



International Centre for Trade  
and Sustainable Development

# Bridges

## Daily Update

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### "TIME IS RUNNING OUT" FOR STRUGGLING WTO TALKS

The next 24 hours will determine whether governments can rescue WTO talks from the brink of collapse, officials said Thursday evening.

A crucial day lies ahead for the ongoing attempt to strike framework deals on liberalising agricultural and industrial trade. Discussions have been largely stalemated since they started Monday, and negotiators are under increasing pressure to find common ground -- and soon -- or potentially face the breakdown of the troubled Doha Round.

"Tomorrow is the day in which we will know if it's possible or not," Brazilian Foreign Minister Celso Amorim told reporters Thursday night. "We're doing our best. It's not easy, but we're trying."

"I know there are difficulties all around," he said. "Time is running out."

Mari Pangestu, Indonesia's trade minister, insisted that the "the mood was still positive."

The ministers were speaking just after the conclusion of a 'green room' session Thursday evening that involved some 30-odd governments. That meeting was scheduled after several countries complained earlier in the day that the negotiating process, which on Wednesday had revolved almost entirely around a group of seven major trading powers, was becoming too secretive and exclusive.

Even some countries that had backed WTO Director-General Pascal Lamy's call on Tuesday for Members to pursue compromise in smaller groups expressed unease with his near-exclusive focus on the so-called 'G-7' countries: Australia, Brazil, China, the EU, India, Japan, and the US.

Speaking at a Thursday morning session of the Trade Negotiations Committee (TNC), Doris Leuthard, Switzerland's economics minister, said that Lamy had "changed at short hand the process and decided to work in one very small group only." "You have put many of us ministers in the waiting room," she told him. "This is very difficult for me to accept."

A representative of the Kenyan delegation went even further, saying that it was not acceptable for "consensus to be forced down the throats" of those who have no seat at the negotiating table.

Responding to the criticism, Lamy told the disgruntled delegations that he was sympathetic to their positions. "I totally understand, and share, the concerns of those of you who feel that this process is frustrating and sometimes too obscure," he said. The Director-General went on to emphasise that only the entire Membership can ultimately take a decision on modalities packages on agricultural or industrial goods trade. "No decision can be taken by a small group, and no decision will be taken by a small group," he said.

Despite such reassurances, several Members reportedly expressed concern that if they were not involved in the negotiation of a deal they would have no "ownership" in the outcome of the talks, which in principle are meant to be run in a transparent and inclusive manner.

"I totally agree that we have to work out this problem of ownership," Lamy reportedly replied. "Ownership is a problem, but there is a bigger problem if there is nothing to own."

#### Little progress in closed-door G-7 talks

Apart from generalities about "progress," however limited, few details have emerged from the closed-door G-7 meetings, which took place late into the night Wednesday and then again on Thursday afternoon.

Lamy did tell the TNC Thursday morning that his consultations with the group had focused on some key issues in the agriculture and industrial goods talks. On farm trade, they discussed limits on trade-distorting subsidies; cotton; the tariff reduction formula for developed countries; and market access flexibilities for 'sensitive' products, 'special' products, and the 'special safeguard mechanism'. Farm subsidy spending entitlements have featured prominently in the week's discussions, with Brazil, India, and other developing countries saying that a US offer to cap 'overall trade-distorting support' (OTDS) at \$15 billion was insufficient, especially in light of the concessions Washington wanted in return.

As for non-agricultural market access (NAMA), Lamy said that the seven considered the 'coefficients' that will determine countries' future duty levels, flexible tariff treatment for developing countries and 'anti-concentration' rules on their use, and sector-specific liberalisation initiatives. Lamy did not go into specifics, however.

Sources close to the G-7 talks suggest that Lamy put forward a range of potential parameters for a deal on agriculture, including a 70-percent reduction for the highest farm tariffs levied by developed countries (those above 75 percent, which fall into the top band of the tiered tariff reduction formula). The most recent draft agriculture text had two bracketed options for percentage reductions in the top band: 66 percent and 73 percent.

Lamy further proposed allowing developed countries to designate 4 percent of their agricultural tariff lines as 'sensitive', or eligible for lower tariff cuts. (The text's other option was 6 percent; countries with very high tariff levels, like Switzerland and Norway, are entitled to an extra 2 percent.) He reportedly suggested that countries expand import quotas for sensitive products enough to provide exporters with new access opportunities equivalent to 4 or 5 percent of domestic consumption.

Sources indicate that the EU, which does not want to expand quotas beyond 4 percent of domestic consumption, suggested a compromise that would link tariff rate quota expansion to the number of products designated sensitive. Thus, under the European proposal, if a country were to designate 4 percent of products as sensitive, it would have to provide new access opportunities worth 4 percent of domestic consumption. With a 5 percent sensitive product entitlement, the country would be required to expand TRQs by an amount equivalent to 5 percent of domestic consumption. And if it designated 6 percent of products as sensitive, the TRQ expansion would have to be equal to 6 percent.

With regard to tariff capping -- a demand of farm exporters that is anathema to countries like Japan and Switzerland -- one official indicated that Lamy had said that there should be an absolute cap on non-sensitive products. (The draft text contains an option for a limited exception to such a cap.) Sensitive products could remain exempt from tariff ceilings, but only in return for some unspecified payment.

The G-7's talks at least covered new ground on 'special products', which developing countries alone are allowed to shield from tariff cuts for food and livelihood security and rural development concerns. The participants discussed the notion of allowing developing countries to designate 15 percent of agricultural tariff lines as 'special products', with less than a third of these, fewer than 5 percent of all tariff lines, fully exempt from tariff reduction. Though short of the 8-percent exemption in the most recent proposal from the G-33 bloc of developing countries, the US and other exporters have insisted that no lines be exempt from cuts.

One of the main sticking points in discussions on the 'special safeguard mechanism' (SSM), a device intended to help developing nations protect vulnerable farmers from import surges and price collapses, is whether countries should be allowed to impose safeguard duties in excess of current tariff ceilings (i.e., pre-Doha duty cuts). Sources say that Lamy broached the notion of placing a cap on safeguard duties that would instead be some level above pre-Doha bound rates. He has suggested that senior officials meet to examine various options.

Competitive farm exporters, most vocally the US, fear that an SSM without substantial restraints could close off and even reduce market opportunities. The G-33 bloc of developing countries, on the other hand, has stressed the need for an effective SSM. Indian Commerce Minister Kamal Nath has repeatedly called it a matter of livelihoods and poverty, not a negotiable issue of commerce.

Speaking to reporters after the green room meeting on Thursday evening, Indonesian minister Pangestu took pains to emphasise that special products and the SSM were far from the only sticking points in the agriculture negotiations. "SP/SSM are not the only issues where there is not convergence," she said, citing sensitive products and OTDS caps as other examples.

### ACP, Latin Americans, still consulting

Negotiating mandates to liberalise trade in tropical products while addressing the effects of preference erosion have pitted Latin American proponents of expedited liberalisation against countries in the African, Caribbean and Pacific (ACP) group that have long benefited from preferential access to major markets, especially on products such as bananas and sugar. The two groups have continued to meet in an attempt to find a compromise where their goals conflict, but the issue remains unresolved.

In mid-July, some of the Latin American countries proposed dropping their demands for expedited liberalisation on 30 of the 42 overlapping tariff lines, in return for achieving their objectives on the remaining 12, which included arrowroot, plaintain, palm oil, and melons.

Recent talks have followed a two-track approach, one official said. One for bananas, and the other for almost "everything else." Although talks on the latter were going well, exploring options such as letting preference-

granting industrialised countries cut tariffs on certain key commodities like orange juice by the lower percentages in the developing country tariff reduction formula, and implementing duty reductions over a longer period of time.

Banana trade, however, remains divisive, and risked affecting the talks on other products, the source said.

In talks with the EU brokered by Lamy, some of the Latin American countries turned down as insufficient a proposal for the EU to cut its banana tariff to 116 euros/tonne by 2015, with a 26 euro/tonne cut in the first year.

Meanwhile, the ACP has proposed a 'down payment' initial tariff reduction of 26 euros/tonne followed by a grace period, with tariffs not reaching 116 euros/tonne until 2019.

### Shifting process and timeline

While delegations speaking at Thursday morning's TNC meeting denounced Lamy's decision to focus the talks among the G-7 countries, the process appears to have gained at least some support during the evening's green room session. One source said that Canadian Trade Minister Michael Fortier told the G-7 ministers that he did not mind waiting, so long as there was potentially something to wait for, and asked them to report to the larger green room group, one by one, where they thought the negotiations stood. The ministers reportedly responded by suggesting that there was at least some hope that a way forward could be found in the talks.

Pangestu, the Indonesian minister who had complained in the morning about being relegated to a 'dark waiting room', also expressed a degree of confidence with Lamy's new process, telling reporters that she hoped another green room session would be convened the next day so that non-members of the G-7 could be further briefed on progress in the closed-door talks.

With the agriculture and NAMA talks struggling, the services signalling conference, which had already been pushed back from Thursday to Friday, has now been re-scheduled for Saturday afternoon. With that meeting pushed to the weekend, there is now no chance that the final session of the TNC, originally slated for Saturday at 10am, will take place on time. Thus, assuming the talks do not fall apart in the coming days, Monday or Tuesday of next week is likely the earliest that ministers could be brought together to formally adopt modalities packages on trade in agriculture and industrial goods.

On the contentious issue of whether the Doha round 'single undertaking' should include anti-biopiracy measures and expanded protections for location-based food names, Norway's foreign minister, Jonas Gahr Støre, whom Lamy has appointed to head informal consultations on the issue, said he would continue to "consult in good faith with the whole array of interests." Støre acknowledged, however, that the focus of the talks would still be on reaching deals on trade in the agricultural and industrial sectors. Once further progress is reached in those arenas, "that's when this issue becomes real," he said.

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