

# The Breakdown of WTO Negotiations: Some Implications for Developing Countries

Anamitra Roychowdhury

The Doha ‘Development’ Round of world trade negotiations that began in 2001 collapsed this July in Geneva. After the Hong Kong Ministerial in December, 2005 it was decided that the ministers would again meet to sketch out the “modalities” for agriculture and NAMA (Non-Agricultural Market Access). An unofficial target of end 2006 was set to bring out the full package of agreement (based on the modalities).<sup>1</sup> As a result the ministers met in end June for a series of informal meetings of the Trade Negotiating Committee (TNC) and a set of “Green Room” meetings (28<sup>th</sup> - 30<sup>th</sup>), followed by a formal meeting of TNC on July 1.

The issues taken up for discussion were related to the “three pillars” of market access, export subsidies and domestic support. While these issues had been the main discussion points at the WTO from the start, what was new was that discussions on other fronts were made conditional on the outcome on these issues. Though Pascal Lamy, Director General, WTO, argued that this structure was adopted for suitable ‘sequencing’ of discussions and did not in anyway, reflect ‘prioritisation’ or ‘ranking’ of the issues,<sup>2</sup> delegates of many developing countries were sceptical.

An African delegate said,

---

<sup>1</sup> However the Chair of the TNC, Mr. Pascal Lamy, also the current Director General of WTO in an informal meeting in 28<sup>th</sup> June, 2006, reported under the WTO news section, “Lamy outlines schedule for ‘moment-of-truth’ meetings” that, “*the modalities now under discussion are by no means the end of the agriculture and non-agricultural market access negotiations ..... These modalities will be the tools for producing “schedules”, lists of cuts in tariffs on thousands of products and in agricultural subsidies for each of the WTO’s 149 members, a process that will take months*”. Schedules are offerings made by individual countries; however they are based on the basic premise of the modalities. Thus decision upon modalities are absolutely crucial since once they are decided upon the basic structure would be given as an exogenous factor within which a country will have to decide.

<sup>2</sup> The term ‘sequencing’ has been used for a definite reason. It is tactically adopted to mute dissenting voices and has emerged from the ‘Green Room’ meetings of the mini ministerial meetings in April. In April this year, many members were vehemently opposed to Lamy’s suggestion of partial modalities for an April mini ministerial. This led to the cancellation of the mini ministerial. This time around, there is careful wording to justify this “sequencing” - that these are not priority issues, but is a sequence of issues to be discussed. Some issues, it is reasoned, unlock others. The question obviously remains, what explains this particular form of sequencing.

"..... more emphasis is placed on market access, and there is nothing on development. The special products (SP) and special safeguard mechanism (SSM) issues are seen as 'by the way issues'. .....If we hold up on SP and SSM, we are in trouble. ....If we agree on partial modalities focusing on market access and leaving development issues behind, we will be kissing these development issues goodbye."

These concerns of the developing countries and the LDCs were not pushed since Mr Lamy held that SP and SSM<sup>3</sup> in agriculture were not listed at the time only because, there were other issues to be sorted out *before* members could consider whether extra flexibility was needed for these countries.

In NAMA too the attitude was the same,

"....focus will first be on: the formula and coefficients....; the treatment of tariffs that are not currently committed (or "bound") ....; and flexibilities for developing countries subject to the formula.

Next would come: duty-free and quota-free market access for exports from least-developed countries; flexibilities for developing countries with a low proportion of products bound in the WTO; small and vulnerable economies; recent new members; non-reciprocal preferences and the implementation period."<sup>4</sup>

So it was clear from the beginning that discussion on the issues of concern to developing countries perspective had been made *conditional* and *secondary*, violating the basic principle of the Doha round, which was supposed to be a development round. To agree to this sequencing meant that developed countries would get the advantage of being late movers. Yet it was accepted by the developing countries.

The June mini ministerial conference was based on the results of negotiations between the WTO members over six weeks prior to the conference. The results of the negotiations were submitted by the Chairs of agriculture and NAMA negotiating committees on 22<sup>nd</sup> June, 2006, to Pascal Lamy, Chair of the TNC. The texts revealed the differences between countries and the degree of divergence. For example, the agriculture text showed that for Special Products the U.S. wanted to restrict its number to *five* tariff lines whereas the G33

---

<sup>3</sup>Note: "Special Products" and "Special Safeguard Mechanisms" are mechanisms to allow governments to slow down the erosion of local agriculture by exempting some products from tariff cuts and raising tariffs on subsidized imports.

<sup>4</sup> 28<sup>th</sup> June, 2006, reported under the WTO news section, Summary, "Lamy outlines schedule for 'moment-of-truth' meetings", [www.wto.org.in](http://www.wto.org.in)

(now a group of 46 developing countries), wanted to be able to designate at least 20 percent of tariff lines as Special Products (amounting to roughly 400 tariff lines). There were 760 brackets (i.e. issues where no consensus is reached, as yet) in the draft text on agriculture; in other words, there was almost no agreement on any of the issues. Similarly, in the draft of the NAMA text, the Chair, reported almost no convergence on a range of issues.

After two days of negotiations starting on 28<sup>th</sup> June, Pascal Lamy was doubtful about any meaningful conclusions emerging from the mini ministerial. This was revealed in an informal meeting of the TNC, on 30<sup>th</sup> June where he said, “..... failure to agree very soon on Agriculture and NAMA modalities means that we are putting at risk the future of the Round itself and, as a consequence of that, the WTO and the multilateral system. To reach agreement, we need numbers.”<sup>5</sup>

Mr. Lamy tried to break impasse, on 1<sup>st</sup> July, urging Members to converge on the magic “20” number. That is, converging on the G20 proposal of 54% tariff cuts; \$20 billion for US “trade distorting” domestic support; and a maximum tariff of 20 on industrial products for the developing world. The inequity even here was obvious. US “trade distorting” support in 2005 amounted to only \$19.7 billion.<sup>6</sup> The European Union even after agreeing to phase out its export subsidies would still be left with 55 billion euros in other forms of export support.<sup>7</sup> Yet the developing countries were expected to significantly reduce their industrial tariffs, in some cases, even to their *applied rates*.<sup>8</sup>

In fact, the developed countries wanted both radically reduced agricultural tariffs from developing countries and also maximum access to southern markets for their industrial and other non-agricultural goods. In the NAMA negotiations, they demanded that developing countries should cut their non-agricultural tariffs by 60-70 per cent while offering to cut their own by only 20-30 per cent.<sup>9</sup> The developed countries (Canada, Hong Kong, New Zealand, Switzerland and the US) proposed a room document entitled “NAMA: Formula”, based on which there were discussions on 8 – 9<sup>th</sup> June, 2006. The proposal called for the coefficient of

---

<sup>5</sup> Chairman’s statement at the informal TNC meeting of 30 June 2006, JOB(06)/216, [www.wto.org.in](http://www.wto.org.in)

<sup>6</sup> “WTO Talks Collapse: Good News for the Developing World”, 01 July 2006, [www.focusweb.org](http://www.focusweb.org) Note: Other than this there are other forms of subsidies which are present so as to promote development and are non-trade distorting, under various boxes.

<sup>7</sup> Ibid.

<sup>8</sup> This has led to the coinage of the terms like, “real new trade flows”, “real cuts in tariff” and “real market access”.

<sup>9</sup> “WTO Talks Collapse : Good News for the Developing World”, 01 July 2006, [www.focusweb.org](http://www.focusweb.org)

developing countries' to be only 5 points above that of developed countries: a coefficient of 15 for the developing countries, as opposed to 10 for the developed. Moreover there was further pressure on the developing countries to reduce unbound tariffs across a range of product lines. Annex B of the July Framework asked the 'paragraph 6' countries (those that currently have less than 35 per cent of their tariffs bound) to bind 100 per cent of their tariff lines (although this figure was in brackets), while the 'paragraph 6' countries proposed in the TNC meeting of 24<sup>th</sup> July, 2006 that 70 per cent of their tariff lines should be bound. Even for paragraph 6 countries an agreement was reached, that these countries would bind their tariffs at the average of 28.5 per cent (the average of developing countries' bound tariff after Uruguay Round commitments).

In order to see the implications of such steep tariffs cuts for developing countries, one can cite a World Bank study of 2005, which observed, as result of the "likely Doha scenario" of reforms the developing countries would gain a mere \$16 billion *in ten years*.<sup>10</sup> A recent United Nations Conference on Trade and Development (UNCTAD) study calculated that the losses in tariff income for developing countries under Doha could range between \$32 billion and \$63 billion *annually*. This would lead to a loss in government revenues to the tune of \$30.4 billion annually at the least.

Moreover the developed countries tried to change the definition of "less than full-reciprocity" in the "NAMA: Formula" draft where it now meant merely higher coefficients for developing countries; application of 'paragraph 8' flexibilities that give developing countries an exemption or less cuts for a certain percentage of tariff lines and trade; Special treatment for small, vulnerable economies; non application of formula for paragraph 6; exemption of formula for LDCs. However, originally "less than full-reciprocity" meant *smaller percentage cuts in tariff for developing countries than the developed countries*. Therefore it was pretty clear that the mini ministerial in July was working to the detriment of the developing countries.

In sum the collapse of the Doha Round as it was occurring was not a setback from the point of view of the developing countries. What is of significance was the Round collapsed despite the efforts of the developed countries. When the formal TNC meeting on 1 July 2006 came to an end without results, members agreed that Mr Lamy should consult with all to facilitate the

---

<sup>10</sup> "Why Monday's Collapse of the Doha Round Negotiations is the Best Outcome for Developing Countries", Walden Bello, 25 July 2006, [www.focusweb.org](http://www.focusweb.org)

establishment of “modalities”. *Mr. Lamy agreed that members will remain the main actors, and the principles will continue to be “bottom-up” (and not “top-down”) and transparent.*

Curiously enough this position was suddenly revised when Mr. Lamy arranged a summit in St. Petersburg on 17<sup>th</sup> July, where only G-8 members (Canada, France, Germany, Italy, Japan, Russia, the UK and the US) were called upon to formally participate. At the summit he declared that the chief responsibility was with them to decide upon the future of the negotiations. To quote:

(T)he chief political responsibility lies here (G-8), with 85 per cent of the world's GNP and 75 per cent of world trade, and that whether we like it or not, the remaining topics of negotiation now depend on solving the agricultural and industrial conundrum.<sup>11</sup>

The hierarchical structure of the WTO can not be brought out more clearly than in this statement, which indicates that the developmental approach was plain rhetoric in order to sell the project to developing countries.

This was followed by a meeting in Geneva, on 23<sup>rd</sup> July, among the G-6 (Australia, Brazil, the European Union, India, Japan and the United States) to follow up *on instructions* from the St Petersburg Summit on 17<sup>th</sup> July. The Geneva meeting too did not produce any result. Pascal Lamy decided to *suspend* the negotiations after talks broke down on Sunday 23<sup>rd</sup> July. And on 24<sup>th</sup> July he said in an informal meeting that he would recommend a “time out” to the General Council on 27<sup>th</sup> July.

To assess why the negotiations broke down it is necessary to note the date when suspension was declared by Lamy, his own perception about the breakdown and the official statements of various officials. The suspension was not declared after the summit in St. Petersburg, but immediately after the meeting of the G-6 nations (at which Brazil and India were participants) on 23<sup>rd</sup> July. Notice that in St. Petersburg only G-8 countries were called and since suspension was not announced after that, it can be surmised that some degree of consensus was reached at among the developed countries. However the suspension immediately after 23<sup>rd</sup> July indicates that absolutely uncompromising positions were taken by the participants in the meeting.

---

<sup>11</sup>“The chief responsibility lies here,” Lamy tells G-8”, 17 July 2006, St. Petersburg summit, [www.wto.org.in](http://www.wto.org.in)

According to Lamy the main blockage was on Agriculture. “*Despite some improvement on numbers which were informally floated and in particular on market access for developed countries, the gap in level of ambition between market access and domestic support remained too wide to bridge*”<sup>12</sup>. It is recognised that some improvement was seen in the numbers proposed on market access.

On examination of the comments of members on the suspension of talks some apparent tendencies emerge. Mr. Kamal Nath, Minister of Commerce and Industries, India, said on 24<sup>th</sup> July that at first negotiations started on market access (MA) for agricultural products. Developed nations failed to realise that limited MA was to protect millions of subsistence farmers and ensure food security. The developed countries remained fixed to their initial position; *to correct the structural imbalances only when significant MA is provided to them*. He felt that the *concept* of the round had been subverted. *He confessed that every country had put something on the table except one country without naming it*.

The Brazilian representative said that no concessions were extended on the domestic support front. He criticized the European Union (EU) for making little concessions, needed for successful negotiations. EU and Japan openly said that all the G-6 countries showed flexibility except the US. USA stood still and wanted to discontinue the negotiations, even though G-20 responded with 100 per cent elimination of export subsidies, 75 per cent reduction in trade distorting domestic support, 50 per cent average tariff cuts and was open to decide the number of Special Products. The fundamental reason identified by EU for the suspension of the mini ministerial was US’s uncompromising position.

The USA argued that the LDCs and developing countries were less ambitious in offering MA. Spokespersons confessed that the US remains committed to the DDA *only if* MA is enhanced and they could not promise any numbers (regarding subsidy reduction), since there was nothing they could have recommended to the Congress or the President. They reaffirmed their belief that *real gains are to come from MA*. Regarding the suspension of talks they were confident of resumption, citing the example of the Uruguay Round where negotiations came to postponement many a times.

---

<sup>12</sup>“DG Lamy: Time out needed to review options and positions”, Trade Negotiations Committee, 24 July 2006, [www.wto.org.in](http://www.wto.org.in)

Thus it is clear that the negotiations could not be carried out successfully due to the intransigence of the US alone (though EU was also partially responsible). One proximate reason for US intransigence could be that faced with increases in inequality due to corporate-driven policies, a rising current account deficit, worsening competitiveness in the world export market, the mess in Iraq, and mid-term elections round the corner in November this year, the Bush administration did not want to convey the impression that it was letting down its farmers by complying with demands to reduce domestic support.

This is a classic example of exercising unilateral power in a multilateral institution, to disrupt the negotiations. However this does not mean that the position taken by the developing countries in the G-6 meeting was insignificant. They were bold enough not to succumb to the pressure exerted by USA. But they cannot be complacent since negotiations are bound to resume some time in the future. This is clear from the report of the Chairman of Committee on Agriculture, to the General Council on 27<sup>th</sup> July, which said,

Although it is clear from this document that there were considerable differences between Members on many issues, *it should also be clear that many issues are at an advanced stage, draft texts on many specific modalities and rules related issues are well developed. ....* There were a lot of square brackets numerically in that draft text, *but it is clear to participants that those square brackets travel in groups, as it were, and movement on one pair would quickly mean movement in many others.*

There are clear indications that an agreement may be reached in the future and that developing countries should bargain as a block, because once a single developing country is made to conform, the rest will follow suit.