Fact Sheet 3

What you should know about the WTO

Glossary of Trade Terms

In December 2005, trade ministers from Canada and the other 147 World Trade Organization (WTO) member countries will gather in Hong Kong for a crucial meeting, where they will make decisions that will impact Canadian agriculture, public services, natural resources, and the environment. This series of fact sheets is designed to help you understand what's at stake during this meeting, and why civil society groups are concerned about the WTO and its influence over policies and priorities in Canada and in the developing world. This glossary will help you decode some common trade-related terms.

Agricultural Boxes: *Amber box* subsidies are considered the most "trade distorting" and include production subsidies and market price support policies; *Blue box* subsidies are seen as transition measures that involve limits on production; *Green box* subsidies are assumed to have little trade distorting effects and include such measures as research, disaster payments and environmental protection programs.

Countervailing duty: Duty levied on imports of goods that have benefited from production or export subsidies. The duty is intended to offset the effect of the subsidy.

Decoupling: Action to ensure that subsidies to producers (usually farmers) are unrelated to production, so as to provide no incentive to increase production.

Dumping: A form of price discrimination defined as sales below the estimated cost of production.

FIPS: Refers to the Five Interested Parties, i.e., the United States, the European Union, Australia, India and Brazil.

Formula approach: Method of negotiating down tariffs or other barriers to trade by applying a general rule or "formula."

GATS: The WTO's *General Agreement on Trade in Services* is one of the agreements implemented by the WTO. GATS sets rules for who controls or owns services and limits government regulation in the service sector. GATS covers all services including health care, education and utilities such as water, data management, energy, banking, transportation and insurance.

GATT: *The General Agreement on Tariffs and Trade*, signed in 1947, is one of the three mechanisms for global economic governance put in place after World War II, (along with the International Monetary Fund and the World Bank). For almost 50 years, GATT focused exclusively on trade in goods – cutting tariffs and quotas through "rounds" of negotiations. The Uruguay Round, completed in 1995, replaced the GATT contract with the World Trade Organization, a global commerce agency with binding enforcements of comprehensive rules expanding beyond trade. Now GATT has become one of the 18 agreements enforced by the WTO.

Government procurement: Purchasing, leasing, rental, or hire purchasing by government entities or agencies.

Green room: Used to describe discussions in the WTO among a subset of countries, generally the major OECD members and a small number of developing countries.

Least Developed Country (LDC): A country that satisfies a number of UN criteria implying a very low level of economic development. The UN has classified 49 countries in the LDC group.

Market access: Refers to the conditions under which imports compete with domestic products. These are determined by the extent to which foreign goods are confronted with discriminatory taxes and other regulations.

Most Favored Nation (MFN) principle: The "normal," non-discriminatory, tariff charged on imports of a good. In commercial diplomacy, exporters seek MFN treatment – that is, the promise that they will be treated as well as the most favoured exporter.

NAMA: Non-Agricultural Market Access

National treatment: Principle that foreign goods, services, and persons (investors), once they have entered a country, are treated in exactly the same way as national goods, services or persons.

Necessity test: Procedure to determine whether a policy restricting trade is necessary to achieve the objective that the measure is intended to attain.

Negative list: In an international agreement, a list of those items, entities, products, etc. to which the agreement will not apply, the commitment being to apply the agreement to everything else. Contrasts with the "positive list."

Non-tariff barrier (NTBs): A catchall phrase describing barriers to international trade other than tariffs – for example, quotas, licensing, voluntary export restraints.

OECD: The *Organization for Economic Cooperation and Development* describes itself as "an intergovernmental organization comprising 29 advanced economies from Europe, North America, and the Pacific Region."

Panel: A group of three independent experts nominated by the WTO secretariat from a roster approved by members, responsible for determining the validity of allegations brought by one WTO member against another claiming violation of WTO rules and disciplines.

Positive list: In an international agreement, a list of those items, entities, products, etc. to which the agreement will apply, with no commitment to apply the agreement to anything else. Contrasts with the "negative list."

Quad: Refers to the participants in the "quadrilateral meetings," i.e., Canada, the EU, Japan and the U.S.

Special and differential treatment: The WTO principle that developing countries be accorded special privileges, either exempting them from some WTO rules or granting them preferential treatment in the application of WTO rules.

State trading enterprises: Trade by a government agency or enterprise, or by an enterprise to which the government has granted exclusive or special privileges in respect of international trade.

Tariff: A tax on trade, usually an import measure but sometimes used to denote an export tax.

Tariff binding: In the context of the GATT, a commitment by countries not to raise particular tariff items above a specific or bound level. Also referred to as "ceiling bindings."

Tariff escalation: Occurs if the tariff increases as a good becomes more processed. Escalation discourages imports of more processed varieties of the good (discouraging foreign processing activity) and offers domestic processors positive levels of effective protection. For example, low duties on tomatoes, higher duties on tomato paste, and even higher duties on tomato ketchup.

Tariff peaks: Tariffs that are particularly high, often defined as rates that exceed the average nominal tariff by a factor of more than three.

Technical barrier to trade: Trade restrictive effect arising from the application of technical regulations or standards such as testing requirements, labelling requirements, packaging requirements, certification requirements, origin marking requirements and health and safety regulations.

TRIMs: The WTO's *Trade Related Investment Measures* agreement sets certain rules relating to foreign direct investment. For example, the TRIMs rules forbid countries from maintaining performance requirements on investors.

TRIPs: Trade-related intellectual property rights. In WTO, used as an acronym for the *Agreement on Trade-Related Aspects of Intellectual Property Rights*.

WTO: The *World Trade Organization* is a global commerce agency that was established through the GATT Uruguay Round Agreement signed in 1994. The WTO provides dispute resolution, administration and continuing negotiations for the 18 substantive agreements it enforces. Taken as a whole, the WTO and its underlying agreements set a system of comprehensive governance that goes far beyond trade rules.

– With information from Alan Deardorff's Glossary of International Economics, the World Bank, and Public Citizen's Pocket Trade Lawyer.

For more information on the WTO check out www.canadians.org or call 1-800-387-7177.