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Media briefing, 18th December 2005

Hong Kong: Phooey!

WDM Analysis of the Final Hong Ministerial Declaration

Summary

Developing countries have been backed into a corner and in return for the establishment of an end date (2013) for export subsidies - a small gain – they have been further locked into the aggressive liberalization agenda of the EU and USA in services and industrial products.

In 2004, EU export subsidies amounted to 3 billion Euros, out of a total European agricultural subsidy budget of 58 billion Euros. Setting a date for the end of export subsidies is a symbolic gesture of marginal benefit and it has been made ten years late. The gains pale into insignificance compared to the damage that will be done to developing countries by the radical cuts in industrial tariffs and the services liberalization demanded in return.

Trading-off short term gains in agriculture in exchange for the long term loss of development policy options is a bad deal. No country has successfully developed by exporting low value agricultural commodities. Most have developed using industrial policy to encourage development of value added and manufacturing.

Development issues

Addressing the dozens of proposals that developing countries have put forward to correct the problems with existing WTO agreements (known as 'Special and Differential Treatment' and Implementation issues') has effectively been punted into the long grass with fading hope of agreement in this current round of talks.

For example, on Special and Differential Treatment, negotiators have simply been asked to work harder and report back to the WTO General Council "with the objective of ensuring that clear recommendations for a decision are made no later than December 2006." In WTO-speak this is as good as saying the issue is not a serious part of the talks.

Services

In the run up to the WTO Ministerial in Hong Kong there was deep disagreement over the production of the 'annex' on services. Eventually after much wrangling it was put in square brackets, meaning it remained under dispute. In addition, the Chair of the WTO General Council wrote a letter to accompany the full draft Ministerial text to make it clear that Annex C on services was not an agreed text. In other words, there was no consensus over its inclusion as an Annex to the draft ministerial text.

However, due to an untransparent and undemocratic process Annex C of the Ministerial Declaration remains and, despite some minor amendments, gives the EU increased leverage to press for more GATS commitments from developing countries.

Paragraph 1 on 'qualitative targets' (i.e. the nature of liberalization commitments desired) opens the way for increased pressure to be applied on countries to make deeper GATS commitments. It explicitly mentions reducing or eliminating economic needs tests, increasing foreign ownership of service companies and reducing limitations on types of legal entity (e.g. requiring joint ventures with local companies).

Paragraph 4 (b) on government procurement requires countries to increase engagement in the talks and "put greater emphasis on the proposals by Members." The proposals currently on the table are largely from industrialized countries demanding national treatment rules for government procurement. The whole basis of a new agreement has been challenged by developing countries. This text will therefore be used to increase pressure for new rules.

Paragraph 6(b) on plurilateral negotiations provides greater leverage to increase pressure on countries to engage in such a group negotiating process. There is nothing currently stopping those countries that wish to engage in plurilateral negotiations from doing so, but that is not enough for the European Union and other industrialized countries, which is why they have pushed for this text.

Industrial tariffs (Non Agricultural Market Access)

A radical tariff cutting formula, the so-called 'Swiss Formula', has been adopted. While the 'coefficients' for developed and developing countries are still to be determined, the Swiss formula is such that a radical tariff cut is almost certain.

Sectoral negotiations have been formalised, which will add further pressure for even more significant tariff reductions, or eliminations, in specific areas (e.g. fisheries and forest products).

In contrast, flexibilities for developing countries in the NAMA negotiations remain to be tied down. Developing countries have 'given' on the Swiss formula but 'received' nothing in terms of more specific flexibility within the NAMA talks.

Agriculture

There is little of significance in the Declaration on domestic subsidies, other than the fact that the review of ‘green box’ subsidies (i.e. permitted subsidies) is not likely to be meaningful. The EU and USA are increasingly shifting their damaging subsidies into this box so a reform of the ‘green box’ is critical but this now looks less likely to take place.

On agricultural market access, it has been agreed that developing countries can self select a range of special products but these must be based on a complex set of criteria still to be negotiated. Also unresolved is how these ‘special products’ will be treated; in other words exactly what extent of tariff reduction exemption they will receive.

On export subsidies, agreement has been reached to “ensure the parallel elimination of all forms of export subsidies and disciplines on all export measures with equivalent effect to be completed by the end of 2013. This will be achieved…so that a substantial part is realized by the end of the first half of the implementation period.” Later, the Declaration also says, “The date above for the elimination of all forms of export subsidies together with agreed progressivity and parallelism, will be confirmed upon the completion of the modalities.”

In other words, an end date of 2013 has been set but this will not be formally tied down until the rest of the talks on the modalities for subsidies and market access (which are also linked to the date for the establishment of modalities on NAMA) have been agreed. This means the end date for export subsidies will continue to be a negotiating chip in these talks.

Cotton

The ‘C4’ – the cotton producing countries - have suffered yet another injustice.

The Declaration says cotton export subsidies will be eliminated in 2006 but the EU does not have cotton export subsidies and the US must eliminate them anyway in order to comply with a recent WTO panel ruling.

The Declaration calls for developed countries to provide duty and quota free market access for cotton exports from LDCs from the commencement of the implementation period. However, this will be pretty meaningless if cotton subsidies in the USA are maintained.

On ‘trade distorting’ cotton subsidies, there is a vague promise on their accelerated reduction or elimination but it does not constitute a firm commitment.

The ‘development package’

Scattered around the text are elements of the so-called ‘development package’ much touted by the European Union.

The amendment to the TRIPs Agreement to provide flexibility for poor countries to import cheap generic medicines from other developing countries has enshrined in WTO rules a system that has not yet proven to be workable.

The agreement to provide duty and quota free market access for Least Developed Countries includes a caveat that allows the USA to exempt 3% of its LDC imports. While not sounding a lot it is significant because, for example, it permits the USA to protect its textiles sector.

The flexibility for LDCs to implement measures that are not consistent with the Trade-Related Investment Measures (TRIMS) Agreement is too limited and may prove difficult to implement. In practice, it will be hard for LDCs to make use of these flexibilities as they will likely run counter to IMF and World Bank loan conditionalities. The Declaration requires LDCs to cease using all measures inconsistent with TRIMS by 2020 (regardless of whether or not they are still LDCs).

On the ‘aid for trade’ package, the Declaration calls on the Director General (Pascal Lamy) to set up a ‘task force’ to look into the issue and consult the World Bank, IMF and others and come up with proposals on using grants and concessional loans (so maybe it will end up being debt for trade!).

Not in the Ministerial Declaration but announced earlier in the week is the offer by the EU. The European Member States have offered an increase in spending on ‘Trade Related Technical Assistance’ of 600 million Euros by 2010. This is not new money. It is simply a commitment on how existing aid pledges will be spent and it is unclear exactly what exactly this money will be spent on.

In addition, the European Commission has offered an increase in spending on ‘Trade Related Technical Assistance’ from the EU aid budget of 250 million Euros by 2007. But again, this is not new money so it will involve reshuffling the aid budget, taking away from existing programmes.

It doesn’t get much lower than this: using vague promises of more aid to persuade the poorest countries to sign up to trade deals which they would otherwise oppose.