Ministry of Agriculture and Agrarian Reform

NAPC

National Agricultural Policy Center

POLICY BRIEF NO9

Hong Kong Ministerial Conference “Saving the parties’ faces”

Mahmoud Babili

NAPC Researcher

February, 2006

With the support of

Project GCP/SYR/006/ITA

Food and Agriculture Organization of the United Nations

COOPERAZIONE ITALIANA

Ministry of Agriculture and Agrarian Reform

Introduction

Expectations for the WTO's sixth Ministerial Conference, which opened in Hong Kong on 13 December 2005, were low with regard to the three core market access areas of the Doha Round negotiations: agriculture, industrial goods and services. The organization's 149 Member countries acknowledged in November that their negotiating positions were too far apart for them to reach an agreement in Hong Kong on a detailed framework for subsidy and tariff cuts on agriculture and non-agricultural market access (NAMA). Several governments have shifted their sights to delivering a 'development package' of deals on issues such as aid for trade and duty- and quota-free market access for exports from least-developed countries (LDCs), as a way of saving something concrete from the high-profile gathering.

What Happened in the Ministerial conference?

After six days of grueling, ministers from the WTO's 149 Member governments reached a deal on 18 December to put the sluggish Doha Round trade talks "back on track". As expected, the Hong Kong Ministerial Declaration did not contain specific numbers and formula structures for cutting subsidies and tariffs. Ministers agreed on some general parameters to guide the development of these 'full modalities' on agriculture and non-agricultural market access (NAMA), and set themselves an April 2006 deadline for finalizing them. They still hope to conclude the round by the end of next year. However, the Hong Kong Ministerial Conference's most concrete achievement was to establish 2013 as the end-date for eliminating agricultural export subsidies, contingent "upon the completion of the modalities. Distinct progress was also made on cotton and least-developed countries' long-standing request for duty- and quota-free market access, although critics question the extent to which the new commitments will provide meaningful benefits in either area. In fact, Members have posed themselves a formidable challenge: not only are they expected to finalize full modalities by April, but they must also submit comprehensive draft schedules of commitments based on them by 31 July 2006, scarcely three months later.

Brief About the results

Agriculture

The EU's agreement to a date for abolishing agricultural export subsidies on the last day of the conference paved the way for the adoption of the Declaration. The text commits Members "to ensure the parallel elimination of all forms of export subsidies and disciplines on all export measures with equivalent effect to be completed by 2013." This date has good reason to be more palatable to the EU than a widely-supported 2010 deadline; the 2003 reform of its Common Agricultural Program (CAP) would eliminate most such subsidies by 2013 anyway. However, in order to bridge the gap with the earlier date, the Declaration stipulates that "a substantial part" of reductions is to be "realized by the end of the first half of the implementation period." The text requires Members to develop disciplines on food aid, export credit program, and the practices of exporting state trading enterprises by "30 April 2006 as part of the modalities. On the other hand, domestic farm subsidies are to be classified in three bands for the purposes of reduction. "The Member with the highest level of permitted support" -- the EU -- will be in the top band, facing the highest linear tariff reduction. The US and Japan will be in the second tier, and all other Members would fall into in the bottom band. Members must make cuts to overall trade-distorting domestic support that are at least equal to, if not greater than, the sum of the reductions in Amber Box, Blue Box, and de minimis (exempted) support. Although this is weaker than the penultimate revision's stipulation that the overall cut should be greater, it may nonetheless make it harder for countries to simply re-classify subsidies in order to dodge reduction commitments. However, apart from this constraint on 'box-shifting, the declaration contains no rules for the criteria of the Blue Box. With regard to market access, Members agreed to structure their tariffs into four bands for reduction, while "recognizing that we now need to converge on the relevant thresholds" for developed and developing countries. The text also refers to different kinds of market access flexibilities in varying degrees of specificity. It notes that Members still need to agree on how to treat sensitive products. This is a step back from the 17 December version of the text, which provided for tariff rate quotas (TRQs) to increase in accordance with the leniency of the tariff cut relative to what would normally be demanded by the formula. The final Declaration, which should serve as a guide for the development of eventual “full modalities”, allows developing countries to "self-designate an appropriate number of tariff lines as Special Products (SPs) guided by indicators based on the criteria of food security, livelihood security and rural development.

Regarding cotton, the Hong Kong Ministerial Declaration states that “all forms” of developed country export subsidies for cotton will be eliminated by 2006. This means not only the elimination of the US Step 2 export subsidy program but also the “subsidy element” of the export credit guarantees the US extends to cotton traders program; both ruled WTO-inconsistent by the WTO in April 2005. Other developed countries do not subsidize cotton exports. Moreover, regarding cotton, developed countries will give duty- and quota-free market access to LDCs’ cotton exports as of the conclusion of the Doha Round negotiations. However, African countries are unlikely to benefit from this, since they do not export cotton to the US - and in other markets, particularly in Asia, they have to compete against subsidized US exports. Ministers also agreed to "the objective that [...] trade-distorting domestic subsidies for cotton production be reduced more ambitiously than under whatever general formula is agreed and that it should be implemented over a shorter period of time than generally applicable". African cotton-producing countries were intensely disappointed at this outcome, as the high level of producer and marketing support allows US producers to sell cotton in international markets at prices below the real cost of production.

NAMA

The Declaration's sections on industrial tariff reduction provide for a “Swiss formula,” with an unspecified number of coefficients. This leaves the door open to both the two-coefficient “simple Swiss” formula and the multiple-coefficient approach linked to each country's average tariff favored by important G20 members. Notably, the Ministerial Declaration contains a paragraph that explicitly links the level of ambition on agriculture to that on NAMA, specifying that this ambition "is to be achieved in a balanced and proportionate manner consistent with the principle of special and differential treatment." This has been a longstanding demand of many developing countries.

LDCs

The most significant point of the Ministerial Declaration is its reference to Annex F, which provides details on the brand-new developed country obligation to provide duty- and quota-free access for LDC exports as of 2008. While that is later than LDCs would have hoped, a precise date is important since it guarantees an application of the benefits even in case the Doha Round negotiations stretch beyond 2008. There is, however, an important caveat with regard to product coverage: developed countries that face difficulties in providing full unrestricted access in 2008 will only be required to do so for 97 percent of tariff lines.

Other Topics

The Ministerial Declaration calls on Members to strengthen disciplines on fisheries subsidies, including by identifying and prohibiting subsidies that contribute to over-capacity and over-fishing. The text for the first time explicitly links subsidies to over-capacity and over-fishing and acknowledges the need for addressing this link, overcoming strong resistance to negotiating fisheries subsidies disciplines from Japan and Korea in the early stages of the Doha Round.

Expectations

For all the grandiloquence, however, there is no hiding that last week's meeting did little to promote free trade. Even the agreement to ditch agricultural export subsidies by 2013 is less impressive than it sounds. Although export subsidies are a potent symbol of the rich world's iniquitous farm policies, they have little impact on global commerce. The attention given in Hong Kong to the promises made to the poorest countries was in part a symptom of the lack of progress elsewhere. The promises are in any case less altruistic and generous than they might look. Pledges of aid for trade also sounded grand; however, no one seems to know if this truly is new money or what it will be used for. This leaves plenty of room for disappointment—and therefore for obstruction from the poorest countries if a broader deal looks likely.

For the moment, an agreement still seems an awfully long way off. The gaps remain wide between the WTO's most important members—America, the EU and the big emerging economies within G20, such as Brazil, India and China. America and the big developing countries regard Europe's proposed cuts in farm tariffs as hopelessly inadequate. Brazil, India and others refuse to discuss reducing their own industrial tariffs until there is more progress on agricultural trade. The EU, in turn, says that its farm-trade offer is substantial and that it will not budge further until emerging economies do more to open their markets for industrial goods and services. To break this deadlock, more will be needed from all—and particularly the EU and the big emerging economies. That is why the meeting in Hong Kong was likely just aving the faces of the parties.

References

- World Trade Organization (WTO) website, http://www.wto.org/english/thewto_e/minist_e/min05_e/min05_e.htm
- International Centre for Trade and Sustainable Development (ICTSD) website, http://www.ictsd.org.
- The Economist Intelligence Unit website, http://store.eiu.com/index.asp
- Institute for Agriculture and Trade Policy (IATP) website, http://www.iatp.org