



International Centre for Trade
and Sustainable Development

Bridges

Daily Update

Issue 9

WTO Mini-Ministerial, Geneva

29 July 2008

G-7 TALKS ON SPECIAL SAFEGUARD MECHANISM INCONCLUSIVE AS BLAME GAME HEATS UP

Meeting for the eighth straight day, trade ministers at the WTO agreed Monday night to keep discussing thorny issues that continue to block potential agreements on liberalising trade in agricultural and industrial goods.

"The situation is very tense," the WTO's chief spokesman, Keith Rockwell, said while trade ministers from the 'G-7' group of leading trade powers were tense talks on a mechanism to protect developing country farmers. "The outcome is by no means certain."

"The good news is that we are still talking," Indian Commerce Minister Kamal Nath told reporters after the meeting. "If the talks were stalemated, I'd be back in my hotel room." The G-7 includes Australia, Brazil, China, the EU, India, Japan and the US.

Trade ministers have been meeting in Geneva since 21 July to try to hammer framework agreements in the Doha Round of trade negotiations. With reports that the high level talks are increasingly strained, rumours of an imminent collapse once again began to circulate in the WTO building on Monday. But some longtime trade observers note that political rhetoric often grows especially heated just before breakthroughs.

In a further complication to a potential accord, however, nine EU countries, led by France and Italy, formed a coalition on Monday to push for better terms in a Doha Round deal, Reuters reported. EU Trade Commissioner Peter Mandelson has maintained that he has the support of EU member states in the negotiations, but the creation of the new alliance could nonetheless undermine his credibility at the talks.

Fight continues on SSM

An arcane-sounding mechanism intended to allow developing countries to protect farmers in the event of import surges or price declines has emerged as one of the most fought-over issues of the ongoing mini-ministerial. The 'special safeguard mechanism' would allow developing countries to raise tariffs beyond bound levels, in principle to stall inflows of cheap imports that could displace farmers.

The issue neatly splits the interests of import-sensitive developing countries and competitive farm exporters, including those in the developing world: the former want to have recourse to protection, the latter want predictable access to overseas markets.

One of the main sticking points has been whether, and by how much, countries should be allowed under the SSM to impose safeguard duties in excess of current (i.e., pre-Doha) tariff ceilings. The G-33 bloc of developing countries, which includes China, India, and Indonesia, insists that this may sometimes be necessary for safeguard duties to have the desired effect, i.e., protecting farmers.

At the other end of the spectrum, some exporters, such as Uruguay and Paraguay, believe that allowing safeguard duties to breach current tariff bindings would upset the "balance of rights and obligations" that governments agreed to during the previous Uruguay Round of negotiations. They warn that as currently crafted in the draft agriculture text, the SSM could be triggered even by normal trade growth, inviting

potential safeguard duties that would reduce agriculture exports that are important to their economic growth and development.

Lamy's proposal -- allowing SSM remedies to exceed current tariff bindings by up to 15 percent (or percentage points), but only if import volumes rise by 40 percent, and limited to 2.5 percent of tariff lines -- was deemed insufficient by the G-33. Along with the African Group, the ACP Group, and the group of Small and Vulnerable Economies, the G-33 tabled an alternative proposal that would allow them to exceed current tariff bindings for 7 percent of tariff lines, with SSM remedies capped at 30 percent (or 30 percentage points) above current bound levels, triggered by volume increases starting at 10 percent.

In talks that ran past midnight, the G-7 ministers, the US and India in particular, considered various possibilities that could serve as the basis for a compromise. One such option would have set a lower 30 percent import surge threshold for allowing SSM duties to exceed tariff bindings, but with remedies limited to 10 percent (or percentage points) over bound levels.

Lamy reportedly also asked them to look into a numberless mechanism that would still restrain the use of SSM remedies, possibly via provisions against misuse. There is a precedent for such provisions in existing WTO rules: the Safeguards Agreement allows countries to temporarily restrict imports in order to avoid injury to domestic industries. In order to prevent abuse, the possibility of injury must be verifiable.

US Trade Representative Susan Schwab reportedly continued to advocate leaving untouched what she has called the "delicate balance" of Lamy's compromise package.

Nath, who has repeatedly said that he would not negotiate subsistence and livelihoods, said Monday that "developing countries must protect themselves against subsidised imports coming in" from the developed world. Asked how this would affect developing country farm exporters, he said that nations supporting a beefed-up SSM were far more numerous, numbering close to 100.

India, which has high bound tariffs but relatively low applied rates for several products, would appear to need the SSM less than fellow G-33 member China, which has low bound rates that are very close to its applied duties. China has said that it cannot make more concessions on the SSM issue.

Raul Montemayor, the president of the Federation of Free Farmers Cooperatives in the Philippines, suggested to Bridges that the SSM's potential to totally block imports might be somewhat overblown. According to his mathematical analysis, the effectiveness of SSM duties at bringing import prices in line with domestic prices was limited -- imports tended to be cheaper anyway. He also said that the thresholds for the SSM were more important than the remedies in terms of the effect, albeit with variations for different products and countries. Thresholds that are too high, however, could mean that "remedies might not be enough to help the farmers."

China returns US barbs

The US stepped up its war of words against China and India Monday, accusing them of throwing the entire Doha Round "into the greatest jeopardy of its nearly seven-year life."

In language unusually strong for a WTO meeting, David Shark, a US trade official, blamed India for rejecting the compromise package of parameters on key unresolved issues that Pascal Lamy put to Members last Friday, and China for "walk[ing] away from it."

In his statement to the Trade Negotiations Committee, Shark took aim at the two developing countries for "insisting on the ability to raise agricultural tariffs in violation of their current WTO commitments," and "firmly refusing" to take part in sector-specific liberalisation initiatives for industrial machinery, electronics, and chemicals.

"Even more damaging to the round, these two countries have actively enlisted the support of poorer developing countries for these positions," Shark said, arguing that those countries were supporting policies that would hurt themselves the most.

The US delegate specifically criticised China for saying it would shield cotton, sugar, rice, and other commodities from tariff cuts, adding that "the United States has consistently maintained that the price for us to cut our agricultural subsidies and protection is for other major trading partners to open their markets for such commodities."

Chinese WTO Ambassador Sun Zhenyu immediately hit back, arguing that China had made a more than adequate contribution to the round. He pointed out that China's average farm tariff was lower than the EU or Canada's, and that its average manufacturing tariff was a mere 9 percent, due to the strict liberalisation commitments that the country accepted as the price of its accession to the WTO in 2001. Sun said China would account for half of the cuts to applied manufacturing tariffs made by developing countries in the round.

The Chinese envoy suggested that US policy, too, left much to be desired: the expansion of low-tariff import quotas for the US' 'sensitive' farm products paled in comparison to the size of China's tariff rate quotas he said, often by more than a factor of ten. "Where is the access to the developed countries?" he asked.

Sun said that the US would, in the name of easing preference erosion, take ten years instead of five to phase in cuts to its high tariffs on textiles and clothing, thus shielding its own sensitivities while asking China to cut tariffs to near zero in areas like chemicals and electronics, where it might want to maintain relatively higher tariffs.

Zhang Xiangchen, a senior Chinese official, told Bridges that China, as a developing country, was "fully entitled" to shelter cotton, rice, and sugar from standard tariff reduction for subsistence and livelihood security reasons. As for sectoral liberalisation initiatives in the negotiations on non-agricultural market access (NAMA), he said that the mandate was clear: participation was voluntary. Attempts by developed countries to link developing country participation in some such initiatives with more lenient tariff treatment in other sectors amounted to making it "mandatory or quasi-mandatory." Furthermore, industrialised countries only seemed to be pushing for liberalisation in sectors in which they enjoy "substantial export advantages," he suggested.

The US' recent argument that the extent to which they cut cotton subsidies will depend on how much China cuts its cotton tariffs was "absurd," Zhang charged. Billions of dollars in trade-distorting US cotton subsidies

had caused serious injury to cotton farmers in Africa, not to mention the 150 million in China. In contrast, the rates of Chinese protection for cotton that Washington was complaining about amounted to an in-quota rate of as low as 1 percent, and an over-quota duty of 40 percent. "We believe that the US is not in a position to discuss with developing Members on cotton tariff until they eliminate their cotton subsidies as requested by African Cotton Four," he said.

Zhang took a shot at US tariffs on peanuts, sugar and tobacco, which he said were equivalent to 131 percent, 185 percent, and 350 percent respectively. In contrast, China's are as low as 15 percent, 15 percent and 25 percent. "Further to that, we have zero subsidies on those products," he said. "Could we ask the US to cut their tariffs on those products to zero?"

At the TNC meeting, Indonesian Trade Minister Mari Pangestu said she was "very disappointed to hear the blame game tone taken by one country," in a clear reference to the US. "This is not constructive and certainly counterproductive," she said. Pangestu disputed the US' assertion that Lamy's compromise package had been accepted by a majority of countries, arguing that "a majority of countries -- the G-33, the African Group, the SVEs and the ACP -- still have problems with parts of the package since they feel that their sensitivities have not been adequately addressed."

Still no deal for ACPs on bananas

Ministers from the African, Caribbean, and Pacific (ACP) group of countries spoke out strongly against a deal brokered yesterday between the EU and a group of 11 Latin American banana exporters, as well as the US. That agreement, which follows more than a decade of WTO disputes against the EU's banana import regimes, would lower Brussels' MFN import tariffs on the fruit over the next eight years to 114 euros per tonne. It also requires ongoing disputes to be dropped.

The ACP countries, former European colonies that have long enjoyed tariff-free access to the EU banana market, are upset about the deal, fearing that the preference erosion resulting from the 62 euro per tonne reduction in the EU's tariffs would leave their own banana producers unable to compete with more efficient Latin American exporters.

"A stab in the back" was how an ACP country reportedly described Brussels' deal with the Latin Americans to the TNC. The minister from Guyana also inveighed against the agreement.

Though technically a bilateral matter between the EU and the Latin American countries, the ACP group has threatened to block a Doha Round agreement if dissatisfied with what it is offered on bananas. ACP ministers hinted yesterday that aid guarantees from the Europeans might sweeten a banana deal for them, but senior-level consultations on the issue reportedly produced little progress on Monday.

The final push

Tuesday's schedule is still up in the air. The day is set to begin with an informal session of the Trade Negotiations Committee (TNC). Senior officials from the G-7 are also set to meet to consider possible ways out of the SSM deadlock, with ministers to resume consultations around midday. Last-minute small-group consultations on cotton and other outstanding issues will take place in the afternoon, followed, at least in theory, by a meeting of the 30-odd governments that comprise the 'green room' group. Updated draft texts on agriculture and NAMA are also expected during the day.

ICTSD reporting.

www.ictsd.org

BRIDGES Daily Updates are available in multiple languages on the ICTSD website at www.ictsd.org. ICTSD's Weekly and Monthly publications are on the ICTSD website.



International Centre for Trade
and Sustainable Development

ICTSD BRIDGES DAILY UPDATE is a daily news service covering trade and sustainable development issues during the 21-26 July ministerial meeting at the WTO in Geneva, Switzerland. English edition produced by: Trineesh Biswas, Paige McClanahan, and Ricardo Meléndez-Ortiz. Support from Caitlin Zaino in Mexico City is gratefully acknowledged. For further information contact ICTSD at: 7 ch. de Balexert, 1219 Geneva, Switzerland; tel: (41-22) 917-8492; fax: 917-8093; email: ictsd@ictsd.ch; web: <http://www.ictsd.org>.