195236	0,7780
1992	3429351	0,8043
1993	3771629	0,7322
1994	3893464	0,6722
1995	3807810	0,6461

JAPAN

	Value(000 Ecu)	Share(%)
1989	1326159	0,6930
1990	981687	0,5324
1991	992215	0,5194
1992	909998	0,5069
1993	1111100	0,5406
1994	1057997	0,4581
1995	1207520	0,4699

CANADA

	Value(000 Ecu)	Share(%)
1989	215209	0,2080
1990	160619	0,1756
1991	196469	0,2062
1992	155182	0,1643
1993	130472	0,1163
1994	145303	0,1166
1995	171995	0,1369

Source: EUROSTAT (COMTRADE)
 Note: Share in per cent of total imports
 EU15: 1995 EUROSTAT (COMEXT)

IMPORTS OF MANUFACTURED GOODS FROM LEAST DEVELOPED COUNTRIES

European Community (15)

	Value(OOO Ecu)	Share(%)
1989	2216127	0,8477
1990	2058076	0,7586
1991	2035229	0,6809
1992	2459246	0,8181
1993	2690863	0,8500
1994	2979195	0,8538
1995	3427255	0,9394

US

	Value(OOO Ecu)	Share(%)
1989	958971	0,2878
1990	884882	0,2995
1991	821180	0,2674
1992	954470	0,2949
1993	1119112	0,2812
1994	1222489	0,2690
1995	1349103	0,2900

JAPAN

	Value(OOO Ecu)	Share(%)
1989	36090	0,0449
1990	43251	0,0550
1991	42501	0,0509
1992	41999	0,0529
1993	43748	0,0459
1994	55253	0,0484
1995	61514	0,0451

CANADA

	Value(OOO Ecu)	Share(%)
1989	33259	0,0394
1990	42108	0,0575
1991	37900	0,0490
1992	42464	0,0550
1993	51036	0,0554
1994	59435	0,0574
1995	72430	0,0696

Source: EUROSTAT

Note: Share in per cent of total imports of sector)

Manufactured Products: SITC Headings 5+6-68+7+8

EU15: 1995 EUROSTAT (COMEXT)

TEXTILES AND CLOTHING IMPORTS FROM LEAST DEVELOPED COUNTRIES

European Community (15)

	Value(000 Ecu)	Share(%)
1989	438971	1,4784
1990	546437	1,6513
1991	811747	2,0837
1992	899235	2,2591
1993	1157041	2,6996
1994	1299428	2,8477
1995	1492743	3,3865

US

	Value(000 Ecu)	Share(%)
1989	627957	2,1325
1990	649156	2,4524
1991	645131	2,2824
1992	807717	2,5470
1993	978702	2,5778
1994	1085350	2,6729
1995	1164889	2,9410

JAPAN

	Value(000 Ecu)	Share(%)
1989	13666	0,1130
1990	14528	0,1441
1991	13949	0,1260
1992	17577	0,1485
1993	16069	0,1139
1994	17686	0,1030
1995	20704	0,1094

CANADA

	Value(000 Ecu)	Share(%)
1989	21373	0,5189
1990	31024	0,8382
1991	28346	0,7583
1992	35463	0,9312
1993	43200	0,9682
1994	51204	1,1207
1995	63091	1,4000

Source: EUROSTAT

Note: Share in per cent of total imports of sector)

Textiles and Clothing: SITC Headings 65+84

1995 Data not available for EU (15) or Japan

EU15: 1995 EUROSTAT (COMEXT)

AGRICULTURAL IMPORTS FROM LEAST DEVELOPED COUNTRIES

European Community (15)

	Value(OOO Ecu)	Share(%)
1989	2316272	3,9840
1990	1938796	3,5026
1991	1685524	2,9719
1992	1560369	2,7881
1993	1557512	2,8308
1995	2027531	3,1549
1994	2762421	4,3018

US

	Value(OOO Ecu)	Share(%)
1989	415342	1,3094
1990	285059	1,0054
1991	261501	0,8987
1992	236171	0,7899
1993	260658	0,7421
1994	336454	0,8877
1995	262060	0,7170

JAPAN

	Value(OOO Ecu)	Share(%)
1989	639325	1,4352
1990	424167	1,1207
1991	431211	1,0568
1992	434148	1,0526
1993	523323	1,0662
1994	607642	1,1047
1995	629270	1,1535

CANADA

	Value(OOO Ecu)	Share(%)
1989	41767	0,5813
1990	28256	0,4264
1991	28258	0,4020
1992	22578	0,3261
1993	26311	0,3232
1994	26625	0,3046
1995	31213	0,3686

Source: EUROSTAT

Note: Share in per cent of total imports of sector

Agriculture: SITC Headings 0+1+21+22+231+24+261+ to 265+268+29+4

EU15: 1995 EUROSTAT (COMEXT)

Liberalising agricultural trade with the LLDCs: identification of exceptions

Difficulties in defining exceptions

The initial problem is that the precise level and scope of protection currently levied on EC agricultural imports is not readily available. DG VI have spoken of around 5000 tariff headings on which some form of protection exists. Under a number of these lines there is little or no trade, but this is not to say that the LLDCs can not alter their production structure overtime and an incentive for this to happen may be given by some degree of liberalisation.

A good example of this is manioc. A reduction in duty occurred during the Kennedy Round negotiated by Brazil, which has never been a significant exporter. EC firms sought to maximise the concession by exploiting alternative centres of production. Thailand was targeted and rapidly, through the right kind of investment, notably in infrastructure including port facilities, became a major exporter to the EC. As a result of the rapid increase in EC imports in the late 1970s, an auto limitation agreement with the Thai government had to be negotiated.

This illustrates the difficulties in measuring potential for individual products, crops never grown before can be cultivated and export patterns change. This is an argument for sensible safeguards to protect individual sectors of the market rather than to oppose liberalisation in general on the grounds that our markets might be flooded: it is clear that LLDCs do not have the capacity to rapidly increase their share of total agricultural imports.

Identification of potential problem products

Any attempt to identify products for any list of exemptions must take into account the productive potential of the LLDCs and market conditions in Europe. With regard to the former, little general information is readily available. The data used in this exercise were taken from the UNCTAD commodities yearbook, the standard sourcebook for this type of information. Even here data are not complete and so the analysis is by no means exhaustive (15 sectors are covered for which there were consumption and/or production data). However, it does give a general indication of product areas which should be investigated further.

The analysis is based around a comparison of total LLDC consumption, production and exports (to the world) with total EC consumption production and imports (from the world).

Obviously any analysis will be quite crude but will give a general indication of sectors where there may be potential problems.

Clearly no problems are likely to exist in the 8 sectors where there is no or effectively no EC production as these sectors already have very low levels of protection: coffee, cocoa beans, tea, pepper, groundnuts, palm kernels, palm oil, and copra.

Three of the remaining sectors have both consumption and production data available:

Bovine meat: While the EC is a net exporter, imports are at a reasonably high level, equivalent to 20% of total EC production. Total LLDC production stands at about a quarter of total EC consumption and at first glance this suggests some scope for LLDCs to expand their exports. Notwithstanding the fact that LLDC consumption is 28% higher than production an increase in production could result in increased exports to the EC-. This would be the case if the LLDCs could export the “high value” cuts and keep the rest of their production. This would enable them to import cheaper cuts from other sources to meet domestic demand.

Bananas: The EC is a large importer and EC production is just over 10% of EC consumption. LLDCs consume as much as they produce and currently export very little. Liberalisation in the sector could see trade with EC increased.

Sugar: LLDC consumption of sugar is significantly higher than LLDC production. This suggests less scope for export potential than would be the case for bovine meat even though the EC imports considerable amounts of sugar.

For the remaining five products no consumption figures are available and any analysis must therefore be even more tentative.

Wheat: The EC imports a quantity of wheat equivalent to less than 5% of EC production, this combined with the very limited production of wheat in LLDCs suggest little if any scope for increasing exports to the EC.

Rice: The EC is again a significant importer of rice and the LLDCs produce vastly more rice than the EC. Very considerable scope for increasing exports.

Vegetable oil seeds and vegetable oil. EC is again a large scale importer with substantial production of its own. LLDCs produce about half as much as the EC and current exports are very limited. Without data on LLDC consumption it is difficult to be categorical but potentially LLDCs might be able to expand exports to the EC in direct competition with EC producers. While vegetable oil seeds already enter duty free the same is not true of vegetable oil. This is therefore a sector where more detailed research is required although it should be noted that EC industry favoured during the Uruguay Round a “zero for zero” in vegetable oil, an offer finally rejected by the US

Soybeans: Similar analysis to that for vegetable oilseeds However, trade in soybeans and soymeal derived from the beans, is already duty free.

Conclusion

Three of the four products mentioned as being sensitive are considered in the above analysis. Of the three rice has clear export potential and so do bananas. The case for Bovine meat to be included is rather less clear cut. Its classification as a potential problem product, as indeed with bananas (and manioc which is not considered here) is as much to do with the political sensitivities which surround the product as with any economic considerations. The analysis also suggests that vegetable oil might also have to be included on any list of exemptions and possibly sugar although a more in-depth analysis would be required before a definitive decision could be taken.

The conclusions drawn here are both partial and general. However, they do indicate the sectors which might have to be included in any list of excluded products. Effective protection against unforeseen surges in imports as a result of LLDCs revising their productive capacity can only be provided by an adequate safeguard mechanism. If the granting of preferences to LLDCs is on an autonomous basis, such a mechanism, would as a matter of course be built into the preference package.

ANNEXV

LLDC-EU Trade Potential (1993 figures)										
COMMODITY	LLDC			EC			LLDC	EC		LLDC prod
	Production (000 MT)	Consumption (000 MT)	Exports (000 MT)	Production (000 MT)	Consumption	Imports (000 MT)	cons/prod	con/prod	imps/prod	/EU cons (i)
Bovine Meat	1670	2147	3,6	8000	7347	1624,70	128,56	91,84	20,31	22,73
Wheat	4610		9,3	80978		17136,7			21,16	5,69
Rice	57382		212,7	1944		1493,7			76,84	2951,75
Bananas	5686	5693	2,5	410	3699	3973,6	100,12	902,20	969,17	153,72
Sugar	1638	2855	147,3	16614	13116	3028,2	174,30	78,95	18,23	12,49
Coffee	701	2462 BAGS	463,3	0	31699 BAGS	2237,6		no prod	no prod	
Cocoa Beans	54		38,7	0	868,4	1049,9		no prod	no prod	6,22
Tea	146	65,8	110,3	0	223,1	295	45,07	no prod	no prod	65,44
Pepper	4,4		2,1	0		54,3		no prod	no prod	
Veg oilseeds	2655		160 \$mn	5594		8599.2 \$mn				47,46
Groundnuts	2978		22,2	5		508,6			10172,00	59560,00
Soybeans	244		7,4	734		13403,7			1826,12	33,24
Copra	236		66,3	1		65,7			6570,00	23600,00
Palm Kernels	222		15,4	0		34,5		no prod	no prod	
Palm Oil	424		33,2	0		1735,5		no prod	no prod	
Tobacco	313	185.6 unman	117,3	396	702.4 unman	553,2			139,70	
Source UNCTAD commodities Yearbook 1995										

ANNEXV

(i) production figures used where possible when consumption figures were not available. Blank indicates no data