

August 2004

Arrested Development?

WTO July framework agreement leaves much to be done

An agreement reached at the World Trade Organisation in July this year on how to move forward in the Doha Development Round of trade talks does not offer any cast iron guarantees that poor countries will get the reforms they so badly need. After months of informal negotiations failed to resolve basic disagreements, the talks – which collapsed in Cancun in September 2003 – were pulled back from the brink at the eleventh hour in Geneva. This was hailed as a great leap forward. There was – and rightly so - a palpable sense of relief that the round had not collapsed. However, beyond the avoidance of outright failure, the agreement offers few causes for celebration. **While there are some small wins for poor countries, overall the July framework is a minimal agreement that keeps talks and the WTO afloat, but fails to bridge continuing stark disagreements between developing and developed countries, let alone guarantee a pro-development outcome.**

Stronger language on agricultural export subsidies and an agreement to drop three out of the four so-called Singapore Issues are two positive outcomes for developing countries. However, these were offset by a bad deal on non-agricultural market access, a dangerous agreement that potentially allows rich countries to redefine certain farm payments as acceptable under WTO rules (broadening of the blue-box). The Council meeting was also characterised by a non-transparent, non-inclusive process, dominated by big trading powers and characterised by brinkmanship and power-play. On cotton, an issue of fundamental importance to West Africa in particular, very little progress was made. In future, cotton will be folded into general agriculture negotiations, a decision that explicitly goes against poor country requests. The Council agreement leaves members with an enormous amount to do if the round is to be completed and achieve its stated aim of making trade work for development.

That poor countries settled for such a minimal deal is a testimony to the psychological war that preceded the General Council. Enormous political pressure was placed on them to be “reasonable” and give up on most of their development demands to avoid a re-run of Cancun. Developed countries were not ready to make any meaningful concessions and many poor

countries felt they had to accept this, or face blame for the collapse of talks. Immediately before the Geneva meeting, US Trade Representative, Robert Zoellick, specifically warned the G-90 group of developing countries to be flexible, issuing the barely veiled threat that he 'did not know if the round could be revived' if negotiations were to fail again. Such political pressure forced developing countries to adopt a defensive strategy of damage limitation rather than anything more ambitious.

Moreover, developing countries went into the actual negotiations from a highly disadvantaged position. The draft agreement that was presented on 16 July was unbalanced, taking great pains to accommodate the specific concerns of the developed countries while leaving open or ambiguous many of the issues of great importance to developing countries¹. As a result, developing country negotiators concentrated their energy in reversing the most damaging parts of the draft text, realising real progress was already out of reach.

The continued unity and assertiveness of developing countries rescued the deal from being worse than it was, with poor country members managing to claw back some concessions at the last minute. This, and the fact that the deal is better than the one rejected in Cancun, form a thin silver lining to what is overall a disappointing result. Rich countries must demonstrate greater ambition, a more enlightened self-interest and a genuine willingness to respect the multilateral system if the round is to deliver the potentially enormous gains for poverty reduction and global prosperity. A successful trade round would make great inroads into achieving the UN's Millennium Development Goals. A failed round would be a devastating step backwards.

Trade-offs in Agriculture

After three years of negotiations, the results fall far short of what is needed to reform agricultural trade rules so that they work for the poor. Ninety-six per cent of the world farmers –approximately 1.3 billion people - live in developing countries and their livelihoods depend on the outcome of the WTO talks. But the current agreement still reflects the vested interests of rich countries.

Export competition: the clearer language on the elimination of European export subsidies is a welcome first step and the EU did well not to renege on its promise to eliminate export subsidies, despite the absence of reciprocal action from the US. However, a clear time

¹ Also see Oxfam Briefing paper 65: "One Minute to midnight; will WTO negotiations in July deliver a meaningful agreement".

schedule for the elimination is still missing and there is a continuing imbalance between the treatment of export subsidies and other instruments with similar effects used by the United States, such as export credits and the commercial use of food aid.

Domestic support: double standards abound. Rich countries will keep a sizable portion of their subsidies, while developing countries are being pushed to reduce theirs in spite of clear development needs. Developing countries are obliged to prove that subsidies are going to poor, subsistence farmers, but the United States and the European Union are under no such constraint and can continue to give 80% of their subsidies to the 20% richest farmers.

At this stage, it is very difficult to foresee whether real cuts in domestic support will be achieved during this round as the percentage cuts have not yet been negotiated. Furthermore, the deeply flawed system of boxes, which classifies subsidies according to the alleged effects, will be maintained despite its fundamental flaws. This is not a good omen. Much has been made of the “down payment” of 20% for reductions in trade-distorting domestic support in the first year of implementation. However, the head negotiator of the United States, Robert Zoellick, has already told the US Senate that “this will not require cuts in farm programs” as the US is already fulfilling this commitment. This could also be the case for the EU after its CAP-reform. What will be much more decisive will be the size of cuts *after* the down payment.

Another cause for concern is that new loopholes have been opened up for rich countries. The text allows for a review of the so-called blue box, which would enable more subsidies to be de-linked from production, and therefore rendered acceptable under WTO rules. This could allow the United States to maintain its counter cyclical payments by reclassifying them in this new box, despite the fact that they are highly trade-distorting. In the case of cotton, this could allow the United States to avoid implementing the findings of the recent cotton panel, which ruled that these subsidies had to be removed due to their damaging effect.

Market access (agriculture): continuing disagreement meant that the negotiation of a formula for tariff reduction was further postponed. Developed countries, led by the United States, are still pushing for across-the-board and rapid liberalisation in developing countries, despite the catastrophic impact this would have on the world’s poorest farmers. Provisions on special and differential treatment still remain vague, including on special products and a special safeguard. At the same time, the framework takes great pains to allay fears of developed countries about further opening their own markets. Developed and developing countries’ sensitivities are treated in similar ways, despite the different economic realities. While

agriculture provides more than 50% of employment in developing countries, it only amounts to 7% in developed countries.² Similar treatment also contravenes the mandate and spirit of the Doha Development Round. For instance, the framework introduces a new category of “sensitive products” for developed countries- for which less tariff cuts have to be made - a category that was never envisaged in the Doha mandate. This was a key demand of the EU and others like Switzerland, Japan and Norway. In the end, developing countries might be asked to further open their borders to dumped products, financed by subsidies, while industrial countries’ markets would remain shut thanks to loopholes like sensitive products and a raft of technical barriers. This would be a travesty of a development round.

Cotton is a ‘litmus test’ for the Doha Development Agenda’s capacity to deliver on promises to end dumping, which threatens the livelihoods of hundreds of millions of farmers in the developing countries. Disappointingly, the framework fails to include a strong commitment that trade-distorting subsidies on cotton will be drastically reduced on an early harvest basis. Contrary to developing country requests, cotton has been folded into the overall agricultural negotiations, with the only mechanism envisaged to ensure specific treatment for cotton being the creation of a cotton subcommittee. The disappointing result for cotton gives little hope that developed countries will indeed fulfil their promises of agricultural reform. As a result of political pressure by developed countries in the months leading up to July, West African governments bowed to the hard line position taken by the United States. The US government indicated that, even within the agricultural negotiations, cotton was a ‘red line’ not to cross, threatening West African countries that a step too far might lead to the collapse of the whole July framework. This intransigent position of the United States government resulted from satisfies their cotton lobby – 25,000 farmers - at the expense of millions of cotton farmers in Africa.

Heightened risk of de-industrialisation?

Despite the repeated opposition of developing countries to a framework based on the Cancun text, enormous pressure from developed countries, especially the Quad, led to the adoption of a framework potentially adverse to development. Negotiations on industrial goods have been an uphill battle for developing countries right from the start of the round. For the past three years, developed and developing countries have been unable to reach agreement on crucial elements of industrial negotiations, especially the formula for tariff reductions. In Cancun, developing countries had clearly rejected the proposed text (the so-called “Derbez” text),

² Percentage of economically active population in agriculture in total economically active population in 2000. FAO statistical databases.

which could potentially lead to further de-industrialisation, unemployment, and poverty by opening vulnerable, nascent industries to world competition.³ In spite of this clear opposition, negotiations in July started on the exact same basis. Worse, the US and the EU were adamant that nothing in this text should be changed. In the end, developing countries were put in a position where they had to agree to the text or risk the collapse of negotiations. The only redeeming feature is that developing countries managed to negotiate the inclusion of an extra paragraph that “recognises” that “additional negotiations” are required on “specific elements”. In the end however, the adoption of the Derbez text constitutes a diplomatic “fudge” that resolves none of the substantive issues at stake in these negotiations. There is a clear danger that unless the Quad starts listening to legitimate developing country concerns, negotiations will continue to be blocked after July.

Three Singapore Issues dropped from the Doha round: a victory for developing countries

Dropping three of four of the Singapore Issues – Investment, Competition and Transparency in Government Procurement- from the Doha agenda with the explicit agreement that negotiations will not take place during this round is a significant achievement for developing countries showing that strong unity and resolve can modify the organisation’s agenda. The framework also precludes plurilateral negotiations on these issues. With this decision, the agenda of the round will be much more focused on core trade issues, which is a positive development. These three Singapore issues had been highly controversial since their first inclusion onto the WTO’s agenda at the 1996 Singapore Ministerial, because of their complexity and the absence of a development component in proposed negotiations.

Under pressure from developed countries, developing countries did concede to the launch of negotiations on Trade Facilitation- the fourth of the Singapore Issues. It remains to be seen whether the legitimate concerns voiced by many developing countries regarding possible costs of the implementation of trade facilitation rules and the use of the Dispute Settlement Understanding will be effectively addressed.

³ For instance, the text puts developing countries which have undergone structural adjustment at a clear disadvantage by proposing to use as a basis for tariff cuts twice the applied rate in the case of tariffs currently unbound.

Process

In contradiction with promises made in the immediate aftermath of Cancun that WTO process would be made more transparent and inclusive, the General Council was marked by a chaotic process which often resembled that of Cancun. In fact, there was no process, just ad hoc arrangements that were constantly revised as negotiations proceeded.

The fact that two developing countries, Brazil and India, were included in the NG-5 is a clear recognition that the old system, driven by the Quad, is no longer able to deliver any agreement, at least in agriculture. This is a positive development. However, the fact that the NG-5 process completely overshadowed the normal negotiation process is cause for great concern. It led to the exclusion of most members of the WTO from the “meat” of negotiations, condemning them to a position of tinkering at the edges of an agreement whose ground principles had been set by others. This model should not be replicated in the future, as it excludes the poorest members of the WTO, which have the greatest development needs.

Another major problem was that this General Council was transformed into a “hybrid” meeting, with even fewer rules and procedures than in a ministerial conference, mixing ministers with ambassadors, making decisions of a ministerial nature and restricting access to civil society. A bad precedent has been set in the name of political expediency. The search for better process is now urgent.

In the run-up to the Hong Kong Ministerial

Even though this framework unlocks the talks, the final text is disappointing and does too little to guarantee the creation of fair trade rules that enable poverty reduction. The majority of the work still remains to be done, including very hard political decisions that must be made at the highest level. The risk is that changes in leadership in the EU and elections in the United States will be conveniently used as an excuse to postpone these difficult decisions, putting enormous pressure on the next ministerial conference, scheduled for December 2005 in Hong Kong to resolve outstanding issues in agriculture and NAMA. This would be the recipe for another failure. WTO members must use the next 15 months to put the round back on track by resolving, for instance, the following issues:

- Political leadership is needed in the European Union and the United States to put an **end to dumping** once and for all. This would entail the following elements:

- A credible end date for export subsidies must be agreed to by the European Union as expeditiously as possible. The United States should not use smokescreens to refuse

elimination of subsidized export credits and the introduction of disciplines on the commercial use of food aid.

- As a sign of good faith, the US and the EU should agree to fully implement the findings of the cotton and the sugar panels in a way that benefits developing countries. This would send a positive signal about their willingness to reduce trade-distorting domestic support substantially within this round. This would also help respond to the legitimate demands put forward by West African countries about cotton. Ambitious figures for the reduction of domestic support must be negotiated, addressing all instruments and commodities, so that dumping effectively disappears.

- The question of **agricultural market access**, which remains the biggest stumbling block on the road to an agreement, must be resolved by accepting once and for all that developing countries should not be asked to open their markets in a way that threatens the food security and rural livelihoods of the 1.3 billion of farmers living in developing countries. This entails far greater flexibility for developing countries in the formula, special products and a special safeguard to establish the level of liberalisation which is acceptable to them.

- Provisions in the **NAMA** text that were forced upon developing countries despite their anti-development impact, such as the non-linear formula and sectoral negotiations, must be fully renegotiated before any progress can be made in the NAMA negotiations.

- **Process:** The NG-5 should not become a permanent feature of WTO negotiations. Instead, there should be a renewed effort to ensure inclusiveness and transparency, a pre-condition for achieving a legitimate, meaningful agreement.