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LITTLE MOVEMENT ON SECOND DAY OF WTO TALKS

With little discernible progress on the second of what is supposed to be six days of high-level talks at the WTO, Director-General Pascal Lamy unexpectedly changed the negotiation process on Tuesday, dropping a planned 'green room' gathering in the hopes that issue-specific meetings among smaller groups of Members would yield compromise more swiftly.

A Wednesday evening 'green room' session has been cancelled in favour of multiple meetings of smaller groups. Lamy had been expected to convene meetings of the invitation-only forum, which involves ministers from 30-odd countries, every day.

Sources say that during a seven-hour green room meeting on 22 July, Lamy told participants that at their current pace, convergence on liberalising trade in agricultural and industrial goods would take at least a fortnight. The alternatives were either for the chairs of the two negotiating committees to try to split the differences among Members, or for countries to meet in smaller groups to try to resolve their differences on the toughest issues more quickly.

US subsidy offer leaves developing countries unimpressed

Earlier in the day on 22 July, the US had announced that it would lower its annual limit on trade-distorting farm payments to \$15 billion in order to push the negotiations forward. "This is a major move, taken in good faith with an expectation that others will reciprocate and step forward with improved offers in market access," US Trade Representative Susan Schwab said at the press conference she called to unveil the offer.

But Brazil, India, and other developing countries said that the offer would still allow Washington to virtually double farm payments over current levels, and hardly merited the industrial tariff cuts it was seeking from them in return.

A ceiling of \$15 billion for allowable 'overall trade-distorting support' (OTDS) would be well below the \$22.5 billion limit Washington has formally tabled in the trade talks, as well as the \$17 billion figure it has informally offered. It would also be within the \$13-16.4 billion range for US OTDS caps present in the draft agriculture text that is serving as the basis for the current negotiations.

However, it is considerably above the roughly \$7-8 billion in trade-distorting support that the US government paid to farmers and agroindustry in 2007, according to data distributed by the US trade representative's office.

The distance between the proposed 'bound' ceiling and actual spending -- what trade diplomats call "water" -- has failed to impress officials from developing countries. Brazilian Foreign Minister Celso Amorim's initial response was that the US offer showed "a low level of ambition." He said that an acceptable level of water would be one that would let him "breathe."

"Thank you, that's a good offer... could have been better," said Indonesian Trade Minister Mari Pangestu, after Schwab presented the proposal to ministers from about thirty countries during the 'green room' that evening. On his way out of that meeting, Amorim suggested that a US offer closer

to an OTDS cap of \$13 billion, as in the chair's text, would be a significant move in the right direction.

During the press conference, Schwab defended the significance of the \$15 billion ceiling, saying that it would necessitate "adjustments" to US farm programmes. US OTDS expenditures would have exceeded that level in seven of the last ten years, she said, and the average outlay over the last ten years was \$16.8 billion. Explaining that farm payments were currently low because prices were high, Schwab said that when prices drop, spending would face real constraints.

Under the WTO's complex rules for classifying farm subsidies, OTDS is made up of three components: 'amber box' payments (the most distorting kind), 'blue box' payments (less distorting), and 'de minimis' (could be just like the amber box, but allowed up to a certain percentage of the value of agricultural production).

The US' new offer has left its proposed future cap on amber box payments untouched at \$7.6 billion, a figure that commands enough acceptance among Members to be present in the current draft text without brackets. Therefore, the additional \$2 billion cut in allowable subsidies entailed by the \$15 billion offer would come from Washington's blue box and 'de minimis' spending entitlements.

However, the \$2 billion reduction to these latter two components of OTDS may not "do very much" to place real new constraints on US spending, suggested David Blandford, a professor of agricultural and environmental economics at Pennsylvania State University. Because of the way US farm programmes are designed, most of the price-sensitive payments are in the amber box, he explained. On the other hand, Blandford said, the US might run into trouble meeting its amber box limit if it notifies payments under a new, potentially expensive revenue stabilisation plan called ACRE as belonging in that box.

Officials look for deeper offer

An official familiar with the negotiations said that the US offer at least demonstrated "a disposition to negotiate." The source noted that the figures for the past ten years were pushed upwards by unusually high spending from 1999 to 2001 (between \$23.5 to \$26.3 billion), and that food prices were likely to remain high (and subsidy payments consequently low) for the next three to four years.

Some developing country delegates suggested that the US offer was a strategic gambit, and that it could accept a lower cap on OTDS.

Schwab did not rule out further moves on OTDS. "This is an iterative process," she said, "we have a ways to go, but I expect others to come forward with areas where they can do more."

Both she and US Undersecretary for Agriculture Mark Keenum stressed that the price for winning political support even for the new subsidy offer would be access to overseas markets. Although the US Congress recently overrode a presidential veto to pass a subsidy-laden farm bill, the two insisted that lawmakers would accept subsidy reform if presented with enough new market access.

Schwab said that Washington was willing to cut cotton subsidies by an extra margin, as WTO Members have promised West African cotton producers, but Keenum said that this margin "will be dependent on [the] market access, quite frankly, that we will see for American cotton" in China and other Asian markets.

Call for new 'peace clause'?

In addition to trade concessions, Schwab also appeared to call for protection from legal challenge similar to that afforded by the WTO's now-expired 'peace clause'.

"We also need assurances that if our [farm subsidy] programmes are going to meet these disciplines, that they are not then going to be subject to legal challenges that will reduce them further," she said. Although Schwab insisted that the US was not "expecting the peace clause as it existed to be reinstated," she said that it would be "impossible for us to go back to the farm community" with a Doha Round deal promising to cap OTDS, "if then a legal challenge could result in it being made even lower."

Under the peace clause, which expired at the end of 2003, countries agreed not to launch WTO cases accusing each others' farm subsidies of distorting world prices and hurting their trade interests, so long as payments remained within legal limits.

The US, which faces such accusations for some of its farm subsidy programmes, has been pushing for a new variant on the peace clause since 2005, albeit with little support from other countries.

Jeremy Hobbs, the head of Oxfam International, said in a statement that "requesting this sort of immunity upfront is tantamount to admitting intention to break the rules in the future."

"No mandate for GI extension," Schwab says

Also during the press conference, Schwab rejected the notion of extending special intellectual property protections to location-based food names as part of the Doha round negotiations.

"There is no mandate in Doha for GI extension," she said in response to a journalist's question. "We do not think that is a good idea and we are not currently engaged on that subject, nor do we intend to be," she said.

The notion of extending a higher level of geographical indication (GI) protection -- already available for wines and spirits -- to other products with geographic links has long been the subject of controversy at the WTO. Opponents of 'GI extension' such as Argentina, Australia, Canada, Chile, and Taiwan -- in addition to the US -- argue that it would hurt producers to prohibit them from using long-used product names such as 'Parma ham'. Supporters like Switzerland and the EU believe that expanded GI protection could win their farmers price premiums that would soften the blow of subsidy and tariff cuts.

Luzius Wasescha, Switzerland's ambassador to the WTO, called Schwab's remarks "an initial reaction."

"I cannot believe that the world leader of democracy would ignore the attitude of over 108 countries," he said.

He was referring to a recent joint initiative by over one hundred developed and developing countries, led by Switzerland, the EU, Brazil, and India, that called on ministers to accept GI extension as part of a modalities agreement (along with a commitment to amend WTO intellectual property rules to oblige patent applicants to disclose any biological resources or traditional knowledge used in their inventions).

Lamy has been conducting intensive consultations on GI extension this week.

"Let's give these consultations a chance," Wasescha said.

An EU spokesperson declined to comment on Schwab's remarks about GI extension, pointing to the ongoing consultations.

Timeline for talks slipping?

Differences on the depth of industrial tariff cuts, as well as flexibilities for developing countries to shelter some products from liberalisation, remained a subject of discussion during talks today. Mandisi Mpahlwa, South Africa's trade minister, took a very different view from USTR Schwab, suggesting that the US offer was not significant enough to put the onus on developing countries to come forward with further concessions.

Speaking to heads of delegation at Tuesday's morning of the Trade Negotiations Committee (TNC), Mpahlwa said that the figures currently on the table in the non-agricultural market access talks would already result in substantial cuts to South Africa's applied tariff rates, exposing the majority of the country's dutiable tariff lines to greater import competition. In light of the country's unemployment rate of 23 to 26 percent, he said that "anything short of a significant expansion of the flexibilities and an appropriate increase in the level of coefficient will be politically, economically, and socially very difficult to justify."

The ongoing talks in Geneva dodged a potential complication on Tuesday when India's ruling coalition survived a confidence motion in the nation's parliament. Commerce Minister Kamal Nath had flown to New Delhi for the vote, but will return to the WTO on Wednesday.

The timeline for the 'mini-ministerial' discussions in Geneva appears to be extending. The cancelled Wednesday evening green room meeting will now be made up on Thursday, and a conference on services trade originally scheduled for Thursday has been postponed until the following day despite the return of the Indian minister, whose country has been prominent in the services trade negotiations. Officials say that the aim is still to have a revised set of draft negotiating texts on Friday.

Nevertheless, barring a breakdown, negotiations aimed at achieving framework 'modalities' agreements on agriculture and industrial trade in the struggling Doha Round trade talks may now continue through the weekend. "I don't know how many more days this is going to be," said WTO spokesperson Keith Rockwell after Tuesday evening's green room.

Lamy is set to address the daily TNC session on Wednesday morning, where he will presumably provide further details about the altered process for the negotiations.

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