From: Commercial Wing [commercialwing@bangladoot.org]
Sent: Thursday, March 15, 2007 4:47 PM
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Cc:
Subject: Duty-Free, Quota-Free

COMMENTS ON THE 2005 WTO MINISTERIAL DECISION ON DUTY-FREE QUOTA-FREE MARKET ACCESS FOR THE LEAST DEVELOPED COUNTRIES.

The 70-year-old US tariff system, which is termed as the last living legacy of the Hoover administration, is not as benign to some of the Least Developed Countries (LDCs) as it is to most of the bigger economies. As will be shown below, the US tariff system is uniquely tough on low-income countries in Asia and the Muslim world, with Cambodia, Bangladesh, Nepal, and a few others presenting the extreme cases. Last year, the American tariff system raised a bit more than $25 billion. Nearly half of it, $11 billion, came from tariffs on shoes and clothes. Though these goods accounted for only five percent of imports, tariff rates on them average about 12 percent, 15 times higher than the 0.8 percent average on other products.

In total, shoes and clothes raise over $9 billion of the annual $25 billion in tariff revenue. A few other household goods such as drinking glasses, linens, silverware, plates, cups and luggage add almost $2 billion more. Together, this relatively limited set of goods – no more than 10% of total imports – accounts for half of all tariff collection. As with sneakers, retail markups and sales taxes mean the actual cost of the system to families is hard to determine, but much higher than the revenue to governments. In the USA, this system's heavy taxation of life necessities means it is uniquely focused on poor families with children and on single-mother families in particular.

Beyond US, it hits a number of poor Asian states and Muslim countries – examples range from Cambodia and Bangladesh to Turkey, Egypt and Pakistan – very hard. While most big countries, from Japan and China to Norway and the UK, see average tariffs between 0.5% and 3.5%, the average tariff on Bangladeshi goods is almost 16%, or ten times the average rate. Likewise, the Customs Bureau routinely collects more money on small volumes of Bangladeshi hats, T-shirts, sweaters and other simple goods than on much larger volumes of French luxuries and technologies or oil from oil exporting countries.

Just to give an example, for the top ten imports from Bangladesh, US tariffs were 16.6% 19.7%, 16.6%, 0, 16.5%, 15.4%, 16.5%, 32%, 19.7%, and 7.6%. All were applied in full. Most of these were cotton skirts, shirts, pants, and underwear. The zero-tariff good was shrimp.

For the top ten imports from UK, US tariffs were 0, 2.5, 0.1, 2.5, 6.5, 0, 0, 6.5, 0, 0. The tariffed goods are auto parts and some chemicals.

For the top ten imports from China, US tariffs were 0, 0, 0, 0, 0, 0, 0, 10, 0 and 0. These are mainly electronics such as computer accessories, cameras, video-game capsules, plus furniture. Ten percent tariff was for a kind of shoe.

This is against the fact that China has a market share of about 30 per cent into textile and apparel markets of USA as against 3.21 per cent of Bangladesh's.

Last year the U.S. imported $3 billion worth of Bangladeshi goods and $53 billion in goods from the UK. The UK also supplies about $35-$40 billion in services a year. But buyers of Bangladeshi products faced a $496 million tariffs, which is about 66 million more than what buyers of British goods

paid against their seventeen fold bigger exports than Bangladesh. Overall, Bangladesh ranked 13th as a source of tariff money, but 52nd as a source of goods. The following table summarizes this better:

Country	U.S. Imports (2006)	U.S. Tariffs (2006)	Avg. Rate
Bangladesh	$3.3 billion	$496 million	15.2%
United Kingdom	$53.5 billion	$430 million	0.8%
Cambodia	$2.2 billion	$367 million	16.9%
France	$36.8 billion	$367 million	1.0%

The US tariff system vis-à-vis LDCs:

Under US tariff system, there is virtually none or minimal tariffs on vast ranges of goods like information technologies, medical equipment, airplanes, metals, petroleum, wood and so on. While very high tariff exists on a narrow slice of goods bought mainly by poor people, in particular shoes and clothes. Tariffs on these goods are routinely 10%, 20%, 30% and sometimes more – and are systematically higher on cheap consumer goods than on luxuries. Cheap polyester and acrylic clothes, for example, have much higher tariffs than cotton and wool clothes, which in turn have higher tariffs than silks and cashmeres.

Edward Gresser of Progressive Policy Institute (PPI), Washington DC illustrated the extreme case of cheap sneakers well. Sneakers, bought mostly by poor families, have not been made in the United States for several decades. But they receive the highest tariff rates in the US schedule. Sneakers costing $3 or less receive a 48% tariff, which is not only passed directly to families in stores but magnified by retail markups and state sales taxes. Italian shoes, by contrast, have tariff rates of 8.5% and 10%.

Extrapolating as many as about 11000 products, PPI showed, in a list of hundred countries exporting goods to US, how low income countries like Cambodia, Bangladesh, Pakistan, Nepal, Mongolia, Egypt etc appears at the very top of the tariff list as opposed to middle-income countries such as Brazil, Thailand, China, and India which appear in the center of the table. The least affected by tariffs, are a mix of rich countries, African states, and oil exporters. For example, 69 of the top 100 imports from the United Kingdom had no tariffs and only one (Shetland wool sweaters) rose above 15 percent. Norway had 77 duty free goods, and no high-tariff products at all. Likewise, only nine products of an oil exporting country, and three Ghanaian goods appear on the medium- and high-tariff side of the table

The outcome of such a skewed system bound to have high economic and social costs for the poor people. Meaning, in the US, people who buy lots of cheap clothes will feel its effects in their budgets, and companies that buy lots of semiconductor chips will not. Overseas, countries that make cars and computers, or pump oil, will encounter few tariffs. This is why Japan, Norway, and oil exporting countries are at the low end of the tariff table. But developing countries, where millions of impoverished women toil to sewing sweater or weaving bed-sheet, are hit hardest. This is why Bangladesh, Cambodia, Pakistan etc, whose principal industries are textiles, are at the top.

Regional arrangements and those left out:

The African Growth and Opportunity Act (AGOA) of 2000 exempts 37 sub-Saharan countries from tariffs in order to spark some investment and growth in the continent. The Caribbean Basin Initiative (CBI) and the Andean Trade Preference Act (ATPA), designed respectively to ease social conditions in Central America during the wars of the 1980s and provide alternatives to cocaine production, do the

same for 28 countries in Latin America and the Caribbean. These programs have limitations, but all attempt to eliminate tariffs on clothes and some farm products. It is mainly because of these regional arrangements countries like Ghana (100th in a list of hundred countries), Uganda (97th) , Lesotho (91st) appears at the bottom of the tariff list while Cambodia and Bangladesh occupies first and second place at the top.

No such effort has been made for Asia or the Muslim world. It is true that countries in these regions can participate in the Generalized System of Preferences (GSP). Established in 1974, this excuses about 140 beneficiary countries from tariffs on about 3,000 types of products, and allow 40 LDCs to take advantage of almost 2,000 more. But unlike the three regional programs, the GSP excludes clothes, shoes, tableware, luggage, farm goods and most of the other light-industry, labor-intensive products an LDC can make.

In 2006, only $20.5 million worth of goods from Bangladesh received GSP - $5 million in golf equipment (4.0% tariff), $5 million in plastic packing materials (3.0% tariff), plus some miscellaneous stuff. This is about 0.6% of imports. While GSP can be quite helpful for middle-income countries that produce relatively sophisticated products but it does not bring tangible benefits to most of the LDCs whose export baskets are out of bound for GSP.

Is it really that hard for the US to make any adjustment for the remaining LDCs?
The unqualified answer to this question is NO. On the contrary, this may even helps US to bring long pending market adjustments in favour of the marginal people. Despite very high tariffs and the 30-year quota system, employment in the garment and apparel sector has continually fallen. Indeed, production in clothing continually gone down. A duty-free program affecting about 5% of the import market can't make much difference.

The market share for LDC's in textiles and made-ups is about 0.8%. A total US import of these products was $22 billion in 2006, and LDC's accounted for about $167 million of the total. Bangladesh was the top at $108 million, Cambodia next at $37 million. The LDC share of US clothing imports in 2006 was about 7.8%, or $6.2 billion out of $79.1 billion in clothing imports. African LDCs accounted for $650 million of this while Haiti alone accounted for $450 million. Cambodia, Bangladesh, Afghanistan and Nepal together had about $5.1 billion, with smaller figures for Laos and a few Pacific island states.

On a larger scale, attempts to defend US industry in this field through quotas and tariffs have been generally ineffective and always in conflict with one another. When the quota system was created in 1972, there were 2.4 million jobs in these fields. By the time it was scrapped at the end of 2004, there were only 0.7 million left. Liberalizing the clothing market, in fact, should help American textile mills find export markets in LDCs. Keeping the clothing market shut through tariffs and quotas, by contrast, is only pushing China, Pakistan and other major textile-mill countries to compete with US mills for apparel-market business.

Most importantly, the US is denying the access to these LDCs when some of those LDCs have been accorded duty free, quota free access to Australia, New Zealand, European Union and Canada. There is no dearth of data which shows that even if US give some preferential access to these LDCs, it will eventually help the American consumers. More importantly these benefits will eventually yield significant consumer benefits especially for poorer families in the US.

War on terror better fought when impoverished societies earn moderation:

The US is the world's leading trading nation, both as an exporter and an importer. Ten percent of American GDP goes to foreign markets, including much larger fractions of manufacturing and farm

production. The US factories and farms also rely on low-cost inputs of raw materials and parts to remain competitive and function efficiently. In purely economic terms, therefore, the US has a vital interest in an open world economy the helps to guarantee stability.

The linkage of trade policy and national security has been a recurring theme with the Bush administration since the September 11, 2001, terrorist attacks. The US National Security Strategy unhesitantly announced that the US will "actively work to bring the hope of democracy, development, free markets, and free trade to every corner of the world. The events of September 11, 2001, taught us that weak states, like Afghanistan, can pose as great a danger to our national interests as strong states. Poverty does not make poor people into terrorists and murderers. Yet poverty, weak institutions, and corruption can make weak states vulnerable to terrorist networks .. .within their borders" .

Indeed, there is ample quantitative evidence that when jobs of millions of women workers in the garment industries of Bangladesh or Turkey are secured, this has an insulating role for the government and therefore, substitutes for government spending on a host of development projects. At the same time, from social point of view, the empowerment of women, that it brings through job and enhanced living standards, accompany a corresponding moderation into the society. And a moderate society virtually made it difficult, if not impossible, for the radical elements to continue their existence.

No doubt a global trade regime under the auspices of World Trade Organization (WTO) is the most desired outcome for all, but, as the trade regime unfolds, it may take time. An immediate priority, therefore, should be to eliminate tariffs for the countries hit hardest-the remaining least-developed Asian countries and states in the Muslim world supporting the U.S. fight against terrorism. Such a policy shift may also result change in the US import patterns. This change would most likely shift the purchasing away from bigger economies and some other large, diversified states rather than to increase competition in the United States. By opening US markets to the rest of the LDCs, the US could demonstrate that their interest lies, not in keeping other countries at bay, but in encouraging them to rise and prosper.

In view of the above, the Embassy of Bangladesh in Washington, D.C. would like to summarize its response on the implementation of 2005 WTO Ministerial Decision on Duty Free Quota Free Market Access for the Least Developed Countries in following words:

01. The Government of Bangladesh welcomes the decision of the US Government to initiate the process of implementation of the 2005 WTO Ministerial decision on duty-free quota-free market access for the Least Developed Countries (LDCs).

02. Bangladesh, along with other LDCs, would have hoped that the 2005 WTO Ministerial were able to provide for duty-free and quota-free entry for 100 percent of LDC products into the developed markets. However, we believe that a careful implementation by the WTO members of the decision to grant duty-free and quota-free market access for at least 97 percent of products originating from LDCs could benefit Bangladesh.

03. The potential benefit for Bangladesh from the implementation of the 2005 Ministerial decision regarding LDCs by the US Government will largely depend on the types of products that would fall under the 3 percent exclusion list. Textile and apparel, and leather and footwear constitute the lion's share of Bangladesh's export to the US. Any market access program to be meaningful, therefore, must ensure that these products do not fall under the 3 percent exclusion list.

04. The Government of Bangladesh wishes to follow-up on these initial comments by supplementary comments when USTR would seek further public comments on specific issues related to implementation of DFQF at a later time.

EMERGENCY COMMITTEE FOR AMERICAN TRADE

March 15, 2007

Ms. Gloria Blue
Executive Secretary
Trade Policy Staff Committee
Office of the United States Trade Representative
600 17th Street, N.W.
Washington, D.C. 20508

By E-Mail: FR0704@USTR.EOP.GOV

Re: Duty-Free, Quota-Free

Dear Ms. Blue:

In accordance with your office's *Federal Register* Notice of January 18, 2007, please find attached the comments of the Emergency Committee for American Trade (ECAT) expressing our views in support of the implementation of a comprehensive and trade-liberalizing duty-free, quota-free package for least developed countries in accordance with the Duty-Free, Quota-Free decision adopted at the Sixth Ministerial Conference of the World Trade Organization (WTO) in December 2005. In particular, these comments relate to the following issues:

- The need for a program promoting sustainable, economic growth in LDCs
- The scope of the coverage of duty-free, quota-free treatment.
- The timing of the implementation of this package.

We look forward to working with the Administration in support of the implementation of a meaningful duty-free, quota-free package.

Sincerely,

Calman Cohen

Calman J. Cohen
President

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EMERGENCY COMMITTEE FOR AMERICAN TRADE

COMMENTS OF THE EMERGENCY COMMITTEE FOR AMERICAN TRADE ON DUTY-FREE, QUOTA-FREE TREATMENT FOR PRODUCTS FROM LEAST DEVELOPED COUNTRIES

March 15, 2007

These comments on the United States' implementation of the Duty-free, Quota-free (DFQF) decision adopted at the Sixth Ministerial Conference of the World Trade Organization (WTO) in December 2005 are submitted on behalf of the Emergency Committee for American Trade – ECAT – an association of the chief executives of leading U.S. business enterprises with global operations. ECAT was founded four decades ago to promote economic growth through expansionary trade and investment policies. Today, ECAT's members represent all the principal sectors of the U.S. economy – agriculture, financial, high technology, manufacturing, merchandising, processing, publishing and services. The combined exports of ECAT companies run into the tens of billions of dollars. The jobs they provide for American men and women – including the jobs accounted for by suppliers, dealers, and subcontractors – are located in every state and cover skills of all levels. Their collective annual worldwide sales total $2 trillion and they employ approximately five and one-half million persons. ECAT companies are strong supporters of negotiations to eliminate tariffs, remove non-tariff barriers and promote trade liberalization and investment worldwide.

ECAT strongly supports the implementation by the United States of a comprehensive and trade-liberalizing package of duty-free, quota-free treatment for least developed countries (LDCs) in accordance with the DFQF decision of the WTO. ECAT believes that such a package, implemented as the Doha Development Agenda (DDA) agreement enters into force, is strongly in the interest of the United States and will help create new and meaningful economic opportunities for the LDCs, as well as benefit U.S. consumers and firms.

A. A Comprehensive and Fully Implemented Duty-free, Quota-free Package for LDCs Is Strongly in the United States' Economic and National Interests

A comprehensive and fully implemented duty-free, quota-free package for LDCs that promotes sustainable economic development is strongly in the United States' interests in several important respects:

- Benefits to U.S. Consumers. Imports increase the variety and availability of products accessible to consumers throughout the United States, providing Americans with improved choices, such as seasonal fruits and vegetables now increasingly available all year, a wider variety of consumer products, and access to products not produced in significant quantities in the United States. In addition, U.S. consumers and the economy as a whole also benefit from the lower prices and, therefore, greater purchasing power, that increased international competition promotes.

Comprehensive expansion of duty-free, quota-free access for LDCs would enhance these benefits. In particular, duty-free, quota-free entry of LDC textiles, apparel and footwear would go a long way to addressing the regressive nature of the U.S. tariff system. By maintaining some of the highest tariffs on staple products required by all consumers, such as clothing and footwear, the U.S. tariff system places a higher burden on lower-income individuals and families. As analyzed by the *2006 Economic Report of the President,* overall U.S. tariffs are very low – about 1.4 percent, while tariffs on staple consumer products are over 30 percent. Furthermore, tariffs on items more commonly purchased by lower-income individuals, such as lower-priced sneakers, are oftentimes higher than tariffs on items bought by higher-income individuals. Eliminating tariffs on these products from LDCs, therefore, would make an important contribution to enhancing benefits for U.S. consumers, particularly lower-income consumers.

- Benefits to U.S. Industrial Users. For many companies, imports of key inputs improve their competitiveness in the global economy. Expanding the product coverage of duty-free quota-free entry for LDCs would enhance these benefits. For example, lifting restrictions on sugar imports would enhance the competitiveness of many confectionery and processed-food manufacturers in the United States who are currently put at significant disadvantage by barriers to sugar access in the U.S. market.

- Benefits to the U.S. Economy. In addition to the benefits to U.S. consumers and U.S. industrial users, imports also support millions of American jobs in the transportation, wholesale distribution, retail, marketing and other sectors, while also supporting American manufacturing jobs by allowing use of lower-priced inputs. As well, imports play an important role in dampening inflationary pressures and, in turn, keeping interest rates low. Expanding duty-free, quota-free access to LDCs would enhance these benefits.

- Broader Benefits to U.S. National Interests. Enhancing, on a sustainable basis, concrete economic opportunities for LDCs is important to promote the ability of LDCs to address severe poverty. Indeed, expansion of U.S. duty-free, quota-free treatment of products like textiles, apparel, footwear and sugar is part of the way that the United States can promote the type of concrete benefits these countries require. At the same time, these efforts will need to be complemented by institutions and policies that will enable such growth to be sustained and shared.

  Poverty reduction and sustainable economic growth are important U.S. national interests. They are also important for broader U.S. national security interests given the relationship between poverty and instability, conflict, and health epidemics at the national and international level. Promotion of sustainable, economic growth in LDCs is, therefore, a critically important national interest that expanded duty-free, quota-free treatment can help promote.

B. The United States Should Adopt a Comprehensive Duty-free, Quota-free Package for LDCs

ECAT strongly supports a comprehensive and meaningful package of duty-free, quota-free treatment for LDCs covering both agricultural and non-agricultural products that will help bolster sustainable economic opportunities in these countries and provide other important benefits to the United States.

The United States currently provides substantial duty-free, quota-free treatment to LDCs through such programs as the African Growth and Opportunity Act (AGOA), the Caribbean Basin Trade Partnership Act (CBTPA) and the Generalized System of Preferences (GSP). Yet, each of those programs contains significant exceptions that in many cases limit precisely those types of products that LDCs are best positioned to produce and export to the United States. In particular, the GSP program exempts from duty-free, quota-free treatment textile, apparel and footwear products, leather products, and sugar and other agricultural products subject to a tariff-rate quota, as well as other products. Indeed, GSP only covers 4,600 of the nearly 10,000 U.S. tariff lines. AGOA and CBTPA provide some textile and apparel benefits to the countries in the region eligible for such benefits, but still contain numerous exclusions.

ECAT urges that the United States expand duty-free, quota-free access to products currently excluded from these preference programs in order provide the type of meaningful access to LDCs that would help foster concrete economic opportunities. In particular, LDCs should be accorded duty-free, quota-free treatment for products currently exempt from U.S. preference programs, including sugar and other agricultural products subject to TRQs, textiles, apparel and footwear. Such an expansion of duty-free, quota-free treatment for LDCs would also address some of the problems noted above, including the regressive nature of U.S. tariffs on clothing and footwear and the anti-competitive impact of restrictions on U.S. sugar imports on confectionery and processed-food producers.

With respect to textile and apparel products, in particular, it is critical to promote a sustainable model that fosters actual economic development in these countries. Textiles, apparel and footwear should be included as eligible products. As well, the rules of origin for these goods should seek to promote both concrete benefits and sustainable economic development. Overly restrictive rules of origin that would require the incorporation of, for example, U.S. or only local yarn, thread and fabric to qualify, could thwart the objective of promoting meaningful economic opportunities in many LDCs more quickly, given the commercial infeasibility of shipping U.S. inputs to many of these countries in a cost-competitive or timely manner and the current lack of domestic textile production in these countries. At the same time, promotion only of short-term assembly operations without more significant value-added operations does not necessarily lead to the longer-term economic development needs of these countries. To provide meaningful benefits, therefore, the rule of origin for textiles and apparel should be more flexible than the current domestic or U.S.-yarn forward model, while still promoting some significant value-added operations in the LDC country seeking the beneficiary treatment. This program should also work to promote, and not undermine, current U.S. FTAs with key textile and apparel countries, such as those in Central America, the Dominican Republic and Jordan. In particular, this program should seek to ensure the eligibility for duty-free, quota-free treatment for LDC textile and apparel products made from fabric produced in FTA partner countries.

C. The United States Should Implement Duty-Free, Quota-Free Treatment in a Manner that Promotes Sustainable Economic Growth

Implementation of duty-free, quota-free benefits in a manner that advances U.S. interests and those of LDCs requires, as well, a focus on implementation measures that promote sustainable economic development. Several measures can foster that result, including:

- **Simple Rules under One Program.** The numerous U.S. preference programs, with different eligibility requirements and varying rules of origin, represent a complex system that undermines the actual usage of these programs by LDCs and other developing countries. To improve actual usage, it would be preferable for the United States to develop a single LDC duty-free, quota-free program that sets forth consistent procedures, eligibility requirements and benefits.

- **Improved Customs Administration and Processing.** Underdeveloped Customs processing in many LDCs, combined with duplicative and, at times, overly rigorous Customs rules in the United States, undermines the benefits of existing U.S. preference programs. Efforts should be undertaken by the United States to help improve Customs operations in these countries, through the trade facilitation negotiations, but also through targeted capacity-building efforts. Promoting more transparent and efficient processes will enhance in a very concrete way the benefits that LDCs can gain from a duty-free, quota-free program.

- **Timely and Full Implementation.** The United States should fully implement its duty-free, quota-free package for LDCs when the expected DDA agreement enters into force. It is particularly important that implementation occur as quickly and as comprehensively as possible to ensure that the benefits from this program are provided in a timely manner to LDCs and to promote the benefits discussed above for U.S. consumers, U.S. industrial users, and the United States more broadly. To that end, lengthy transition or staging periods should be rejected.

- **Promotion of Key Policies.** Duty-free, quota-free access also goes hand in hand with the economic and trade capacity-building efforts already underway in U.S. programs, particularly the Millennium Challenge Account (MCA). Currently 10 LDCs have met the criteria required to be MCA-eligible and to propose projects for funding. Another seven LDCs have been taken into the MCA Threshold Program because they are close to reaching the 18 indicators and have demonstrated reform commitment. The 18 indicators in the MCA address "ruling justly, investing in people, economic freedom, and natural resources." Market access and capacity building are two of the most powerful tools the United States has to promote economic development.

  The 18 MCA indicators are similar in objective, but not identical, to the eligibility criteria in the U.S. preference programs, which, as noted above, differ from one to the other. As the duty-free, quota-free program is developed and implemented, a strong effort should be made to promote government reform and development on a common set of criteria, including the protection of intellectual property and investment rights, and to use the MCA program to help ensure that the LDCs in fact can meet these requirements. As well, the United States, working with international institutions and the private sector, can also seek to expand partnerships and other capacity-building programs to promote actual progress in these areas,

including with respect to infrastructure and other conditions required for LDCs to benefit more fully from the trade advantages provided by a duty-free, quota-free program.

- **Targeted Suspension of Benefits.** Under the current trade preference programs, failure to meet an eligibility requirement will result in the withdrawal of all benefits from the beneficiary country. This can oftentimes have the unintended consequence of penalizing highly productive and good-performing sectors of the economy for actions in a different, underperforming sector. As well, the lack of any flexibility in the suspension of benefits may result in this enforcement tool not being used because the penalty is disproportionately high and would have overall negative consequences for the country's development. In implementing the duty-free, quota-free treatment for LDCs, therefore, the Administration should develop a much more flexible and appropriate enforcement mechanism that would allow for more targeted enforcement actions where appropriate.

- **Flexible and Appropriate Graduation Policies.** Graduation policies should be designed to create incentives for longer-term economic activity and investment in LDCs. To this end, there should be a set minimum time period that the LDCs will be guaranteed to receive duty-free, quota-free treatment, regardless of their LDC classification.

  Furthermore, consideration should be given to a multi-year phase-out of duty-free, quota-free treatment after an LDC achieves a higher economic level, so that the economic activity fostered by the duty-free, quota-free treatment is not withdrawn immediately to the detriment of the country's development.

  Finally, use of per capita income as the sole graduation threshold should be rejected. Per-capita-income is only one of several potential indicia that could be relevant in the assessment of a country's level of development. Poverty rates, infrastructure development, health care and education, as well as many other factors, are also highly relevant indicia to a country's development status. A strict per-capita-income focus also fails to capture differences within a single country that may have one higher performing or resource-rich sector, while many other parts of the country continue to fall squarely in the LDC category.

CONCLUSION

ECAT urges that the United States adopt a comprehensive and meaningful package of duty-free, quota-free treatment for LDCs as part of its implementation of the expected DDA agreement that will promote sustainable economic development. Such treatment should provide benefits in key areas that LDCs can use, including market access for key products currently exempted from U.S. preference programs, such as sugar and textile and apparel products. These benefits should be implemented quickly, as the DDA agreement enters into force, and long staging or transition periods should be rejected. As well, care must be taken to ensure that the implementation of this program enhances incentives for longer-term investment and economic development activities that will help achieve more fully the benefits for the United States and the LDCs themselves.

COMMON MARKET FOR EASTERN AND SOUTHERN AFRICA

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OFFICE OF THE SECRETARY GENERAL

RESPONSE BY SECRETARIAT OF THE COMMON MARKET FOR EASTERN AND SOUTHERN AFRICA TO THE TRADE POLICY STAFF COMMITTEE ON THE DUTY FREE QUOTA FREE INITIATIVE MARCH 2007

The Secretariat of the Common Market for Eastern and Southern Africa (COMESA) is pleased with the invitation to submit comments to the Trade Policy Staff Committee (TPSC) in response to the notice published in the January 18, 2007, edition of the Federal Register 72 Fed. Reg. 2316. The comments were requested in the context of U.S. implementation of the World Trade Organization's (WTO) Duty Free Quota Free (DFQF) initiative for products imported from Least Developed Countries (LDCs), which was adopted at the Hong Kong WTO Ministerial in December 2005.

COMESA, the largest Regional Economic Community in Africa, unites 19 member States, which have agreed to promote economic development through regional integration. COMESA aims to promote trade, to facilitate co-operation in monetary affairs (with the goal of eventually introducing a single currency), harmonise customs procedures, promote the private sector, attract foreign and regional investment (including through establishing a Common Investment Area) and develop regional infrastructure, amongst other priorities. COMESA was established in 1994 as a successor to the Preferential Trade Area (PTA), which had been in existence since 1981.

I. Recommendations

The major recommendations are listed directly below followed by explanations for each position. These are to be viewed as comprehensive and mutually reinforcing, and, if adopted, they would

enhance the goals of DFQF and the Africa Growth and Opportunity Act (AGOA)[1]. Exclusion of any recommendation might not optimise the benefits of DFQF for COMESA member States. *For example, only eight of the 19 COMESA member States would benefit from the DFQF initiative if it were limited to LDC members of the WTO. If, however, the USG agrees to two of COMESA's recommendations below, 16 of the 19 COMESA members would be immediately eligible. The two recommendations are to* incorporate DFQF benefits into AGOA and to designate non WTO LDCs for DFQF treatment.

Key recommendations are as follows:

1. *The U.S should incorporate DFQF provisions into AGOA. Thereby, all AGOA eligible COMESA member States, whether or not they are LDCs, would be DFQF beneficiaries under the AGOA provisions.*
   A. *Consider a joint COMESA-U.S. programme to increase the number of COMESA beneficiaries of AGOA, focusing initially on Comoros, the reasons for whose ineligibility are not entirely clear.*
   B. *Consider negotiating Free Trade Agreements (FTA) initially with the two COMESA members not eligible for designation under AGOA (Egypt and Libya), and at a later stage (presumably, once COMESA has launched its Customs Union) with COMESA as a whole.*

2. *The U.S. should not designate more than 97 percent of its tariff schedule under DFQF. Apparel and textile products should not be designated for DFQF treatment. However, COMESA strongly supports such designation for agricultural products currently excluded from AGOA with the exception of sugar.*

3. *Normal textile origin rules (yarn forward) should apply to the DFQF programme.*

4 *It is imperative for the U.S. to support the WTO Director General's efforts to operationalise expanded Aid-for-Trade. The forthcoming G8 Summit in Heiligendamm, Germany, offers an opportunity for the U.S. to work with other G8 members to do precisely that...*

II. DFQF Eligibility for COMESA Member States

DFQF would affect the COMESA member States according to their respective classifications. COMESA urges the U.S. to implement DFQF in such a manner that the shared goals of maximum export opportunity and deepened economic integration within the Regional Economic Community are achieved.

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[1] The U.S. Generalized System of Preferences (GSP) is due to expire at the end of 2009. COMESA understands that the Administration and Congress is reviewing the programme to determine how the programme should be modified if it extended beyond the end of 2009. We suggest that the DFQF benefits for non Sub-Saharan African beneficiaries of the programme be incorporated into any extension of GSP

The 19 COMESA members can be divided between LDCs and non-LDCs, and if an LDC, between WTO members and non-members.

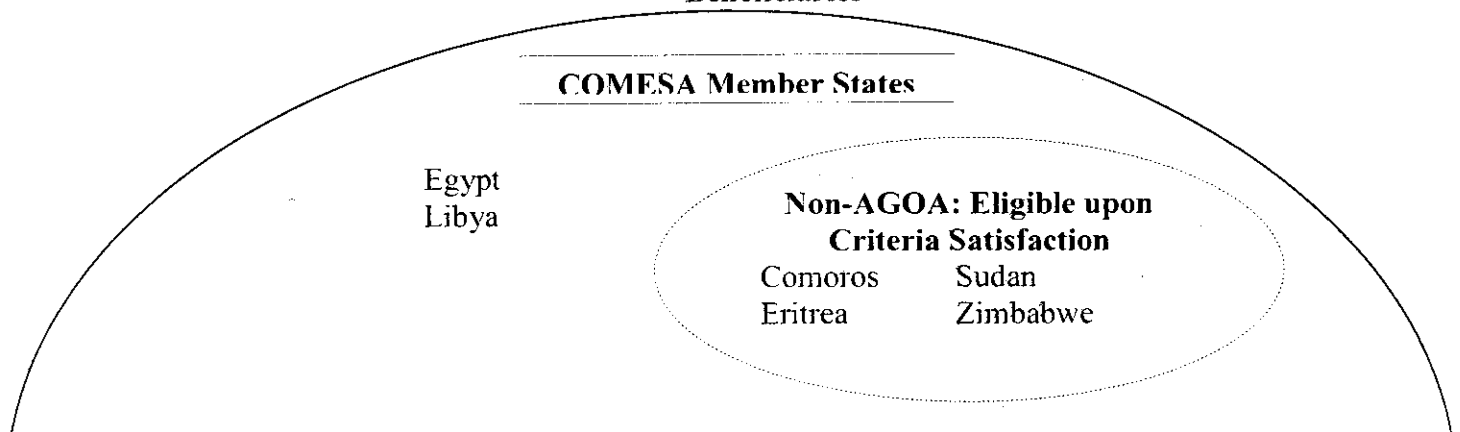
Table 1: Division of COMESA Members

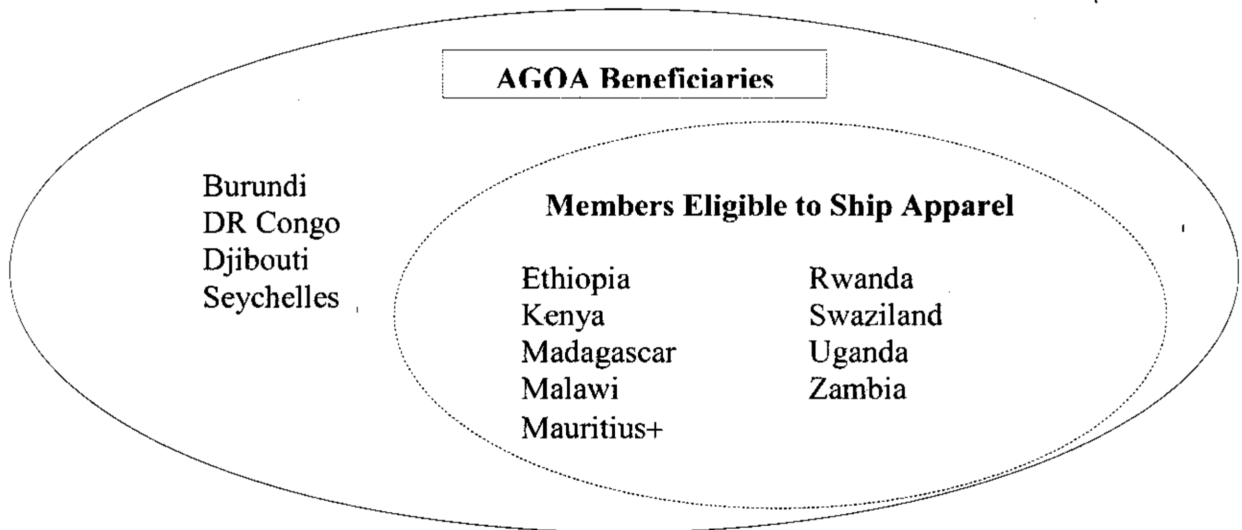
WTO Members		*NON WTO*	
LDC	**NON-LDC**	**LDC**	**NON-LDC**
Burundi	Egypt	Comoros	Libya
DR Congo	Kenya	Eritrea	Seychelles
Djibouti	Mauritius	Ethiopia	
Madagascar	Swaziland	Sudan	
Malawi	Zimbabwe		
Rwanda			
Uganda			
Zambia			

A second categorisation concerns whether or not a given COMESA member State is AGOA eligible. If not, the next consideration is whether they will be designated as eligible in the future.

AGOA, along with such as other programmes as the European Union's Everything But Arms, implemented commitments by developed countries at the WTO Singapore Ministerial in 1996 to improve market access for LDC products. The U.S. was not required to designate all LDCs and thus did not designate LDCs outside of Sub-Saharan Africa. The U.S. included all Sub-Saharan countries – both LDCs and non-LDCs – as eligible for such designation. Countries found not to meet the eligibility requirements were not designated. To be given the right to ship apparel under AGOA, the U.S. required AGOA beneficiaries to meet additional requirements to prevent textile trans-shipments.

FIGURE 1: COMESA Member States as AGOA Beneficiaries and Non-Beneficiaries





+ Eligible to ship apparel with exception of apparel incorporating third country fabrics

Only eight of the 19 COMESA members are LDC WTO members and would therefore gain DFQF benefits under the current WTO proposal. COMESA suggests that the DFQF provisions be incorporated into AGOA. This would allow the 13 AGOA eligible COMESA member States – including the non-LDCs amongst them – to access DFQF benefits.

Three COMESA member States are LDCs but neither WTO members nor AGOA designees. COMESA recommends that all LDCs, whether WTO member or not, be made eligible for DFQF benefits, thus bringing the total to 16 COMESA members.

COMESA would work with the U.S. Government to facilitate AGOA designation for the four countries – Comoros, Eritrea, Sudan and Zimbabwe – that have not been found to satisfy the eligibility criteria for designation. The focus would initially be on the first of these countries (Comoros), the reasons for whose ineligibility are not entirely clear. If all four countries were included, the total beneficiaries would number 17 of the 19 COMESA members States, with the difference between the two scenarios (designating all LDCs or designating all countries eligible for AGOA) being the exclusion of Zimbabwe from the former.

Only Egypt and Libya could *definitely* not receive the benefits of the DFQF provision, as they are neither LDCs nor eligible for AGOA designation[2]. In fact, the only way that these countries could receive duty free quota free access to the U.S. market would be by concluding FTAs with the U.S., either as part of a FTA initiative between COMESA and the U.S. or under other FTA

[2] AGOA eligibility is limited to countries in Sub-Sahara Africa and these countries are considered to be in North Africa.

initiatives. More broadly, COMESA looks forward to the opportunity to negotiate with the U.S. over a U.S./COMESA FTA, once COMESA has launched its Customs Union.

***Recommendation 1**: The U.S. should provide DFQF benefits to as many COMESA members as possible, consistent with U.S. legislation.*

A. Incorporate DFQF provisions into AGOA, thereby making all AGOA eligible COMESA member States also eligible for the DFQF programme, regardless of whether or not they are LDCs.

B. Designate all LDCs, whether or not WTO members, for DFQF benefits.

C. Develop a joint programme between the U.S. and the COMESA Secretariat to assist member States that are not yet AGOA eligible to become so, with Comoros being the first beneficiary of this approach.

D. Consider negotiating FTA with the two COMESA members not eligible for AGOA designation and eventually with COMESA as a whole once it has launched its Customs Union

III. Exclude Apparel and Textile from DFQF Initiative, but Include Agricultural Products

The Hong Kong Ministerial Declaration in its Annex F specifies that market access through DFQF should cover at least 97 percent of products originating from LDCs, defined at the tariff line level. It states that whilst members are required to take steps to comply with the above obligations, they are also to consider the impact of the policy on other developing countries at the similar level of development. Based on these impacts, further expansion of covered products can be undertaken when appropriate.

COMESA suggests that the U.S. take advantage of this provision to designate only 97 percent of products for eligibility. The three percent exclusion allowed under this provision should be applied to textile/apparel products and sugar.

If this percentage is increased, we hope that the U.S. government will take into account the deleterious effect future designation of textile and apparel products under DFQF would have on COMESA members. These members are at a similar, if not at a lower level of development than some of the Asian LDCs in apparel production. Designation of apparel would seriously undermine the viability of COMESA apparel producers.

In regard to textiles/apparel, COMESA supports the statement by the African Coalition for Trade (ACT) submitted to the Trade Policy Staff Committee. ACT members include leading apparel producers and exporters, as well as trade associations from the following seven COMESA members: Kenya, Madagascar, Malawi, Mauritius, Swaziland, Zambia and Zimbabwe.

ACT has suggested that the U.S. Administration exclude sensitive products such as apparel from the DFQF initiative. In particular, we join ACT in urging that duty-free status not be extended under DFQF to those product categories that are most important under AGOA, specifically Categories 338/339/638/639, 340/640/641, 345/645/646, 347/348/647/648, 352/652, 632, 634/635, and 651.

ACT points out in its statement that U.S. apparel imports from Africa and COMESA are down 25 and 24 percent, respectively, since the end of the Multi-fibre Agreement. Individual member shares have been reduced significantly between 2004 and 2006, with Mauritius and Swaziland experiencing declines of 41 percent and 32 percent, respectively. However, exports from Asian LDCs have surged—for example, Bangladesh by 41 percent and Cambodia by 34 percent. These countries have experienced this growth without any preferential access into the U.S. If they were to receive duty-free treatment, their growth would be even faster and would almost assure the destruction of most of the remaining part of the industry in Sub-Saharan Africa, specifically the COMESA producers.

Table 2: Apparel Imports from Various Regions

Region	2004 msme	2006 msme[3]	% Growth
World	**19,980.9**	**22,750.1**	**13.8%**
Bangladesh	941.6	1,324.3	40.6%
Cambodia	634.6	852.8	34.3%
Sub Saharan Africa	**440.3**	**328.0**	**-25.5%**
COMESA	**252.1**	**192.6**	**-23.6%**
Kenya	73.3	65.4	-10.8%
Madagascar	69.4	55.2	-20.5%
Mauritius	37.5	21.8	-41.5%
Swaziland	61.4	41.4	-32.5%

Source: U.S. Commerce Department, Office of Textiles and Apparel, January-November 2006 import data; msme=million square metre equivalents

On the other hand, the major advantage of DFQF over the current AGOA provisions for COMESA member States is that it could cover a number of agricultural products, particularly a number of ones currently ineligible for AGOA. Agricultural commodities subject to U.S. agricultural programmes such as cotton, peanuts (groundnuts) and tobacco make up the major exclusions from the programme. In addition, steel and miscellaneous agricultural products (e.g. garlic and canned peaches) are excluded. COMESA supports the designation of all currently excluded agricultural products with the exception of sugar for DFQF.

[3] Million Square Meters Equivalent

Recommendation 2: *The U.S. should designate for DFQF no more than 97 percent of products originating from LDCs as defined at the tariff line level. Apparel and textile products should not be designated for DFQF treatment under this initiative. COMESA strongly supports the designation of agricultural products currently excluded from AGOA, with the exception of sugar.*

IV. Additional Textile and Apparel Recommendations

The general origin rule for apparel under U.S. FTAs, as well as under unilateral preferential programmes, requires exports from member States to the U.S. to meet the yarn forward rule. According to this rule, apparel eligible for duty-free treatment has to incorporate regional or U.S. spun yarn and formed (knitted/woven) fabrics. AGOA, however, includes a provision allowing a generous quota for duty-free entry of apparel assembled from third country fabrics.

Africa needs exclusivity in the ability to gain duty-free treatment for apparel incorporating third country yarns and fabrics in its exports to the U.S. If this advantage is provided to Bangladesh and Cambodia, given their proximity to cheap Far East textile mills and the industry's overall competitiveness, the aforementioned destruction of the African industry will occur even faster.

Recommendation 3: *If any apparel is designated under the DFQF provision, the normal yarn forward rules should apply. Additionally, Mauritius's eligibility for the AGOA's third country fabric provision should immediately be restored and made a permanent feature of AGOA. Finally, the abundant supply provision contained in the AGOA amendments enacted in December 2006, which requires the use of yarn/fabric found to be readily available in Africa in commercial quantities, should be implemented as soon as possible.*

V. Aid-for-Trade Required for COMESA Members to Take Advantage of DFQF

Economic studies have concluded that without adequate Aid-for-Trade, duty-free treatment and market access are not enough to stimulate exports from COMESA countries. Paragraph 57 of the Hong Kong Ministerial Declaration called for expanded Aid-for-Trade to assist developing countries to build supply-side capacity and trade-related infrastructure. The Declaration states that Aid-for-Trade cannot be a substitute for the development benefits that will result from a successful conclusion to the Doha Development Agenda (DDA), particularly on market access. However, in the absence of export capacity, COMESA members will be very limited in their ability to export and thus will barely benefit from improved market access.

The Aid-for-Trade task force established by the WTO Director General to develop specific recommendations for Paragraph 57 noted that capacity building must take place not merely at the national level, but also at regional level of policy cooperation. COMESA is working on a number of infrastructure and export capacity building projects including (a) establishment of a master plan and fund for transportation (b) harmonising energy policies (c) speeding up Information and Communications Technology cross border interconnectivity (d) COMESA-wide linkage of regional authorities responsible for management of river basins and (e) development

of integrated supply chains for agricultural and manufacturing production. With this attention to supply-side development, COMESA members would eventually be able to export many products benefiting from duty-free access into the U.S. under AGOA (as enhanced by the DFQF initiative).

The Aid-for-Trade Task Force has instructed the Director General to seek additional resources in his effort to operationalise the programme. He is to carry out this effort against the background of the G8 summit in Gleneagles, UK. The Summit was based on the Blair Commission's report, which recommended increasing aid from the Organization for Economic Co-operation and Development's Aid Fund to Sub-Saharan Africa by US$25 billion annually by 2010. The G8 leaders at their next Summit at Heiligendamm, Germany, in early June could deepen the Gleneagles commitment by agreeing on the required steps to operationalise a programme focusing on Aid-for-Trade, including the provision of additional resources.

Recommendation 4: *It is imperative that the U.S. support the Director General's efforts to operationalise expanded Aid-for-Trade. The upcoming G8 summit offers an opportunity for the U.S. to work with other G8 members to realise this objective.*

If the TPSC wishes any clarification or additional information, please feel free to contact the COMESA Secretariat (Ms. Tidu Asfaw; tasfaw@comesa.int) or COMESA's contact point in Washington at Manchester Trade (Mr. Stephen Lande; stepland@manchestertrade.com).