

Assessing the Poverty Impact of the Doha Development Agenda

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1. Doha Development Agenda

Sheila Page

The purpose of assessing the likely outcome of the Doha Development Round and its poverty impact was to make it possible to understand what aspects of the outcome might be particularly favourable or unfavourable for poverty reduction. This would allow governments either to suggest modifications or to design, at country or donor level, complementary or offsetting policies that can help countries to take full advantage of positive effects and to mitigate negative ones. The collapse of the Ministerial meeting at Cancún in September 2003 and the failure to reach formal agreement on how to proceed at the resumed meeting of 15 December in Geneva means that these issues are no longer as urgent. But the proposals and counterproposals that were made remain on the table, and while the negotiations may be more limited, more prolonged, and perhaps more spread out among different negotiating fora, the questions raised, of what types of initiative are most beneficial for reducing poverty in developing countries, are still important. The clear divergences of interests among developing country groups at Cancún confirmed the assumption behind this study, that it would be necessary to look at different groups of countries and individual countries to answer the questions. Even where trade reforms unambiguously improve total world welfare, the distribution among countries may leave some losers, just as we observe at national level. Unlike the national level, there are no formal mechanisms to redistribute income to compensate the losers, but, as we noted in the pre-Cancún interim report, the risk of losers is now increasingly recognised among donors and international organisations, and proposals are coming forward to deal with it.

It is not possible to look at all effects. The interim report assessed the likely outcomes in those areas of the negotiations which our preliminary report, in June, had identified as most important: agricultural and non-agricultural market access, services, intellectual property, especially access to medicines, and the process of negotiations. It also looked at trade facilitation and the other three Singapore issues, investment, competition policy, and transparency in public procurement, because, as it pointed out, 'the nature of further negotiations on these could be a breaking point in any bargain'. The way in which the negotiations are conducted must also be examined, including the way in which different developing countries are able to participate. This has become an issue in the negotiations, and is of central importance to the goal of promoting a 'global partnership for development', the MDG which recognised the importance of giving the developing countries their own voice in development. Finally, it looked at the question of adding some element of financial transfers to the negotiation, as compensation either for existing distortions of trade (the request of four West African cotton exporters for compensation for developed countries' subsidies to cotton) or for any removal or reduction of trade preferences. It identified the emergence of demands for these in May-September 2003 as the significant new element in the negotiations, and one consistent with one of the premises of the TOR of this study, 'most changes in trade access will have little or no effect on countries which already have preferences and other special access'.

This paper will have the same coverage. The negotiations at Cancún and after it, in Geneva, confirm that the 'core market access topics: agriculture; goods; and services' (Zoellick 2004) are those which are most likely to reach some agreement. An agreement to extend access to low cost medicines to all least developed countries was reached 10 days before Cancún

Although some countries still support all or none of the Singapore issues, it now seems likely that trade facilitation will be discussed in parallel with, if not as a part of, the current negotiations, and that the others will remain at most under study. There are now formal proposals for financial transfers. The first part of the paper will examine what the various countries and groups have proposed, and how the negotiations have proceeded so far. The second part will assess what agreement on the different elements would mean for the distribution of effects within countries, and therefore on poverty. There are four case studies which allow us to examine how these results operate in four important countries, and which also demonstrate how different the effects can be among countries. Two are large countries, members of the newest developing country group, the G20, with strong trading interests, in agriculture for Brazil and in manufactures for India. Zambia is a least developed country, with exports which are partly tariff free (metals) and partly subject to preferences, rather than MFN rates. Vietnam, which is still going through the accession process to the WTO, has both sectoral trading interests and an interest in acquiring the protection of the WTO rules. After a short section on Malawi, which is the least developed country most affected by preferences, the conclusions identify some of the conditions for a successful outcome.

1.1 Overall outcome of the Cancún Ministerial

Two weeks before Cancún, none of the deadlines in the preparations was met, and there remained fundamental differences of approach on some of the issues, notably agriculture and the 'Singapore issues'. Positions had been put forward by countries in Geneva, by some country groupings meeting outside the WTO (notably the Least Developed and the ACP) and by the Chair of the WTO General Council. Drafts for the Ministerial were, however, moving into discussions of detail. There had also been interventions by external commentators including the international financial institutions, parliamentary reports, commodity exporters, and business interests urging countries to reach agreement. Within developing countries, there was increased awareness of the issues. At Cancún, as will be discussed in the section on process, these detailed and participatory negotiations continued. It proved impossible to reach a settlement, but the discussions and initiatives since then are building on the proposals that were made before Cancún and the final draft statement presented there (WTO JOB (03)/150/Rev. 2), although countries have strong reservations on different parts of this. Therefore, we will discuss the effects of the type of outcome that might be agreed on the basis of these. The concluding section will look at whether any outcome is likely, and what the consequences of a long delay in reaching a multilateral agreement might be.

What is increasingly uncertain is whether development objectives will be a major element of that settlement. The arguments being used are about trade advantages or losses, and the idea of a return to a core WTO agenda reinforces this. In its paper on Reviving the DDA Negotiations (EC 2003), the EC argued that to promote development, it should 'enhance further the integration of developing countries, particularly the poorest of them, into the world economy, through progressive market opening and the progressive assumption of stronger rules' (p. 4), i.e. a purely outcome-orientated agenda, not one of a development-friendly process. Non-trade considerations, whether those of the countries like the EU or Japan which were promoting them as a justification for agricultural protection or those of development, have become less prominent. Only the discussion of the public health aspects of the Intellectual Property negotiations was an exception. The developing country groups, however, are still putting forward 'development' as a necessary component of any settlement, and some external reports (e.g. International Development Committee 2003a and b) are also still stressing this.

The continuing threats to world security are also being cited as important reasons for reaching a settlement that helps countries to raise their incomes. The Doha Ministerial Conference itself was strongly affected by the terrorist attacks of 11 September 2001. Development thus becomes itself an instrument, not an end (c.f. IDC 2003). This gives developing countries a potential negotiating strength, but may limit the ways in which they can use it.

Some of the developing country group positions

In the past, the positions of many of the developing countries, particularly those of Least Developed or African countries, were embodied in joint declarations: G77, Africa, Least Developed, or regions like SADC or COMESA, or other groupings like the ACP. These tended to be vague statements of what an outsider would consider normal developing country positions (more access, no reciprocity, S&D...), not detailed statements of particular interests. Some of these continued to emerge in 2003 (for example the Africa Group and G77 positions), particularly from the groups which are coming together for the first time (for example the Arab countries: these were brought together by the regional UN agency, ESCWA, as some of the other groups were in their first meetings, before Seattle and Doha). But some of the group positions are now much more detailed (and will be quoted in the relevant sections of this report), notably that by ACP countries (which takes up issues particularly relevant to them, like preference erosion and the rules for regional groups) and by the Least Developed (which makes points on compensation for loss of preferences).

These groups have been supplemented by a growing use of *ad hoc* groups for particular issues: the G20, led by Brazil, China, India and South Africa, on agriculture is the most obvious, but there is also a new group of the landlocked) as well as detailed individual country positions that are no longer simply compilations of their group commitments (Malawi 2003; see Page 2002, WTO). It was another cross-group and cross-continent set of developing countries which called for development to remain 'central' 'to the Doha package', and stressed the need for a balanced package that provided 'gains for all Members' (Argentina, Bolivia, Botswana, Brazil, Chile, China, Colombia, Cuba, Dominican Republic, Ecuador, El Salvador, Gabon, Guatemala, Honduras, India, Malaysia, Mexico, Morocco, Nicaragua, Pakistan, Paraguay, Peru, Thailand, Uruguay, Venezuela, Zimbabwe, TN/C/W/13). This marks a new skill and familiarity with the process, no longer a tie to specific issues, but to the outcome as a whole.

Business organisations have taken positions, internationally and within countries, but consumer groups and other interest groups are also seen increasingly often.

The issues of compensation are probably the major examples of new issues brought to the table by developing countries, as a result of increasing careful assessment of their possible gains in the existing agenda. Cotton, discussed under agriculture, could be considered another, and it has certainly been strongly pressed by developing countries against the major developed country groups, but it is also backed by some developed countries. Another is that of commodity prices. This they failed to get included at Doha (it was in the position of some countries and groups before that Ministerial), but it has been repeatedly raised (WT/COMTD/W/113), and is now starting to appear in WTO documents. It will not be a negotiating issue in itself, but its relevance to any agricultural settlement is recognised (IDC 2003 p. 60), and assistance in diversifying out of highly concentrated commodity exports is one of the possible uses of any transfer payments that might be agreed.

Note on assessments of the outcome

Some observers have started to calculate the trade effects of possible outcomes. We will quote some, although most are based on pre-Cancún proposals. It is important to be cautious about some estimates. As in the initial calculations for the Uruguay Round, calculations that take broad groups of countries will miss some of the effects. For example, Page Davenport 1994 found that while the outcome of the Uruguay Round was favourable for developing countries, taken together, it was negative for some categories, such as Africa or the ACP countries, because these had little to gain on access, and suffered erosion of preferences. Some (e.g. Francois, van Meijl, Van Tongeren, 2003; World Bank, GEP, 2003) use models which do not include all preferences or regional arrangements. These will exaggerate any increase in access from reductions in MFN barriers, and cannot identify any loss of access from erosion of preferences.

UNCTAD (UNCTAD 2003, pp. 41-48) has modified the GTAP model used by the World Bank to take account of preferences, but it has not used the actual proposals in the negotiations, and it was not possible to differentiate countries sufficiently to identify the varying impacts on individual countries according to their exports and type of access (in particular, the Least Developed). What their calculations do indicate is how sensitive a country's welfare changes are to the type of reform (subsidies, tariffs, changes in tariff escalation) and to its current access in terms of preferences and regional arrangements. In particular it found that for most countries tariff cuts in agriculture would have a greater effect than cuts in subsidies, and confirmed that elimination of subsidies would hurt some regions. Some countries would lose from liberalisation in manufactures.

Although in discussion at the WTO in May, the World Bank suggested that it could provide information on its 'research on trade preferences' (WT/GC/M/79, p. 12), this is not used in its estimate of the effects of a WTO settlement (World Bank, GEP, 2003 pp. 48-54, 82, 135). This assumes that any agreement must be 'simple' (p. 48). As the present structure of tariffs is not simple (not just peaks and escalation, but specific tariffs, tariff quotas, preferences, FTAs and Customs Unions, non-tariff barriers...), it is unlikely that any effective change will be simple. It does not mention arrangements like the sugar quotas which offer access at better than market prices.

It uses 1997 tariff data, so it excludes all new access for Least Developed and for some other categories of developing countries since then (e.g. EU: EBA; US: AGOA; Canada, New Zealand, Australia: access for Least Developed) and all new FTAs (EU to Chile, Mexico, South Africa; US to Singapore and others; regions within Africa and Latin America...). It calls for elimination of tariff quotas, without calculating the impact on countries who lose access.

It groups all of Sub Saharan Africa except the Southern African Customs Union, although the implications of any reduction in MFN tariffs are very different for developing countries with and without FTAs with the EU (North Africa and the rest) and for developing countries and Least Developed countries.

1.2 Agriculture

From Doha mandate:

13. We recognize the work already undertaken in the negotiations initiated in early 2000 under Article 20 of the Agreement on Agriculture, including the large number of negotiating proposals submitted on behalf of a total of 121 Members. We recall the long-term objective referred to in the Agreement to establish a fair and market-oriented trading system through a programme of fundamental reform encompassing strengthened rules and specific commitments on support and protection in order to correct and prevent restrictions and distortions in world agricultural markets. We reconfirm our commitment to this programme. Building on the work carried out to date and without prejudging the outcome of the negotiations we commit ourselves to comprehensive negotiations aimed at: substantial improvements in market access; reductions of, with a view to phasing out, all forms of export subsidies; and substantial reductions in trade-distorting domestic support. We agree that special and differential treatment for developing countries shall be an integral part of all elements of the negotiations and shall be embodied in the Schedules of concessions and commitments and as appropriate in the rules and disciplines to be negotiated, so as to be operationally effective and to enable developing countries to effectively take account of their development needs, including food security and rural development. We take

note of the non-trade concerns reflected in the negotiating proposals submitted by Members and confirm that non-trade concerns will be taken into account in the negotiations as provided for in the Agreement on Agriculture.

42. *We acknowledge the seriousness of the concerns expressed by the least-developed countries (LDCs) in the Zanzibar Declaration adopted by their Ministers in July 2001. We recognize that the integration of the LDCs into the multilateral trading system requires meaningful market access, support for the diversification of their production and export base, and trade-related technical assistance and capacity building. We agree that the meaningful integration of LDCs into the trading system and the global economy will involve efforts by all WTO Members. We commit ourselves to the objective of duty-free, quota-free market access for products originating from LDCs. In this regard, we welcome the significant market access improvements by WTO Members in advance of the Third UN Conference on LDCs (LDC-III), in Brussels, May 2001. We further commit ourselves to consider additional measures for progressive improvements in market access for LDCs. Accession of LDCs remains a priority for the Membership. We agree to work to facilitate and accelerate negotiations with acceding LDCs. We instruct the Secretariat to reflect the priority we attach to LDCs' accessions in the annual plans for technical assistance. We reaffirm the commitments we undertook at LDC-III, and agree that the WTO should take into account, in designing its work programme for LDCs, the trade-related elements of the Brussels Declaration and Programme of Action, consistent with the WTO's mandate, adopted at LDC-III. We instruct the Sub-Committee for Least-Developed Countries to design such a work programme and to report on the agreed work programme to the General Council at its first meeting in 2002.*

Why agriculture is central

This is the central issue of the negotiations. Agriculture remains the most protected sector in world production, with a complex system of interventions, to protect production in certain countries, and then to counter that protection through countervailing barriers or preferences. This means that any reform will have complex effects. Any change in the structure of protection can have major effects, both positive and negative on those who lose or gain from the current arrangements. The average bound tariff is '62%, compared to 29% for industrial products' (WTO, *World Trade Report 2003*, p. 127). Although some applied rates are below those that are bound, the averages for these are also very different: 17% for agriculture and 9% for industrial.

It is also a sector in which non-economic motivations are important. Concepts like 'multifunctionality' or 'non-trade concerns' are used in the EU and some other developed countries to suggest that agriculture has a role in preserving natural or cultural environments. Beliefs about the role of agriculture in development or in the livelihoods of the poor in developing countries influence some observers. Therefore, calculating the economic costs and benefits from any change, and trading these off against benefits or costs in other sectors, may not be acceptable.

The structure of tariffs also makes negotiations difficult: while the average for developed countries is normally substantially lower than that for developing, the structure tends to be fairly flat in most developing countries, but with some very high peaks in developed countries. Any formula that concentrates on high averages will hit developing countries, while one which focuses on peaks will hit developed countries.

The fact that agricultural products are a declining, and now in some cases small, share of developing country exports does not mean that this is a declining issue, and the reasons for the decline can be misinterpreted. Manufactures overtook primary products in share of exports by non-oil producing developing countries in about 1985 (Page 1990). In the 1980s, this was led by Asia, but even if China and India are excluded, the share had risen to 60% for all developing countries by the late 1990s (World Bank, *GEP 2003*: it quotes the average, unweighted share as 50% for low income developing countries and 48% for middle income,

p. 66). Latin America, which had been still low in the 1980s (30% in 1985) is now at 60%. But there are two reasons not to interpret this as justifying less interest in agricultural trade reform. The first is that while different income elasticities would be expected to cause faster growth in manufactures trade than in agriculture, the differences observed are much greater than could be explained in this way. The much higher protection for agricultural trade is itself an important reason for this difference in pattern. The second is that for sub-Saharan Africa the share of manufactures is still only about a quarter. For them, the pattern of agricultural trade restrictions remains a vital trading interest. 28 of the 42 sub-Saharan African countries still have one to three agricultural exports which are each at least 10% of their total exports; 4 of the 13 Caribbean; and still 9 of the 20 Latin American countries. 24 of the Least Developed countries face this problem. (Page, Hewitt, 2001)

As a negotiating issue, agriculture has also acquired the status of a test of commitment: agriculture and the debate on access to medicines were the two issues where the developed countries had to make substantial offers to developing countries. Other offers, even if quantitatively important, would not be considered sufficient for a successful negotiation. On health, this was achieved before Cancún.

There is increasing dissatisfaction (e.g. Nogues 2003) with the access which was negotiated under the Agreement on Agriculture in the Uruguay Round: although it provided for cuts of a third in nominal protection and subsidies, the combination of taking a high base period for prices, generous 'tariffication' of non-tariff measures, and countries' option of meeting the average cuts by large cuts on the least sensitive products meant that the actual outcome was substantially less than had been hoped for. (This dissatisfaction was intensified by the over-optimistic estimates of the effects of agricultural liberalisation by the World Bank and OECD.)

In 2002, DFID defined developmental success in the agricultural negotiations as cuts in peaks, expansion of tariff quotas, and simplified and liberalised tariffs, with higher cuts by the developed countries (DFID 2002). In August 2003, the ACP countries (WT/MIN(03)/4) asked for improved market access, including duty and quota free access for the Least Developed, and elimination of export subsidies, but added 'a programme to support the enhancement of the supply capacities in the agricultural sectors of ACP states' and 'a financial compensatory mechanism to cover the revenue losses resulting from export subsidies by developed countries', as well as 'attention to the serious problem of commodity dependence'. They also explicitly supported the West African initiative on subsidies (see below). The Least Developed (June 2003) asked for duty and quota free access and exemption from any commitment to reduce their tariffs, and explicitly cited 'export subsidies...to products of export interest to LDCs' as the target for phasing out. They also requested 'compensatory and other appropriate mechanisms to fully address the impact of erosion of preferences, including measures that promote exports of LDCs'. Countries thus broadened the agenda for a successful outcome.

The most protected products are sugar, dairy, and tobacco. For the US, the highest tariff according to official data supplied to the WTO is 350% on tobacco products; for the EU, 470.9% on milk and cream (WTO *World Trade Report* 2003). Sugar is a special case because both the US and the EU have high domestic prices and quotas for imports. This allows those developing countries with quotas to export limited amounts at prices well above the world price (about a factor of 3 in the EU market). UNCTAD (2003) found the highest frequency of peaks in beef, chocolate, tobacco and dairy products.

Subsidies as a separate issue

The continued permissibility of subsidies to agricultural exports and production makes agriculture different from other sectors in the WTO. The Uruguay Round provided for some reductions, but the choice of base has meant that these were small. The question of whether the eventual elimination of subsidies should be seen as an objective helped to break up the Seattle Ministerial Meeting, and nearly caused failure at Doha. It is one of the two areas where there was progress at Cancún. The Agreement on Agriculture classified subsidies into three types: those defined as being clearly distorting: amber box, including production or export-related payments; those which might be distorting and are related to production, but which were intended to limit production (blue box); and those defined as having little trade distorting effect, green box (although clearly any payment to a particular type of producer will lower his costs, and therefore have at least an indirect effect in distorting trade).

The determination to keep subsidies stems from the commitment by some governments to maintain agriculture as a producing sector, where market results are not to be regarded as the only criterion for action. In national terms, this can be justified as being in accordance with voters' wishes. Even if most voters do not share the views, the decreasing share of food costs in household budgets suggests that it will be difficult to counter those producer groups who have an interest in such subsidies (Messerlin). This, however, is not a defence in international law. There is no international recognition of this objective. As the WTO does recognise some non-trade objectives as overriding trade obligations, for example national security or public health, GATT Article XX, violating WTO rules cannot be justified on the grounds that a remedy within the WTO is not available. Other countries take the conventional economic welfare position, that liberalisation increases incomes (although there may be exceptions created by the unwinding of existing preferences), and if there are other objectives, these should be achieved by appropriate second round, distributive policy. The costs of this should be met by the country which has those objectives, not by agricultural producers in the rest of the world.

Among developing countries, subsidies by developed countries help consumers of those products, but hurt competitors. On food, both results are seen. Hoekman, Ng, Olarreaga 2002, p. 30, show that 18% of LDC exports are of goods that at least one WTO member subsidises (the figure is only 3-4% for other countries). The countries that are most seriously affected in percentage of exports (above 20%) are given in table 1:

Table 1 Countries dependent on exports of goods subsidised in other WTO members

Country	Share of exports affected (percentage)
Benin	85
Mali	84
Chad	82
St Kitts and Nevis	78
Burkina Faso	76
Malawi	76
Burundi	73
Tanzania	68
St Lucia	64
Uganda	63
Sudan	60
Zimbabwe	59
Rwanda	59
Dominica	58
St Vincent	57
Paraguay	55
Cuba	51
Cote d'Ivoire	49
Guinea-Bissau	40
Nicaragua	40
Panama	39
Fiji	38
Costa Rica	38
Guyana	33
Colombia	32
Ghana	32
Ecuador	31
Madagascar	27
Argentina	26
Cameroon	25
Cyprus	25
Mauritius	25
Central African Republic	25
Myanmar	24
New Zealand (the only developed country in the list)	24
Uruguay	23
Barbados	22

Source: Hoekman, Ng, Olarreaga, 2002.

These countries would not necessarily gain if the subsidies were removed: some might still be uncompetitive, and most of the sugar producers gain extra income from quotas because of

the subsidies, but most would face less serious barriers, and some would gain significantly. They are concentrated among the poorer African countries, Central America and the Caribbean, but also some agriculture-dependent South American countries. On the import side, where subsidies could be considered an advantage, only two have more than 20% affected by subsidies, and this estimate may be high: Comoros 24%, Algeria 20%. Subsidies would tend to raise imports above the liberalised market level, and to reduce exports below it.

In cotton, it is the negative effect on competitors which has been argued to be most serious, and in summer 2003 four West African countries, Benin, Burkina Faso, Mali and Chad cited the cost to them of subsidies, notably by the US, and placed this as a separate item on the agenda for Cancún. Cotton is between 5 and 10% of their GDP, and more than 60% of exports (Goreux 2003). They requested, in addition to any negotiations on subsidies in the Doha context (which could not take effect until at least 2005) an interim settlement reducing subsidies to cotton over the three years 2004-6 (one third each year), and until 2006 compensation for Least Developed cotton producers based on the estimated losses suffered (calculated over 1999-2002). These are estimated at about \$250 million (TN/AG/GEN/6) in direct costs and four times that for indirect. This would be paid by the countries subsidising their cotton, on the basis of the shares in total subsidies, and reduced in line with reduction in subsidies.

This is a new type of trade negotiation. The studies and calculations were prepared with assistance from the French government (Goreux 2003, France Ministry of Foreign Affairs 2003), so that it is not a purely developing country initiative. It could provide a model for combining compensation with reduction as a way of dealing with other agricultural subsidies. The initiative has been supported by other West African countries who have formally joined themselves to the WTO proposal, as well as by other African countries both in their collective declaration and in individual positions (e.g. Malawi 2003; Malawi is also a cotton producer). While all Least Developed cotton producers would benefit from the compensation payments, the benefits of reducing subsidies are likely to be differently distributed. They will depend on how closely countries are tied to individual export markets as well as on supply conditions in each country. Some of the benefit would, of course, go to other countries, including developed country producers. The proposal was targeted principally at the US, whose subsidies are quantitatively the most important, although the EU and China also have subsidies which may be damaging to some exporters. (The EU apparently offered to eliminate its subsidies, AFP 12 Sept 2003). Although the producers obtained their special discussion of cotton at Cancún, and the Director General of the WTO oversaw consultations on cotton, the Chair's draft rejected any special arrangement, and instead suggested that the developing countries diversify away from cotton. This was interpreted as insulting by both the cotton producers and some EU delegates ('condescending', IDC, 2003 b, p. 3). Since Cancún, there has been implicit agreement to take cotton subsidies as part of the agricultural negotiations, although this was still left open in the December report on progress, so that the countries have lost the attempt to bring any settlement forward. The increased time has given the opportunity for increasing feeling among other developing countries that there are other cotton exporters and other exporters of products affected by subsidies, and therefore the first willingness to let the cotton exporters go ahead is dissipating.

The cotton initiative had tried to build on the type of approach found in support for allowing increased access by poor countries to medicines and before that in the debt forgiveness campaigns: that normal procedures and rules should be suspended to help the poor. Other exporters (notably sugar) were looking at the same method. The failure of cotton may

discourage this. If the compensation payments were used to increase productivity, either in cotton or in alternative exports, there could be more gainers among the Least Developed.

In some sectors, such as sugar, where the subsidies are combined with special arrangements for imports from some countries (the sugar quotas for ACP countries and Least Developed countries in the EU), the subsidies have an indirectly beneficial effect. Under the EU's Everything But Arms access for Least Developed countries, Least Developed sugar producers have increasing quotas until 2008 when all controls are supposed to be removed. In the absence of reform to the internal price and to the export regime, however, this will mean a potential large surplus to be exported. Some EU sugar subsidies have already been challenged, by Brazil, which argues that the subsidies are higher than allowed under the Agreement on Agriculture and that exports are being affected. This has brought Brazil into conflict with the ACP countries who benefit from higher prices. The Least Developed sugar exporters would accept lower prices, given higher quotas, and would accept a compromise after 2008 on this basis. The other ACP sugar producers have a much stronger interest in preserving the current position.

The other main area of subsidy is dairy products. An Australian government study (ABARE 2001) found that in the absence of EU and US subsidised dairy exports world prices would be 17-35% higher. For a few developing countries, notably Brazil, this depresses export earnings; for many more, it depresses the income of domestic producers.

The massive use of agricultural subsidies alters not only the trading pattern in agriculture, but also incomes and trade in manufactures (see box), and therefore if the system is to continue, new types of instrument to compensate the rest of the world for the distortions are likely to be necessary. If the Peace Clause of the Agreement on Agriculture, under which blue and amber box subsidies cannot be met by countervailing duties unless they exceed the agreed levels, is not renewed, there could be national actions to protect against imports of subsidised products, from 2004 (when it expires), but these would raise costs in the countries imposing the barriers, and would not solve the problem of competition in third country markets. For countries which already have good access for all their exports, and which do not want to damage themselves by imposing higher tariffs to 'punish' the subsidisers, some form of compensation is likely to be the only instrument available.

European agricultural policy

The most obvious effect is that controls on imports, domestic support, and subsidies to exports reduce the income of actual and potential agricultural exporters, both in the EU and in other markets. For countries with a greater than average dependence on agriculture for exports and greater than average share of manufactures in imports, as is true of many poor developing countries, this means an unfavourable distortion in their terms of trade and reduction in their income. But in addition, by using subsidies to raise prices of an important final product and import, it lowers the income of European consumers, directly and through taxation. It raises costs (competitiveness) of European manufacturers and services producers (directly as agriculture is an input; indirectly by raising the cost of labour). It therefore reduces total European income. Lower European demand reduces the welfare of all exporters to the EU. The example of a major trader protecting a small domestic interest group at the expense of the rest of the world not only reduces the benefit to other countries of accepting international constraints, but weakens the credibility of arguments for an international system based on economic efficiency and rules.

The reforms to the CAP agreed in 2003 did not affect the structure of assumptions behind it, and were too small to have a significant effect on the outcomes. As the South African Trade Minister, Alec Erwin (in Federal Trust 2003, *Where Next*) noted, the reforms only seemed good 'within the narrow perspective of EU politics'. The principal component, to complete 'decoupling' of support from the level of production was intended to move all EU subsidies into at least the blue, and where possible the green boxes, so allowable under WTO rules. In practice, not only was the full implementation postponed, but while in principle the effect could be that all production would cease, and ex-farmers would continue to receive their allocations, in practice the requirements for farm audits and that farms demonstrate compliance with environmental and animal welfare standards, and keep the land in 'good agricultural condition' suggest that a farm producing nothing would not be acceptable. Even if there is a reduction on production on marginal land, by definition this is small.

The CAP is justified as based on concern for rural areas and for rural populations. Although in principle, it is supported to protect the poor, it does not attempt to do this directly: all the emphasis of the arrangements is on protecting farmers, not the poor and even not the rural population. The original objective of self sufficiency for security reasons has been replaced by a new concept of self sufficiency: that the EU and its consumers need to have assurance of the nature of the supply, not just of adequate quantities. That is, they need to have confidence in standards, the use/lack of use of organic methods, GMOs, etc. Even where this could be met by traceability and labelling, it is clear that the assumption is that the EU must supply its own. The basic problem is unwillingness by some in the EU to use foreign food just because it is foreign. This will make any negotiation that attempts to meet the economic arguments bound to fail, unless it accepts the EU's refusal to reform, but asks explicitly for the EU to compensate the rest of the world for excluding a large part of its economy from normal trading rules.

Modalities for a settlement

The outcome will be defined in terms of the modalities of the tariff cuts (whether there are differential cuts for higher tariffs or peak tariffs or certain products), the size of the cuts, any changes in the rules on domestic and export subsidies and on tariff quotas or food aid, and any special arrangements for developing, Least Developed, or new member countries. The net income effect on any particular country may be positive or negative (with more chances of positive effects in rural areas in developing countries and fewer in major preference holders among the Least Developed countries).¹

¹ As in all tariff negotiations, one of the issues is whether the WTO should take account of the actual tariffs applied by countries or start negotiations from those notified to it and 'bound', which are sometimes substantially higher. If bound tariffs are used, a negotiated reduction may mean no actual reduction. But if applied rates are used, countries would be likely to increase these to the bound level before a negotiation, and to avoid autonomous reductions, so that the effect might be to make trade more restrictive. Although several proposals were made to use applied rates (e.g. ICC May, 2003), it now seems to be agreed that bound rates will be used.

Note on formulae and other modalities

The earliest GATT negotiations were in terms of ‘offers and requests’, in which the countries with the most interest in a product, as exporter or importer, requested and offered tariff changes from their principal markets or to their principal supplier. A set of definitions of which countries should have priority, and how they should be consulted, developed. This has the advantage of concentrating negotiations on those goods which are seen as most important or most sensitive, and provides, especially in a small organisation, manageable groups for each negotiation. This is still the system largely used in services. In goods, however, from the Tokyo Round, the use of formulae emerged, partly to deal with a larger number of countries and goods, many of which were not of special interest to any countries, partly to have an easier way of estimating whether the final outcome was ‘fair’ in a mercantilist sense, i.e. with the same or equivalent cuts for all. This has become more important and complex in the Uruguay Round and the current negotiations. There are more countries (and tariff distinctions are becoming more complex). And many developing countries have lowered their applied rates below the rates agreed in the WTO, either because of autonomous changes in national policy or because of pressure from the international financial institutions. Using a formula, based on the bound rates, enables them to receive ‘credit’ automatically for such liberalisation, so that they are not compelled to make as large reductions in the negotiations as those countries which have not altered their rates since they were last agreed in negotiations. A variety of different formulae have been used and suggested, ranging from a simple percentage cut to various ways of requiring higher cuts on higher tariffs, either through banding or through a sliding formula (see WTO Formula Approaches 2003 for a discussion).

The first proposals for the modalities of a settlement came from the Chair of the negotiating group, Harbinson, in February 2003 (TN/AG/W/1), modified in March (Rev 1). This provided for higher reductions in higher tariffs (with three bands:), in contrast to the Uruguay Round Formula, of a single average, with minimum cuts. This, as has been seen, allowed sensitive products to remain highly protected (table 2). Developed countries were asked to take into accounts the products of export interest to developing countries. These proposals specified levels for the cuts in tariffs and subsidies, which would have given cuts greater than in the Uruguay Round, but less than requested by the Cairns group.

Table 2 Harbinson Proposals on Market Access

Tariffs	Present Level	Average Cut	Minimum Cut per Tariff Line	Time Period
Developed Countries	Over 90%	60%	45%	5 years
	15-90%	50%	35%	5 years
	Under 15%	40%	25%	5 years
Developing Countries	Over 120%	40%	30%	10 years
	60-120%	35%	25%	10 years
	20-60%	30%	20%	10 years
	Under 20%	25%	15%	10 years
Least Developed Countries		No cuts		

None of the chair’s drafts has done more than mention non-trade concerns or multifunctionality (and it was added after circulation to the August draft (JOB (03)/174)). They were, however, pressed not only by the EU, but by Japan (WTO Japan August), which particularly objects to a reduced tariff on rice, and by EFTA countries, Israel, South Korea and Taipei (TN/AG/GEN/2).

Many agricultural goods still face specific tariffs (expressed per volume or quantity, not per value). Declining commodity price have made these proportionally more important since the Uruguay Round (von Kirchbach, Mimouni, 2003). These are harder to negotiate, but the Harbinson draft included some modalities.

Following inconclusive debate between May and July, an informal ‘mini-ministerial’ meeting (see section on process) asked the US and EU to submit a revised proposal. Although the EU had agreed an internal reform of the CAP in June, which it claimed would allow a liberal offer in the WTO, it did not make a new proposal, and other countries did not share its view that the reform was major. The reform does not reduce aggregate support for agriculture; it only distributes it differently. This had a ‘blended’ version of the tariff cuts, giving smaller cuts, and completely omitted reference to the Least Developed countries (EC, 13 August 2003). Some goods would be subject to a Uruguay Round type formula: average cuts, so countries can protect peaks; and some to a Swiss formula (which cuts high tariffs by more, but with a less explicit differentiation than in the March proposals), and those above a maximum would need to be either cut or supplemented by tariff quotas. There was therefore a significant reduction in the possibility of bringing high peaks down. The version in the pre-Cancún draft declaration (JOB(03)/150/Rev.1) used this tariff proposal, but also elements from the Harbinson proposals and from some country positions put forward in response to these. It restored the exemption of Least Developed countries. Developing countries would face the same formulae, but smaller cuts and no maximum tariffs. The EU/US proposal had included a provision asking developed countries to provide duty-free access for some imports from developing countries (apparently here meaning, including Least Developed countries), and this was also taken into the draft text. This is different from the trend towards providing duty and quota free access specifically for Least Developed countries, but arithmetically it could be met by such access where a high proportion of total imports from developing countries are from Least Developed countries.

The disadvantage of the ‘blended formula’ of the August Chair’s draft, which was maintained in the Chair’s draft at the end of the Cancún Conference, is that it allows countries to exempt some of their tariff peaks from any requirement to cut, provided they are in the tariffs for which an average, rather than a minimum, cut is applied. This was not acceptable to the developing countries that wanted increased access precisely in the commodities where there are peaks. A group of countries partly made up of the developing members of the Cairns group (Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Guatemala, Indonesia, Paraguay, Philippines, South Africa and Thailand), and partly a new group (China, Cuba, Ecuador, Egypt, India, Mexico, Nigeria, Pakistan, Peru, Venezuela) proposed a ‘blend’, but without the possibility of some tariffs only being subject to average cuts: minimum cuts, Swiss Formula (which gives a cut which increases with the level of the tariff), or elimination. It included a requirement for cuts in all forms of support including Green box measures (which the US and EU wanted to continue to use), and elimination of the blue box (which the EU wanted to see extended). It introduced a provision for tackling tariff escalation (WTO, 2003, Agriculture framework, Jank Monteiro, 2003). This is the group which, with variations, has become known as the G20. Their proposal also revived the proposal by Harbinson for a class of special products which developing countries could protect.

The draft circulated by the Chair of the Cancún conference weakened the required reductions in domestic support, although it did envisage controls on green box measures. The EU has repeatedly opposed any control on these. It also introduced a stronger commitment to ‘eliminate export subsidies for products of particular interest to developing countries’. This had been requested by the G20, and was offered during the meeting by the EU, and represented a major alteration of their opposition to any mention of ‘phasing out’ export subsidies at Doha and before. The restriction to products of interest to developing countries could be interpreted to be almost non-applicable, as most agricultural products are of interest to some developing country.

Most countries have explicitly or implicitly agreed to negotiate on the basis of these modalities, although the EU position is slightly less open: more recent statements (Lamy 2004 Strasbourg) suggest that there will be negotiation about a list of products to be included. The G20 (G20 December 2003) is still seeking a stronger commitment to overall cuts, restoring the principle of a minimum cut in all tariffs (in contrast to the Draft's provision of an average cut, which would allow countries to keep some high tariffs) and for the abolition of all export subsidies. The Chair of the Geneva Council (Pérez del Castillo, December 2003) suggested accepting the Cancún Statement for the Green Box and capping the Blue Box. Zoellick (2004) called for eliminating all export subsidies, and the Chair's report in December said that 'commitment to the elimination of all forms of export subsidies is a must for these negotiations to be successful'.

The Chair's draft proposed the extension of the Peace Clause. This was opposed by the G20 and in the absence of any agreement at Cancún or in Geneva in December 2003, it has lapsed.

The US and EU alliance on their proposal did not formally break down, but the differences between them on other matters weakened it. The G20 effectively replaced the Cairns group as the principal group pressing for major reform in agricultural policy by the US and EU, but with a weaker commitment to liberalisation in general (developing countries were to be asked to liberalise less) and with a stronger focus on allowing developing countries to take special measures for development or food security reasons. A new more protectionist group, the G10 emerged with some non-EU European countries (Switzerland, Norway) plus Japan and Korea, opposing even as much liberalisation as in the draft that circulated in August. The Least Developed countries, the African countries, and the ACP were able to agree on supporting exemption of the Least Developed from any cuts, but noting concern about the effects of preference erosion. An attempt to find common ground with the G20 ran out of time at Cancún, and has not been revived since. As some of the major members of the G20 are among those who might gain most from eroding the preferences of others, this would not be an easy alliance, but it is possible that the small size of most of the least developed and ACP exporters would eventually make it possible to find a compromise. The Egyptian Trade minister, Boutros Gali (in Federal Trust 2003 *Where Next*), among other G20 ministers, recognised that the concern about preference erosion has to be met. Offering the least developed access to the G20's own markets, as has been proposed by the EC, would not meet the problem: the reason preference erosion matters is that most least developed are not competitive with some of the major agricultural producers, even in third country markets.

Effects

For Least Developed countries, none of the proposals would mean any cuts; for other African countries, tariffs are normally low (Nigeria is an exception), and applied rates are much lower than the bound rates, so that there would be few cuts required. Some other countries have suggested not making any reductions to others (e.g. Kenya, July proposal), but this would be unlikely to be achieved by any of the large countries.

On access, for African countries (ILEAP 2003 has examined Burkina Faso, Cameroon, Cote d'Ivoire, Ghana, Kenya, Malawi, Mali, Nigeria, Tanzania and Uganda), most exports already face either 0 MFN rates or preferential rates, and so would not be directly affected by any reductions agreed in the WTO. This applies also to most Least Developed countries and to other ACP countries in EU markets. Many other developed countries offer preferences, and a significant proportion of agricultural exports occur within African or Latin American regions,

again under non-MFN rates or 0 tariffs. There would, however, be significant benefits to developing countries in Latin America and Asia (including India and Brazil) because even where there are GSP provisions, these tend to be of minor importance in the agricultural products of interest to them. For Brazil, there would be significant gains in access relative to, for example, the African countries examined above (trade ‘undiversion’), as well as any trade creation effects in the market countries. But these gains could be limited if the formula allows countries to avoid cutting some peak tariffs.

If there is a settlement along the lines of the current draft proposal, this could therefore (depending on what level of cuts is eventually agreed) have an impact on both the imports and exports of some non-African developing countries. There is unlikely to be any major direct change in either imports or exports, for African or Least Developed countries, although they could lose market share. Hoekman, Ng, Olarreaga 2002 found that if all countries cut tariffs by 50%. There would be important gains for the Caribbean and Central America, and for a few other countries like Mauritius, Philippines, and Thailand that produce high tariff goods like fruits, vegetables, processed foods, and sugar².

On domestic subsidies, there is opposition to the view that the current green box should be allowed to remain, as some developed countries increased their green box support, altering amber or blue box payments to fit the rules for green box measures (the EU’s reform of the CAP is the most recent example). Some countries are asking for ‘tighter criteria’ (TN/C/W/13). This does not, however, seem to be reflected in current proposals. The August draft proposal was for ‘substantial’ reductions in trade distorting support, i.e. amber box and potentially blue box measures, only, with the reductions to be greater than in the Uruguay Round (so more than 36%), but Blue Box type measures would still be explicitly allowed. Least developed countries remained exempt from any requirement to cut subsidies. Export subsidies on some (to be listed) goods of export interest to developing countries would be eliminated (the wording was taken from the US/EU proposal); others, however, would merely be reduced. The US (Zoellick, 2004) supported controls on the Blue box. The EU opposes controls on the Green and Blue boxes because it relies on them to provide continuing support to its farmers when export subsidies go.

Special products

Many proposals by developing countries, and by NGOs purporting to speak for them, have suggested that certain products be exempt from commitments to protect national production and/or consumption of staple products. Harbinson proposed that developing countries be allowed to designate some products as exempt from tariff or other cuts (this would, of course, only apply to non-least developed countries as the latter were already completely exempt from any requirements), or subject to smaller cuts. It made no provision for criteria for identifying them, except to limit their number or share in production or trade. Possible criteria could be to protect domestic production, and therefore rural livelihoods, or to protect tariff revenue, and therefore government income (see ILEAP agriculture for a discussion of this). The Harbinson draft also had a ‘new special safeguard’ to take account of development needs, not apparently linked directly to special products. The August draft, like the EU/US draft, has only provision for a special safeguard to be negotiated, but the gloss on this (EC 13 August 2003, Trade) suggests that the provision for different tariff cuts for some goods would give the necessary flexibility. A group of poor developing countries (Central American plus

² It is not, however, clear if this modelling took full account of existing preferences and sugar quotas.

Kenya and Sri Lanka) (WTO 19 August 2003) supported provision for special products to be exempt from cuts. The Draft has provision for a safeguard mechanism.

While agriculture is important to the livelihoods of many of the poor, low cost food and food imports are important for urban poor and for preventing food insecurity because of fluctuations in domestic production. The effects of exempting some foods from liberalisation would therefore depend closely on what criteria were agreed, and how the freedom was applied. The arguments that any changes in rules be slow are stronger, as the ability of the poor to adjust to new trade patterns is limited.

Tariff escalation

The traditional request of developing countries in trade negotiations has been for reduction in tariff escalation, but this is not as much of an issue in the current negotiations. Least Developed countries, in markets where they face 0 tariffs, clearly do not face escalation. Cotonou for ACP exporters to the EU and AGOA for African countries to the US, plus the now well established regimes for the Caribbean into Canada and the US, all offer preferences which remove most escalation.³ The WTO has finally dared to recognise that ‘Tariff escalation...does not appear to be a general problem across a wide range of agricultural products and markets’, WTO *World Trade Report*, 2003, p. 130, table p. 42). The Chair’s drafts provided a scaling factor to give higher cuts when there is escalation.

Food importers

In the Uruguay Round, one difficulty of agricultural liberalisation, the effect of lowering subsidies on exports to net food importing developing countries (NFIDCs) which depended on subsidised food, was recognised in the final settlement, although there was no formal provision for how to deal with this. This issue is recognised again in some comments (for example World Bank 2003, IDC, 2003), but is not part of the proposed agricultural settlement. There appear to be no new calculations of the cost.

Preference erosion

A problem which was recognised in external comments on the Uruguay Round, but not in the negotiations, was that of loss of preferences. Given the very high levels of some tariffs (and additional schemes like the sugar quotas), countries which do not pay those tariffs have very favourable access. The moves since 2000 to improve preferences, particularly by granting free access to Least Developed Countries, have increased this advantage, and therefore have also increased the potential loss. Countries now giving duty and quota free access for ‘all or essentially all LDC exports’ include Canada, Czech Republic, EU, Hungary, New Zealand, Norway, Slovak Republic and Switzerland (WTO, Market Access, 2002). Japan offers free access to about 63% of their exports (Bacchetta, Bora, 2003). The other EU accession countries will join this. The US offers special access to most African and Caribbean countries and a growing number of countries under FTAs. The EU has the Cotonou arrangements, again plus FTAs.

Preferences in food, unlike those in manufactures, seem to be intended to give poor countries additional revenue, partly through the increase in market share, sometimes through higher prices, either to relieve poverty directly or to provide them with ‘rents’ with which to finance

³ Where there are barriers to goods in the EU, this is frequently because they contain inputs where there are specific quotas, in particular sugar. They are, therefore, a problem created by the quota system, not by escalation. The US allows imports containing sugar, in spite of its quotas.

other types of development. (The sugar producers now use this potential as a major argument, evidence to IDC 2003; a few of them have used it in this way.) Any of the very high tariff sectors may produce these effects, but in practice there are few countries benefiting from preferences on dairy products, so that it is sugar and tobacco that are the main sectors where this is important. This problem did not seem to be recognised in any of the early positions on agriculture (there are examples in manufactures, notably in textiles: see below, where it was raised), although at least one paper (IMF, 2003) presented some striking results as early as February. Estimating the effect of a 40% cut in both agricultural and industrial product tariffs in the EU, US, Japan, and Canada, and assuming that Least Developed countries had been given free access, so that this represents an effective cut in their preference margins in these markets, it found that Malawi would have a loss of 11.5% of total exports (table 3), Mauritania, Haiti, Cape Verde, and Sao Tome and Principe, between 5 and 10%, and another 10 countries from about 3% to 5%. The actual value of the exports lost was in total \$530 million (of which \$222 was for Bangladesh), so that the numbers are not large on a world economy scale.⁴

⁴Hoekman, Ng, Olarreaga 2002 included equal tariff and subsidy cuts by developing and least developed cuts in their calculations, and included gains in domestic welfare from countries' own tariff cuts in the results, so their results are not directly comparable, but they also find that a small number of countries would lose and recommended compensation mechanisms and 'aid for trade'. (It is conceptually wrong to include countries' benefits from their own cuts as they could make these in the absence of any WTO negotiation.)

Table 3 Estimated Losses from Preference Erosion

(Decline in export values)

Country	Change in Exports (% of Total X)	Change in Exports (% of Exports to Quad)	Country	Change in Exports (value in US\$ mn.)
Malawi	11.5%	17.1%	Bangladesh	222.4
Mauritania	8.8%	11.7%	Cambodia	53.6
Haiti	6.4%	6.5%	Malawi	48.6
Cape Verde	6.3%	6.3%	Mauritania	40.4
Sao Tome and Principe	5.2%	6.5%	Tanzania	28.9
Tanzania	4.5%	9.2%	Senegal	23.6
Bangladesh	4.4%	5.0%	Angola	21.1
Comoros	3.9%	4.9%	Nepal	17.8
Cambodia	3.7%	4.3%	Ethiopia(excludes Eritrea)	15.4
Madagascar	3.7%	5.8%	Uganda	9.1
Maldives	3.7%	5.4%	Madagascar	8.6
Senegal	3.4%	7.1%	Sudan	6.9
Ethiopia(excludes Eritrea)	3.2%	5.9%	Mozambique	5.7
Sierra Leone	3.1%	3.3%	Haiti	3.9
Solomon Islands	2.8%	8.3%	Liberia	3.4
Nepal	2.5%	4.8%	Maldives	2.8
Vanuatu	2.5%	7.6%	Sierra Leone	2.5
Burundi	2.4%	5.3%	Solomon Islands	2.5
Uganda	2.3%	7.8%	Myanmar	2.2
Mozambique	2.1%	5.8%	Guinea	1.6
Sudan	1.4%	3.9%	Equatorial Guinea	1.3
Gambia, The	1.3%	1.6%	Togo	1.3
Kiribati	1.0%	4.2%	Sao Tome and Principe	1.1
Togo	0.7%	3.7%	Burundi	1.0
Central African Republic	0.7%	0.7%	Cape Verde	0.9
Myanmar	0.5%	3.5%	Congo, Dem. Rep.	0.8
Liberia	0.5%	0.7%	Central African Republic	0.7
Guinea	0.3%	0.4%	Vanuatu	0.6
Angola	0.3%	0.4%	Benin	0.3
Guinea-Bissau	0.3%	5.2%	Burkina Faso	0.3
Benin	0.2%	0.7%	Gambia, The	0.3
Burkina Faso	0.2%	1.6%	Comoros	0.3
Equatorial Guinea	0.1%	0.1%	Guinea-Bissau	0.2
Chad	0.1%	0.1%	Kiribati	0.1
Congo, Dem. Rep.	0.1%	0.1%	Chad	0.1
Samoa	0.0%	0.3%	Mali	0.1
Bhutan	0.0%	4.4%	Bhutan	0.0
Mali	0.0%	0.7%	Samoa	0.0
Niger	0.0%	0.1%	Niger	0.0
Afghanistan	0.0%	0.0%	Afghanistan	0.0
Djibouti	0.0%	0.0%	Djibouti	0.0
Eritrea	0.0%	0.0%	Eritrea	0.0
Lao PDR	0.0%	0.0%	Lao PDR	0.0
Rwanda	0.0%	0.0%	Rwanda	0.0
Somalia	0.0%	0.0%	Somalia	0.0
Yemen Democratic	0.0%	0.0%	Yemen Democratic	0.0
			TOTAL	530.3

Source: IMF 2003.

Calculations by ODI for the African Union (ILEAP papers) of the effects of increased competition from Brazil under the Harbinson proposals found of the 10 African countries examined, Malawi would lose 17% of its total exports, Uganda 3%, Tanzania 2%, and Cameroon, Ghana, and Kenya under 1%. These calculations explain the high loss found also by the IMF for Malawi: its principal exports are tobacco and sugar, with high tariffs, high preferences, and direct competition from other developing countries, notably Brazil. It is in

general the Least Developed countries, with high preferences, which lose, but not the cotton exporters (their problems are different, as discussed above). Exporters of products which already face 0 MFN duties, like coffee, have less to lose. Countries with a high share to other developing countries are also protected from loss. Tanzania and Uganda with high levels of preference, but some non-preferred exports, like coffee, are intermediate. This illustrates starkly the very different effects which any agricultural reforms would have, suggesting that few generalisations are likely to hold. Under the blended formulas of the August and September drafts, the losses would be less, possibly substantially less, because developed countries could use their freedom to make smaller cuts in their highest tariffs.

By June, these effects were starting to be recognised, by the countries concerned and by observers (IDC, 2003: 'There will be winners and losers from liberalisation', p. 35). Even the countries affected have in most cases been careful to say that the answer is not to prevent agricultural liberalisation (Malawi 2003 asks for the maintenance of existing preferences where possible, but for compensation for loss of preferences where it loses because of 'the agricultural liberalisation which will benefit others'; IDC 2003 'the poor should not pay for the poorest. In the case of sugar, full liberalisation is preferable, but if there is only partial reform it should be managed so that market share is redistributed to efficient producers in poor country at the expense of inefficient EU producers rather than solely at the expense of inefficient ACP producers', p. 37).

Harbinson suggested maintaining 'to the maximum extent technically feasible' nominal margins of tariff preferences, but this is clearly impossible when countries already have 0 tariff access, and unacceptable to countries like Brazil and India which are attempting to increase their access. He also proposed a two year moratorium for 'tariff reductions affecting long-standing trade preferences in respect to products which are of vital export importance for developing country beneficiaries'. Again, this imposes the cost of the preferences on other developing countries. If it were clearly limited in time, and accompanied by measures to help the preference-receiving countries to adjust, it could be less unacceptable, but two years is not a long period for agricultural adjustment. The Chair's draft merely undertook 'to take account of the importance of preferential access' based on Harbinson's proposals.

The sugar producers in developing (not Least Developed) countries are trying to hold back liberalisation (evidence to the IDC). But there has been increasing pressure (discussed in the section on transfers, below) for financial compensation for the losses because in most cases there is no possibility of offering better access on other products (Least Developed countries already have good access, and complete duty and quota free access for them is on the table). This is opposed by the sugar producers because they think it is likely to mark the end of their special treatment.

Sanitary and Phyto-sanitary standards

There is increasing perception that unnecessarily high standards or oppressive requirements for inspection are being used as non-tariff barriers. These are not being negotiated as such in the agriculture negotiations, and it seems increasingly likely that this issue will be shifted entirely into the area of technical assistance. Unlike some other types of rule, however, it will not be possible to offer developing countries exemption from the requirements if they have not been able to secure the required assistance, because health standards cannot be ignored, so that negotiation to achieve some rules such as that regulation should be in the 'least disruptive' form would be beneficial. Testing requirements impose high fixed costs which tend to disadvantage small countries and small enterprises within them (COMESA 2003).

Constraints on customs unions

Developing countries which are members of customs unions (WAEMU, MERCOSUR, CARICOM, SACU) or which expect to be (COMESA, for example, is supposed to become a CU from 2006) need to take this into consideration in accepting any modalities. If they are already members, they must ensure that their common tariff will still be acceptable after any agreed reduction. Any common tariff cannot, by WTO rules, be on average higher than the current tariffs of its members. If some countries need to raise their tariffs to harmonise them with the agreed common tariff (this seems likely to happen in COMESA), and if this goes above what is likely to be possible because of the difference between applied and bound rates, they will need to negotiate with countries which export to them, and possibly offer alternative reductions. Further negotiated reductions would make this worse. Purely developing country regions could try to use the Enabling Clause to ask for exemption from such obligations, but any mixed regions (for example, if SADC envisaged becoming a CU) would need to meet the rules. Nevertheless, it is notable that in regions like CARICOM, COMESA, and MERCOSUR, the members have not all joined position papers on either the agricultural or the non-agricultural tariff proposals.

South-South Trade

Some estimates (notably those by the World Bank) of effects of trade liberalisation emphasise the impact of liberalisation by developing countries towards other developing countries.^a If barriers in other developing countries are a major part of the problem for developing countries, then proposals to allow reduced or no liberalisation by developing and Least Developed countries could backfire. But in fact the principal markets for Least Developed countries' exports (both agriculture and non-agriculture) are the developed countries. China, Korea, and Thailand are the most important developing country markets for developing countries. Least Developed countries themselves take less than 1% of total Least Developed exports. Total south-south trade has risen from just over 6% in 1990 to under 11% in 2001 (WTO, *World Trade Report* 2003). The share of developing countries in developing countries' exports rose from 28% in 1990 to 37% in 2001. In Africa, this includes some agricultural trade (and probably more that is unrecorded). Overall, about a third of intra-African trade is agricultural, rather higher than the share of such trade in total.

South-South trade is important in some manufactures (southern Africa into South Africa, for example) and in machinery and transport in Latin America and Asia. Here, however, regional arrangements have already lowered most tariffs below MFN levels, so that there are no direct interests in the WTO negotiations. (There are a few examples of extra-regional trade, but here there are often bilateral agreements, for example between several of the southern and eastern African countries and India.) Average applied tariffs (tariff revenue as a ratio to imports) have fallen from 'more than 12 per cent in 1985 to less than 5 per cent in 2000' (WTO *World Trade Report* 2003, p. 23).

South-south trade is most important in Asia, which accounts for two thirds of it, although this was hit by the Asian financial crisis. This is higher than the share of GDP accounted for by developing Asia (about a half) reflecting the faster growth in that region. The leading traders are China, Korea, Singapore, Taipei, and Malaysia. India and Mexico, however, have had the fastest growth in recent years (WTO, *World Trade Report* 2003, p. 30). As was found for the Uruguay Round, therefore (Page, Davenport 1994), liberalisation by developing countries, and in particular by the more advanced East Asian economies, is likely to be more important for the Asian countries than for African or Latin American, and liberalisation by African and Latin African countries is unlikely to have a major effect on other developing countries, partly because of low trade shares and partly because of the existence of regional tariffs. Peaks, however, unlike in agriculture, are more common in developing countries than in developed (UNCTAD 2003).

a: DG Trade has repeatedly used the estimate that 70% of tariffs paid on developing country exports are paid to developing countries. This appears to come from Hertel, Martin 1999, where they estimate on the basis of tariff rates, not tariffs collected, that 70% of tariffs on non-manufactured goods are paid to developing countries. The figure for all goods is 65%, so the figure for agriculture must be less than 65%. They are, however, using a model which does not include developing country preferences or regions, and the estimated total figure for tariffs collected is more than twice the actual figure.

1.3 Non agricultural market access

16. We agree to negotiations which shall aim, by modalities to be agreed, to reduce or as appropriate eliminate tariffs, including the reduction or elimination of tariff peaks, high tariffs, and tariff escalation, as well as non-tariff barriers, in particular on products of export interest to developing countries. Product coverage shall be comprehensive and without a priori exclusions. The negotiations shall take fully into account the special needs and interests of developing and least-developed country participants, including through less than full reciprocity in reduction commitments, in accordance with the relevant provisions of Article XXVIII bis of GATT 1994 and the provisions cited in paragraph 50 below. To this end, the modalities to be agreed will include appropriate studies and capacity-building measures to assist least-developed countries to participate effectively in the negotiations.

Background

This is a less important issue in aggregate than agriculture because barriers are lower, and therefore the current structure of protection is less restrictive and less complex. Although in fact most exports from developing countries are non-agricultural, these do not excite the same pre-conceptions about livelihoods and poverty that agricultural exports do, and no developed countries would now admit to having industries that are protected for social reasons.

The outcome will be defined in terms of the modalities of tariff cuts, the rules on binding, and the types of differential treatment of either export access or import tariffs by developing countries. There is still a significant proportion of tariffs that are not 'bound' (notified to the WTO, and therefore impossible to alter upwards without renegotiation). While in agriculture, most countries have 'bound' their tariffs as part of the Agreement on Agriculture, even if some of the bindings are very high and some countries use 'applied' rates well below the bound rates, in non-agriculture negotiations there are still countries without bound tariffs, who therefore must ask, and negotiate, whether they should bind their tariffs, and if so at what levels and what weight should be given to this in the negotiations.

Non-Least Developed African developing countries put the emphasis on reduction in peaks and escalation. The highest peaks, in both developed and developing countries, are in textiles and clothing. Other highly protected goods are fish (classified as non-agricultural in the WTO), rubber, and leather goods. Specific duties are also important in some non-agricultural goods, notably textiles and garments, and again these have increased because prices have fallen (von Kirchbach, Minoumi, 2003).

The question of whether Least Developed countries should be exempt from both tariffs on their exports and obligations to reduce their own tariffs is an issue in non-agricultural trade as well as in agriculture. As in agriculture, there is concern by some low income non-Least Developed countries about competition from the Least Developed.

Positions

DFID (2002) suggested that development success here be judged by significant reductions in applied rates and peak tariffs by developed countries, cuts in developing country rates, both applied and bound, and in the margin between them; and elimination of 'nuisance' tariffs. (Unless the second proposal is making the mistake of taking own tariff cuts into account, it must be intended to offer access to developing country markets.) Least Developed countries, and many of the other groups, have concentrated on ensuring that the commitment to provide them with duty and quota free access is met. Developing countries in Africa have opposed any commitment to increase binding substantially (e.g. TN/MA/W/40). South Africa, in what was virtually a research paper (TN/MA/W/42) stressed the affect of controls on clothing and

textiles on jobs in developing countries, as well as noting the need for time to adjust and for support to preference-dependent countries. As South Africa is not in this position, this is an interesting alliance with other African countries. It also supported differentiated coefficients (see below) for developed and developing countries.

Modalities

A draft proposal was circulated by the Swiss Chair of this working group in May, and revised in August; a proposal was made by the EU/US and Canada in August (JOB(03)/163). The draft pre-Cancún text was based on the August text. There was no agreement on modalities (JOB(03)/174). The initial proposal used a formula designed to produce maximum reductions for tariffs which were high relative to a country's own average. This does not directly meet the objective of reducing peaks (high in absolute terms) and does not put higher cuts onto countries whose general level of tariffs are high. The formula was interpreted as favouring developing countries, because on average their bound tariffs are higher, and was supported by many of them, but the distribution of bound tariffs does not correspond to level of development, and there are exceptions in both directions to any simple rule. The formula was adaptable to give smaller proportionate cuts to newly acceding members (who are assumed to have had to negotiate lower tariffs on entry), so there was no technical reason not to give lower rates to developing countries (c.f. Gillson, Page 2003, for DTI). Least Developed countries were to be completely exempt from making cuts. But this was apparently inconsistent with another proposal, to eliminate all tariffs by all countries in some sectors, including textiles and clothing, fish, and electronics. The draft did not deal satisfactorily with non-tariff barriers or specific tariffs. The EU/US/Canada proposal suggested a different coefficient for developing countries; the draft text does not adopt this, but does suggest 'less than full reciprocity'. The EU/US/Canada draft also had the possibility of altering the coefficient to recognise increased binding. The pre-Cancún text maintained, and envisaged strengthening, the provision in the original proposal for requiring countries with a high share of unbound tariffs to bind these 'at an average level that does not exceed the overall average of bound tariffs for all developing countries after full implementation of current concessions'. Least Developed were to increase their level of binding. The draft still supported sectoral negotiations, but with 'flexibility for developing country participants'. Developed countries were to liberalise their access for Least Developed. Developing countries could exclude up to 5% of their tariff lines and imports from any formula.

The Cancún draft supported the idea of a formula, to apply to all lines of the tariff (so without the concession to high tariffs seen in the agriculture formula), but did not commit to any particular formula. It supported some sectoral negotiations to reach 0 tariffs, but with 'flexibility for developing-country participants', so again without a clear modality. Least developed countries were to be exempt from both the formula reductions and the sectoral cuts. The EU has since stated that it would not support this draft, because it does not offer 'effective improvements in market access for our exports', does not want the provision that developing countries can exclude some goods (5% in the draft) from the formula cuts, and insists that developing countries must offer 'serious market opening' (EC, Nov. 2003, p. 9). It has also suggested that it will use labeling to protect its textile and clothing industries (EC, October, 2003). Zoellick (2004) has suggested a blended formula, perhaps with a cap on high tariffs. He did, however, suggest that sectoral negotiations could exclude some developing countries.

As in agriculture, the liberalisation by developed countries may not have a significant effect on Least Developed countries, but could help developing countries.

Preference erosion

It is in manufactures that there is greatest awareness of preference erosion, although it is not clear that this is where the effects will be greatest. This was reflected in some of the early simulations (c.f. UNCTAD, 2003). This is partly because the potential impact on non-quota controlled textile and clothing exporters of removal of quotas has been on the agenda since the negotiation of the end of the Multi Fibre Arrangement in the Uruguay Round (Page, Davenport 1994), and partly because some of the countries affected, notably Mauritius and Bangladesh, are among the most vocal and skilled negotiators. (Within agriculture, sugar has attracted more attention, helped by good negotiators.) The initial calculations made of the effects of the end of the MFA found that Mauritius, Bangladesh, Sri Lanka, and the Maldives were likely to be the most serious losers, at up to 15% of their exports, with Jamaica, Nepal, Costa Rica, and the Philippines also likely to have significant loses. The major gains would go to India, China, Pakistan, and perhaps Korea. These effects are still largely in the future because the way in which the MFA ended was heavily backloaded, with the full liberalisation postponed until 2005.

Mauritius thus finds itself among the serious losers on both agriculture and non-agriculture. It had pointed out in January (TN/MA/W/21) that countries with preferences could face 'major set backs in their development efforts', and suggested that erosion 'should be duly compensated', asking for views on 'the possible compensation mechanism that could be set up'. Other African developing countries (TN/MA/W/27: Ghana, Kenya, Nigeria, Tanzania, Uganda, Zambia and Zimbabwe) also identified the problem of preference erosion, and suggested trying to maintain 'current benefits'. By the time of the later submissions, in July and August, it was becoming recognised that trade measures might not be a feasible method.

The August draft text of the declaration, unlike the previous drafts, does mention preference erosion, but only among 'issues of importance [that] shall be further considered'. The Cancún text was even weaker, recognising 'the challenges that may be faced by non-reciprocal preference beneficiary Members and those Members that are at present highly dependent on tariff revenue', but only asked for these to be taken into consideration. The chair of the working group had noted in his report on discussions of the initial proposals that many countries had mentioned this problem. Mauritius, for example, stressed that it could be particularly important for countries with a limited number of products and markets (TN/MA/W/21/Add.1). By the time of this statement, in July, it was suggesting that while tariff reduction was one way to meet preference erosion, it was 'open to the possibility of considering other modalities'. As with some of the tariff proposals, the EU/US/Canada text had gone further: 'We shall work with Bretton Woods Institutions to establish or enhance programmes to address adjustment needs of Members whose exports are significantly affected by erosion of preferences'. In October, however, the EU suggested new discrimination in favour of Least Developed Countries by altering its rates of GSP preferences from 2006 and relaxing the rules of origin for them.

1.4 Services

15. The negotiations on trade in services shall be conducted with a view to promoting the economic growth of all trading partners and the development of developing and least-developed countries. We recognize the work already undertaken in the negotiations, initiated in January 2000 under Article XIX of the General Agreement on Trade in Services, and the large number of proposals submitted by Members on a wide range of sectors and several horizontal issues, as well as on movement of natural persons. We reaffirm the Guidelines and Procedures for the Negotiations adopted by the Council for Trade in Services on 28 March 2001 as the basis for continuing the negotiations, with a view to achieving the objectives of the General Agreement on Trade in

Services, as stipulated in the Preamble, Article IV and Article XIX of that Agreement. Participants shall submit initial requests for specific commitments by 30 June 2002 and initial offers by 31 March 2003.

Negotiations on services still take place under the system that preceded formulas in goods, of bilateral negotiations between countries 'requesting' specific trading partners to open specific sectors, and then countries 'offering' to open sectors, with the opening being normally on an MFN basis. There is much more scope for very specific opening, of some activities in a sector, with some constraints, so that general conclusions will be rare. General special treatment for developing countries has taken the form of asking for less opening, not offering preferential access as in goods, so that it will be necessary to examine the details to determine the effective special and differential treatment. There does not seem to be any commitment to exclude Least Developed countries from all commitments, and the developed countries including the EU have issued requests to them. As there is no standard formula, it is difficult to operationalise the meaning of either differential treatment or 'credit' for autonomous opening. Services, including some where negotiations are in place such as tourism, are important to some developing countries, including both Least Developed and small island countries. Many services do rely on semi-skilled labour, and are often in regions of the country where other activities are not possible, so that there can be direct effects on incentives for education and on rural poverty.

As there has been only one round of negotiations on services, the Uruguay Round, many countries have actual regimes which are substantially more liberal than they have declared. Developing countries, in particular, had difficulty in knowing what type of offer to make and were cautious in the face of lack of experience. This means that many countries could make offers or respond favourably to requests without substantially altering their actual regimes. This could give them some 'credit' to use in services or in other sectors where they are making requests. Hodge 2003 notes that on communications SADC countries have liberalised substantially, and could commit their current schedule of liberalisation.

The negotiations and the negotiating positions of developing countries have not been significantly affected by the uninformed concerns of some NGOs about possible constraints on government regulation (e.g. Hilary 2003). Developing countries do have concerns about any opening about whose effects they have not been able to gain full information, but they also see important opportunities for some of their own services.

Developing country interests

As most developing countries have an advantage in labour, many are trying to gain increased access to developing countries for their labour (as temporary workers, not as migrants). Some Asian countries, including South Korea, Malaysia, and India, are major exporters. There have been several unofficial proposals for a WTO or GATS visa that would give limited rights to move for specific occupations (Eglin 2003). India in particular has supported this. This is the type of service, however, which was most restricted (WTO, *World Trade Report*, p. 146), and within it, it is more restricted for less skilled workers. Many openings under GATS specify professionals, graduates, or other senior levels. The risks of terrorism have increased resistance in some developed countries to any form of migration, so that such opening may be difficult to achieve. Worker remittances are already a significant source of income for developing countries (on average more than 1% of GDP, World Bank 2003, p. 149), and are a particularly large share of GDP for Lesotho and, Jordan (over 20%), and Nicaragua, Yemen, Lebanon, El Salvador, Cape Verde, Jamaica and Morocco (10-20%), Dominican Republic, Vanuatu, Philippines, Honduras, Uganda, Ecuador, and Sri Lanka are at 5-10%.

Developing countries, particularly those which are landlocked or with limited transport resources, also have strong interests in more efficient and less restricted transport and communication services. Costs of these have significant effects on trade (e.g. Fink, Mattoo, Neagu, 2002), and because developing countries trade more with distant countries (with developed countries, in particular) and offer smaller trade flows, losing economies of scale, they tend to face higher costs. The costs can be increased by restrictions on shipping or air transport.

Some developing countries, e.g. South Africa, India, and some in the Caribbean are offering health services. These can be obstructed by barriers to foreign services from government health services or insurance.

Positions

The DFID (2002) criteria for a development friendly outcome only specified processes: continuation of the offer/request procedure and credit for autonomous liberalisation. The EC had suggested opening access for foreign professionals, but this was rejected by member states (Tradewatch March 2003). The offer was therefore principally in sectors such as telecommunications, financial services, transport, courier services computer services, environmental services, distribution, construction, tourism, news agencies and entertainment. It excluded education, health, social services, and audiovisual, and made only minor offers on mode four, restricted to professionals and graduate training (EU, 29 April 2003). The Least Developed countries have asked for liberalisation under Mode 4, noting the estimates of the good effects of a temporary visa scheme, and asked for technical assistance in improving access. The ACP countries had a similar, but less specific, request on this. India has also said that it will support this, looking in particular for removal of economic needs tests (the restriction of visas when local labour is available) and for sectoral commitments on this. There have been attempts since the end of the Uruguay Round to look again at how services were grouped and classified (this was not done by experts in individual service areas), and some positions, for example that of the Arab countries (WT/L/ 537), on energy, are still trying to clear these problems. Zambia, with other Least Developed, has made a proposal for special treatment for LDCs (see Zambia study). The Council for Trade in Services has received other informal documents on this (Tradewatch July 2003). It stressed full access for LDCs (by analogy with the opening of markets for their goods) as well as assistance in the negotiations. On the issue of opening, Least Developed countries have asked that they be allowed special consideration, but developing were not willing to accept differentiation (in contrast to goods, where this was accepted in both agricultural and nonagricultural modalities).

Offers and requests

Most developing countries have not participated actively in making offers and requests, but they are now preparing them. In 2003, 62 countries issued requests, covering virtually all WTO members, and 40 made offers including India (Bridges 11, December 2003). By June 2003, only India and Colombia had tabled requests on Mode 4. Developing countries have received requests from developed countries. The EU has made requests to 109 countries (DTI 2003 GATS): excluding the EU itself, this means that it did not make requests to only 19 countries. Even to Least Developed countries, the requests covered 3 to 5 sectors, a significant increase on the single sector which was acceptable from Least Developed countries in the Uruguay Round. The Cancún text calls for 'continuous exchange of requests and offers'. It did 'note the interest of developing countries, as well as other Members, in

Mode 4'. Immediately before Cancún, agreement had been reached on a text for Special Treatment for Least Developed Country Members (WTO 2003 TN/S/13), but the Cancún text did not explicitly call for this to be implemented. Even implementation would not have imposed clear differentiation of the type proposed for the formulae for goods. It had merely asked that least developed countries be given more flexibility to open 'fewer sectors, liberalizing fewer types of transactions' and that other countries give them priority in market access opening, without a clear standard for this. While Least Developed can 'indicate' priority development areas, these are not exempt from opening. Services were not discussed at Cancún, because the modalities, request and offer, had already been decided. Negotiations on them were stopped between September and December as part of the general pause.

The WTO has offered technical assistance in making offers, but the barrier is probably in doing the analysis of what existing legal regimes are, and then the implications of binding them, rather than on the technicalities of turning this into an offer. Assistance is now being given by donors, for example by DFID to Nigeria.

Nigeria is considering trying to make requests that would increase access on mode 4, particularly in business, recreational, cultural, and sporting sectors. but avoid liberalising sectors where it wants to encourage local employment (Gillson, 2003). It has looked at autonomous liberalisation in the financial and telecommunications sectors, and could probably make significant offers in these. It could also open its education and petroleum services in order to encourage foreign investment, and possibly also utility sectors.

Coherence with other international regulation

Liberalisation of trade in financial services can involve similar changes in regulation to those also under discussion of liberalisation of capital accounts (WTO, Coherence, 2003). UNCTAD is beginning to look at the implications of this, but it has not yet become a negotiating issue in GATS.

1.5 Intellectual property, public health and geographical indications

17. We stress the importance we attach to implementation and interpretation of the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS Agreement) in a manner supportive of public health, by promoting both access to existing medicines and research and development into new medicines and, in this connection, are adopting a separate Declaration.

18. With a view to completing the work started in the Council for Trade-Related Aspects of Intellectual Property Rights (Council for TRIPS) on the implementation of Article 23.4, we agree to negotiate the establishment of a multilateral system of notification and registration of geographical indications for wines and spirits by the Fifth Session of the Ministerial Conference. We note that issues related to the extension of the protection of geographical indications provided for in Article 23 to products other than wines and spirits will be addressed in the Council for TRIPS pursuant to paragraph 12 of this Declaration.

Trade Related Aspects of Intellectual Property were added to the coverage of the WTO in the Uruguay Round and the effect of this on developing countries has been a major issue. The questions most prominent in the negotiations are related to production and trade in generic pharmaceutical products; the use of 'geographical indications' (Bordeaux wine, Blue Mountain coffee), especially applying international restrictions on terms outside wines and spirits (currently the only areas regulated by the WTO) and extending controls on those; and some issues in patenting life forms and traditional knowledge. All raise important issues of principle, but only the results on pharmaceuticals seem likely to have major effects on the MDGs in the short term. The new rules could be important in allowing exports from developing countries with a pharmaceutical industry to those without, although there is

evidence that countries have not used licensing even when it has been allowed and that they have received cheap drugs under other arrangements. If the declaration agreed on 30 August lowers the prices at which Least Developed countries can obtain drugs, there could be important effects on health, especially in the major diseases.

The declaration at Doha had made it clear that developing countries could licence production of medicines for public health crises within their own countries; the issue remaining was what rights could be given to countries which do not produce these, which include many of the poorest, to import under the same circumstances. The differences included whether the types of public health crisis should be clearly specified (for example, by listing diseases), how to ensure that medicines traded under these conditions did not 'leak' into other markets, and whether there should be also technical assistance to encourage these countries to develop their own pharmaceutical industries (and thus provide an eventual limit to special trading provisions). There was near unanimity on a declaration in December 2002, and after last minute negotiations in July and August, a declaration was agreed on 30 August 2003.

The August compromise was prepared by the US, India, Brazil, South Africa and Kenya, the countries most prominent in opposing and supporting the measure, but all are producers, not potential importers. It allows the same broad definition of threats to public health as is used for allowing manufacture of generics, so there are no restrictions on diseases. It requires countries to 'take reasonable measures within their means, proportionate to their administrative capacities...to prevent re-exportation' (WTO 2003 IP/C/W/405). It recognises 'the desirability of promoting the transfer of technology and capacity building in the pharmaceutical sector'. Developed countries have agreed not to use it. A group of 11 advanced developing countries have said, in the Chair's statement (see below) that they will use imports only 'in situations of national emergency' (WTO, 30 August 2003, Chairperson's Statement). Except for Least Developed countries, other developing countries can import only after showing that they lack capacity to produce.

There had been disagreement over what legal form any declaration would need to take, whether a Ministerial statement giving an authoritative interpretation of the agreement was sufficient or whether there had to be a formal agreement on a Ministerial statement. The 30 August decision was presented as a temporary waiver; the TRIPS agreement will be amended. The current compromise adds to the December agreement a chairman's declaration, specifying which countries have agreed not to import drugs (it was never envisaged that developed countries would be included) and that all members recognise the importance of preventing re-exports, based on existing systems. A Chair's statement seems a doubtful legal format. The Cancún draft 'welcomed' the decision. It stands as an interim decision by the Council. It must be confirmed, but is outside the context of the Round.

Adoption of a declaration would probably increase exports, and therefore, income in some of the major developing country producers of generic pharmaceuticals, including Brazil and India. Some of the increase in their supplies would replace existing arrangements for special prices from non-generic producers in Least Developed countries, but there could also be larger and more certain supplies, leading to health improvements. To be fully effective, any arrangement would need complementary measures to improve the delivery of health services, as inadequate resources to distribute medicines is a major barrier (Puyatch in SAIHA, 2003).

Positions on public health

The DFID 2002 position only asked for a ‘meaningful and workable solution to the problem of countries with insufficient pharmaceutical manufacturing capability’, not a specific modality. Developing countries have considered it essential that all threats to public health be covered, because although the risks of epidemics like malaria and HIV-AIDS are being increasingly appreciated, death rates are high because of lack of general medical care and access to medicines, not just because of epidemics (Malawi 2003: ‘allow imports of all essential medicines and other medical supplies of public health importance’). Some of the regions have asked that trade within regions be accepted as equivalent to local consumption, and thus covered by existing rules. The Africa group wanted as much flexibility in trade as in the rules for own production, but that steps be taken so they did not depend permanently on imports (Maonera, Chifamba, 2003). The ACP and Least Developed countries have simply endorsed the December draft.

Implementation of health measures

Even within the existing rules, countries have not fully implemented what is permitted. In many African countries, Retroviral drugs are not patented (Puyatch in SAIIA, 2003). Kenya, for example, which does have a pharmaceutical industry, has not granted licences. Least Developed countries, which are not yet required by WTO rules to have complete protection in place, but which may be bound by their own laws, have not developed strategies for supplying cheap medicines. This is partly because companies have offered supplies at reduced rates, to avoid compulsory licensing, and partly because of unfamiliarity by governments with the patent laws. It has meant that the compulsory route has not been properly tested. It is therefore difficult to be sure how significant and how rapid the consequences of any declaration would be.

Geographical indications

Geographical indications are potentially an important marketing device, so could eventually have income effects, and they are an objective of some developing and Least Developed countries. This is an issue that divides both developed and developing countries, as some developed countries want to be able to continue to use names such as Parma ham for non-traditional suppliers, while some developing countries want to protect their own national assets before they are copied elsewhere (Malawi, 2003). It is the only issue where there were alliances between developed and developing countries at Cancún. The draft text could only ‘take note’ of the negotiations. It had even divided its principal supporter, the EU, and only at the end of August did the members reach agreement on the goods for which they would request protection. The EU in 2004 agreed to be ‘more flexible’ (Lamy, 27 January 2004), which could be less beneficial to the poorer developing countries.

1.6 Singapore issues

20. Recognizing the case for a multilateral framework to secure transparent, stable and predictable conditions for long-term cross-border investment, particularly foreign direct investment, that will contribute to the expansion of trade, and the need for enhanced technical assistance and capacity-building in this area as referred to in paragraph 21, we agree that negotiations will take place after the Fifth Session of the Ministerial Conference on the basis of a decision to be taken, by explicit consensus, at that Session on modalities of negotiations.

23. Recognizing the case for a multilateral framework to enhance the contribution of competition policy to international trade and development, and the need for enhanced technical assistance and capacity-building in this area as referred to in paragraph 24, we agree that negotiations will take place after the Fifth Session of the

Ministerial Conference on the basis of a decision to be taken, by explicit consensus, at that Session on modalities of negotiations.

26. Recognizing the case for a multilateral agreement on transparency in government procurement and the need for enhanced technical assistance and capacity building in this area, we agree that negotiations will take place after the Fifth Session of the Ministerial Conference on the basis of a decision to be taken, by explicit consensus, at that Session on modalities of negotiations. These negotiations will build on the progress made in the Working Group on Transparency in Government Procurement by that time and take into account participants' development priorities, especially those of least-developed country participants. Negotiations shall be limited to the transparency aspects and therefore will not restrict the scope for countries to give preferences to domestic supplies and suppliers. We commit ourselves to ensuring adequate technical assistance and support for capacity building both during the negotiations and after their conclusion.

27. Recognizing the case for further expediting the movement, release and clearance of goods, including goods in transit, and the need for enhanced technical assistance and capacity building in this area, we agree that negotiations will take place after the Fifth Session of the Ministerial Conference on the basis of a decision to be taken, by explicit consensus, at that Session on modalities of negotiations. In the period until the Fifth Session, the Council for Trade in Goods shall review and as appropriate, clarify and improve relevant aspects of Articles V, VIII and X of the GATT 1994 and identify the trade facilitation needs and priorities of Members, in particular developing and least-developed countries. We commit ourselves to ensuring adequate technical assistance and support for capacity building in this area.

Whether a decision needed to be taken to begin negotiations on these after Cancún remained unclear as the meeting began. This was the subject of a Chair's statement at Doha (illustrating the uncertainty of this instrument). The statement that negotiations would begin on the basis of 'explicit consensus' left unsettled the question of whether countries had bound themselves to give 'explicit consensus' (in which case, why was it not simply stated that negotiations would begin?) and what precisely 'explicit consensus' means (it has never been used before in WTO documents). The formal positions on the Singapore issues of the EU on the one hand (negotiations must begin) and of developing countries on the other (they must not, because some countries are unwilling to give 'explicit consensus') remained very much opposed. There had been increasing recognition by commentators that the Singapore issues could be 'unbundled', that they could be considered separately from the main negotiations and separately from each other. This was taken up in several of the non-EU, non-developing country ministerial statements at Cancún. The US noted that 'some countries' considered them important, but clearly indicated that it did not (Zoellick, Cancún statement).

In the UK, both the Secretary of State for International Development and the Secretary of State for Trade and Industry had indicated before Cancún that these issues are not a priority (Amos, evidence to IDC; Hewitt, speech to CBC). The International Development Committee (IDC 2003a) has suggested that trade facilitation and government procurement should go to negotiation, but that there was no evidence that an investment agreement should be in the WTO or that it would increase investment flows to developing countries and that competition policy needs technical assistance, not a WTO agreement (pp. 46-8). Ministers in Germany, France, and Italy have also drawn back from insisting on the issues (Bridges, 28 August 2003). A working group of experts for the Federal Trust reached the same conclusion (Federal Trust, 2003), arguing that competition policy needed more agreement on a framework of principles and definitions before the question of negotiations could be discussed and that a new WTO body should consider how a new investment agreement 'would co-exist with and relate to bilateral, plurilateral and existing WTO agreements (p. 10). Although most developing countries still opposed negotiation on all four (there are some in Latin America and Asia who do support negotiations), this is justified in part on the grounds there is not yet sufficient understanding of the issues and they are also increasingly arguing that each 'has its own particular aspects and complexities' (WT/GC/W/501 and 513,

WT/MIN(03)/4, for example). In its initial statement at Cancún (Lamy, Cancún, 2003), the EU still supported launching negotiations, but emphasised that it had been flexible and could still 'listen to your concerns'.

The question of what 'modalities' of an agreement mean became important as part of the dispute. Those who support including the Singapore issues argued that the modalities could be 'broad and flexible' (WT/GC/W/491), in an attempt to get agreement on negotiations without agreement on the type of settlement that might emerge. Those who oppose negotiations have argued that modalities must be understood as defining 'the nature and direction of obligations' (WT/GC/W/501) or 'certainty on the structure and precise content of negotiations' (TN/C/W/13). Developing country distrust of open negotiations, without a clear agenda, stems from concern at how services and intellectual property negotiations evolved over the course of the Uruguay Round, as well as from opposition to the Singapore issues. This argument about procedures has preempted any discussion about the content of any agreement.

For all four issues, there is not strong public support or opposition (as there is in developed countries and developing over issues like agriculture or pharmaceuticals or even services), so that there are only negotiating reasons, not public pressure reasons, for a strong position on these. What is clear is that these are not strong economic interests (positive or negative) for any of the WTO members, so that a development position must consider whether a dispute over whether negotiations on them should begin should be allowed to prevent agreement to negotiate on the central issues, of market access for goods and services. Many developing countries believed (Rafidah Aziz in Federal Trust, 2003) that the EU continued to insist on them as part of the Doha bargain under which it agreed to a wording it disliked on subsidies to exports of agriculture. As well as specific objections, developing countries opposed in principle any extension of WTO responsibilities because of their distrust and dissatisfaction of the extensions to TRIPS and other rules. It was only on these four issues that the pre-Cancún draft text offered two bracketed drafts, for negotiations and for remission to the Working Groups. The Chair of the General Council did note that 'some delegations would be comfortable with...a third option' (between full negotiation and simply return to the working groups) 'for one or more of the Singapore issues' (JOB(03)/174).

The Cancún draft proposed that negotiations start immediately on trade facilitation and government procurement, that they start after some specific further clarification on investment, and that competition policy be referred back to the Working Group. For these two, therefore, it removed the draft 'modalities' for negotiation which had been in the August draft. This was the first subject discussed in the Green Room process on 14 September, and after the morning of discussions, the EU agreed to remove investment and competition policy from the negotiating agenda (it was not clear if this meant closing down the Working Groups on them). While this offer was being discussed by developing countries, the Chair of the meeting suggested that they could also withdraw government procurement. The compromise failed, although it is not clear if this is because there was no willingness to agree (Korea and Japan continued to support negotiations on all four; the developing countries opposed negotiations on any of them) or because there was not time to build this into a bargain on the other subjects. After Cancún, the EU initially withdrew its offer to remove two of them (EC October 2003) has accepted that the issues all be unbundled from the Doha negotiations, but still argues that all four were desirable, perhaps for a plurilateral agreement (Lamy 2004). Zoellick, after suggesting a focus on the 'core market access topics', suggested that negotiations begin on trade facilitation as 'basically an extension of market access procedures

that lower transaction costs'. He did not oppose negotiations on government procurement 'if others believe this transparency topic merits ongoing engagement', but said that this could be on a plurilateral basis. He supported 'dropping' investment and competition.

Some developing countries had seen possible benefits from negotiations on trade facilitation, even while opposing it formally. Since Cancún, The Least Developed countries, with Botswana, China, Cuba, Egypt India, Indonesia, Kenya, Malaysia, Nigeria, Philippines, Tanzania, Uganda, Venezuela, Zambia and Zimbabwe have also accepted that work can continue on this, with the possibility, after 'the clarification process', of beginning negotiations (WTO 2003, WT/GC/W/522). Egypt even suggested 'maybe two' of the Singapore issues 'provided developing country concerns are taken care of, particularly in agriculture and cotton' (Boutros Gali in Federal Trust 2003). Developing countries have not taken a formal position on plurilateral negotiations, but most oppose these because they risk producing an agreement which developing countries will later need to accept without having been involved in the negotiations and because it might set a precedent for labour or environmental negotiations (Bridges 11 December 2003).

Trade facilitation

Some developing countries see merits in securing progress on this issue, but emphasise that this should be done through technical assistance. It is a mixed area of negotiations. It includes increasing regulation and standardisation of customs rules and practices, with the objective of simplification. It attempts to improve the performance of customs administrations and port or transport facilities in developing countries either by setting targets or by providing technical assistance (see Wilson, Mann., Otsuki, 2003, p. 23 for some definitions). It can include both laws, whether border measures or internal administration, and rules, procedures, and technical equipment. To the extent that it increased the efficiency of trade, any progress would improve the income of developing countries in trade sectors, with the normal effects across the MDG and other indicators. To the extent that the 'inefficiencies' are intentional barriers to imports, however, new rules would reduce countries' policy freedom. The discussion seems to be moving toward concentrating on some rules (which will have positive, but small effects) plus identifying needs for technical assistance on the implementation. This could eventually have important effects.

The costs of trading are higher in developing countries whose customs services lack technology, training, or good administration. These are doubled for land-locked countries whose access to markets are through a second country with these problems. High estimates for savings from customs and trading simplification were first used to justify some of the measures that created the Single European Market (EC, 1988), and have been prominent in discussions in APEC. In land-locked countries the extra costs of trading are estimated to be as much as the tariffs (author's own work on Malawi). Most of the efficiency effects, however, are obtainable by countries' unilateral action (with aid), and are not really WTO issues. Savings of between 1 and 10% are estimated, depending on what assumptions are made about what can be done, through both rules or efficiency reforms (see Francois, van Meijl, van Tongeren, 2003, p. 10 for some estimates). Most of these problems require increased investment. Countries want to be able to decide how much to allocate this in relation to other spending priorities for development. Increased regulation of procedures would take away this choice.

Some of the proposals for trade facilitation to be internationally regulated, particularly proposals by business organizations, suggest that outcomes should be regulated (length of

border or port delays, for example). This would be a new extension of the principle that trade agreements should not be 'nullified or impaired' by other actions or inactions of governments. Given the very different conditions of different products, different types of shipment, and different country resources could require very detailed regulation.

The costs and awareness of trading barriers have been increased by the new measures put in place to meet security concerns. The most notable is the new US Container Security Initiative which came into effect in 2003, and which imposes new security requirements on ports (only 30 have been registered as meeting these) and new notification requirements on cargos (see World Bank, 2003, pp. 82-7 for a description). These may delay shipments and make flexible shipping of small consignments more difficult. It is causing concern even to large developing country exporters like Brazil and India. As security is accepted by the WTO as a reason for imposing additional restraints on trade, there is no direct challenge possible to these, unless it is possible to challenge such measures as not being the least cost or least obstructive means of achieving their purposes. The requirements impose disproportionate costs on small or irregular shipments, and therefore on new producers or those from small countries, and on producers at a distance from one of the recognised ports. All these amount to *de facto* discrimination against developing countries.

It is reinforced by the US Bioterrorism Act, with its own notification rules, and by new regulations on food exports to the US, which are particularly burdensome on foods which undergo several stages of processing, in different places, and thus discourage value added (AFP, 2003, Australia). Here, requirements of advance notification of shipping could make trade impossible for perishable goods. The World Bank (2003, p. xxiv) estimates that each 1% increase in trading costs 'reduces world income by US\$75 billion a year', and that the extra security measures may have increased costs by up to 1% a year (p. 186). This, unlike the more traditional elements of trade facilitation, is an issue for developed as well as developing countries.

The DFID 2002 position on trade facilitation was to identify good practice, and to encourage countries to go beyond minimum standards 'according to ability'. The World Bank (2003, p. xxv) suggests that 'institutional reform...tailored to each country, and...technical assistance' are required, it questions whether more rules are needed (p. 196), and it argues that any WTO agreement should concentrate on mobilising assistance. The Federal Trust (2003) was impressed by the estimates of the cost savings from better arrangements, and saw some need for more rules, and therefore supported negotiation.

The draft text identified the issues for negotiation, if negotiations began, as clarifying rules on customs clearance and identifying technical assistance and capacity building needs, in cooperation with other international institutions. The EU, the main demandeur on the issue, wants 'specific commitments on fees, document and data formalities, customs...procedures (Federal Trust, 2003, p. 21). Developing countries, while opposing negotiations, identified the issues for further work as identifying the issues in trading practices which had caused problems and the costs to developing and Least Developed countries of taking on increased obligations, and considering criteria for possible exemptions. They also identified various technical problems including the additional costs for small producers and new security procedures and asked for further study of these. The Least Developed countries opposed new regulations and supported strengthening LDC institutions.

Investment, competition policy, and transparency in government procurement

Even if these were included, little effect was expected. The importance could, however, be potentially major in future rounds. Once a subject is on the agenda, the normal next step is to move from describing existing rules to asking for changes. This is happening on services in Doha compared to Uruguay. It is not, however, inevitable: there is little pressure to increase the regulation under the TRIPS or TRIMS agreements made in the Uruguay Round. If the outcome is that disagreement over these causes a collapse of negotiations on the other issues, then their impact on development will be highly damaging, so that it is necessary briefly to summarise the positions.

Issues in these subjects

Investment: some aspects of investment are covered by existing WTO commitments, in TRIMS (Trade Related Investment Measures) and services (many of the provisions in GATS on entry of service providers are de facto about investment). The published proposals are still very limited because most of the discussion has been about whether, not what, to negotiate. They raise issues of transparency, certainty, discrimination for or against foreign investors, and treatment of investors once they have entered the country. At their broadest, these would pose important policy issues for developing countries. Some argue that an agreement would have major effects of increasing investment flows. The World Bank (2003, p. xxv) argued that 'there is no evidence that an investment agreement would, by itself, promote new foreign investment'. There is little evidence from existing agreements that the economic effects would be large, and it seems increasing likely that any agreement would be in the form of a framework, rather than requiring actual changes in policy.

Competition policy: There are two types of issues: regulation of international cartels (which are judged to be outside the control of even large countries) and tackling 'hard core' cartels (many, but not all, of which are international). A third issue, of ensuring that all countries have a minimum level of local competition law, was proposed, but was never likely to go forward (Federal Trust 2003 for more details). If a strong agreement was adopted and enforced, it could affect some commodity markets, and have a major effect on the share of commodity income received by some developing country exporters. This would be potentially important, for example for coffee producers, but would not have followed from a limited settlement and would have been not enforced immediately. Therefore any effects could be delayed. The debate has, however, encouraged competition policy development at national (and regional) level, so that there may be indirect effects on competitiveness within countries.

Government procurement: The discussion now centres on ensuring transparent procedures, not regulating what the procedures are or forcing countries to admit foreign bidders, so that any effects are likely to be small.

Positions on these subjects

DFID (2002) took a very strong line on investment and competition policy, asking for commitments on 'core principles of transparency...and non-discrimination', and on competition policy for the establishment of 'voluntary co-operation on information sharing...between national competition authorities'. This apparently reflected a view that investment rules would encourage investment flows. The IDC (IDC 2003a pp. 47-51) noted the World Bank views on an investment agreement and therefore opposed including it in the negotiations. On government procurement, DFID encouraged provisions to assist SMEs to access information and had a specific mention of tied aid. The EU position was that an

investment agreement should cover transparency and non-discrimination, but that the content should be, like that of GATS, based on country commitments on which sectors to open. (DTI, 2003). On competition, it envisaged that countries should eventually be required to adopt competition laws (so more like the TRIPs model, of prescribing the form of national legislation), combined with adoption of a framework of principles. It also supported a 'ban on hard-core cartels' (DTI, 2003), not consistent with no immediate requirement for national laws. The Least Developed countries wanted further work on whether there is a link to increased investment flows, and whether there are benefits to WTO intervention on competition policy and government procurement, but no negotiations. Other developing country positions also opposed any negotiations on these in this round, although some, like the Arab states (WT/L/537) envisage negotiations at a later date.

1.7 Negotiating process

49. The negotiations shall be conducted in a transparent manner among participants, in order to facilitate the effective participation of all. They shall be conducted with a view to ensuring benefits to all participants and to achieving an overall balance in the outcome of the negotiations.

One MDG (see Appendix) stresses process, partnership, and therefore the means by which the international system makes rules. This suggests that as well as the outcome criteria, we should be looking at whether the process of the Doha Round is orientated towards encouraging, and making effective, participation by developing countries. Page 2002 and Page 2003 Victims analysed past experience and suggested ways in which the WTO system could be made more developing country-accessible.

If developing countries are able to participate effectively, they will clearly gain on the goal of process and 'partnership'. And they will be able to secure gains for the sectors which they think are important, ensuring some positive income effects and probably sectoral effects. This is an area where we are able to make an assessment of the expected outcome more easily, because it is happening. The short period initially allowed for the Doha Round (3 years, compared to 8 for Uruguay) put more pressure on countries with fewer resources in government and outside to analyse their own or others' positions, so the *de facto* extension of this is an improvement, but it may still be shorter than the Uruguay Round. Excluding three of the four potential new issues means that fewer new issues have been added than in the Uruguay Round. This is an improvement, but again an improvement relative to a position that was originally very difficult. The process is still more difficult for developing countries than the Uruguay Round. The offer/request system in services requires more direct participation than the framework approach for services in the Uruguay Round or the formula approach to trade. And the increasingly complex 'blended' formulae are reducing any simplicity.

Negotiating process up to Cancún

The negotiating process in 2003 combined meetings and papers submitted in the formal processes in Geneva with 'mini-ministerial' meetings, of 20-30 trade ministers from developed countries plus those developing countries seen as key for their size, for their special interests, or for their active participation in negotiations. There is no official recognition of the mini-ministerial; attendance is, formally, at the invitation of the host government, and there is no report back to the WTO. It was at a mini-ministerial that the December 2002 draft on intellectual property was prepared and semi-accepted; it was then rejected in the formal procedures, although the US was represented at the mini-ministerial. A mini-ministerial in July 2003 asked the US and EU to draft a compromise agreement on

agriculture. They did so, and presented it (and a draft for non-agricultural market access, prepared with Canada) to the Geneva processes, where it was, in part, embodied in the chair's draft text. This may mark a shift to a closer linkage between the informal and the formal procedures of the WTO, and there were, at the Director General's initiative, continuous negotiations in the final two weeks in Geneva, but there is still considerable opposition by developing countries to the process, and the agricultural initiative did not gain support. The US appears to support continuing these (Zoellick, 2004).

Even formal proceedings still have large elements of uncertain or informal procedures. On both agricultural and non-agricultural access, the chairs of the negotiating groups initially prepared draft proposals on their own responsibility. These were detailed in the choice of formulae, the forms of special and differential treatment for developing and Least Developed countries, and in the actual levels of tariff and subsidy cuts. They were not based directly on any work in the groups, although they took account of the Doha commitments and some positions. The revisions then took more explicit account of the comments circulated, in the formal procedures of the groups. For example, the revised proposal on non-agricultural access specifically noted that preference erosion had been cited as an issue, and mentioned it, although not proposing how to deal with it. But the papers also took account of other papers (for example, the US/EU agricultural proposal was issued by those governments in their own procedures). Information has been available on country positions, but some proposals and drafts have not been published by the WTO. Informal procedures, notably the ICTSD website, have, however, been effective in filling gaps in official information. The final text was sent to the ministers on the responsibility of the Chair, not by any more formal procedure. The rules for the conduct of the Cancún meeting remain largely at the discretion of the Chair of the meeting. The draft text pre-Cancún was based on all the proposals that have gone in, but the choice of which proposals to cite (for example, the decision to include only the two extreme positions on the Singapore issues: negotiation or back to working groups for all of them) was the chair's. The proposal by the four West African countries on cotton subsidies, however, was put on the agenda as a new item at their request.

There has been no intervention from the chair to propose a framework on services, in spite of its importance to many members.

The status of the chair's comments on the TRIPS agreement remains in doubt.

Negotiations at Cancún

The greater participation by developing countries was reflected in the way the negotiations at Cancún were organised. The groups were able to choose their own representatives to the consultations by subject and smaller, 'Green Room',⁵ meetings, rather than being selected by the Chair of the meeting (as in the past). New countries (e.g. Ghana for agriculture) started to come to prominence.

At Cancún there was the first semi-formal recognition of groups among the developing countries (and of a new group among the developed: the G10, those least willing to liberalise agriculture, led by Switzerland). Countries presented positions saying that they were on behalf of groups like the Africa and Least Developed countries, and the Chairs of the groups

⁵ There are no formal procedures for WTO Ministerial meetings. The custom is for the chair to designate 'friends' to hold consultations on the principal issues, partly open, partly with the principal interest groups, and then to consolidate the positions in a 'Green Room' meeting of principal countries. At Seattle, these were the largest countries, plus countries which the chair chose to represent the others

were chosen to represent developing countries in both the informal consultations on various issues during the conference and in the Green Room in the final stages. There were explicit arrangements for them to 'report back' to their 'constituencies'. During the negotiations, individual groups had procedures for regular consultation and consideration of positions, and arranged negotiations with other groups to arrange common positions.

The informal procedures were made as formal as possible, in that the official representatives of the informal groups were treated as their representatives. But the absence of any formal means for the groups to adjust their negotiating positions was one reason (combined with the absence of, firstly, as competent a chair of the meeting as at Doha, and secondly as compelling a reason for the developed countries to compromise as the 9/11 attacks), that it was not possible to secure agreement. The presence of a large number of interests, within countries and among countries, now increasingly clearly asserted, means that if country representatives and then the WTO are to represent these interests and be accountable back to them, then more formal structures will be necessary.

In the Cancún negotiations, although negotiating groups were established on the principal issues, with a clear procedure to report back to the chair of the meeting and the ministerial forum, the role of the 'facilitators' of the subjects in turning country positions into a revised draft remained as undefined as the role of the chairs of the Geneva groups had been. The formal and semi formal procedures, however, were in the end submerged under the Chair's judgment that agreement was not possible.

The formal negotiations were complicated further by the contempt with which the EC and US delegations discussed the interventions by the G20 and by the Africa-Least Developed Group (see below for a description of the groups). During, at and after the Cancún meeting, both EC and US trade officials characterised the G20 as an *ad hoc* group, formed for ulterior motives ('geopolitical', Lamy in Federal Trust 2003), without agreement on agriculture, and with no effective positions on other matters.⁶ The Africa-Least Developed Group were criticised as unable to understand the negotiating issues or procedures. After cotton had been accepted onto the agenda, and a working group, under the Director General of the WTO, had attempted to make progress during the meeting, the Cancún draft, apparently inspired by the US, called on the African countries to diversify away from cotton. Whatever the elements of truth in the criticisms of some developing country positions, openly 'insulting' (as some EU member country delegates described it) the opposition is a highly unusual negotiating technique, unless it was intended to obstruct a settlement.

The various explanations for the failure of Cancún are important in so far as they suggest how (and if) negotiations might work in the future. Both EU and G20 delegates believe that a compromise on agriculture was nearly achieved (Hewitt in International Development Committee 2, p. 10; Ismail in SAIIA 2003), and would have been achieved if negotiations had continued. Most countries were prepared to accept what has now emerged as the compromise on the Singapore issues: delinking all of them from the other negotiations, and concentrating on trade facilitation. The disagreements in NAMA and in areas like geographical indications were large, but of a type for the negotiations, not for the setting of modalities, which was what Cancún was supposed to achieve. There was a serious conflict in negotiation style between the EU and many of the developing countries, who expected negotiations to overrun, with concessions held back until the final and past-final moment

⁶'Brazil, China, India and others...are circling in a different orbit...If they want to do business, they should come back to mother earth' EC Agriculture Commissioner Franz Fischler, quoted IDC 2003b.

(and with hints of flexibility, like the EU Ministerial statement [Lamy, Cancún, 2003], being taken as normal negotiating procedure), and the US and others without experience of dealing with the EU, who took a more formal approach both on timing and on how proposals were made. The parallel processes of ministerial statements (reflecting pre-Cancún positions, and aimed at least as much at national audiences as at the negotiators) and negotiations to alter positions are increasingly incompatible as both public scrutiny and the need for bargaining increase. There was a more serious breakdown in approach when some developing countries expressed resentment and frustration, not simply disagreement, with the Cancún draft. That the Cancún draft failed to incorporate the type of discussions on cotton which had been taking place in the meeting merely confirmed the pre-meeting experiences with drafts from Chairs, but the reaction to it was stronger,⁷ and the reaction of the Chair to that reaction may have reflected less experience. The decision to discuss first the issues where the divide between developed and developing countries was strongest, the Singapore issues, instead of the original plan, to negotiate all issues simultaneously⁸ or the alternative preferred by developing countries of agriculture first, reinforced the impression of a developed-developing split.

Many of these could be resolved by a different structure of negotiations, and thus would not prevent an eventual settlement, although there are no proposals for such a change on the table so the risk of similar breakdowns remains. The question which remains is whether the refusal by some countries to negotiate on the Singapore issues and the refusal by the Chair of the meeting and some other countries to extend the period of the negotiations were negotiating tactics or the result of a belief that opposition by at least one major country meant that they could not reach an acceptable settlement on either Singapore issues or agriculture. If that is the case, then unless the Zoellick proposal of January 2004 reflects a change in position of those who closed the meeting, the chances of a settlement remain low.

After Cancún, the Chair of the General Council returned to the role of trying to direct the negotiations. As had happened in the consultations between Seattle and Doha, a skilled and tactful official was able to calm some of the resentments and clarify countries' positions. He secured general recognition that most of the Cancún draft was an acceptable basis for negotiation, plus the two EU concessions made during the meeting on subsidies to agricultural exports and on the Singapore issues. (The EU had tried to withdraw the latter, but has now accepted it.) He was not, however, able to find an agreed formula for a new ministerial declaration. This indicates the limited usefulness of the current informal procedures, even when well handled.

The US (Zoellick 2004) has tried to influence the choice of the 2004 Chair of the General Council by proposing that the normal rotation between developed and developing countries (which would give Japan in 2004) be suspended. His suggested chairs are mainly from the G20. Although all would be experienced negotiators, they would not be neutral, and an intervention from a minister was itself a derogation from the normal negotiating practices.

⁷'African countries were shocked and appalled' by the draft on cotton. 'The chair's draft ministerial text also misrepresented the debate on the Singapore issues' (Ismail in SAIIA, 2004). Ismail was the South African representative to the WTO.

⁸ There were in fact parallel meetings on agriculture, but those on Singapore issues had priority as the 'formal' Green Room negotiations, and the chair of the meeting treated a settlement on these as a precondition for taking note of the others.

The procedures which are currently in use would not be considered acceptable by any national governance standard, and can only be justified if it is believed that all countries have the same objectives, and that a skilled individual or group can therefore try to find the instruments to achieve these. If there are different interests, as is the normal assumption in WTO negotiations about gains and losses and as is demonstrated here by the conflicts of interest on areas like subsidies and preference erosion, this model cannot be assumed to meet development criteria. But the way in which developing countries have operated in the negotiations, both before Cancún, including the achievement of progress on TRIPS and public health, and at Cancún suggests that there has been an improvement in the level of participation and therefore an approach to the 'partnership' goal, even if it has been achieved by developing country efforts rather than by concessions from the developed. The Indian Minister at Cancún even suggested that the system was becoming less open to developing countries (Jaitley, 2003). The EC does not formally recognise participation in the process as part of the 'development', agenda defining it only in terms of favourable trade policies and complementary aid (Lamy, Cancún, 2003).

Positions

DFID (2002) suggested that information should be 'readily available to delegations', but only asked for 'Guidelines for the use of informal meetings and production of composite texts as tools of consensus-seeking', not formal rules and procedures. It also suggested a 'manageable pace of negotiations for smaller delegations', which may be inconsistent with the three year target for completion of the Round which the EU supports. The UK has offered assistance and training to developing countries to participate effectively, but increasingly interprets this as helping countries to take particular positions, so not increasing initiatives by developing. Some groups and countries have tried to put the procedures on the agenda, e.g. ACP (WT/MIN(03)/4) asks 'that the decision-making process ...in Cancún is transparent and inclusive, through the adoption of procedural rules. Those rules should ensure...that (a) proposals of the various members or groups of members are reflected in draft texts that form the basis of negotiations, (b) appointment of the Chairpersons of working groups is made by a decision of all WTO members; (c) all WTO members are informed of all meetings and are entitled to participate in them, and (d) issues of importance, including consideration of a proposal to extend the length of the Conference, should be put before all WTO Members for a decision.' That these need to be proposed indicates the weakness of current procedures. Malawi (2003): 'Malawi believes that clear and open procedures should replace informal meetings, that proposals should come from properly constituted meetings, not individual responsibility, and that countries which lack resources and experience to participate should receive additional support.'

A group of African countries made specific proposals in August (WT/GC/W/510) for the preparations for and conduct of the Cancún meeting: 'adequate opportunity and time...to review and revise the draft Ministerial texts, which must be approved by all Members through the General Council and not transmitted by any official on his or her own responsibility...an official Committee of the whole...as the main decision-making body..Any consultations and discussions at the Ministerial Conference should be open ended and inclusive...If small meetings or consultations on particular issues are considered useful, they should be governed by proper rules. All such proposed meetings should be approved by the plenary or the Committee of the Whole, and be open to all interested Members', and no last minute extension of the conference or exclusive Green Room meeting'.

Immediately after Cancún, the EU considered proposing reforms in the WTO's processes (EC, 29 October 2003). These included strengthening the role of the Director General (in order to weaken the chairs), increasing the resources of the Secretariat, and reducing the representational role of the ministerial meeting by reducing the size of delegations and meetings. It also made practical proposals to increase the ability of small delegations to participate. In spite of the experience of alliances, it sought to reduce the role of 'ad-hoc coalitions on single issues'. The proposals have not been put formally to the WTO, but are still being mentioned (Lamy 27 January 2004). They do not seem designed to increase participation (and 'development goals'), but rather to improve efficiency. This is clearly also necessary, but not sufficient to ensure that the process is also pro-development.

Negotiating groups

Common characteristic groups (e.g. Least Developed Countries or the small island states) as well as exporters of particular commodities such as sugar have emerged as more important in formulating positions than formal regions. At Doha, the Least Developed secured a range of special mentions, and avoided any expressions of opposition to special treatment for them; the small economies got a 'work programme to examine issues'. Unlike formally established regional groups among developing countries, the Africa Group was effective in mobilising support for the developing countries' own initiative issues, notably debt. This group, which includes the various regional trade groups, and which is more like the common characteristic groups than the formal regions, started to meet in the run-up to the Seattle meeting, and has become increasingly important in coordinating positions.

The Africa group had been meeting regularly in Geneva since 1990 (Soko, Qobo, in SAIIA, 2003), and many of the proposals pre-Doha and pre-Cancún were by countries speaking for it. It cuts across other groups, including some Least Developed, some ACP, some landlocked and islands, and some of the G20. This gives it a legitimacy as speaking for all types of developing countries. It is formally an agent of the African Union (and therefore formally excludes African non-members, although they observe in it).

Another group which started to emerge in Seattle is a much more fluid group of leading developing countries. The long-established leadership of India and Brazil was extended to include Egypt, Nigeria, and South Africa. All have a common interest in continuing liberalisation in the WTO context, although with very different (and potentially opposed) interests in particular elements of the negotiation. Their interests are also in some respects very different from those of the smaller economies (where trade is a much more important part of the economy) so that they are not seen as (although they may see themselves as) leaders of the old developing country alignment. All could be seen as leaders of regional groups: MERCOSUR, Northern Africa, SAARC, ECOWAS, and SADC. Brazil and South Africa, at least, have acted informally as reporters-back to their groups in the WTO negotiations. Other smaller countries, such as Jamaica, Mauritius and Bangladesh, have also emerged as frequent leaders in taking positions, chairing committees, etc. Where there are general developed-developing country issues (special and differential treatment, the inclusion of the new issues like investment and competition policy), agreement from this set can constitute a developing country position, although on more specialised questions, they are not representative.

A new group, the G20 (or now G20+), of developing country agricultural exporters (but including the traditional leaders, Brazil, India, South Africa, Egypt, now joined by China), emerged in the weeks before the conference, and acted much more formally together than the

others. It secured the two symbols of 'recognition' at the talks: representation in consultations the Green Room and a meeting room of its own. Its emergence, combined with the emergence of the G10 on the other side of the agricultural negotiations, and the strong divide between the developed and developing countries on the developed country proposal to introduce regulation of investment, competition policy, government procurement and trade facilitation, the 'Singapore issues', meant that the Cancún Ministerial was perhaps the first meeting since the 1970s where the divisions were almost uniformly between developed and developing countries. The divisions within each grouping were less important, although some of the preference-dependent countries distrust the G20. The G20 thought that it had failed to try sufficiently to reach an agreement with the Africa/Least Developed group (Erwin in CUTS 2003), indirectly confirming that they saw it as a developed-developing divide. The EU-ACP alliance of Doha, the Cairns alliance of all efficient agriculture countries of the Uruguay Round, and other developed-developing alliances were no longer important. The EU seems unwilling to accept the emergence of single-interest groups, and has continued to press the G20 to take positions on other issues, in particular to liberalise to the Least Developed (Lamy, 2004). In fact, the G20 members act in different groups for their other purposes, with South Africa, for example, supporting the issue of preference erosion as a member of the Africa/Least Developed group.

Although the performance of the G20 at Cancún was impressive, therefore, it was not the first time that developing countries, and these countries in particular, had had a significant role. What was new was that there were virtually no 'bystanders'. Most of the smaller countries in the Africa-Least Developed-ACP alliance participated actively in at least some issues, and many also participated in other *ad hoc* groups (for example, the land-locked or those promoting the recognition of special products). The fact that many of them spoke against the Chair's draft, rather than remaining silent after giving their official ministerial statement, as had happened in previous meetings, may have indirectly led to the collapse of the meeting, because it was misinterpreted as a rejection of the negotiation process, but it showed that there had been success in securing broad participation. In contrast to Doha, where the EU was able to influence the positions of most ACP countries by linking the question of extending the Lomé preferences to support on WTO issues, the EU positions on agriculture and the Singapore issues were only supported by a few ACP countries, and the pre-Cancún support of the West African countries for the Singapore issues (possibly related to French support on the cotton issue) was reversed at Cancún.

Comparing numbers of delegates attending Cancún with those at Seattle (Doha was low for most countries because of both the location and the security situation), there was only a small increase in Latin American and Caribbean delegates (excluding Mexico, as the home country; the location probably increased other delegations, as well), but Asian delegates rose from 449 to 544 (only partly explained by more from China) and African from 423 to 675. This represented a commitment to provide informed coverage across a range of issues, not simply formal representation. Some argued after Cancún that the failure of the Chair's draft to take account of their positions meant that this was wasted effort, that should not be repeated, but so far participation and interest seem to be continuing.

What was notable, however, is that the newer alliances did not yet have either the experience or the mutual trust to develop 'fall back' positions. This was a problem for concentrated negotiations. While it is sometimes a problem even for experienced groups (it was not clear that the oldest group, the EU, had a clear fall back position either on the Singapore issues or on how to react when the meeting was abruptly terminated), clearly it is more a problem of

inexperience than of groups *per se*. It is made worse by the fact that all the alliances which represent groups with an existence outside the negotiations (this now includes the Africa group as part of the African Union). Therefore, the spokesperson is determined by rotation or by other procedures not necessarily related to competence in trade negotiations. (In contrast, some *ad hoc* subcommittees, where the chairs and members were chosen at the conference, could work better.) The longer the agenda and the more crowded the timetable, the greater the problems created by inexperience in group negotiations.

The G20 was in its inception a clear example of a group formed only for negotiations, cutting across income levels, from several regions, both formal and geographical, and including countries with very different approaches to trade policy and different positions even on agriculture. Since Cancún, however, the principal members, Brazil, China, India, and South Africa, have been emphasising their common interests, their extensive trade among themselves, and thus their potential to become more than a negotiating alliance (c.f. India chapter in this report). All four began discussing trade agreements with each of the others (Jonquieres, White, 24 October 2003) and exchanging official visits, and in January 2004, India and MERCOSUR agreed a framework to negotiate trade preferences (Bridges, 28 January 2004), and Brazil has proposed a G20 trade agreement (Development Briefing, 2004). Their trade among themselves has increased in the last 20 years, but this is principally because the trade of the others with China has increased (China is now Brazil's second export market, or third if the EU countries are counted together, and it is important for both India and South Africa). The highest observed share, Brazil's exports to the other three, is only 6% of its trade. The G20 takes about a quarter of Brazil's exports and imports, because of the weight of other Latin American countries. The importance is asymmetric: the other three take less than 1.8% of China's exports, and the G20 accounts for under 10% of the trade of India and South Africa. These developments are interesting if they reflect a belief that negotiating alliances 'ought' to be more substantial than that, but it is difficult to see them becoming real, unless there is a more severe breakdown in developed-developing country relations. The difficulties of ensuring that groups formed for other purposes, with other administrative arrangements, are also 'good' negotiators suggest that such integration might weaken the G20.

1.8 Compensation and transfers: a potential new 'new issue'?

Gains

The distribution of gains within countries will be discussed in the next section, on trade and poverty. Among countries, the original Geneva draft modalities would give clear potential gains for developing countries which do not have significant preferential access on agriculture and non-agriculture. Any modification of these to protect some peaks reduces, but does not eliminate, these. There could be gains on services for all developing countries if there is progress on Mode 4, but this looks speculative at present. There could be gains on public health for countries which do not currently have their own pharmaceutical industry, if the new arrangement provides more effective and affordable access than current agreements with individual companies, and to exporters of generic medicines. Effective changes in trade facilitation could reduce the costs of trading, but it is not yet clear whether or how these might be achieved.

Losers in access negotiations

Developing countries which are significantly dependent on preferences, however, risk losing access to their major markets, and for some the potential losses are a very high percentage of

their export revenue, although, as with gains, the more the proposals are modified, the smaller the effect. Those whose exports are affected by subsidies in the developed countries will be strongly affected, some positively; others negatively, by any reduction in these.

Any gains on services, trade facilitation or public health are likely to be smaller than the effects on trade in goods, so it is now evident that there are some countries for which any conventional WTO package will be negative. But the outcome for the world economy as a whole and for most people, including most poor people, living in developing countries is likely to be strongly positive (China, India, and Brazil will be clear gainers). There is, therefore an international interest in finding a way of transferring some of these gains to the losers, not only as a matter of equity and to ensure a 'development' round, but to secure the support of all countries as is required by the WTO's dependence on decision by consensus.

Preference erosion

This issue started to be recognised not only by the countries affected but by the IMF in the first half of 2003. Losses as a result of other types of trade policy change have always been recognised as suitable for compensatory action in the WTO. When a regional trade area is formed, for example, non-member countries which lose market access can ask for compensatory tariff reductions in other areas. Similarly, if countries win a dispute, and the 'offending' country does not change its policy, compensatory actions can be requested. 'Compensation' in these contexts, however, means some other trade action. There is no WTO provision which allows monetary compensation. This has sometimes been proposed in the disputes procedures, where there are no obvious retaliatory actions to take (or where the country entitled to them does not want to damage its own welfare by restricting imports). Financial compensation for negative consequences of trade liberalisation was implied in the agreement in the Uruguay Round that Net Food Importing Developing Countries (NFIDC), who were expected to be hurt by a rise in food prices as a consequence of the agricultural reforms, should get special consideration. Some who supported this expected the international financial institutions to offer adjustment assistance. In practice, no action has been taken on this, by either the WTO or financial and donor institutions, principally because of the lack of clear allocation of responsibility for taking any action, but also because it has not been clear that the reforms had clear consequences for prices.

The problem of compensation for loss of preferences or changes in other countries' subsidies (or, as argued by the cotton exporters, insufficiently rapid removal of subsidies) is one which can in theory be met by appropriate transfers from the gainers to the losers, and this is what the cotton exporters suggested, but there is no mechanism in the WTO to agree this or to compel it. For the cotton case, those subsidising are clearly taking measures that would not normally be considered legitimate interferences with trade, and they are high income developed countries, so direct compensation seems a possible innovation. If the disputes against the subsidisers succeed, this could lead to financial compensation. But in the case of normal trade liberalisation, many of the gainers are developing countries with large numbers of poor people. These countries are not responsible for the damage to the losers.

The EC, at Cancún and after it, has repeatedly suggested that the G20 offer access to the Least Developed countries as compensation for their loss of preferences. This could be regarded as a way of transferring some of the G20 gains to those who lose. But it would not be an economically equitable solution: the developed country importers would also have gains (they would be importing from more efficient producers, i.e. trade would be 'undiverted' from those previously receiving preferences), and it would not be a practical

one: the reason the preference holders are expected to lose is that they are not competitive with the non-preferred developing countries in export markets. It is therefore unlikely that they will be competitive in the non-preferred countries' own markets.

It is the previous system of high trade barriers and preferences, set up by the developed countries, which is responsible for the vulnerability to loss. Transfers from the developed countries would be appropriate to prevent reductions in income, to meet the long term developmental objective of helping the losers increase their exports without dependence on preferences, and to provide a substitute for the preferences which have been presented as forms of assistance to developing countries. The parallel discussion of cotton may have encouraged the emergence of a view that financial compensation could be an appropriate instrument to ease adjustment to trade losses. The question is how to implement this, and in particular whether it should be within the scope of the WTO. A secondary question is whether the distribution of compensation should follow development criteria or be related to the size of any trade losses. A third would be how to offset private losses (to export revenue) through transfers to governments, without raising the same issues which are being contested in the context of the allocation of anti-dumping duties in the US.

The precedents illustrate the risks. As well as the NFIDC provisions, which failed, the Uruguay Round frequently mentioned technical assistance as appropriate to meet some of the costs of the new rules and requirements which it introduced, but it did not establish a mechanism by which countries could be entitled to it. Some mechanism to 'bind' technical assistance has been proposed in discussions of implementation, but has been regarded as unacceptable and impractical because aid programmes do not want to be bound by trade priorities. A weaker version, allowing countries to avoid complying with WTO rules if they do not have the appropriate assistance, does not meet most of the implementation cost problems, because countries must meet such requirements as SPS and TBT rules in order to enter markets, and it would equally not help in the case of losses from liberalisation, as these will result from the changes made by other countries.

Positions⁹

The IDC (IDC 2003a) recognised 'moral, historical, and legal responsibilities' of the EU to the ACP countries that have received preferences or benefited from subsidies, and drew the analogy of compensation for expansion of the EU (p. 36). Most position papers that recognised the problem of loss of preferences or changes in subsidies suggested that this be dealt with through other types of trade access or through postponing or avoiding the liberalisation that might cause the problems. The second draft proposals on agricultural access took this position. After June 2003, some groups moved into asking for compensation payments as well. The Least Developed statement (WT/L/521), reporting a meeting in June suggested 'the establishment of compensatory or other appropriate mechanisms, including measures that promote exports of LDCs', and the ACP statement (WT/MIN(03)/4), reporting a meeting at the beginning of August, repeated this, and also asked that 'Technical and financial assistance should be provided [*sic*: to note that it did not attempt to say by whom or how] to ACP States for improving infrastructure, productivity and diversification, and for development of facilities and systems to achieve compliance with...SPS and TBT requirements'.

⁹ In 1964, the UK government proposed to UNCTAD a facility 'to meet the situation in which a country's development plan is endangered [owing] to adverse factors in its trade...a scheme 'to deal with the problems...which cannot adequately be dealt with by short-term balance of payments support'. Times, 'On this Day 7 May 1964', 7 May 2003.

The report on the problem of cotton subsidies (Goreux 2003, in April) suggested that damage from these could be dealt with in part by compensation, either automatic on the basis of share in cotton exports (as was eventually proposed in their paper to the WTO and as would be consistent with the dispute approach) or by budgetary support. Budget support was a development approach, suggesting that payments explicitly be ‘utilisés en conformité avec les priorités retenues par le gouvernement dans sa lutte contre la pauvreté’ (p. 40). The cotton exporters proposed that the Cancún conference ‘establish a transitional financial compensation mechanism in favour of the cotton-exporting LDCs affected by these subsidies, for a period of three (3) years from 1 January 2004 to 31 December 2006’ (WT/GC/W/511).

The IMF started to see a need for intervention in early 2003 (IMF, Preference erosion 2003), and other observers were starting to see a role for the World Bank. The IMF work on effects of agricultural liberalisation (discussed above) had recognised the magnitude of the problem for some countries, but also found that on a global scale, the cost of meeting this would be extremely small, because it was primarily small countries which were affected. It concluded that ‘Fund staff should take into account the potential losses from preference erosion as one of the elements that affect the external environment facing a country’s exports’ (IMF, preference erosion, p. 15), but saw this as part of the normal assessment of balance of payments needs, and suggested that ‘any financing is best done in the context of existing medium-term adjustment and program financing facilities’. The argument for not creating a new facility was ‘the limited number that are estimated to be seriously affected’. Increasingly, however, it realised that the existing facilities were not appropriate for the problem, and it was not clear whether they could be used sufficiently flexibly. From a development perspective, the fact that only a few countries are affected should not be an argument for treating the problem with inappropriate instruments. The IMF considered using the compensatory mechanism but thought this not entirely appropriate because it is explicitly designed for temporary, reversible, losses of income, not for a predictable, permanent one (personal communication). In addition, because it is non-concessional, it would be costly for poor countries. The PRGF was intended for ‘financing shocks’, not long-term losses (IMF contribution to WTO Coherence 2003).

In a discussion between the WTO and the international financial institutions in May (WTO, Coherence, WT/GC/M/79) Australia recognised that there was a serious problem for a few countries, but suggested that ‘this was not an issue that the WTO was equipped to deal with’: it should be done by the Bank and the Fund. The World Bank was initially less convinced that there was a problem. It (World Bank 2003 GEP) emphasised that most poor in developing countries were not in the preference dependent countries, and were not in the Least Developed, so that measures to help these did not meet the major needs (p. 306). It thought that preference erosion could be largely compensated by expansion in other exports (partly because it appeared not to understand that sugar quota holders like Mauritius receive prices higher than world prices, not lower) (pp. 216-7). Although it noted the IMF results quoted above, that some Least Developed countries could lose substantially, it judged that trade facilitation and more liberal rules of origin would ‘attenuate the impact’ (p. 218). It noted the problems of food importers if food prices rise (p. xvii), but again expected other improvements to balance this.

Following the increasing IMF interest during mid-2003 and the suggestion in the US/EU/Canada position paper on non-agricultural market access (JOB(03)/163) that ‘We shall work with Bretton Woods Institutions to establish or enhance programmes to address

adjustment needs of Members whose exports are significantly affected by erosion of preferences’, there was a reversal of the World Bank position. A joint letter from the World Bank President and IMF Managing Director (IMF, 21 August 2003) said that they ‘appreciate that adjusting to a more liberal trade environment may impose costs on some of our member countries – albeit temporarily – as a result of preference erosion, the loss of tariff revenue or other factors’. They offered to help members ‘to assess the nature and magnitude of any adjustment need’, to ‘assist in designing policies’ to adjust, ‘to use and tailor our lending authority to respond to the specific challenges posed by the Doha Development Agenda’, and ‘to provide support in mobilizing donor resources’. At Cancún both the IMF and the World Bank announced new facilities. The IMF (Krueger, 2003) offered ‘a new trade initiative...specifically tailored to address temporary external imbalances that might result from the multilateral trade reforms...designed as a kind of contingent insurance’. The details, including the cost, were to be worked out, and the failure of Cancún has meant that this has not been done as a matter of urgency. The World Bank (Zhang, 2003) presented its proposals more as an extension of existing programmes, for example on trade logistics, than a new facility, but accepted (in contrast to its pre-Cancún position, World Bank 2003 GEP) that not all countries would have sufficient gains to compensate for preference losses. It also revived the issues of the NFIDCs and of the costs of implementation. In contrast to the IMF, it included consequences of countries’ own liberalisation (not just multilateral liberalisation) in the mechanism: loss of tariff revenue and need to adjust to new trade patterns. The WTO, in comments by Supachai, additionally raised the issue of those who would need to adjust to the end of the Multi-Fibre Arrangement.

The World Bank position remains close to its pre-Cancún position, supporting ‘Integrating technical assistance into the national priorities for development while increasing ‘aid for trade’.’ (p. xxvii). In *Global Economic Prospects* (2003), it explicitly disassociates this from the ‘WTO agenda’ (p. 207). This could be an obstacle to treating the level of compensation as a negotiating issue, and ignores the gains and losses basis for WTO agreements.

A simple compensation argument would suggest that countries should be entitled to transfers equivalent to some measure of their loss, to use in accordance with their own priorities, but the IMF, at least in its early-2003 proposals, and the World Bank are apparently supporting normal conditions and mechanisms for any funding. Some countries (e.g. Malawi 2003), however, have said that any compensation should be directed specifically at trade, not at more general development or poverty objectives, for example to improve agricultural productivity and infrastructure for trade (thus making all exports more competitive) and to assisting them to diversify into new exports, and have linked this to existing national priorities.

Outside the WTO framework, President Lula da Silva of Brazil has suggested a multilateral fund from developed countries to finance infrastructure in developing countries (AFP, Brazil 2003).

Developing countries remain divided on whether compensation is a satisfactory substitute for preferences. Many prefer trade mechanisms, and clearly continuing these requires less adjustment within countries. Some believe that it would be possible to maintain some of the special arrangements. Those who do not believe that this is possible see compensation as an acceptable second best, but would be concerned if it was allocated according to the normal criteria and with the normal costs of IMF/World Bank arrangements. If offering

compensation is to be successful in solving the problem of encouraging liberalisation without damaging some poor countries, the details of its design will be important.

Modalities

The commitments to Least Developed in the Doha Declaration concentrate on market access (paragraph 42) and technical assistance, and there was no recognition of the problems that market access for others could cause.

It is not clear how the WTO would incorporate the World Bank or IMF initiatives into any agreement. It could formally take note of them, as an element for countries to consider in taking their WTO positions, but there is a risk that it would merely become an unenforceable and eventually forgotten expression of good will, like the commitments to help Net Food Importing Developing countries or to offer technical assistance to meet WTO commitments in the Uruguay Round.

The request for compensation by the cotton producers required the Ministerial Conference to deal with the question of whether the WTO should itself establish or supervise financial mechanisms. The Cancún draft would have instructed the Director-General 'to consult with the relevant international organisations including the Bretton Woods Institutions, the Food and Agriculture Organization and the International Trade Centre to effectively direct existing programmes and resources toward diversification of the economies where cotton accounts for the major share of their GDP'. This did not provide a secure remedy ('to consult'), did not meet the problem identified in cotton (of subsidies in the developed countries, not inefficient production in the cotton producers), and did not take account of the offers actually made by the IMF and the World Bank. It was therefore rejected by both developing countries and the international institutions. There was no mention of compensation for preference erosion or for the other costs identified by the World Bank. In his report on 15 December, Pérez del Castillo (2003) said that there was agreement 'that financial and technical assistance will be an essential part of an overall response to the Cotton initiative', but with differences on 'the extent of WTO competence for financial and technical assistance; second, types of cotton - specific development programmes or projects; and third, providers of financial and technical assistance'.