WTO Notes from Hong Kong/13 December 2005

Issues Crystallise in WTO Hong Kong Meet

Arun Goyal

The first day of the WTO was marked by the ritual of protests in the streets of Hong Kong. The busy traffic was stopped to let the demonstrators have their say. Those who jumped into the Hong Kong harbour shouting "down, down WTO" too were rescued quickly and given first aid. The convention secretariat posted security on the hall roof top, they feared that somebody may jump off in a suicidal attempt to magnify the impact of his opposition to world trade. The crowd consisted largely of farmers from Korea, Indonesia and, of course, India .

Pascal Lamy, the new Director General of the WTO has a soft corner for NGOs. He allowed some of the placard waving crowd to enter the main inaugural session. The 2,000 NGOs were given place in the main hall itself and not packed off to a far off place to say first day. Lamy is the skilled negotiator who is bringing everybody on the table to hammer out an agreement, he must have everybody on the table. Jump into the harbour, lie down on the road. They are maintaining strict security on the roof of the convention hall, the protestors may just reach the top and one of them may just jump off in a suicidal attempt to highlight the WTO.

To begin with, Lamy has structured the negotiations to put the more difficult items of agriculture and industrial tariffs first on the negotiation agenda. Movement forward on these subjects will determine whether the other subjects of special interest to India consisting of services, trade facilitation and anti dumping will be taken up. In a sense this is disadvantageous to India since it has a defensive position in line with the EU and Japan on agri tariffs. India is aggressive only in agri subsidies but has little prospect of getting into the developed countries market on account of low quality and also the NTBs on the agro products.

Japan aid to agri sector in LDCs: Japan has offered an aid package of $10 bn spread over three years to improve the agriculture in least developed countries. The plan includes infra structure development, training and a special package to promote both production in the home country and selling to the Japanese market. There is also a provision to involve neighbouring advanced developing countries like India who will give technical guidance to the LDC. The G-90 consisting of the numerous smaller countries in the ACP (Africa Caribbean and Pacific) grouping generally side with the EU which gives them preferential market access as a part of the erstwhile colonial commitment.

Least Developed countries consisting of 44 members are looking for duty free access in the key US market. In return, they are ready to stand by the developed countries. They do not have to make any commitments as of now, it is in their interests to go with whoever is offering them the best terms as of now.

Agriculture tariffs and subsidies: Proposals for reductions by developed countries range from a 45 percent maximum cut with no tariff ceiling in the G-10's proposal, to a 90 percent maximum cut with a 75 percent cap proposed by the US. The EU's offer of an average farm tariff cut of agricultural 46 percent has been criticised as too low by the US, the Cairns Group of agricultural exporters and the G-20, which wants developed countries to cut tariffs by 54 percent while developing countries do so by 36 percent. Meanwhile, some EU member states, most vocally France, have slammed the offer for being too high.

On agri subsidies, there is agreement to remove all export subsidies by 1 March, 2006. However, there is no movement on the trade distorting domestic subsidies covering the amber box and production limiting measures (the blue box).

In early October, the US offered to reduce the bulk of its trade-distorting domestic support by 60 percent over a five-year period with the condition that EU and Japan reduce theirs by 83 percent). The Europeans are ready to come down to 70 percent. This is seen as a move against US plans to shelter its counter-cyclical payments – subsidies to farmers that increase with a fall in the value of season-average market prices for commodities – in the Blue Box.

With regard to a timeframe, the G-20 has suggested "front-loading" the cuts, so as to achieve real cuts in subsidies, given that many countries have the right to provide higher subsidies than they actually do – their bound Amber Box levels are higher than their applied levels.

The G-20 has also stressed the need for accurate base levels and avoidance of "box shifting," which entails making minor changes to trade-distorting subsidies in order to move them to the Blue Box or Green Box (decoupled subsidies that are not subject to reduction commitments).

India must cut industrial tariffs; India is definitely in the firing line. It has already offered to cut its bound rates by half. This means that the current bound rate of 40 percent and 25 percent covering some two third of the tariff lines must come down to 20 percent and 12.5 percent. Commerce minister Kamal Nath said in a joint statement with Brazil and Argentina to the Finance minister of the G-7 countries on 2 December that the 50 percent cut can be improved further if the European Union is ready to play ball and offer deeper cuts on subsidies and tariffs. Of course, this may be mere posturing knowing that EU is no position to reduce its agri subsidies as of now. The European Union demands a coefficient of 15 on the part of the Developing countries in the formula for duty cuts, this will mean that India must cut its bound rates by three fourths to bring them down to five to seven percent. Pakistan, which also co-ordinates the NAMA negotiations covering industrial tariffs has suggested a coefficient of 30 which too will work to India's disadvantage. (The higher the coefficient, the lower the duty cut.) We have talked of a coefficient of 50 or so that the amount of tariff cuts by everybody is equalized.

One third of the total 12,000 or so of the Indian tariff lines are not bound at WTO. The applied rate in most of these cases is currently at the peak of 15 percent. The formula for the unbound rates has not been worked out but it will not be double the applied rate as suggested by the industry association.

India and South Africa, shot off a letter to Ministerial Chair John Tsang arguing that the current basis for the negotiations did not adequately reflect developmental concerns. The group said that its members were being asked to make 'disproportionate' cuts to their industrial tariffs, The group emphasised that the flexibilities accorded to developing countries (Paragraph 8 of the NAMA mandate in Annex B of the 2004 July Framework) allows exemption of five percent of the lines from reductions. The US and the EU, among others, have taken the position that developing countries should give up at least some of these flexibilities in return for a more lenient formula. The nine countries, which also included Argentina, Brazil, Egypt , Indonesia, Namibia, the Philippines and Venezuela, called for rich countries to remove high tariffs, tariff peaks and tariff escalation on products of export interest to developing countries.

India emerges as leader: All said and done, India has made good progress in handling trade negotiations. It is a leader in its own right in both FIPS (Five Interested Parties) consisting of the EU, the US, Australia, Brazil and India. Similarly, the G-20 group of developing countries, which came together before Cancun to push for steep reductions in rich country farm subsidies, has defied expectations that it would fall apart to emerge as a cohesive force in the negotiations. Members of the group, which includes Brazil, China, India and South Africa, have successfully bridged their disparate interests to present joint proposals in every aspect of the agriculture talks. The G-20 also plays a significant role in supporting other developing country alliances, such as the G-33, which focuses on food security, livelihood and rural development concerns.

Outcome not rosy : The plenary session is scheduled to examine the cotton sectoral initiative put forward by four West African countries, and the EU's refusal of third party rights in the longstanding banana dispute.

Mr Lamy estimates that by the end of the Hong Kong meeting, the negotiations could achieve between 55 and 66 percent of the Doha Round's final outcome. This may be ambitious unless there are some agreed numbers in the final outcome, mere statement of new deadlines will not help.

A lot depends upon what US and EU choose to reveal of their new positions to bring the Hong Kong Meeting to a good conclusion. Very often, they are known to bring in fresh points late in the negotiations strategy.

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