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WTO MINI-MINISTERIAL EVADES COLLAPSE, AS LAMY FINDS 'WAY FORWARD'

Despondency and bitterness gave way to guarded optimism at the WTO on Friday, as prospects for breakthrough agreements on agriculture and manufacturing trade brightened significantly during the fifth day of a high-level summit in Geneva.

By the end of the day on 25 July, an accord at least seemed possible, which was barely the case in the morning, although negotiators cautioned that it remained very far from a done deal. At the centre of the turnaround was a package of potential compromises on several unresolved issues in the negotiations put together by WTO Director-General Pascal Lamy in his consultations with ministers from seven leading trade powers, the so-called G-7.

Of all of the members of the G-7 -- Australia, Brazil, China, the EU, Japan, India, and the US -- India alone expressed strong reservations about Lamy's proposal, particularly with regard to provisions for developing countries to protect poor farmers. India did not, however, object to sharing the WTO chief's 'landing zone' for an agreement with a broader group of some 30-odd governments in a 'green room' session Friday evening, where it garnered significant support as a basis for discussions over the upcoming days, despite some objections.

While no country was happy with every detail of Lamy's proposal, there was "very, very, very broad acceptance that this paper was the way forward," WTO chief spokesperson Keith Rockwell told reporters after the Friday evening green room.

"We have achieved a path forward to what we hope will be a successful modalities package," said US Trade Representative Susan Schwab. Celso Amorim, Brazil's foreign minister and leader of the G-20 bloc of developing countries, said that the odds of striking framework Doha Round agreements on agriculture and non-agricultural market access (NAMA) had "increased from 50-50 to 65-35." Norwegian Foreign Minister Jonas Gahr Støre went further, saying that the talks were "close to a breakthrough."

This was a marked contrast from the morning, when Lamy told a session of the Trade Negotiations Committee that the "blunt reality" was that the talks were "edging between success and failure," and asked Members to "give hard thought to [their] red lines, not in a week, not in a month, but in the next hours.

Despite the change in tone, substantial differences still need to be overcome for a deal to be possible. Ministers continued to position themselves to avoid blame if the talks break down.

Indian Commerce Minister Kamal Nath insisted that Lamy's basis for the negotiations was unsatisfactory when it came to protections for poor farmers in developing countries, which he has described as non-negotiable livelihood issues that have little to do with commerce. "In areas which affect livelihood and security, which affect poverty, there is no agreement, there is no consensus. In areas that enhance prosperity there is some consensus," he said, as reported by Agence France Presse.

Jorge Taiana, Argentina's minister responsible for trade, said that his government rejected Lamy's document "in its current state," according to a

statement on the external affairs ministry's website. "We are negotiating and indicating that we want a better result," added Taiana, who has been resisting calls to make deeper cuts to industrial tariffs.

Schwab, although she stopped short of mentioning any countries by name, repeatedly warned that "a handful of large emerging markets" risked "unravelling the entire round."

The proposed compromise from Lamy:

In the afternoon meeting with the G-7, Lamy put forward a set of parameters for key unresolved issues on both agricultural and industrial trade, detailing a 'landing zone' around which a potential Doha deal could take shape. The figures discussed would require the US to cut its spending allowance on trade-distorting farm subsidies by 70 percent. This would require Washington to lower its cap on 'overall trade distorting support' (OTDS) to roughly \$14.4 billion (its current allowance is about \$48 billion). The EU, for its part, would be expected to lower the ceiling on its own trade-distorting farm payments by 80 percent, to approximately 22 billion euros.

Both would be allowed to maintain tens of billions of dollars worth of 'green box' farm subsidies, which are deemed not to distort trade or production. A review of the rules that determine what kinds of payments qualify for the green box is part of the ongoing negotiations.

Brazil, India, and other developing countries were unimpressed earlier this week when the US announced it was willing to cap its OTDS at \$15 billion, pointing out that Washington's current payments amounted to only \$7 billion.

With regard to market access, Lamy suggested considering 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 compromise parameters would allow developed countries to designate 4 percent of their agricultural tariff lines as 'sensitive', or eligible for lower tariff cuts. (Countries with very high tariff levels, like Switzerland and Norway, are entitled to an extra 2 percent.) For these products, rich countries would have to expand import quotas for sensitive products enough to provide exporters with new access opportunities equivalent to 4 percent of domestic consumption levels.

Moreover, there would be no maximum level for tariffs on sensitive farm products under Lamy's proposal. For non-sensitive products, developed countries would have to cap agricultural tariffs at 100 percent, although they would be allowed to exceed that ceiling for 1 percent of tariff lines in return for compensation such as making a greater-than-normal expansion to tariff rate quotas for all sensitive products. Japan and Switzerland have resisted tariff caps.

As for developing country market access flexibilities, the 'landing zone' outlined by Lamy would let them designate 12 percent of all agricultural tariff lines as 'special', based on concerns for rural development, as well as

food and livelihood security. Within that 'special' range, products that account for 5 percent of tariff lines could be fully exempt from tariff cuts.

Collectively, all special products (SPs), including the reduction-exempt ones, would be subject to an average tariff cut of 11 percent. That is, if countries chose to make full use of the 5-percent exemption, the remaining 'special products' would be subject to an average reduction of roughly 18.9 percent. Recently-acceded Members of the WTO, such as China, would be allowed to designate 13 percent of tariff lines as special, with a 10 percent average tariff cut.

Whether developing countries should be allowed to impose safeguard duties in excess of current tariff ceilings under the 'special safeguard mechanism' (SSM), a device intended to help developing nations protect vulnerable farmers from import surges and price collapses, has been controversial subject. Proponents in the G-33 group of developing countries, which includes India, China, and Indonesia, said that breaching current tariff ceilings may sometimes be necessary to protect farmers. Competitive exporters say that allowing safeguard duties to go beyond the ceilings negotiated during the Uruguay Round would represent backsliding on liberalisation. Lamy set out a potential compromise, under which remedies would be allowed to go beyond current bound levels, but only by 15 percentage points (or an amount equivalent to 15 percent of the current bound tariff), and only in the event that import volumes surge by 40 percent or more. Furthermore, safeguard remedies would be able to breach the current tariff ceiling for 2.5 percent of tariff lines in a given year.

On non-agricultural market access, Lamy suggested compromise numbers for 'coefficients' linked to the formula that will determine countries' future tariff levels, and the figures governing the extent of 'flexibilities' for developing nations to shield some products from full duty cuts. All of the figures came from within the ranges provided in the most recent draft deal put together by the chair of the NAMA negotiations.

The industrialised country coefficients would be 8. (When fed through the so-called 'Swiss' reduction formula, all of a country's tariffs are slashed to below the value of its 'coefficient', with lower tariffs cut less sharply across the board.)

For developing countries, there is a three-option 'sliding scale': the higher the coefficient they choose, the less freedom they have to shelter products from tariff reduction.

Developing countries opting for a coefficient of 20 would be allowed to subject 14 percent of tariff lines to cuts that are half as high as those required by the formula, covering 16 percent of manufacturing imports by value. Alternatively, they would be allowed to exempt 6.5 percent of tariff lines from cuts altogether, accounting for 7.5 percent of import value.

A coefficient of 22 would involve 'half-formula cuts' for 10 percent of tariff lines and import value, or full exemptions for 5 percent of both.

Finally, developing countries choosing not to use the flexibilities would receive a coefficient of 25.

The G-7 also discussed potential solutions on two other issues that had proved divisive: sector-specific liberalisation initiatives, and an 'anti-

concentration' clause that would restrain developing countries from focusing their tariff-reduction 'flexibilities' on a limited number of industrial sectors, such as automobiles.

The proposed figures would require developing countries to apply full tariff cuts to either 20 percent of tariff lines or 9 percent of import value within each HS chapter.

With regard to sectoral initiatives, the G-7 considered a potential clause that would allow countries to, at the time of a modalities agreement, "commit to participate in negotiating the terms of at least two sectoral initiatives likely to achieve critical mass." Developing countries that ultimately elect to participate in one or more sector-specific liberalisation initiatives (as opposed to simply negotiating how an initiative might work), would be rewarded with a higher coefficient.

Beyond the compromise deal, other issues remain

While the day's focus overwhelmingly centred on the compromise package on agricultural and industrial goods trade, Norwegian foreign minister Jonas Gahr Støre told reporters Friday evening that he had consulted that day with both sides of a long-running dispute on three contentious intellectual property (IP) rights issues: the disclosure of the source of genetic information in patent applications, the extension of geographical indications (GIs) to all location-specific goods, and the establishment of a multilateral register for GIs for wines and spirits. Earlier in the week, Lamy asked the Norwegian minister to take his place as the head of consultations on the matter, which the Director-General has warned could cause "a big clash" in the negotiations. But as talks on agricultural and industrial goods have begun making progress, the IP issues are now starting to "come on the radar screen" at the summit, Støre said. But even if momentum in other parts of the negotiations spills over into the IP debate, the Norwegian minister cautioned that the current stated positions of the two sides leave "no room for compromise."

In another side issue to the compromise deal, a 'signalling conference' in which Members will indicate how far they are willing to go in liberalising trade in their services sectors, is now set to take place Saturday afternoon. Rockwell, the WTO spokesman, indicated that that meeting might "provide an extra layer of comfort" to some countries, perhaps giving them assurances that would enable them to make greater concessions in the agriculture and industrial goods talks. Indian minister Nath, who has been widely criticised for intransigence during the summit, this week mentioned services trade as an area in which India was prepared to show flexibility.

But even beyond the questions on intellectual property rights and services trade, a number of critical issues remain unresolved. Officials have been working to resolve differences on preference erosion, as well as the treatment of cotton and tropical products, and are set to continue talks on Saturday, aimed at hammering out potential solutions to present to their ministers.

Meanwhile, G-7 and green room talks on the agriculture and NAMA issues set out in Lamy's compromise package are set to resume Sunday.

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