

ICTSD Project on Competitiveness and Sustainable Development



Looking for a meaningful Duty Free Quota Free Market Access Initiative in the Doha Development Agenda



By David Laborde
International Food Policy Research Institute (IFPRI)



International Centre for Trade
and Sustainable Development

Issue Paper No. 4

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LIST OF ACRONYMS

AGOA	AFRICA GROWTH AND OPPORTUNITY ACT
DDA	DOHA DEVELOPMENT AGENDA
DFQFMA	DUTY FREE QUOTA FREE MARKET ACCESS
EU	EUROPEAN UNION
GDP	GROSS DOMESTIC PRODUCT
GSP	GENERALISED SYSTEM OF PREFERENCES (EU)
HS	HARMONISED SYSTEM
LDC	LEAST DEVELOPED COUNTRY
MFN	MOST FAVOURED NATION
OECD	ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT
WTO	WORLD TRADE ORGANIZATION

FOREWORD

Least Developed Countries (LDCs) only represent around 0.5 per cent of international trade even though they are amongst the most open and trade-dependent countries in the world. During the World Trade Organisation (WTO) Ministerial in Hong Kong, as trade ministers gathered to try and reach a compromise in global trade talks, one of the main objectives was to help the world's poorest countries expand their participation in international trade.

Thus, in 2005, WTO members agreed that “developed-country Members shall, and developing-country Members declaring themselves in a position to do so should provide duty-free and quota-free market access on a lasting basis, for all products originating from all LDCs by 2008 or no later than the start of the implementation period in a manner that ensures stability, security and predictability.” Developed-country members, however, added that “Members facing difficulties at this time to provide market access...shall provide duty-free and quota-free market access for at least 97 per cent of products originating from LDCs defined at the tariff line level...”

The present Issue Paper (No.4) on “Looking for a Meaningful Duty Free and Quota Free Market Access Initiative in the Doha Agenda” by David Laborde shows that promises by industrialised nations to grant unrestricted market access to exports from LDCs as part of a WTO deal would be rendered practically worthless unless they cover all products. Indeed, a 3 percent exception of tariff lines could suffice to cover the small handful of products that LDCs make and export competitively. As Laborde argues, “in most developed country markets, 3 per cent of tariff lines cover between 90 and 98 per cent of exports from LDCs.”

Extending duty- and quota-free coverage to all products, however, would minimise the harm caused to LDCs by multilateral tariff cuts under a Doha agreement. The lowering of import barriers in developed countries to products from China, India, Brazil, and others, will inevitably erode the trade preferences that LDCs enjoy in their markets. But, with full duty-free and quota-free market access for LDCs, these losses would be confined to a much smaller number of countries.

Moreover, this study highlights the importance of addressing non-tariff barriers, which can render market access opportunities ineffective for LDCs. According to Laborde, market access promises to least-developed countries under the WTO Doha Round would be undermined by barriers to key exports. Indeed, this study shows providing LDCs with duty-free and quota-free market access as well as simple rules of origin leads to export growth, diversification, and the enhancement of these countries' overall competitiveness.

The purpose of this paper is thus to contribute to a knowledge-based discussion in this area and to the debate on how international trade could be harnessed in order to deal with the sustainable development concerns of developing countries in general and those of the least developed ones in particular.



Ricardo Meléndez-Ortiz
Chief Executive, ICTSD

1. LOOKING FOR A MEANINGFUL DUTY FREE QUOTA FREE MARKET ACCESS INITIATIVE IN THE DOHA DEVELOPMENT AGENDA

For the Doha Round of multilateral trade talks to live up to their 'development' moniker, they must improve the access of the least developed countries (LDCs) to world markets.

This was why World Trade Organization members agreed at their Hong Kong Ministerial Conference in December 2005 that *“developed-country Members shall, and developing-country Members declaring themselves in a position to do so should provide duty-free and quota-free market access on a lasting basis, for all products originating from all LDCs by 2008 or no later than the start of the implementation period in a manner that ensures stability, security and predictability”*.

Unfortunately, this ambitious objective was immediately limited by the next paragraph of the declaration adopted there: *“Members facing difficulties at this time to provide market access.shall provide duty-free and quota-free market access for at least 97 per cent of products originating from LDCs defined at the tariff line level...”*

Since then, progress in the negotiations has been slow. The revised draft compromise texts issued in July 2008 by the chairs of the negotiations on agriculture and non-agricultural market access did not add to the provisions for LDCs.

At time of writing, as WTO Members move into what might finally be a real 'end game', it is time to shed light on some of the potential consequences of how the Duty Free Quota Free Market Access (DFQFMA) initiative for LDCs gets implemented.

Does the 3 percent difference in the scope of liberalization severely cramp the market access gains delivered to the LDCs? Which developing countries should join the initiative to boost the expected results? Which products might key importers choose to place within the exception? Which ones would be the most harmful for LDCs exports? How to ensure that new rules are not

added on that would compromise the spirit, if not the letter, of this initiative?

This Issue Paper aims to answer these questions by opening up the 'black box' of uncertainty about how the duty- and quota-free market access initiative could be implemented in ten major markets: Canada, Japan¹, Norway, Switzerland, USA, Brazil, China, India, Mexico and South Korea.

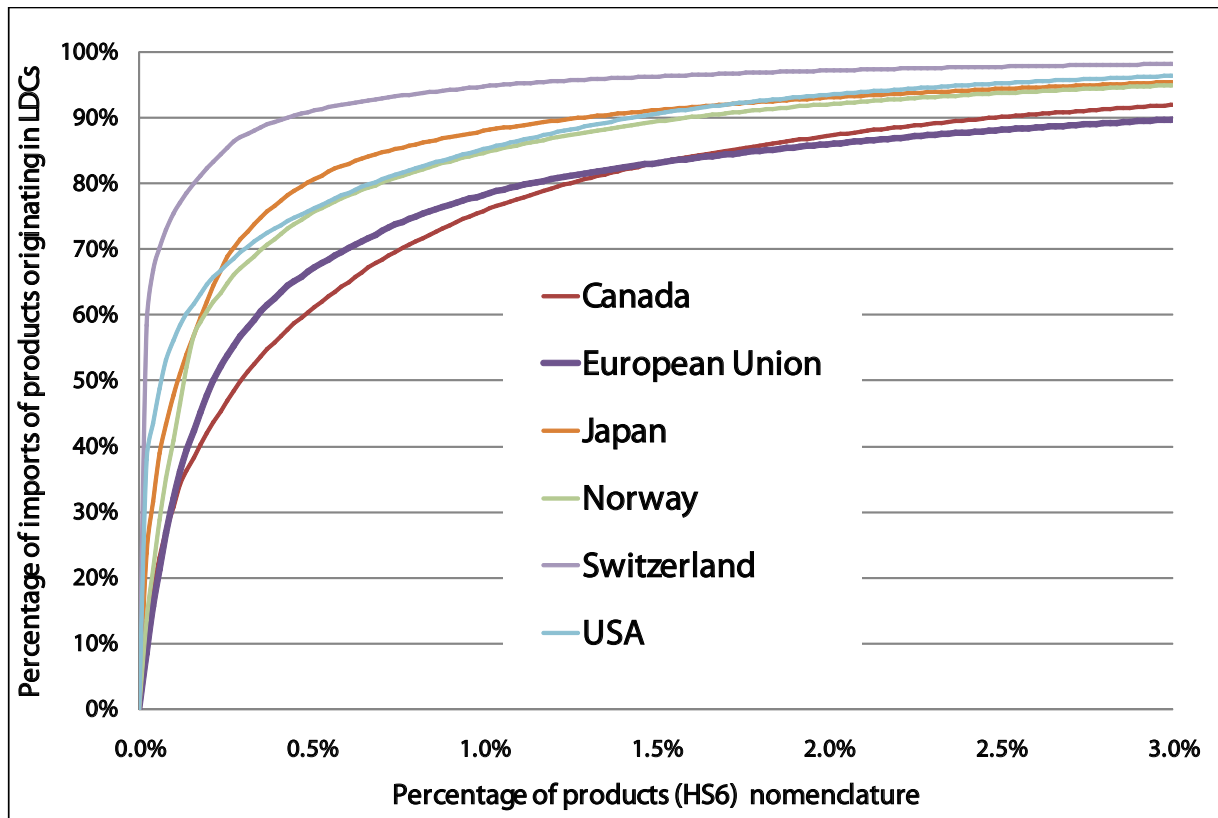
Setting the stage product coverage: Better 97 percent than nothing?

LDCs' export pattern is strongly affected by their weak economic structure. Most of them are highly specialised, producing a very narrow scope of goods. In many cases, a few raw commodities account for most of their exports. This concentration of exports on a few products is not only the characteristic of oil and gas-exporting countries (Angola, Chad, Equatorial Guinea, Sudan, East Timor). It also holds true for other mineral products like iron ore (Mauritania), diamonds (Central Africa Republic, Liberia, Sierra Leone), copper (Zambia), aluminium (Mozambique); agricultural crops like cocoa (Sao Tome, Togo), cotton (Benin, Burkina Faso, Mali, Togo); or industrial products like apparel (Bangladesh).

This pattern of export specialization has two main consequences. First, even a very limited number of product exceptions could dampen any market access initiative aimed at providing export opportunities for LDCs. As depicted in Figure 1, in most developed country markets, 3 percent of tariff lines at the HS6 level cover between 90 and 98 percent of exports from LDCs. So, the 3 percent exclusion could largely neutralise the DFQFMA initiative and make it worthless. As discussed later, it will be crucial to ensure real market access on some key products.

Two other features are interesting: the EU and Canada, which have the most generous

Figure 1. LDC's export concentration



Source: MAcMapHS6v2.01. Author's calculation.

trade policy towards LDCs in terms of product coverage and/or rules of origin, also have the least concentrated basket of exports from LDCs. For example, 1 percent of HS6 products represent “just” 80 percent of the LDCs’ exports to the EU - compared to nearly 88 percent in other OECD markets. In other words, a generous preferential scheme may help LDCs diversify their exports. At the other extreme, 90 percent of LDC exports to Switzerland are accounted for by only 0.5 percent of HS6 positions.

Second, if LDCs currently export raw commodities on which countries do not levy tariffs at all, any new preferences will hardly benefit them in the short run: unrestricted market access may help to diversify their economies, but they will not seize any gains immediately. Table 1 allows us to have a clear answer regarding the markets² considered here: 27 percent of LDCs’ exports face zero tariff even on a MFN basis, 38 percent benefit from preferential free market access, and the remaining 35 percent still face tariffs.

Table 1. Dutiable LDC's exports on a MFN basis

	Non dutiable – MFN	Non dutiable – Preferential	Dutiable
Canada	16.30%	83.64%	0.06%
Japan	54.21%	44.54%	1.25%
Norway	27.26%	63.02%	9.72%
Switzerland	66.88%	32.17%	0.95%
USA	6.11%	48.84%	45.04%
Brazil	16.55%	0.00%	83.45%
China	85.92%	5.86%	8.22%
India	0.44%	29.50%	70.06%
Korea	17.54%	18.07%	64.39%
Mexico	6.89%	0.00%	93.11%
Total (with EU)	30.38%	51.50%	18.12%
Total (without EU)	27.00%	38.30%	34.80%

Source: MACMapHS6v2.01. Author's calculation.

The implications of this vary substantially depending on the import market. Switzerland and China mainly import raw commodities (which face zero MFN Tariffs). Very high protection rates in agriculture combined with low preference coverage appears to limit strongly LDC exports. In the case of Switzerland, for instance, more than 67 percent of imports from LDCs are in products on which MFN tariffs are zero. Fewer than half of agricultural lines (300 HS6 products) are covered by strong preferences.

This is less than half of the preferences granted by the EU, Canada, the US, Japan or even Norway (more than 450 agricultural lines are duty-free for LDCs). This has a deep impact on the trade flows. On the other end of the spectrum, preferences granted by Norway and Canada play a significant role, and more than 60 percent of the imports used the preferential duty free access.

The case of the US is particularly interesting, since only 6 percent of LDC exports are made up of products that face no MFN tariffs. Preferences still play an important role, in particular the US' African Growth and Opportunity Act (AGOA) for sub-Saharan countries.

Most notably, 44 percent of LDC exports to the US are still penalised by tariffs. Therefore, the completion of the Doha Round could simultaneously result in both preference erosion and new market access creation there, with the consequence that conflicting interests between LDCs may surface.

As for Japan, the last GSP reform concerning the LDCs, in 2007, has strongly increased duty free coverage, reaching 99 percent for all products and nearly 97.5 percent for agriculture. Due to this, 45 percent of LDC exports take place under a preferential scheme. However, for key commodities that are still excluded, such as rice the MFN tariff is nearly prohibitive and only small trade flows can take place.

1.1 Country coverage: Who should grant preferences?

The multilateral liberalization driven by a successful conclusion to the Doha Round would open markets on a global basis. For several emerging countries, it will create new export opportunities, providing increased income and employment to their poor population.

At the same time, multilateral tariff cuts by developed markets will threaten the previously protected position that LDCs benefited from through unilateral preferential schemes such as the EU's *Everything But Arms* (EBA) initiative for all LDCs, or the US' targeted AGOA. This erosion of preferences may significantly harm LDC sectors that have developed recently to benefit from these opportunities, such as the textile and apparel industries in Africa that target the US market through AGOA.

In order to grant them new preferential margins, it is crucial to widen to the maximum the scope of existing GSP schemes for LDCs in developed markets, and to create new preferential access in dynamic emerging markets. However, if the Hong Kong declaration says that developed economies "shall" join the DFQFMA initiative

for LDCs, it says that non-LDC developing economies "should" do it. This grammatical subtlety, which marks the difference between mandatory obligation and mere exhortation, could have heavy implications for LDCs if the Doha Round defines global trade relations for the next 20 years at a time where emerging markets are growing at twice the rate of OECD countries. Last, special and differential treatment for developing countries means that they will retain relatively higher tariff levels, making them the only place where significant preferential margins can be granted to LDCs.

To make a deal politically acceptable, the benefits of liberalization should be shared among all WTO members, especially LDCs and developing countries. If emerging economies take part of the LDCs' existing market shares in the developed world, they have to let the LDCs find new market opportunities in their own economies. Moreover, in most of the cases, the technical and phyto-sanitary requirements of developing countries are much easier for LDC exporters to meet than the comparable non-tariff barriers in OECD markets.

1.2 Time line: Better late than never?

Both product and country coverage issues have already been discussed in the literature and Box 1 summarizes some results that were based on computable general equilibrium studies. As we expected, ensuring the fullest liberalization of tariffs affecting LDC exports and including emerging countries in the process is the sine qua non solution to ensuring that LDCs are not left worse-off by the Doha Round's market access component.

Beyond the scope of the DFQFMA, the time dimension is crucial. Ongoing economic globalisation, both under multilateral and preferential agreements, reduces the overall level of protection, and, consequently, any preferential margins that may be given to LDCs. Delaying the Doha negotiations and the implementation of the market access initiative for LDCs reduces its potential gains.

At the same time, countries have already started to redefine unilaterally their GSP programs for LDCs. If we can appreciate this evolution, it may offer less guarantee than at WTO commitment as we will discuss later. To take some examples that have occurred since the start of the decade: the EU EBA will eliminate all remaining restrictions on cotton and sugar by 2009; the US has currently started to re-examine its preferential scheme policy (McDermott bill proposal); and in 2000, New Zealand implemented DFQF for all LDC exports, followed by Iceland in 2001 and Australia in 2003. Step by step, Japan has increased the coverage of its LDC GSP scheme to reach 99 percent of its tariff lines⁵.

In this context, the WTO DFQF market access initiative becomes less and less attractive for LDCs each month, and so, the scope of negotiations

Box 1. Computable General Equilibrium Assessment of the DFQFMA

In Bouet, Mevel and Orden (2006), enlarging the DFQFMA from 97 percent to 100 percent drives the export from Bangladesh to OECD markets from a 2.4 percent increase to a 13.5 percent. At the same time, it will drastically reduce the potential losses of Sub-Saharan LDCs (e.g. Madagascar exports go from a fall of 4.9 percent to an increase of 0.7 percent). Looking at real income, a similar trend appear in Fontagne, Laborde and Mitaritonna (2007a, 2007b) since a basic DDA with a 97 percent DFQFMA rises LDC welfare by 0.14 percent, moving to 100 percent rise it to 0.85 percent and finally, integrating major emerging countries the gains reach 1.5 percent. Here again, two different patterns appear between African and Asian LDCs. With a 97 percent DFQFMA in OECD market, the sooner will see their real GDP decrease by 0.2 percent and the latter nearly no change. If the DFQFMA is enlarged to 100 percent, the African LDC losses vanished on average and Asian LDC gains reach 2 percent of their real income.

Bouet, Laborde and Mevel (2008) do a similar exercise based on the last WTO modalities (May 2008). It appears that no DFQF or a DFQF at 97 percent for OECD countries (minus South Korea, but including Brazil) have the same outcome for LDCs (decline of 0.1 percent of their real income). Only some African LDCs (DR Congo, Uganda, Mozambique) manage to use this opportunity to eliminate the losses they will occur with the basic DDA modalities. At the opposite, implementing a full DFQF allow the LDC group to reach an increase of 1 percent of their real income (8 times more than the High Income countries group). If India, China and South Korea join this initiative the overall gain for LDC reach a 1.6 percent (8 times the performance of middle income countries).

shrinks. Even if the DFQF initiative may secure preferential access granted by current EBA-like schemes, the value of the initiative, i.e., the value of preferences, is decreasing.

With time, the LDCs' objectives will have to focus on three features of the DFQFMA: make

the unilateral policies binding, target and eliminate protection of the remaining items outside the current free access scheme (a full 100 percent access and not 97, 98, or even 99 percent), and ensure that rules of origin will not be an obstacle to seizing these opportunities.

1.3 Main effects of the 3 percent exclusion

Our main task is to simulate at the product level the effects of the Doha Round for LDC exports. Using a partial equilibrium model (see box 2), we assess the effects of an accord based on the last draft modalities (July 2008) without a DFQFMA initiative for LDCs, and with 97 percent or 100 percent product coverage under such an initiative.

A key issue is to determine which products will be affected by the DFQFMA. In order to select the 3 percent of products that countries would likely exclude from the DFQFMA initiative, we adapt the political economy model developed by Jean, Martin and Laborde (2008). For an importing country, the sensitivity of a product in the DFQFMA is equal to the square term of the power of the applied tariff times the value of imports at domestic prices coming from LDCs. For each importer, this criterion is applied at the bilateral basis then aggregated over all LDCs.

The relevant applied tariff is the post-Doha tariff in the absence of a DFQFMA initiative. Thus, the choice of products excluded would be affected by a country's initial binding overhang, initial preferential margins, the structure of trade and the depth of the Doha cut, including flexibility. Even if we cannot estimate the final political choice by governments, we can have an approximation of which products key importers are likely to exclude.

Table 2 displays the distribution of products that are likely to be excluded from the DFQFMA by HS2 category. It appears that developed countries have a highly concentrated pattern (50 percent or more of the products in two chapters): for Canada those products are concentrated in dairy and poultry products; for Japan it is mainly fisheries products as well as numerous lines in footwear. For Norway and the US, the exclusions are likely to focus on apparel and clothing. Switzerland's projected exclusions are more widespread, covering several agricultural sectors (vegetables, vegetal

oil, flowers, bulbs).

Developing countries, on the other hand, would want to cover a wider range of products, with some country specificities: hides and cotton in Brazil; cotton, fisheries and copper products in China; fruits, nuts and some chemical products in India; mineral, fisheries and wearing apparel in South Korea and clothing sectors for Mexico.

The higher concentration in developed markets is explained by both the high specialization of LDCs and the limited number of remaining tariff peaks in these markets. Table 3 gives the forty most likely to be excluded products by country.

Integrating these exclusion lists in the model allows us to get the results displayed in Table 4 for each LDC, and Table 5 for each destination markets. Detailed results by LDC and destination markets are available at under appendix at : <http://ictsd.net/i/publications/13158>. We present the results of our simulations as well as initial export levels and pre- and post-Doha tariffs.

Regarding initial tariffs (row [B]), LDCs face low average protection (below 1 percent) in most developed markets, except in the US where the protection is relatively high (5.4 percent). The Doha round, without the DFQFMA initiative (row [C]), will halve this initial level of protection. For the US, the strong effect of the Swiss formula will cut deeply wearing apparel tariffs, and deliver significant liberalization, cutting average tariffs from 5.4 to 2.3 percent.

Behind these aggregated figures, we note that some LDCs are more adversely affected due to their product specialization. For instance, Benin in the Canadian market (3.2 percent of initial protection, compared to 0.04 percent on average for all LDCs); Burkina Faso in Japan (pre-Doha tariffs of 8.6 percent, post DDA 2 percent); Asian LDCs (Bangladesh, Cambodia and Nepal) face pre-Doha tariffs of above 9 percent in the US, and still around 4 percent after.

Box 2. Methodology

To assess the effects of the DFQFMA initiative, we assess the incidence on tariffs of the last market access modalities (WTO TN/AG/W/4/rev.1 and WTO TN/MA/W/103) using the MAcMapHS6v2 dataset, base year 2004 (Laborde, 2007). Tiered and Swiss formulas, respectively for agriculture and non agriculture products, are applied on bound duties and effects are computed on applied rates including preferences. Additional tariff reduction for tropical products and tariff escalation are considered as well as country (Small and Vulnerable Economies, Low Binding rate countries, Recent Acceded Members...) and products (sensitive and special products) flexibility. See Laborde, Martin and Van Der Mensbrugge 2008 for details on the tariff scenarios.

Since our goal is to have results on exports at the product level (Harmonised System (HS) at the 6 digit level) for each WTO LDC, we do not rely on a Computable General Equilibrium model but on a simple partial equilibrium model more relevant at this level of analysis. The model used is a simplified version of the partial equilibrium model used by Fontagne, Laborde and Mitaritonna (2008) to assess the impacts of the Economic Partnership Agreements on trade flows at the product level for 5,113 products and 70 countries.

This standard methodology has the main limitation to neglect trade creation effects when initial trade does not exist for a specific product on a bilateral basis. Put differently, if due to high initial tariffs, a LDC does not export a specific product to the destination market currently, the model will not be able to simulate trade creation for this relation. For this reason, we add another trade creation indicator in tables 4 and 5 where, instead of starting from initial bilateral trade pattern, we calibrate the model on global exports structure of the LDCs following the reference group methodology (Bouet et alii, 2008). This solution is imperfect but can give relevant insights too.

Last, using MAcMapHS6v2 implies that our computation uses 2004 statistical information. This assumption limits the potential gains of the openness of emerging markets and comparison between importers but has no relevant effects on the product-ranking by country.

1.4 Developed countries: 3 percent exclusion nearly cancels DFQF

The DFQFMA97 percent (row [D]) has very limited effects on average tariffs faced by LDCs on developed markets, as compared to the complete absence of a special initiative. The strongest effect takes place in the US market,

with average tariffs decreasing by 0.2 percent from the estimated 2.3 percent average. In other words, the 3 percent exclusion manages to neutralize the initiative almost completely in developed country markets.

Table 2. continued

	HS2	Brazil		China		India		Korea		Mexico		Total	
		% prod.	% Trade	% prod.	% Trade	% prod.	% Trade	% prod.	% Trade	% prod.	% Trade	% prod.	% Trade
Meat And Edible Meat Offal	02	0.7%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.2%	0.0%
Fish And Crustaceans, Molluscs And Other Aquatic Invertebrates	03	1.3%	0.6%	11.1%	10.1%	0.7%	0.1%	11.1%	3.5%	4.6%	6.1%	4.4%	0.8%
Dairy Produce; Birds' Eggs; Natural Honey; Edible Products Of Animal Origin, Not Elsewhere Specified Or Included	04	0.7%	0.1%	0.0%	0.0%	0.0%	0.0%	1.3%	0.0%	0.0%	0.0%	0.7%	0.0%
Live Trees And Other Plants; Bulbs, Roots And The Like; Cut Flowers And Ornamental Foliage	06	0.7%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.7%	0.1%	0.5%	0.0%
Edible Vegetables And Certain Roots And Tubers	07	2.0%	1.2%	0.7%	0.7%	6.5%	2.7%	3.9%	0.2%	0.7%	0.2%	3.4%	0.4%
Edible Fruit And Nuts; Peel Of Citrus Fruits Or Melons	08	0.0%	0.0%	3.9%	0.5%	5.2%	22.1%	0.0%	0.0%	0.7%	0.0%	1.7%	2.5%
Cereals	10	0.0%	0.0%	0.0%	0.0%	2.6%	0.1%	1.3%	0.0%	0.0%	0.0%	1.0%	0.0%
Oil Seeds And Oleaginous Fruits; Miscellaneous Grains, Seeds And Fruit; Industrial Or Medicinal Plants; Straw And Fodder	12	2.6%	0.9%	2.0%	1.2%	2.6%	0.3%	3.9%	0.1%	1.3%	2.6%	2.6%	0.2%
Animal Or Vegetable Fats And Oils And Their Cleavage Products; Prepared Edible Fats; Animal Or Vegetable Waxes	15	0.0%	0.0%	3.3%	3.1%	7.2%	5.5%	0.7%	0.0%	0.0%	0.0%	2.2%	0.7%
Cocoa And Cocoa Preparations	18	0.0%	0.0%	0.7%	0.4%	0.0%	0.0%	0.7%	0.0%	0.7%	0.2%	0.4%	0.0%
Preparations Of Cereals, Flour, Starch Or Milk; Pastrycooks' Products	19	0.0%	0.0%	5.2%	1.2%	3.9%	0.7%	0.0%	0.0%	0.0%	0.0%	1.5%	0.1%
Preparations Of Vegetables, Fruit, Nuts Or Other Parts Of Plants	20	0.0%	0.0%	0.7%	0.1%	5.2%	0.6%	5.2%	0.1%	0.0%	0.0%	2.1%	0.1%
Miscellaneous Edible Preparations	21	0.0%	0.0%	0.7%	0.0%	0.7%	0.1%	1.3%	0.0%	0.0%	0.0%	0.7%	0.0%
Beverages, Spirits And Vinegar	22	0.0%	0.0%	0.0%	0.0%	3.3%	0.8%	0.7%	0.0%	0.7%	0.2%	1.1%	0.1%
Residues And Waste From The Food Industries; Prepared Animal Fodder	23	1.3%	0.2%	0.0%	0.0%	2.6%	0.2%	0.0%	0.0%	2.0%	0.6%	1.1%	0.0%
Tobacco And Manufactured Tobacco Substitutes	24	1.3%	6.0%	2.0%	0.3%	0.0%	0.0%	0.7%	0.1%	1.3%	8.3%	1.1%	1.0%
Salt; Sulphur; Earths And Stone; Plastering Materials, Lime And Cement	25	0.7%	5.4%	0.0%	0.0%	2.0%	5.4%	0.0%	0.0%	2.0%	2.9%	0.6%	0.7%
Ores, Slag And Ash	26	0.0%	0.0%	0.0%	0.0%	0.7%	1.9%	0.7%	14.5%	0.7%	1.5%	0.3%	1.0%
Mineral Fuels, Mineral Oils And Products Of Their Distillation; Bituminous Substances; Mineral Waxes	27	0.0%	0.0%	0.0%	0.0%	2.6%	2.3%	1.3%	66.7%	0.0%	0.0%	0.5%	4.0%
Inorganic Chemicals; Organic Or Inorganic Compounds Of Precious Metals, Of Rare-Earth Metals, Of Radioactive Elements Or Of Isotopes	28	1.3%	0.1%	1.3%	8.4%	1.3%	23.8%	0.0%	0.0%	0.0%	0.0%	0.5%	3.0%
Pharmaceutical Products	30	2.0%	6.9%	0.0%	0.0%	0.7%	0.2%	0.0%	0.0%	0.7%	0.5%	0.4%	0.1%
Raw Hides And Skins (Other Than Furskins) And Leather	41	5.9%	15.3%	7.8%	9.1%	1.3%	0.2%	3.9%	5.6%	5.2%	8.7%	3.3%	0.9%
Articles Of Leather; Saddlery And Harness; Travel Goods, Handbags And Similar Containers; Articles Of Animal Gut (Other Than Silkworm Gut)	42	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	1.3%	0.1%	0.7%	0.2%	0.8%	0.1%
Cotton	52	1.3%	30.8%	4.6%	3.4%	2.0%	9.4%	1.3%	3.9%	3.9%	4.0%	1.8%	1.8%
Other Vegetable Textile Fibres; Paper Yarn And Woven Fabrics Of Paper Yarn	53	3.3%	4.8%	2.6%	5.2%	3.3%	4.0%	2.6%	0.3%	0.0%	0.0%	1.7%	0.7%
Articles Of Apparel And Clothing Accessories, Knitted Or Crocheted	61	12.4%	1.7%	1.3%	0.7%	0.0%	0.0%	8.5%	0.3%	19.6%	18.2%	16.8%	34.1%
Articles Of Apparel And Clothing Accessories, Not Knitted Or Crocheted	62	13.1%	1.9%	3.9%	0.5%	1.3%	0.4%	11.8%	1.1%	25.5%	24.5%	17.6%	40.0%
Other Made-Up Textile Articles; Sets; Worn Clothing And Worn Textile Articles; Rags	63	1.3%	0.1%	1.3%	0.4%	0.7%	0.6%	2.0%	0.1%	2.6%	5.0%	1.8%	2.0%
Footwear, Gaiters And The Like; Parts Of Such Articles	64	1.3%	0.0%	0.0%	0.0%	0.0%	0.0%	2.0%	0.1%	2.6%	0.4%	1.8%	0.0%
Copper And Articles Thereof	74	1.3%	0.1%	2.6%	23.7%	6.5%	1.8%	0.0%	0.0%	1.3%	1.9%	1.6%	1.1%
Nickel And Articles Thereof	75	0.7%	13.7%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.1%
Other Base Metals; Cermets; Articles Thereof	81	0.7%	1.0%	1.3%	10.1%	0.7%	0.1%	0.0%	0.0%	0.7%	0.1%	0.4%	0.4%
Nuclear Reactors, Boilers, Machinery And Mechanical Appliances; Parts Thereof	84	11.1%	3.6%	5.2%	2.3%	2.0%	0.3%	3.3%	0.2%	1.3%	0.5%	3.1%	0.2%

Source: Author's calculation.

Table 3. Potential exclusion product list. Top 40.

	Canada	Japan	Norway	Switzerland	USA	Brazil	China	India	Korea	Mexico
1	040510	100630	070200	060310	240120	520100	151790	080131	270900	240120
2	040690	030420	060240	230230	240110	240120	400122	280920	070110	240110
3	020714	640299	611020	120720	611020	750210	151620	151620	120740	611030
4	180690	030410	611030	150810	620520	520300	030759	170111	040900	620342
5	190190	640291	110220	120740	620462	410431	151590	090700	100630	610910
6	210690	420310	620462	151590	620342	300390	510529	151590	200980	620462
7	190120	030510	620463	200990	611030	410620	281820	071310	090420	620520
8	230990	030490	610910	151311	170199	300490	810510	080290	071230	611020
9	040110	640110	120740	040299	610910	530310	190490	210690	100610	630622
10		640699	620342	071090	620630	847160	240220	520100	210690	650590
11		640610	610469	151190	620193	440890	281830	090111	121220	620630
12		640219	610463	071332	610510	410439	410431	151800	071190	030343
13		030374	610439	080820	240130	620530	151710	520300	030379	030420
14		420340	071410	200980	620343	410520	510130	710310	200310	090500
15		640620	080510	200520	620530	530720	190211	151319	030339	121190
16		640191	610319	220290	620452	410429	200919	720449	240130	721391
17		640230	610339	200590	610832	240110	530310	220300	410439	410620
18		030729	611010	220890	620293	610729	740311	090240	410431	160590
19		640192	620343	120210	620640	300320	030559	220290	260300	261690
20		420329	610342	100590	621111	410612	140190	530310	620333	611010
21		420330	610230	210690	610610	170199	842649	071390	090230	610510
22		420321	610419	071410	610831	030375	080131	071339	160590	740200
23		640199	621143	230400	610821	611020	030379	080132	030371	620343
24			610433	071290	610469	810510	070490	190219	200990	621210
25			610990	110220	620920	330126	051191	071320	040590	620193
26			080520	100890	610343	611030	030329	310210	410620	121299
27			610333	151110	620463	842920	400129	130190	310210	854430
28			170191	110429	650590	852190	854460	090230	620193	410612
29			610349	120791	620453	842833	521159	080121	620433	621133
30			610610	170490	620821	410512	550959	270799	440839	030759
31			610443	120799	610990	040900	410439	200980	330190	620530
32			621210	071080	611120	732690	611780	151311	420292	220870
33			610620	220421	610722	560710	900190	071331	030349	621111
34			610690	190530	630260	090500	400121	151211	540794	630510
35			610432	121300	620822	620113	810590	290711	530710	030342
36			620299	110620	611241	401120	180100	870323	030613	410439
37			610130	151620	610839	610910	610319	270760	071340	030751
38			621133	200490	610462	842930	190530	120740	030332	520942
39			620640	040110	610620	410410	030110	200990	410790	520100
40			611130	071310	610520	620462	081190	870390	520100	620293
41			610891	100510	621210	610349	190590	741300	030759	010600
42			611090	071030	610690	842911	520524	271000	530720	741021
43			610343	070810	620469	721041	950639	870310	620342	610729
44			621030	071420	610463	621111	120740	281410	030420	410619
45			060290	070820	621142	620343	030710	270119	900220	620113
46			610711	210112	610822	071340	330129	720410	610690	611420
47			620423	071490	580219	530710	030799	710812	620920	620690
48			620112	220900	610349	531010	411100	720430	640590	611090
49			610290	070990	620791	845530	630900	190590	620331	180500
50			080540	051199	610339	721420	240120	070810	030333	251020

Source: Author's calculation.

1.5 Developing: DFQFMA97 percent still delivers gains

At the same time, a DFQFMA97 percent would deliver real market access gains in developing country markets. Indeed, the basic Doha tariff reduction formulae will have limited impacts on applied tariffs in the developing world, and thus in comparison, DFQFMA97 percent would bring down many tariffs. Reaching the 100 percent DFQFMA, of course, would involve eliminating these remaining tariffs.

Before looking at the DDA effects on trade flows, it is important to remember that we do not focus on the EU market. Most of the preference erosion will take place in this market, and the LDCs, which already benefit from the EBA initiative, will receive no new market opportunity with their most important trade partner.

The aggregated figures we present in this note do not assess the global effect of the DDA on LDC exports. We only focus on a sub-selection of markets for which the DFQFMA has a real impact. The reader should keep in mind that a fraction of the potential gains discussed here would offset the losses that LDCs will suffer on the EU market. The direct effects of a Doha Round without a DFQF initiative (row [E]) are simple: the preference erosion suffered on the Canadian market has a strong impact with a reduction of about 25

percent of the current exports. If we exclude the US, this loss alone would be greater than the consolidated gains on the other markets considered here (Japan, Switzerland Brazil, China, India, South Korea, Mexico).

However, in the US, market access gains prevail. Bangladesh (USD 369 million), Nepal (23.4 million), Cambodia (288 million), the Maldives (10 million), Mali (11 million), Burkina Faso (24 million), Niger (6 million), Senegal (1 million) and Haiti (75 million) would increase their exports by 806 million USD (6 percent). However, Lesotho and Mozambique face a difficult destiny with exports to the US projected to fall by nearly 25 percent. For Madagascar, the US would amount to 14 percent; for Malawi, 10 percent.

But DFQFMA97 percent (row [F]) would make hardly any difference as compared to non-LDC specific initiative at all. Compared to standard Doha tariff cuts, DFQFMA97 percent in the US market would only improve the situation for Senegal (+2.2 million), Nepal (+5.4 million), Cambodia (+24 millions) and Bangladesh (+39 millions). For other exporters, no significant changes take place. The same results appear on other developed markets: no new market access opportunities are created.

1.6 Full DFQF minimises preference erosion

On the other hand, moving to the full DFQFMA by eliminating the 3 percent exclusion (row [G]) has positive or null impacts in nearly all the cases. The only real negative effects appear in the US for exports from Lesotho and Madagascar, which would suffer from increased competition from the Asian LDCs. However, the effects are quite limited compared to the basic Doha effects.

For instance, the DFQF100 percent will increase the losses of the Lesotho on the US market from -24 percent (Doha without DFQF) to -25.5 percent (Doha + DFQF100 percent). Overall, for the US to move from 97 percent to full coverage

of all tariff lines would increase LDC exports to the country by nearly 20 percent - compared to the 6 percent rise from Doha tariff cuts without any LDC-specific initiative, or the 6.7 percent increase that would result from the DFQFMA97 percent. In short, in the US market, the 3 percent exclusion is three times more important for LDCs than a Doha round with a DFQFMA97 percent clause.

For the five developed markets studied here, standard Doha tariff cuts combined with a DFQFMA100 percent would not be sufficient to increase total exports for 8 LDCs (Angola, Burundi, Chad, Guinea, Lesotho, Madagascar,

Mauritania, Rwanda). But DFQFMA100 percent in those five markets would offset the negative effects of multilateral liberalisation for several countries (DR Congo, Malawi, Mozambique, Sierra Leone, Tanzania, Solomon Islands, Togo, Uganda, Zambia).

Supplementing standard Doha tariff cuts with DFQFMA100 percent would cause total

export gains for LDCs in the five markets to jump from USD 617 million to 2,108 millions. Given these potential gains, there are substantial incentives for the LDCs to forge a common strategy. Adequate compensation measures should be designed for the few losers - for instance, they could receive priority consideration in Aid for Trade planning.

1.7 Full DFQF would create new trade opportunities

Row [H] presents the effects of the full DFQFMA versus 97 percent DFQFMA using a slightly different methodology (cf. Box 2), which bases projected consequences less heavily on initial bilateral trade patterns, and incorporates potential new trade opportunities. For example, consider an LDC that exports rice duty free only to the EU, but does not currently export to Japan due to high MFN tariffs. In the above simulations, due to the standard modelling assumption, a DFQFMA100 percent will not change anything, since EU tariffs remain unchanged, and there are no initial weights (trade) on the Japanese tariff. Here, we assume a different weighting scheme that will consider potential exports to Japan.

In this framework, fully expanding DFQFMA for LDCs would nearly double their total gains. Moreover, losses are largely reduced, thanks to increased product diversification: only Angola, Chad, Lesotho and Madagascar have net losses. Using this approach, the US instead of accounting for nine-tenths of the gains for developed markets to move from 97 percent coverage to 100 percent, would only account for seven-tenths. The difference would be made up by new market opportunities in Japan, Switzerland, and Norway, for some commodities on which initial tariffs were prohibitive.

Looking at developing markets, the story is quite different: no major preference erosion takes place, even for Bangladesh in India. The only significant cases are the exports of Madagascar to South Korea and Nepal to India that fall by respectively USD 0.6 million (-11 percent) and USD 7 million (-1.9 percent). Standard Doha tariff reduction

obligations would not create significant market opportunities in the developing world markets: a 1 percent increase in LDC exports to developing countries, concentrated in Mexico where LDC exports will jump by 40 percent.

DFQF and its enlargement would bring positive market access gains, but with varying magnitude. Due to its large size and relatively high tariff levels (post-Doha tariffs faced by LDCs would range from 6 to 59 percent with an average of 17.1 percent), the Indian market is the most attractive. There, a DFQFMA97 percent would increase LDC exports by 6.4 percent (USD 64.4 million); going to full coverage of all tariff lines would multiply LDC exports by five (+USD 4964.6 millions).

The huge difference between the two DFQF modalities are found also for other countries: +1 percent versus +62 percent for Brazil, +0.7 percent versus +42 percent for South Korea, +56 percent versus +250 percent for Mexico. China, due to its low MFN tariffs, offers fewer increased market opportunities: +0.7 percent versus +5.1.

Finally a full DFQF will have stronger effects on the LDC exports to the five emerging markets than on the developed ones. If we aggregate the 10 countries considered in the study and assume full DFQF, all LDCs become net winners, except Lesotho, with major improvements for Malawi, Nepal, Gambia, Sierra Leone, Guinea Bissau, Mozambique (potential export growth above 100 percent). The combined effects of Doha tariff cuts and a full DFQF implemented by the 10 countries studied will raise LDCs exports to these markets by 49 percent.

1.8 Defining LDCs key products

This section examines the most important products exported by LDCs under preference schemes, i.e. the ones most likely to end up excluded from the DFQFMA. Even if it is a simple mercantilist indicator, we define the priority list based on export growth. For each market, we will consider the contribution of every product to export growth (row G in tables 4 and 5) and select the main contributors. Table 6 presents these results (20 more important products).

As already noted, the LDCs are a heterogeneous group. They do not have the same interests, since they specialize in different products and face different trade policies. Indeed, in some instances, their interests can be clearly antagonistic - for example, Bangladesh and African exporters of textiles and apparel compete in the US market. Without neglecting this reality, we prefer to present four priority lists by targeted market to allow LDCs negotiators to find a common ground rooted in transparency. The first three lists were elaborated by simply adding up country effects. It implies that the preferences of main exporters prevail. Using this approach, we get a list for the African LDCs, the Asian LDCs and finally, all LDC members of the WTO.

1.9 Additional modalities

We will now discuss four other features of the DFQFMA that may greatly affect its efficiency: the rules of origin, discrimination between LDCs, tariff nomenclature use and anti-dumping rules.

The simple granting of tariff preferences is not enough; they have to be used too. This implies that the rules of origin related to the DFQFMA should be generous enough to be consistent with the reality of the LDCs' production structure where relatively few inputs are available domestically.

It is beyond the scope of this note to discuss the features of a good rules of origin system. Moreover, all rules of origin schemes for LDCs will have administrative costs, and would also drive up product costs by constraining the choice of inputs etc. If rules of origin are needed to avoid massive trade diversion,

Finally, we propose a list, based on another way to aggregate LDCs preferences. Since no perfect rule exists for preferences aggregations, we decide to rely on the Borda's rule. It is a simple mechanism widely used for collective choices, from the ancient Roman senate to the ranking of professional athletes. We start by making a complete ranked (export creation) list of products for each LDC. The first product receive 5,114 points, the last receive 1 point. Then, we add the score for every product across countries and we get the final list by a descending ranking on this score. To sum up, this system gives the same weight to each LDC and considers the order of priority for every product for every LDC.

For the key market under investigation, we provide the 50 most important products for the African LDCs (list A), Asian LDCs (list B), all LDCs by adding up effects (list C) and all LDCs using a Borda mechanism (list D). Agricultural products, fisheries and textiles and apparel are the most frequent items. As expected, the different lists present several differences driven by trade specialization and existing preferential schemes.

it is very difficult to define a standard rule for implementing them: every sector has its own specificity and for example, a value-added criterion in one sector may be totally unrealistic for another.

Canada has, and the EU will soon have, simplified their respective rules of origin using the percentage of value added domestically as a criterion. If the system is simple, it is far from being perfect. The recent wave of globalization has been driven by an increase in the disaggregation of industrial production processes across several countries. Comparative advantages are less and less at the level of whole products, but simply a specific transformation step. Intra-corporate trade of multinational companies has been the growth engine of trade and the source of major productivity gains.

Table 4. DDA impacts on tariffs(percentage) and exports (Mios USD). Developed markets.

Partner	Canada + Japan + Norway + Switzerland + USA					Brazil + China + India + South Korea + Mexico				
	Reference exports (Mios USD) [A]	Exports variation from the DDA (Mios USD) [E]	Gains from the DFQF97% [F]	Gains from moving from 97% to 100% (Mios USD) [G]	Alternative computation 97% to 100% (Mios USD) [H]	Reference exports (Mios USD) [A]	Exports variation from the DDA (Mios USD) [E]	Gains from the DFQF97% [F]	Gains from moving from 97% to 100% (Mios USD) [G]	Alternative computation 97% to 100% (Mios USD) [H]
Angola	3850	-2.3	-0.0	0.0	1.5	2499	0.5	0.6	115.9	111.3
Bangladesh	2990	364.4	38.7	865.9	746.5	252	21.2	37.8	383.7	325.0
Benin	7	0.1	0.1	27.3	81.0	108	1.0	1.7	56.2	102.7
Burkina faso	17	30.6	0.1	3.7	25.6	67	0.0	1.2	8.4	119.1
Burundi	41	-0.4	0.0	0.0	1.3	1	0.0	0.1	0.2	54.5
Cambodia	1948	216.1	23.6	609.2	416.6	80	8.6	6.8	59.2	110.3
Cape verde	7	-1.2	0.0	-0.0	0.3	2	0.0	0.1	1.1	0.6
Central Afr. Rep,	13	-0.0	0.0	1.3	3.4	6	0.7	1.8	2.8	6.0
Chad	264	-0.2	-0.0	0.0	0.1	211	0.0	0.0	17.2	11.7
DR Congo	203	-0.1	0.0	0.1	2.4	51	0.1	0.4	3.3	22.0
Djibouti	1	-0.0	0.0	0.0	0.1	3	0.1	1.0	2.0	3.3
Gambia	3	0.0	0.0	0.1	9.0	12	0.1	1.0	41.9	19.0
Guinea	139	-0.2	0.0	0.0	47.1	178	2.4	2.0	59.4	17.0
Guinea bissau	27	-0.0	0.0	0.1	1.2	57	0.5	0.1	99.9	49.3
Haiti	345	70.2	0.8	134.7	31.1	4	1.1	0.6	10.7	9.0
Lesotho	414	-100.1	0.0	-6.0	0.6	1	0.2	0.3	7.4	6.0
Madagascar	408	-51.7	0.0	-3.0	30.0	25	2.0	3.0	92.2	143.2
Malawi	130	-10.6	0.0	279.6	302.6	16	0.2	0.5	71.4	216.3
Maldives	95	8.8	0.4	24.3	8.3	1	0.2	0.5	1.2	39.1
Mali	430	11.4	0.1	4.0	10.9	66	0.2	3.5	15.8	57.4
Mauritania	117	-3.8	0.0	0.1	6.1	32	1.4	0.3	6.4	6.0
Mozambique	35	-3.7	0.0	5.7	35.2	75	0.3	1.1	135.5	148.3
Nepal	213	21.3	5.4	54.2	23.5	401	-0.7	7.2	3904.4	147.5
Niger	109	6.2	0.4	28.3	15.8	67	0.4	3.1	2.9	28.8
Rwanda	6	-0.1	0.0	-0.0	0.2	11	0.1	0.0	8.0	74.1
Senegal	39	0.4	2.2	3.3	8.7	220	5.8	3.6	164.6	128.4
Sierra leone	14	-0.7	0.0	21.4	8.0	11	0.3	3.7	22.3	17.8
Solomon Is.	22	-0.4	0.0	0.2	0.7	58	1.8	0.2	5.5	8.9
Tanzania	177	-5.1	0.8	41.7	124.5	239	3.1	13.0	259.3	298.9
Togo	19	-0.3	0.0	2.6	29.2	52	0.4	0.9	18.2	120.7
Uganda	103	-3.1	0.0	7.6	77.0	21	0.4	3.5	5.2	88.2
Zambia	235	-1.2	0.1	2.0	38.2	180	0.6	4.4	40.2	87.9
all WTO LDCs	12422	544.2	72.7	2108.2	2086.6	5006	53.0	104.0	5622.4	2578.1

Table 4. *continued*

	10 countries							
	Reference exports (Mios USD) [A]	Base applied tariffs [B]	Post DDA applied tariffs [C]	Post DFQF97% applied tariffs [D]	Exports variation from the DDA (Mios USD) [E]	Gains from the DFQF97% [F]	Gains from moving from 97% to 100% (Mios USD) [G]	Alternative computation 97% to 100% (Mios USD) [H]
Angola	6348.6	0.8%	0.8%	0.3%	-1.8	0.6	115.9	112.8
Bangladesh	3241.6	7.8%	3.5%	2.9%	385.6	76.5	1249.7	1071.4
Benin	115.0	8.9%	8.0%	5.4%	1.1	1.7	83.5	183.7
Burkina faso	84.0	11.8%	10.3%	6.6%	30.7	1.2	12.0	144.7
Burundi	42.2	9.9%	9.4%	6.5%	-0.4	0.1	0.2	55.8
Cambodia	2027.8	6.6%	3.0%	2.2%	224.7	30.4	668.4	526.8
Cape verde	8.4	3.8%	2.9%	0.4%	-1.2	0.1	1.1	0.9
Central Afr. Rep,	18.9	1.5%	1.0%	0.5%	0.7	1.8	4.0	9.5
Chad	475.1	1.0%	0.5%	0.4%	-0.2	0.0	17.2	11.7
DR Congo	253.8	0.7%	0.7%	0.2%	-0.1	0.5	3.4	24.4
Djibouti	4.1	6.5%	6.0%	3.0%	0.1	1.0	2.0	3.3
Gambia	14.5	11.4%	9.2%	5.7%	0.1	1.0	42.0	27.9
Guinea	317.4	2.4%	2.1%	0.5%	2.2	2.0	59.4	64.1
Guinea bissau	84.2	15.3%	14.6%	11.5%	0.5	0.1	100.0	50.5
Haiti	349.0	7.2%	3.0%	2.6%	71.4	1.4	145.4	40.1
Lesotho	415.5	0.9%	0.5%	0.2%	-99.9	0.3	1.3	6.6
Madagascar	432.8	2.8%	2.1%	1.0%	-49.7	3.1	89.2	173.2
Malawi	146.0	25.4%	19.0%	16.1%	-10.4	0.5	351.0	518.8
Maldives	96.4	7.0%	4.3%	1.9%	9.0	0.9	25.5	47.5
Mali	496.0	5.1%	4.2%	1.6%	11.6	3.5	19.8	68.2
Mauritania	149.6	6.4%	3.5%	0.4%	-2.3	0.3	6.4	12.1
Mozambique	110.3	2.7%	2.2%	1.4%	-3.3	1.1	141.3	183.5
Nepal	613.7	6.3%	4.8%	3.9%	20.6	12.6	3958.5	170.9
Niger	175.6	2.8%	2.6%	0.6%	6.6	3.5	31.1	44.6
Rwanda	16.4	6.9%	6.7%	5.7%	0.0	0.0	8.0	74.3
Senegal	259.0	8.3%	6.9%	3.9%	6.1	5.8	167.9	137.1
Sierra leone	25.1	2.8%	2.5%	0.9%	-0.5	3.8	43.7	25.7
Solomon Is.	80.4	4.3%	3.1%	1.4%	1.4	0.2	5.7	9.6
Tanzania	416.7	8.1%	6.6%	4.8%	-2.0	13.8	301.1	423.4
Togo	70.7	6.9%	5.9%	2.4%	0.1	1.0	20.8	149.9
Uganda	123.4	7.7%	5.8%	4.1%	-2.7	3.5	12.9	165.3
Zambia	415.2	6.9%	6.0%	2.0%	-0.6	4.5	42.1	126.2
all WTO LDCs	17427.6	5.2%	3.4%	2.2%	597.3	176.7	7730.6	4664.6

Source: Author's calculation. Reference Group weighting scheme for tariffs.

In this context, hoping that an LDC can create a significant share of value added is unrealistic and a strong limitation in promoting manufacturing specialisation. LDCs have narrow economies and should rely on their neighbours, in many cases developing countries, to provide necessary inputs. To ensure that the DFQFMA initiative allows LDCs to diversify their exports, well designed rules of origin are crucial. However, since the number of key products for LDC exports is limited, it is not worth losing time negotiating general-but-inadequate rules of origin. Instead, the focus should be on ensuring that for these specific goods, the rules of origin will be compatible with the existing production structure.

To illustrate potential problems, Table 8 displays the current rate of use of EU preferences by LDCs for the most important products. For these products, the definition of rules of origin should be carefully defined.

The legal framework of the DFQFMA is still to be defined. It will be natural to integrate it with developed countries' GSP schemes as well as the Global System of Trade Preferences (GSTP) being put together by developing countries. However, both policies are currently unilateral. Granting countries can change the rules when they want, which could potentially see countries banned, products excluded and so on.

A major innovation for a Doha decision on unrestricted market access for LDCs will be to make these regimes binding, freed from discretionary choices, protectionist moods or political blackmail. This will ensure better transparency and predictability, and therefore, promote trade and investment.

However, most GSP schemes include graduation mechanisms. These generally cause the most efficient producers to lose their preferences when they cross some thresholds, such as a certain share of total GSP imports, etc. Whether to allow such mechanisms has to be considered carefully. They will allow discrimination between LDCs and could conceivably result in a finely-tailored exclusion list that would neutralize any competitive industries in LDCs¹⁰.

Another technical and legal issue is to define at which level the DFQFMA commitments should be

done: at the international 6-digit HS level, or at the tariff line level (8- or 10-digit for some countries). The Hong Kong declaration and more recent modalities have clearly selected the "tariff line level" option. However, this choice is not neutral. At the HS6 level, countries have less freedom to surgically eliminate key products. Moreover, it is much more difficult to monitor partners' trade policies at the 8- or 10- digit level.

If, at the WTO level, peer review will be relied on to keep deviant behaviour in check, it will be very difficult for LDCs, due to their human and technical capacity constraints, to ensure that their trade partners will not create new tariff lines in the future to exclude some "new" products from their past commitments.

It should be clear that DFQFMA commitments must be linked to strong decisions on anti-dumping procedures affecting LDCs exports¹¹. Without this, it would be easy for some countries to target sensitive imports from a LDC country - say textiles and apparel - with anti-dumping measures. Even the looming threat of these extra duties may deter investors from fully using new opportunities in LDC countries arising from the DFQFMA. Moreover, the cost, as well as the length time, required to raise a case at the WTO Dispute Settlement Body may deter the LDC from using their rights, giving stronger economies an incentive to abuse them. It is clear that intense negotiations involving LDCs, OECD countries and also emerging countries, on the restricted number of products discussed in this Issue Paper may deliver significant market access gains for the least developed WTO members.

Is this goal reachable? On November 15th 1996, LDC ministers called for a contractual DFQF market access, based on a proposal from then-WTO Director-General, Renato Ruggiero. At that time, both the EU and the US clearly rejected this proposal. Twelve years latter, the EU has decided to implement such a policy and it has become apparent that the LDCs were not a threat to domestic producers. Even if the EU EBA can be improved (notably through more generous rules of origin), it is clear that without similar initiatives in other key markets, it will be difficult to consider that the Doha Round will have met its promises of delivering friendly outcomes for the most vulnerable economies of the multilateral system.

Table 5.

	Canada	Japan	Norway	Switzerland	USA	5 developed countries	Brazil	China	India	Korea	Mexico	5 developing countries	10 countries
Reference exports (Mios USD) [A]	472.0	1035.2	79.9	841.6	9992.8	12422	69.5	3187.5	1081.1	589.4	78.6	5006	17427.6
Base applied tariffs [B]	0.0%	0.3%	1.7%	0.6%	5.4%		4.0%	2.1%	18.6%	7.8%	15.4%		5.2%
Post DDA applied tariffs [C]	0.0%	0.2%	0.8%	0.5%	2.3%		3.7%	1.6%	17.1%	5.0%	13.2%		3.4%
Post DFQF97% applied tariffs [D]	0.0%	0.2%	0.6%	0.4%	2.1%		1.7%	0.7%	10.3%	3.2%	3.8%		2.2%
Exports variation from the DDA (Mios USD) [E]	-126.5	34.7	-5.5	1.1	640.6	544.2	0.9	13.4	7.1	1.1	30.6	53.0	597.3
Gains from the DFQF97% [F]	0.0	0.0	0.0	0.0	72.7	72.7	0.9	20.6	64.4	4.0	14.1	104.0	176.7
Gains from moving from 97% to 100% (Mios USD) [G]	77.2	7.1	5.1	51.5	1967.4	2108.2	42.8	164.8	4964.6	253.9	196.2	5622.4	7730.6
Alternative computation 97% to 100% (Mios USD) [H]	70.6	297.6	36.2	155.1	1527.1	2086.6	35.7	106.7	1663.4	464.8	307.6	2578.1	4664.6

Source: Author's calculation.

ENDNOTES

- 1 Please note that the change in the trade policy of Japan towards LDC occurred in 2007 is considered here.
- 2 In 2002, Norway has announced the implementation of a full DFQF. In the last data available used in this paper, it appears that some products/countries exclusion remain.
- 3 We exclude here the European Union since it grants Duty Free Quota Free access to LDCs with the *Everything But Arms* initiative.
- 4 This explains why in table 1, Switzerland has a very low share of imports originated in LDCs actually taxed. Half of the agricultural lines are not covered by preferences and present prohibitive tariffs for LDCs exporters.
- 5 The last enlargement of the GSP coverage is not included in Table 1. This last change makes the dutiable share fall to 1 percent.
- 6 It has been argued that unilateral preferences are unsecure and therefore, do not encourage new investments. If this argument appears to be relevant for emerging countries that have been hurt by graduation mechanism inside the GSP or even the exclusion from GSP scheme (cf. India before 2004 in the US), LDCs have not suffered such limitations. Nearly all of them, except Bangladesh, are too small to reach a significant market share that will trigger preference-loss mechanisms. At the same time, it appears that sanctions for non economic reasons, as the exclusion from the AGOA program of some African countries may still occur even in a multilateral framework. For instance, the EU and the US applied discriminatory trade policies against Myanmar and the US do the same with Cuba.
- 7 As we will discuss in our last section, many legal aspects of the initiative should be clarified before being sure that it will really secure preferential access.
- 8 As discussed later (table 7) these 20 most important products capture already a very significant share of the exclusion negative effects, between 70 percent to 100 percent. However, detailed and exhaustive lists are available on electronic support.
- 9 5,113 products +1. This way the last product will receive 1 point.
- 10 In all this work, we have assumed that any exclusion list in the DFQF will concern all LDCs and will not be designed on a bilateral basis, the worst possible solution.
- 11 Such issue has not been echoed in the last draft rules modalities (November 2007).

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APPENDIX

Table 6. List of most important products for the DFQF. HS6 code

List A – African LDCs										
Rank	Canada	Japan	Norway	Switzerland	USA	Brazil	China	India	Korea	Mexico
1	040510	030420	070200	060310	240120	520100	740311	080131	270900	240120
2	020714	030410	060240	040299	240110	750210	281820	090700	030379	240110
3	040690	030490	110220	151590	170199	240120	120210	280920	260300	090500
4	210690	640110	170191	150810	240130	410520	510529	170111	030339	611010
5	230990	030510	120740	230230	120220	520300	810510	520100	520100	740200
6	040299	030374	080510	120720	210690	847160	030759	870390	210690	121190
7	040590	640191	151410	120740	610349	440890	281830	720449	240130	721391
8	040310	030729	071410	151110	420292	810510	510130	090240	170111	620342
9	040221	640192	060290	110220	630622	410512	740200	071310	900220	030420
10	040130	640199	611030	151190	621210	842920	810590	090111	030371	520942
11	040610	420329	080520	151311	630231	240110	521159	520300	160590	741021
12	020727	640219	080540	120210	630710	852190	030559	220290	900912	121299
13	020713	640291	070990	071332	630291	842833	030379	270799	410729	520100
14	020712	640299	200830	071090	621040	842911	611780	870323	030332	611020
15	040620	100630	610910	151620	620349	090500	051191	710310	030349	160590
16	040291	100620	151190	230400	630800	030375	080131	720430	841391	410729
17	020726	100610	060491	200980	520931	732690	180100	071390	030759	620520
18	040229	110230	611241	200990	650590	842919	030329	871120	030613	611241
19	040210	100640	621050	200590	620510	845530	120740	290711	620520	640399
20	210500	170199	611010	080820	620443	020714	140190	720429	030333	610910
List B – Asian LDCs										
Rank	Canada	Japan	Norway	Switzerland	USA	Brazil	China	India	Korea	Mexico
1	180690	100630	611020	120999	620462	410431	190211	220290	70110	611030
2	190190	640110	611030	140490	611020	300390	190490	151319	120740	620342
3	190120	640299	620462	20629	620520	410620	400122	151620	90420	610319
4	40110	640291	620463	151110	620342	300490	151790	190211	100630	620462
5	40590	420310	610910	21090	611030	410439	151620	151211	410439	610910
6	40299	420340	620342	160100	620630	410429	410431	210690	410431	620520
7	40510	640699	610469	20130	620193	410612	151590	310210	71340	611020
8	20714	640610	610463	20319	610349	620530	842649	151800	100610	30343
9	40620	640219	610439	20500	610510	300320	410439	151590	200980	620630
10	40610	640620	620343	40299	620343	870390	900190	80290	40900	650590
11	40690	30420	610342	20230	610910	530720	854460	151311	71230	630622
12	40520	30410	611010	20714	620452	560710	200919	281410	620333	620343
13	40229	640230	610339	20210	620530	611020	151710	90240	410620	410612
14	40210	640191	610230	160250	620640	611030	520524	741300	310210	621210
15	210500	30490	621143	20110	620293	610319	400129	220300	40590	410620
16	160100	420330	610319	110321	610610	410410	440890	151190	71190	610510
17	21090	420321	610433	110220	610821	610349	441213	190590	200310	621133
18	40410	100620	610990	20443	610831	620462	950639	200970	620193	620193
19	210690	100640	610333	20422	610832	620113	550959	90230	121220	620530
20	40700	110230	610610	20421	610343	410422	411100	300440	420292	621111

Table 6 continued

List C all LDCs										
Rank	Canada	Japan	Norway	Switzerland	USA	Brazil	China	India	Korea	Mexico
1	040510	100630	611020	060310	240120	520100	190211	220290	270900	240120
2	020714	030420	611030	040299	611020	750210	190490	080131	070110	611030
3	040690	640110	070200	151590	620462	240120	400122	090700	120740	610910
4	180690	640299	620462	150810	620520	410431	151790	280920	090420	620342
5	190190	640291	620463	230230	620342	410520	740311	170111	100630	610319
6	210690	030410	060240	120720	610910	300390	281820	151319	410439	620462
7	190120	420310	610910	120740	611030	410620	151620	151620	410431	240110
8	230990	420340	620342	151110	240110	520300	120210	520100	071340	620520
9	040110	640699	610469	110220	620630	847160	510529	870390	100610	611020
10	040299	640610	610463	151190	620193	300490	410431	090240	030379	030343
11	040590	030490	110220	151311	610349	410439	151590	720449	260300	620630
12	040310	640219	610439	200990	610510	440890	810510	190211	200980	650590
13	040221	030510	170191	120210	620343	410429	030759	071310	040900	410612
14	040130	640620	620343	071332	620452	410612	842649	151211	030339	630622
15	040610	640191	610342	071090	620530	620530	410439	210690	071230	620343
16	020727	030374	611010	151620	620640	300320	281830	090111	620333	090500
17	040620	640230	610339	230400	610610	810510	510130	520300	520100	611010
18	020713	030729	610230	200980	620293	870390	900190	310210	210690	621210
19	020712	640192	621143	200590	610821	530720	854460	151800	240130	740200
20	040291	640199	610319	080820	610832	410512	740200	151590	410620	854430
List D All LDCs (Borda's rule)										
Rank	Canada	Japan	Norway	Switzerland	USA	Brazil	China	India	Korea	Mexico
1	210690	640299	070990	060310	420292	847330	330499	720449	610910	392690
2	180690	170199	060290	070990	210690	732690	630900	720410	220300	620342
3	190190	030420	120740	210690	610910	392690	620342	870323	121190	610910
4	040299	420310	151190	120799	170199	870899	240220	720429	620520	853690
5	220290	030410	120720	220421	120220	848180	620520	090240	870323	611020
6	040510	030490	071410	170199	620630	847160	030379	520100	210690	853650
7	040690	100630	080510	120740	620520	853690	010600	870332	620342	620462
8	230990	420330	110220	200980	611020	520100	180100	871120	732690	610990
9	160100	200590	110100	151590	630260	630900	030559	720430	841381	010600
10	040210	640220	080540	190530	240110	300490	710399	440349	620463	611030
11	040590	420329	080520	071290	630231	620342	120210	440399	610990	620520
12	020714	420340	610910	151190	240120	610910	190590	210690	854389	520100
13	040700	640192	230230	071490	630221	620462	030799	271000	611030	300490
14	040291	640110	170191	190590	620462	852190	030613	151190	630790	610342
15	040610	640610	611020	070190	620342	610990	120740	852812	010600	620590
16	190120	640219	040210	071080	650590	710310	210390	940360	420292	640399
17	040120	640699	200980	170490	620452	940180	620339	392690	030379	121190
18	040221	030510	611030	220890	630710	611020	240120	151110	841391	620343
19	040229	640199	620520	151110	611030	401120	401110	870390	620433	610610
20	020727	030374	620342	070820	620442	903180	392330	080131	620432	610510

Source: Author's calculation.

Table 7. Share of overall export creation effects driven by the full DFQF covered by the top part of the lists

List C (aggregation by summation)										
Markets	Canada	Japan	Norway	Switzerland	USA	Brazil	China	India	Korea	Mexico
21 st products	100%	100%	82%	100%	70%	82%	74%	95%	96%	77%
22 nd to 51 st prod.	0%	0%	13%	0%	17%	11%	14%	3%	2%	12%
List D (Borda's rule)										
Markets	Canada	Japan	Norway	Switzerland	USA	Brazil	China	India	Korea	Mexico
21 st products	100%	100%	41%	79%	58%	29%	9%	9%	2%	38%
22 nd to 51 st prod.	0%	0%	34%	12%	18%	18%	21%	84%	13%	29%

Source: Author's calculation. Reference Group weighting scheme for tariffs.

Table 8. Lowest rate of use of preferences in the EU for a selection of products based on list C.

	Product	Pref. Use rate
871120	Motor-cycles, incl. Mopeds, with reciprocating int	0.76%
190190	Malt extract; food preparations of flour, groats,	1.29%
870323	Motor cars and other motor vehicles principally de	1.51%
621030	Garments of the type described in subheading 6202,	2.25%
620433	Women's or girls' jackets and blazers of synthetic	2.84%
620333	Men's or boys' jackets and blazers of synthetic fi	3.34%
610339	Men's or boys' jackets and blazers of textile mate	4.28%
620640	Women's or girls' blouses, shirts and shirt-blouse	5.45%
621050	Women's or girls' garments of textile fabrics, rub	6.41%
620213	Women's or girls' overcoats, raincoats, car-coats,	6.66%
620193	Men's or boys' anoraks, incl. Ski-jackets, wind-ch	6.69%
620690	Women's or girls' blouses, shirts and shirt-blouse	6.73%
392690	Articles of plastics and articles of other materia	6.75%
200490	Vegetables and mixtures of vegetables, prepared or	9.30%
620463	Women's or girls' trousers, bib and brace overalls	9.60%
620293	Women's or girls' anoraks, incl. Ski-jackets, wind	9.78%
621143	Women's or girls' track suits and other garments,	10.20%
611490	Special garments for professional, sporting or oth	10.90%
732690	Articles of iron or steel, n.E.S. (Excl. Cast arti	10.90%
441213	Plywood consisting solely of sheets of wood <= 6 m	11.13%
180690	Chocolate and other preparations containing cocoa,	11.20%
870899	Parts and accessories, for tractors, motor vehicle	11.68%
620469	Women's or girls' trousers, bib and brace overalls	11.83%
620530	Men's or boys' shirts of man-made fibres (excl. Kn	12.31%
420329	Gloves, mittens and mitts, of leather or compositi	12.43%
621133	Men's or boys' track suits and other garments, n.E	12.66%
610439	Women's or girls' jackets and blazers of textile m	12.72%
621040	Men's or boys' garments of textile fabrics, rubber	12.83%
200980	Juice of fruit or vegetables, unfermented, whether	12.88%
620453	Women's or girls' skirts and divided skirts of syn	13.24%
853690	Electrical apparatus for switching electrical circ	13.47%
71290	Dried vegetables and mixtures of vegetables, whole	14.39%
30510	Fish meal fit for human consumption	15.11%
620299	Women's or girls' anoraks, incl. Ski-jackets, wind	16.35%
71090	Mixtures of vegetables, uncooked or cooked by stea	16.73%
620443	Women's or girls' dresses of synthetic fibres (exc	17.16%
420310	Articles of apparel, of leather or composition lea	19.05%
620343	Men's or boys' trousers, bib and brace overalls, b	19.38%
100620	Husked or brown rice	19.49%
220840	Rum and tafia	20.93%
621210	Brassieres of all types of textile materials, whet	22.08%
420292	Travelling-bags, insulated food or beverage bags,	22.25%
621111	Men's or boys' swimwear (excl. Knitted or crochete	22.44%
620292	Women's or girls' anoraks, incl. Ski-jackets, wind	23.06%
620113	Men's or boys' overcoats, raincoats, car-coats, ca	24.09%
330190	Extracted oleoresins; concentrates of essential oi	24.27%
500720	Woven fabrics containing >= 85% silk or schappe by	24.35%

Source: Comext Eurostat. All preferential schemes considered

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