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MEMBERS GIVE MIXED REACTIONS TO LAMY COMPROMISE, TAKE "A GOOD STEP FORWARD" ON SERVICES

WTO Members on 26 July gave mixed reactions to a package of compromise parameters for tariff and subsidy cuts tabled by Director-General Pascal Lamy the day before. Most agreed that it could serve as a starting point for discussions aimed at framework Doha Round agreements on agricultural and manufacturing trade, though there were some sharp differences on the extent of modifications that would be necessary.

The day also saw several countries 'signal' the extent to which they might open services sectors to foreign competition as part of a multilateral trade deal.

Meanwhile, delegations continued to consult on a number of issues not addressed by Lamy's compromise but that must be resolved before 'modalities' deals can be reached.

Mixed reactions to Lamy's 'way forward'

At Saturday morning's Trade Negotiations Committee (TNC) meeting, more than 30 delegations offered their reactions to the figures suggested by Lamy. WTO spokesperson Keith Rockwell said that the majority of those who spoke indicated that they considered the package an acceptable working document for further negotiations, even if not satisfied with all of its provisions.

EU Trade Commissioner Peter Mandelson told reporters that the compromise package has "the potential to offer something close to the balance that we believe must be at the heart of this round." Mandelson, whose negotiating positions have been loudly criticised by France and some other European countries, stressed that he had "the backing of EU member states" to pursue an agreement on the basis of Lamy's proposal.

Some delegations were more critical.

Nestor Stancanelli, a senior Argentinian negotiator, said that the package on the table would have to see "significant changes" before a modalities agreement could be possible.

Argentina has complained that the draft texts on which the agriculture and NAMA negotiations have been based for the past year -- texts from which most of Lamy's compromise figures were drawn -- required developing countries to cut manufacturing tariffs by margins disproportionate to the rich-country farm reforms on offer. The most recent draft NAMA text contained an exception that would effectively allow Argentina (along with Uruguay and Paraguay) to shelter a significantly higher share of its manufacturing imports from full tariff cuts than would be allowed to other developing countries.

A 'Swiss formula coefficient' of 8, Stancanelli noted, would reduce US and EU tariffs by over 42 percent. But for Argentina, a coefficient of 20 -- one of three proposed for developing countries -- would entail a 60-percent average reduction to its allowable industrial tariff ceilings. This is "less than full reciprocity inversely applied," he said.

Agriculture did not compare favourably, he implied. The proposed \$14.5 billion cap on US trade-distorting farm subsidies would let Washington

double payments from current levels, he noted. The 70 percent cut that developing countries would be required to make to their highest tariffs was far more lenient than the NAMA coefficients for developing countries: such a reduction on an 85 percent farm tariff would have the effect of a Swiss formula coefficient of 36, he claimed; for a 150 percent farm tariff, the figure would be 64. He said that the 4 percent of farm products that developed countries would be allowed to designate as 'sensitive' would cover most of Argentina's exports to the industrialised world, and that the value of expanded import quotas for these commodities would be compromised by allowing importers to pinpoint protection on some very specific products ('partial designation').

India expressed "serious concerns" about some of the numbers outlined by Lamy, though it said that other figures "provide a basis for discussion." Its sharpest objections were to the parameters for some remedies under the 'special safeguard mechanism' (SSM), a device intended to help developing countries protect vulnerable farmers from import surges and price collapses by temporarily raising tariffs on affected products beyond bound ceiling rates.

Lamy's figures would allow remedies under the SSM to exceed current bound tariff levels -- a key demand of India and other members of the G-33 bloc of developing countries -- but only when import volumes surge by 40 percent or more. Remedies would be capped at 15 percent above the bound tariff (or 15 percentage points). Furthermore, in a given year, SSM duties would be allowed to breach current tariff ceilings for only 2.5 percent of tariff lines.

The 40 percent trigger "is simply not acceptable," India said, arguing that by the time import surges reached that size they "would have wreaked havoc on the livelihoods of the most vulnerable farmers." The Indian statement criticised the ceiling on remedies, and the 2.5 percent limitation, as "way too low." "This issue has all the makings of a deal-breaker," it warned. The draft agriculture text released in mid July provides for lower remedies for smaller import surges.

On NAMA, India refrained from commenting on the formula 'coefficients', although it, like Argentina, Brazil, and other members of the NAMA-11 group, had been critical of the draft texts' parameters in the past. Lamy's proposal to reward developing countries that participate in sector-specific liberalisation initiatives with more lenient tariff treatment in other sectors was "too prescriptive," it said, emphasising that such initiatives are supposed to be voluntary. India said that it was willing to negotiate on "reasonable numbers" for an 'anti-concentration' clause on the use of tariff flexibilities, describing this as a "major concession" in light of concerns from Indian industry. It also sought confirmation that developing countries would have a choice between applying full tariff cuts to either 20 percent of tariff lines or 9 percent of import value within each HS chapter.

Although Japan's statement to Saturday's TNC was fairly guarded, Agriculture Minister Masatoshi Wakabayashi told Japanese journalists in Geneva on Friday night that he was "strongly dissatisfied with the Lamy

proposal," mainly over the number of sensitive products, reported The Economic Times, an Indian newspaper.

South African Trade Minister Mandisi Mpahlwa, told Bridges that "at the moment, the package doesn't reflect South Africa's needs," particularly with regard to manufacturing trade.

'Signals' provided on services trade liberalisation

Officials from several countries expressed satisfaction with a five-hour 'signalling conference' on services trade liberalisation held Saturday, at which participating countries -- mostly developed and relatively large developing countries -- provided indications of the sort of binding market-opening commitments they would be willing to undertake under a Doha Round agreement.

"The signals that were sent were magnificent," said Mexican Ambassador Fernando de Mateo, who also chairs the services negotiations at the WTO. He said that signals were sent in all of the sectors in which countries had made requests for market access, as well as in areas of interest to developing countries and developed ones. De Mateo said that the "very successful" meeting made him more optimistic that "things might move" elsewhere in the negotiations.

The exercise had been an objective primarily of developed countries like the EU and the US, but also India, who were seeking Lamy has called "a certain level of comfort" about future levels of liberalisation in the services sector, as they work on agriculture and NAMA.

While details on the 'signals' offered were not made public, officials emerging from the conference were positive. US Trade Representative Susan Schwab said that the meeting had been "a good step forward, a positive step forward" in the negotiations. EU Trade Commissioner Peter Mandelson said that the "very good meeting" had seen some interesting signals from India and China.

Indian Commerce Minister Kamal Nath told reporters that there had been "good movement by the US and by the EU" on temporary cross-border labour movement (Mode 4 in WTO parlance), as well as on the cross-border supply of services (Mode 1), both of which are important to India's information technology sector. He stressed the importance of the domestic regulation aspect of the services negotiations. An Indian trade official said that the EU had suggested that it may consider lifting 'economic needs tests', a regulatory requirement that can make it nearly impossible to use Mode 4 access.

The services talks are expected to pick up in fall, as de Mateo has tentatively set a 15 October date for Members to table revised offers.

Other issues see little progress

Senior officials have been working to narrow differences on a wide variety of issues in the negotiations that were not addressed by Lamy's compromise parameters. In the agriculture talks, those issues include cotton, preference erosion, tropical products, bound in-quota tariff rates, and tariff simplification; on NAMA, divisions remain on preference erosion, provisions for recently acceded Members, and Venezuela's requests for lenient tariff treatment.

Lamy reminded Members in the TNC Saturday morning that these issues must be addressed before they can agree on agriculture and NAMA 'modalities'.

However, officials said later that day that little had been achieved in meetings on several of those issues.

A Saturday evening meeting on cotton subsidies and trade involving the US, the EU, Brazil, and the so-called C-4 group of West African cotton producers (Benin, Burkina Faso, Chad and Mali) yielded "nothing new," according to one source. Agriculture negotiations chair and New Zealand Ambassador Crawford Falconer, who chaired the session, observed that with senior officials apparently unable to make progress, the mandate for extra-deep cuts to trade-distorting cotton subsidies will have to be sent to ministers. The US reportedly said that it would put forward a significant offer, but only after the contours of a broader agriculture deal -- including market access -- become apparent. The EU, which provides lower amounts of cotton subsidies than the US, said that constitutional constraints related to the accession protocols of Spain and Greece prevented it from cutting 'blue box' cotton payments to below 272 million euros.

Later that evening, Pascal Lamy chaired a meeting of representatives from several Latin American countries and the African, Caribbean, and Pacific (ACP) group in an attempt to find a compromise between their conflicting demands: the former want faster, deeper multilateral tariff cuts for tropical farm products, the latter want the opposite for some of the same commodities -- most famously bananas and sugar -- in order to soften the blow of the erosion of long-held trade preferences. Although participants tried for three hours to devise a solution for rum, one of the limited number of products where the groups' interests overlap, "we could not come to an agreement," said one official. Possible options examined included gentler tariff cuts implemented over a shorter time period, or deeper tariff cuts implemented over a longer number of years.

Consultations on preference erosion in the NAMA negotiations were also "going in circles," one source said. Despite openness to looking at trade in particular products, there was little agreement on how to respond to the concerns of Asian least-developed countries (LDCs) like Bangladesh, Cambodia, and Nepal, which do not receive trade preferences in the US. Despite their status as LDCs, those countries thus stand to be hurt by provisions allowing Washington to implement tariff cuts on some textiles and clothing products over an extended ten-year period. Unless the Asian LDCs secure the inclusion of potential provisions that would have Washington cut tariffs more quickly on the same imports from non-LDCs Pakistan and Sri Lanka, they stand to be doubly affected.

Discussions on extending 'geographical indication' (GI) protections to location-based food names and amending WTO patent rules for inventions that involve biodiversity or traditional also seem stuck in a holding pattern. Norwegian minister Jonas Gahr Støre told the TNC that the positions of the two sides on the critical issues remained diametrically opposed. He will continue consultations on Sunday.

The process ahead

The schedule for Sunday has been largely left up in the air, although Lamy has announced that he will not convene the usual morning meeting of the TNC. Sources said that he may call a meeting of ministers from the G-7 countries, with whom he has been meeting intensively since Wednesday. If so, a 'green room' meeting would likely be convened so that a more representative group of 30-odd countries might be briefed on their consultations, with a broader meeting the following morning. An informed source said that, if progress continues, updated draft modalities texts could be expected "early next week," leading to a conclusion on Tuesday or Wednesday.

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