

**Chairman's Reference Paper<sup>1</sup>**

## SMALL VULNERABLE ECONOMIES

***Background***

Paragraph 41 of the Hong Kong Ministerial Declaration states that:

"... We reaffirm our commitment to the Work Programme on Small Economies and urge Members to adopt specific measures that would facilitate the fuller integration of small, vulnerable economies into the multilateral trading system, without creating a sub-category of WTO Members. We take note of the report of the Committee on Trade and Development in Dedicated Session on the Work Programme on Small Economies to the General Council and agree to the recommendations on future work. We instruct the Committee on Trade and Development, under the overall responsibility of the General Council, to continue the work in the Dedicated Session and to monitor progress of the small economies' proposals in the negotiating and other bodies, with the aim of providing responses to the trade-related issues of small economies as soon as possible but no later than 31 December 2006. We instruct the General Council to report on progress and action taken, together with any further recommendations as appropriate, to our next Session."

Paragraph 1(d) of the Agreed Framework (WT/L/579) states that:

**"Other Development Issues:** in the ongoing market access negotiations, recognising the fundamental principles of the WTO and relevant provisions of GATT 1994, special attention shall be given to the specific trade and development related needs and concerns of developing countries, including capacity constraints. These particular concerns of developing countries, including relating to food security, rural development, livelihood, preferences, commodities and net food imports, as well as prior unilateral liberalisation, should be taken into consideration, as appropriate, in the course of the Agriculture and NAMA negotiations. The trade-related issues identified for the fuller integration of small, vulnerable economies into the multilateral trading system, should also be addressed, without creating a sub-category of Members, as part of a work programme, as mandated in paragraph 35 of the Doha Ministerial Declaration."

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<sup>1</sup> The headings used in this reference paper are indicative only.

## Structure for Discussion

### *Introduction*

1. Under the Agreed Framework, the specific trade and development related needs and concerns of small, vulnerable economies – such as those relating to food security, rural development, livelihood security, preferences, commodities and net food imports – should be taken into consideration in the course of the current negotiations, including in agriculture. In response to their concerns, the Work Programme on Small Economies was established. For this stage of the agriculture negotiations the basic issue that needs to be addressed is what, if any, additional provisions should be considered for inclusion in the modalities that small, vulnerable economies would be able to avail of, or benefit from, while complying with the requirement that a sub-category of Members is not to be created.

2. Both the Doha and Hong Kong Ministerial Conferences have reaffirmed that all Members should benefit from the increased opportunities and welfare gains generated by the current round of trade negotiations and that SVEs should be more fully integrated into the multilateral trading system. It is also noted that the Hong Kong Ministerial Declaration refers to flexibilities available to the small and vulnerable economies, but also urges other Members to "adopt specific measures that would facilitate the fuller integration of small, vulnerable economies into the multilateral trading system".

3. The criteria for defining small, vulnerable economies and possible modalities available to them, or from which they might benefit, do not apply only to the agriculture negotiations. This note, however, can only address the agriculture specific elements and is without prejudice to proposals and discussions in other negotiating bodies. However, some elements of these other proposals and discussions may offer some clarification on specific issues relating to SVEs, such as the criteria that might be relevant for defining a Member as a having a "small, vulnerable economy".

### *Proposed modalities for market access*

4. The negotiations have benefited from a specific proposal<sup>2</sup> in the market access area that outlines possible provisions the SVEs propose should apply to them. These provisions could be summarised as:

- *Tariff reduction formula*: linear cuts not exceeding 15 per cent, with a minimum of 10 per cent per tariff line and no tariff cap;
- *Special Safeguard Mechanism (SSM)*: automatic access for all agricultural tariff lines;
- *Special Products*: self-designation based on food security, livelihood security and rural development needs; exemption from tariff reductions and tariff rate quota commitments; and
- *Offensive interests*: Substantial improvement in market access for products of export interest.

5. The proposal also shows that agriculture in SVEs remains a major component of economic activity in rural areas, generates employment, meets food security objectives, and is sometimes a vital source of export earnings. Unsurprisingly, therefore, it not refers to specific flexibility provisions the SVEs wish to avail of, but also addresses their offensive interests.

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<sup>2</sup> See Attachment 1 to this Reference Paper; see also JOB(05)/161 (27 July 2005).

6. It is also worth noting that many SVEs are either net-food importing developing countries (NFIDCs), or belong to diverse negotiating alliances, for example, the G-33, the G-20, the African/ACP Groups, or the Cairns Group. In addition all SVEs are all developing countries.

***Issues to be addressed***

7. In view of the level of uncertainty surrounding the distinct elements of the general provisions for market access and related special and differential treatment, a focused response to the specific proposals made by the SVEs remains elusive. However, if there are to be any provisions for SVEs, they will have to be part of the modalities. Although some SVEs Members have supported the ACP comprehensive proposal – notably as regards the proposed tariff cuts for developing countries, which they see as a good basis for accommodating their concerns – there has been little convergence among Members regarding the core tariff reduction formula, Sensitive Products and the special and differential treatment provisions (of which, Special Products and the Special Safeguard Mechanism are key elements).

8. It is encouraging to note, however, that practically all of the individual elements covered by the SVE proposal have already been the subject of intensive discussions in various formats under the Special Session of the Committee on Agriculture. Furthermore, each of these topics is being addressed in the various Chairman's Reference Papers which are being prepared or revised. The direct involvement of SVEs at this stage is crucial in order to ensure that their specific views on the various market access parameters, as well as on meaningful special and differential treatment, are adequately incorporated. They, and other Members, will also need to assess what additional provisions, if any, may be needed in addition to those available under special and differential treatment.

9. Furthermore, market access is not entirely de-linked from the other two pillars of negotiations. As noted by SVEs themselves, market access conditions to international markets will be effectively improved only if trade-distorting measures affecting agricultural trade are also corrected and addressed. To a large extent, through the Hong Kong Ministerial Declaration and in the recent negotiations, it would appear that the political will and support exists already for some improvements: the final date for the elimination of all forms of export subsidies has been agreed; and there has been some convergence on reductions in trade-distorting domestic support. These topics are definitely on the agenda for reform and I have addressed some of them through earlier Reference Papers.

10. All these elements must be brought together in the right way, i.e. in a horizontal (no sub-category of WTO Members), inclusive, transparent and participatory process.

## ATTACHMENT 1

EXTRACTS FROM THE PROPOSAL BY SMALL, VULNERABLE ECONOMIES  
ON MARKET ACCESS IN AGRICULTURE<sup>3</sup>

Communication from Barbados, Bolivia, Cuba, Dominican Republic, El Salvador,  
Fiji, Guatemala, Honduras, Mauritius, Mongolia, Nicaragua,  
Papua New Guinea, Paraguay and Trinidad and Tobago

1. The Agriculture sector constitutes the mainstay of the economy of the large majority of developing countries. Its relative importance is especially significant for Small, Vulnerable Economies whose production and export profile is concentrated on a limited number of agricultural commodities and export markets.
2. Agricultural exports constitute one of the major sources of export earnings for the Small, Vulnerable Economies, vital for financing infrastructure and other development needs. Export earnings are also critical in the procurement of food from international markets in the context of small and highly open and liberalised economies.
3. The Small, Vulnerable Economies represent an insignificant share of world trade. The impact of their exports and imports vis-à-vis world trade is thus very little. However, access to world markets for their exports is critical for these countries. Equally, low price imports and surges if not properly managed can have deleterious effects in the small and fragile agricultural sectors of the Small, Vulnerable Economies. The Annex to this communication<sup>4</sup> provides an indication of the share of world merchandise exports of Small, Vulnerable Economies over the period of implementation of the Uruguay Round Agreements. It shows that their share has been consistently and persistently low throughout this period.
4. The importance of the agriculture sector goes much beyond its economic contribution to the small and vulnerable economies however. As stated in JOB(05)/161, fundamental social and non-commercial policy objectives and concerns of the developing countries are linked to the performance of the agriculture sector such as food security, rural development, poverty reduction and livelihood security.
5. The Small, Vulnerable Economies undertook significant commitments during the Uruguay Round by binding unilateral liberalisation efforts. The majority of the Small, Vulnerable Economies had dismantled non-tariff barriers before the Uruguay Round Agreement on Agriculture entered into force. Further, many Small, Vulnerable Economies bound their tariffs in ad valorem terms and at low overall averages. Also, many of the Small, Vulnerable Economies are NFIDCs, and it is important for these countries to maintain a minimal level of sustainable agriculture, irrespective of tariff levels.
6. The objective of the Work Programme on Small Economies, as contained in paragraph 35 of the Doha Ministerial Declaration, is to frame responses to reduce the trade-related sources of vulnerability of small economies. Therefore, while Small, Vulnerable Economies reiterate their commitment to the process of agricultural liberalisation we strongly believe that the contribution of small economies to this process must be assessed in recognition of their capacity constraints and vulnerabilities, and made in accordance with their development needs and policy objectives.

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<sup>3</sup> TN/AG/GEN/11 (10 November 2005).

<sup>4</sup> Not included in this Reference Paper.