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WTO in 2006: Looking Back to Move Ahead *Post-Hong Kong is More Challenging*

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Background

Meeting a deadline is one thing which WTO Members seldom honour. After having successfully avoided the second possible fiasco at Hong Kong, the Members are now gearing up to face tougher and more intense negotiations in the current year. The year 2006 is going to be crucial for this 150-member world trade rules making body as three deadlines are to be met: 30 April, 31 July and 31 December. The first important challenge is to meet the end April deadline on agreeing to the modalities on eliminating farm export subsidies, and also establishing modalities in non-agricultural market access. Based on agreed modalities, Members are required to submit comprehensive draft schedules by end July. In services too revised timelines have been agreed for requests and offers. Finally the most important end date is to conclude the Doha Round by end of 2006.

Going by past experiences and record it would be a safe bet for anybody to doubt that WTO Members would be able to meet these deadlines. If at Hong Kong there was so much divergence on agreeing only on broad contours of agreement, one can imagine the differences. These, in all likelihood, will emerge once Members start negotiations on specificities. In a true sense there has not been any "deal" at Hong Kong as negotiations on core problems have been postponed. All know that this happened to avoid a second collapse of WTO Ministerial in a row. The Financial Times columnist, Guy de Jonquieres in his analysis says, "Trade Ministers' biggest achievement was just to keep the talks alive".

Is Hong Kong Declaration a Deal?

Undoubtedly, the outcome of the Hong Kong Ministerial meeting is modest by any yardstick. There are no two opinions about it. Whether it is civil society groups, media or even Trade Ministers, all are speaking in unison over the modest outcome of Hong Kong. While Brazilian Foreign Minister and coordinator of G-20, Celso Amorim qualifies the text as modest but not insignificant, his EU counterpart Peter Mandelson, in his post-Ministerial statement, said that it is not enough to make this meeting a true success but it is enough to save it from failure. Contrary to this, the US Trade

Representative, Robert Portman was more candid in his analysis. "Until we see a breakthrough on reducing tariffs we will not be able to see the agriculture negotiations come together. Without that we won't be able to see the whole round come together," said Portman.

Frankly speaking, if we compare the developments at Hong Kong with the "July Package", the progress is minimal. The most contentious and the toughest part of current negotiations is that modalities, which cover time period, formulae and principles for reductions of tariffs and subsidies, have remained unresolved. In addition, despite all talks of a development focus of Doha agenda, there has been a continuous dilution of the "development" mandate. There were at least three issues of vital concerns for least developed countries (LDCs): the cotton initiative, the duty and quota free market access on all products, and the amendment of the Trade Related Aspects of Intellectual Property Rights (TRIPs) agreement to address the public health concerns of poor countries. Unfortunately, developed countries remained non-committal on these critical issues of LDCs.

A question which arises is that if there was no real deal then what did we achieve? The biggest achievement is that the Ministerial did not fail. This is the feeling of the majority of the people including the EU Trade Commissioner Peter Mandelson. A second collapse after Cancun would have been really disastrous for the multilateral trading system. While a failed Ministerial puts the agenda in a reverse gear, a successful one at least sends a positive signal. The second important result is, for the second time in a row, Southern countries not only remained united, but also strengthened it, telling the North that enough is enough.

If one recalls, the Cancun Ministerial had ended on a bitter note. Soon after, the WTO Members indulged in a blame game. The then US Trade Representative Robert Zoellick in his post-Ministerial press conference said, "Whether developed or developing, there were 'can do' and 'won't do' countries here. The rhetoric of the 'won't do' overwhelmed the concerted efforts of the 'can do'. 'Won't do' led to impasse." Pascal Lamy, the current D-G

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of WTO, who was the chief negotiator of the EU at Cancun, termed WTO as a “medieval” organisation. Arun Jaitley, the former Indian Commerce Minister summed up the outcome of Cancun in a one liner “no deal is better than a bad deal”.

What Happened at Hong Kong?

The Ministerial Conference in Hong Kong began on a very pessimistic note. A day before the inaugural, the attendance was very poor. Delegates of some of the WTO Member countries even did not reach. The general impression was that not much was going to happen at Hong Kong. However, soon the contest turned into a four-cornered one. With G-20 and G-33 on one side, the EU, the US and the least developed countries (LDCs) were the other three actors.

As usual, developed countries started shedding crocodile tears for LDCs. A plethora of hollow promises in the form of “aid for trade”, duty free and quota free market access and many more aid offers were served to the LDCs. The main objective was to shift the focus away from the core agenda of trade liberalisation as evident from the EU Trade Commissioner Mandelson’s statement that he was at the outer limit of his mandate and has nothing much to offer. At the same time Mandelson repeatedly skirted the negotiations citing reasons that there was nothing much on the table to negotiate. On the other hand the US too was non-committal on the LDCs’ demand of duty free and quota free market access for all their products and particularly on the issue of eliminating domestic subsidies on cotton.

The G-20 and G-33 on their part tried to be practical. They realised that it would be foolish to expect any ambitious result from Hong Kong given the prevailing divergence of opinions on agriculture. They demanded that on export subsidies, as per the “July Framework” Agreement, the WTO Members have to agree only on the end date of their elimination, therefore the easiest thing to achieve. Unfortunately, instead of discussing the end date of elimination, the two major trading powers: the EU and the US got entangled into a dog and cat fight over the form of giving food aid to poor countries. The EU argued that cash was the best way to provide food aid alleging that the US’ food aid programme was causing commercial displacement.

Finally, on 16th December, the first ever joint G-20 and G-90 Ministerial level meeting took place. Both the Indian Commerce Minister Kamal Nath and his Brazilian counterpart Celso Amorin were instrumental in building this grand alliance of 110 countries covering 4/5th of the humanity. This thwarted and called the bluff of the rich countries to lure the LDCs and divide the Southern unity. The G-110 meeting also proved that their unity at Cancun was not a fluke but it will sustain. Only after this, the focus of the negotiations was brought back to the main

agenda resulting in the release of a revised text on 17th December and adoption of the final declaration on 18th December.

End Result of Hong Kong

As stated above, the outcome of Hong Kong is modest, which was not unexpected. The main demand of G-20 to eliminate export subsidies by 2010 was not accepted by the EU; instead a compromise date of 2013 was agreed with some frontloading. This also culminates with the EU Common Agricultural Policy’ reform. What is most unfortunate is that the language on export subsidies has been made more complex. The G-20 can no longer say that this will be easy to implement.

However, the text on NAMA gives a sense of comfort to some extent as tariff peaks and tariff escalation would be reduced or appropriately eliminated by using the Swiss Formula with multiple co-efficients. Preference erosion, which is one of the major fears of LDCs, has been recognized in the text. However, still there is no meaningful forward movement on how to negotiate non-tariff barriers (NTBs).

In services new methods and timelines have been agreed to carry forward the negotiations. Since the existing bilateral “requests-offers” proving to be more laborious and time consuming, WTO members adopted a new plurilateral basis in addition to the existing bilateral approach for requests and offers. This alternative format would allow any WTO member or group of members to make requests and offers collectively to other members. India along with the EU and other developed nations supported this shift in methods. But it did not go well with many developing countries who feared that the new rules would make them more vulnerable.

On providing duty and quota free market access to LDCs, the demand of including all products has not been accepted unequivocally. In fact some of the LDCs might be completely denied this preferential market access. The language of the text on cotton is disappointing in contrast to the pressure mounted by the cotton producing least developed countries in West Africa. There is no clear and firm commitment from the US on reduction of domestic subsidies on cotton. The EU is a very minor cotton producer. Also, with regard to the demand of creating a “special development fund” for the transition period, the US remained non-committal.

Is There any Progress since July 2004?

After the Cancun fiasco it took almost three to four months for the negotiators to sit across the negotiating table and resume the dialogue. This resulted in the “July Package”, which once again raised the expectations of developing countries. The July Framework Agreement was an important milestone in the Doha round. Alas, the euphoria created by the July Framework

Table 1: A Comparison Between "July Package" and Hong Kong Declaration

	In July Package	In Hong Kong	After Hong Kong
Agriculture			
Export Subsidies	Agreement in principle to eliminate export subsidies including implicit ones through export credits, state trading enterprises, and food aid. The end date to be agreed.	Parallel elimination of all forms of export subsidies and disciplines on all export measures by end-2013. A substantial reduction to be realised by 2011.	It remains a major challenge to ensure parallelism. It means quantifying indirect subsidies and working out a detailed phase-out programme.
Domestic Supports	Members with the highest trade-distorting domestic subsidies will make deeper cuts. Developing countries that allocate almost all de minimis support for subsistence and resource poor farmers will be exempt from reductions.	Agreement on three bands to classify WTO Members as per their levels of trade-distorting domestic support. As per this classification the EU would fall in top band, the US and Japan in middle band and rest in bottom band.	Yet to agree on size of subsidy reduction and more importantly plugging loopholes to prevent members from box shifting.
Market Access	A tiered formula with progressivity to be achieved through deeper cuts in higher tariffs. Flexibilities for 'sensitive products' (developed countries) and 'special products' (developing countries).	Agreement on four bands for structuring tariff cuts with different thresholds for developing countries. Flexibility for developing country members to self-designate an appropriate number of tariff lines as special products and also right to have recourse to a Special Safeguard Mechanism.	Yet to agree on size of tariff cuts and further specificities on treatment of 'special' and 'sensitive' products.
Cotton	Ensure appropriate prioritization of the cotton issue independently from other sectoral initiatives. Agreement to address all trade-distorting policies affecting the sector in all three pillars of market access, domestic support, and export competition.	Agreement to eliminate all forms of export subsidies by developed countries in 2006. Developed countries to give duty and quota free market access for cotton exports from LDCs. Reductions of domestic support is subject to agreement on general formula.	Reduction or elimination of domestic support remains unresolved and depends upon further progress on overall agricultural negotiations. Director-General to have more consultations for providing development assistance to African cotton producing countries.
Non-Agricultural Market Access			
Tariff Reduction	Formula approach for tariff reduction and agreement on non-linear formula that would cut higher tariffs by more but with smaller reductions for developing countries.	Agreement on Swiss formula with multiple co-efficient to ensure reduction of tariff peaks, high tariffs and tariff escalation along with normal tariff reductions.	Yet to agree on key elements of formula and flexibilities for developing countries.
Non-tariff Barriers	Members encouraged to make notifications on NTBs and to proceed with identification, examination, categorization and ultimately negotiations on NTBs.	Need for specific negotiating proposals and encourage participants to make such submissions as quickly as possible.	Most ticklish issue to deal with, as a great deal of confusion exists on what is NTB and how will they be negotiated.
Preference Erosion	Recognised the problems faced by non-reciprocal preference beneficiary Members.	Negotiating Group to intensify work on the assessment of the scope of the problem with a view to finding possible solutions.	Challenge to build consensus on providing some concessions to these countries as some developing countries are opposed to any such proposal.
Services			
Requests and offers	Members, particularly developed countries were urged to make a high quality offers, particularly in sectors and modes of supply of export interest to developing countries.	In addition to bilateral negotiations, the request-offer should also be pursued on a plurilateral basis. A new timelines have been agreed to make revised offers.	To appropriately address the concerns of developing countries on new methods of negotiations (plurilateral, sectoral, modal). They fear that the new methods will erode the flexibilities available to developing countries to liberalise only in sectors they chose to and the extent they want to.
LDCs Modalities	No specific mention of LDCs modalities.	Members shall pursue full and effective implementation of the Modalities for Special Treatment of LDCs, adopted in September 2003.	After Hong Kong, Members to develop methods for the full and effective implementation of the LDCs modalities.
Development Dimensions			
Duty and Quota Free Market Access for LDCs	No specific mention. However, the "July Package" reaffirms the commitments made at Doha concerning LDCs and renews its determination to fulfill these commitments.	Duty and quota free market access for all products originating from all LDCs by 2008. However, Members facing difficulties shall provide duty and quota free market access for at least 97 percent of products originating from LDCs by 2008 allowing important exclusions such as US textile imports.	After Hong Kong, what constitutes "appropriate flexibility" for developing country members and preferential rules of origin applicable to imports from LDCs, have to be negotiated. Members are also to come out with an initial list of covered products.
Aid for Trade	Discussions took place at various fora on expanding aid for trade.	Director-General to create a task force that shall provide recommendations to the General Council by July 2006 on how to operationalise aid for trade and make it to contribute most effectively to the development dimension of the DDA.	Developing appropriate mechanisms to secure additional financial resources for aid for trade.

Agreement proved to be short-lived. Back home WTO Members succumbed to the realpolitik and started singing in different tunes.

The result, Doha round once again plunged into serious crisis. This is evident from the fact that in the run up to the Hong Kong Ministerial the draft declaration was supposed to be released after the General Council (GC) meeting of July 2005, in what was called "July Approximations". But the GC meeting failed to evolve a consensus. The next GC meeting in October met with a similar fate. Finally, when the November 2005 GC meeting also could not break ice, the WTO D-G Lamy came out with his own draft declaration, which was very modest in terms of substance. Lamy put the Chairs' reports in the annexure urging Members to build upon that.

Naturally, the expectations were quite low. If we compare the July 2004 deal with the achievements at Hong Kong, there seems hardly any progress on the core agenda of trade liberalisation. In Table 1, a comparative chart has been prepared to see the progress made since July 2004. It clearly shows that WTO members are saddled with a more difficult task for future negotiations. It also means that post-Hong Kong, particularly the year 2006 is going to be more challenging for all WTO Members.

Conclusions

The result of Hong Kong is not as important as the message it sends out which is of immense significance for developing countries. The major demand of developing countries was greater market access in the North, particularly in the products of export interest to them. The Hong Kong Declaration does not promise much on this front as the ticklish issues of modalities and formulae are yet to be sorted out.

After having flexed their muscles in the multilateral trade arena, developing countries need to develop an alternative to Northern markets. This is only possible through greater South-South cooperation on trade and economic issues. This should also cover the larger issues of technical assistance and capacity building. Greater South-South trade will further strengthen different South

alliances in the WTO, which at present are more political in nature.

Over the last decade (1990-2001), developing country economies have grown much faster than those of the developed and transition countries and are expected to continue to do so in the coming years. This positive growth performance in the 1990s did result in increased share of South-South trade in world trade. The South-South trade almost doubled, reaching 10.7 percent in 2001 from 6.5 percent of world trade in 1990. But this is definitely not enough to reduce their dependence on the North. The need is also to diversify exports of many LDCs beyond primary products.

What is required is greater facilitation of South-South trade. At present South-South trade is facing impediments from their own barriers and also from the distortions caused by the protectionist trade policy of the North. Despite significant reductions in the obstacles to trade, the developing countries among themselves still maintain higher tariff and non-tariff barriers. The cost of doing trade is also very high among Southern countries. Therefore, it is important for the Southern countries to not only reduce tariffs and non-tariff barriers but also seriously undertake the exercise of trade facilitation measures at the regional level.

Be that as it may, South South trade cannot be a substitute for global trade. Hence multilateral trade will continue to be the engine for growth and prosperity. Therefore countries need to continue to devote their resources and energies at the WTO. Since establishment of the WTO many imbalances, which have affected the poor countries' progress, have been a deep cause of concern. It was with this as the background that the Doha Round could be sold to the poor, when it was defined as a development round. Whether the rich like it or not, that message will continue to reverberate as the year 2006 unfolds. Development dimensions have various contours, but as Kamal Nath, the Indian commerce minister, has to say: 'less than full reciprocity for the developing world' has been reiterated effectively at Hong Kong.

