



House of Commons  
International Development  
Committee

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**Trade and  
Development at the  
WTO: Issues for Cancún**

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**Seventh Report of Session 2002–03**

*Volume I*





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# Trade and Development at the WTO: Issues for Cancún

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*Volume I*

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## The International Development Committee

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# Contents

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<b>Report</b>	<i>Page</i>
<b>Summary</b>	<b>3</b>
<b>Background and acknowledgements</b>	<b>5</b>
<b>1 Introduction</b>	<b>7</b>
The promise of trade and the place of Cancún	7
The inquiry and the report(s)	8
<b>2 A “Development Round”?</b>	<b>10</b>
Why is a “Development Round” needed?	10
<i>The WTO, Cancún and poverty reduction</i>	11
What would a genuine “Development Round” look like?	12
<i>Hard-bargaining and/or a development round?</i>	13
<i>Trade rules, trade policies, trade and poverty reduction</i>	14
<i>Whose benchmarks? Which comparisons?</i>	18
Benchmarks and prospects for Cancún and beyond	20
<b>3 Agriculture</b>	<b>24</b>
World trade in agriculture: A world of subsidies, dumping and barriers	24
A development-friendly outcome	28
The state of play: Progress, or the lack of it	30
<i>The EU and the USA: “Two bald men squabbling over a comb”</i>	30
The EU, CAP reform and the WTO	31
<i>Multifunctionality, decoupling and (degressive) modulation</i>	32
<i>The Chirac proposal</i>	34
The losers from agricultural liberalisation	34
<i>Preference holders: Bananas and sugar</i>	34
<i>Net Food Importing Developing Countries and food security concerns</i>	37
The Harbinson Draft	38
Conclusions	40
<b>4 Beyond agriculture: Other issues for Cancún</b>	<b>42</b>
Non-agricultural market access: Providing real market access?	42
The Singapore Issues: Overloading the agenda?	45
TRIPS: Enabling public health needs to be met?	51
GATS: Maintaining the right to regulate?	53
Commodities: Sustaining livelihoods?	58
<b>5 Prioritising development</b>	<b>61</b>
Effective participation by developing countries	61
Development-friendly rules	63
Policy coherence, political commitment and leadership	69
<b>Conclusions and recommendations</b>	<b>71</b>

<b>Glossary</b>	<b>80</b>
<b>Formal minutes</b>	<b>87</b>
<b>Witnesses</b>	<b>88</b>
<b>Reports from the International Development Committee since 2001</b>	<b>91</b>
<b>Volume II, Oral and written evidence, HC 400-II</b>	

## Summary

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International trade has the potential to help lift hundreds of millions of people out of poverty. At Doha in November 2001, the member states of the World Trade Organization (WTO) committed themselves to a “Development Round”. In Cancún this September, the world will be able to judge the seriousness of that commitment. Much is at stake: the development prospects of half the globe, international security, multilateralism, and transatlantic relations. So far, the signs have not been good.

A development round would have three elements: development-friendly agreements on a range of trade issues; effective participation by developing countries; and flexibility and policy space for developing countries within the WTO’s rules. Our findings concern the key components of what we believe should constitute a genuine development round.

### **Development-friendly agreements on specific issues**

**Agriculture:** There must be substantial reductions in trade-distorting domestic support, export subsidies and tariffs, so that developing countries can trade their way out of poverty. As a minimum, any agreement must end dumping. In the interim, developing countries must be permitted to protect themselves from dumping. The WTO’s Harbinson draft fails on both counts. The recently agreed reform of the Common Agricultural Policy is a welcome but only small step in the right direction by the EU. The Government must keep up the pressure for major reform of the Common Agricultural Policy.

**Non-agricultural market access:** The Government must push the case for offering real market access to developing countries, delivered and guaranteed on a multilateral basis, with tariff peaks reduced, tariff escalation tackled, and preference erosion addressed. These goals are relevant to agriculture too.

**Singapore Issues:** The Government should unequivocally drop its support for opening negotiations on the Singapore Issues. These issues would overload an already full agenda. They are not wanted by most developing countries. And it is questionable whether the WTO is the right forum for agreements on investment and competition. The Singapore Issues are not developmental priorities.

**Trade-related Intellectual Property Rights (TRIPS) and Public Health:** The US Government must stand up to the pharmaceutical lobby and take its developmental responsibilities seriously.

**General Agreement on Trade in Services (GATS):** The UK must do more to ensure that GATS will be a development-friendly agreement in practice, and to guarantee that the right to regulate will include the right to regulate for pro-poor development and poverty reduction.

**Effective participation by developing countries:** The Government should continue supporting assessments, providing technical assistance, and building the capacities of developing countries. We are pleased to hear that the Government “will not accept any

proposal that *it* believes will damage the prospects of developing countries”. But effective participation requires that the views of developing countries are listened to.

**Development-friendly rules:** The Government should work to deliver a framework agreement on Special and Differential Treatment which will put developing countries’ needs for flexibility and policy space at the heart of a development-friendly WTO.

If political commitment and leadership are forthcoming a genuine development round can still be secured. Without this commitment, the round will collapse. The opportunity to provide leadership should be grasped, the responsibility accepted. The promises made at Doha must not turn out to have been empty, for all our sakes.

## Background and acknowledgements

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At the World Trade Organization's (WTO) 4<sup>th</sup> Ministerial at Doha in November 2001, 142 member states committed themselves to a "Development Round". The 5<sup>th</sup> Ministerial at Cancún in September 2003 will take stock of progress.

The Committee announced its inquiry on 26 November 2002, inviting organisations and individuals with relevant experience and expertise to submit written evidence. In undertaking this inquiry, we have sought to avoid replicating work done elsewhere by academic, governmental and other institutions which have the resources to conduct original research.

We received 32 written memoranda from Government Departments, non-governmental organisations (NGOs), UN agencies, firms, business and industrial organisations, trade unions, religious bodies, South African and Bangladeshi parliamentary bodies, academics and concerned individuals. We held seventeen evidence sessions, and have taken evidence in both Brussels and Geneva as well as Westminster. We also met developing country Ambassadors in Geneva, and representatives from a range of US and international organisations in Washington D.C. and New York.

We are grateful to all those who gave evidence to the inquiry, and to those who assisted us in other ways. We would like to thank especially the following individuals and organisations who gave evidence: the Rt Hon Baroness Amos, Secretary of State for International Development and her DFID officials; the Rt Hon Patricia Hewitt MP, Secretary of State for Trade and Industry and her DTI officials; DEFRA officials; His Excellency Mr Meles Zenawi, Prime Minister of the Federal Republic of Ethiopia; His Excellency Mr Ransford Smith, Ambassador and Permanent Representative, Permanent Mission of Jamaica to the United Nations, Geneva; Dr Rob Davies and his South African Parliamentary colleagues; Commissioners Pascal Lamy (Trade), Franz Fischler (Agriculture), and Poul Nielson (Development and humanitarian aid) and the officials from the European Commission; Dr Supachai Panitchpadki, Director-General of the WTO and his colleagues; Carlos Fortin, Deputy Secretary-General, United Nations Conference on Trade and Development (UNCTAD), and his colleagues; NGOs including the Catholic Agency for Overseas Development (CAFOD), Christian Aid, Oxfam, Save the Children, and the World Development Movement; the Advisory Centre on WTO Law; the South African Sugar Association; the African Caribbean Pacific (ACP) London Sugar Group; the Ethical Trading Initiative; Co-operative Retail and Sainsbury's; and the Food and Drink Federation.

We would also like to thank our Specialist Adviser, Sheila Page of the Overseas Development Institute. But we stress, as ever, that the views contained in this report are ours alone. In addition we are grateful for the informative and balanced updates on developments in Geneva provided by the International Centre for Trade and Sustainable Development (ICTSD) and the International Institute for Sustainable Development (IISD).

We would like to thank finally those organisations and representatives from developing countries who have engaged with our inquiry in one way or another. In the face of many

competing priorities, we appreciate their efforts very much and look forward to more input from developing countries in future inquiries.

# 1 Introduction

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## The promise of trade and the place of Cancún

1. The increased involvement of developing countries in international trade could help lift hundreds of millions of people out of poverty. At Doha in November 2001, the World Trade Organization's (WTO) 142 member states promised to deliver the improved market access and development-friendly rules which are needed to harness trade for development and poverty reduction. At Cancún in September, the world will be able to judge whether countries, including the UK, are keeping their Doha promises.

2. Trade can and should play an important role in reducing poverty and contributing to the achievement of the Millennium Development Goals (MDGs). The platform from which the pronouncements made by many governments about the benefits of trade and trade liberalisation are delivered is the economic theory of comparative advantage. This suggests that, if each country specialises in the production and export of those goods and services which it can produce relatively efficiently, and in turn imports those goods and services in which it has a comparative disadvantage, all countries will benefit. Productive resources would be allocated more efficiently, leading to growth, the benefits of which might be targeted at poverty reduction.

3. The reality of international trade is drastically different, as the Trade Justice Movement has recently reminded us all. The North does not practice the free trade that it preaches. In total, developed countries provide nearly \$350 billion per year of support to their agricultural sectors, a sum which is greater than the Gross Domestic Product (GDP) of the whole of sub-Saharan Africa.<sup>1</sup> The dumping of Northern-produced food on developing countries and the maintenance of barriers which limit developing countries' access to Northern markets, distorts world markets and prevents developing countries from using agricultural exports as a way to trade up and out of poverty. Countries in the North and South maintain a variety of barriers to non-agricultural trade, inhibiting the growth of regional trade and integration. Many countries in the South are ill-equipped to take advantage of the limited trading opportunities that they have. As a result, the potential gains from specialisation and trade – in terms of dollars earned or poverty reduced – are lost. Oxfam notes that “If Africa, East Asia, South Asia, and Latin America were each to increase their share of world exports by one percent, the resulting gains in income could lift 128 million people out of poverty. In Africa alone, this would generate \$70 billion—approximately five times what the continent receives in aid.”<sup>2</sup> And in a world which is far-removed from the models of free and fair trade, the gains from trade which do materialise are enjoyed primarily by powerful countries and corporations.

4. At Doha, the World Trade Organization's (WTO) members stated that they would “seek to place” the needs and interests of developing countries at the heart of a new

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1 Ev 3, para 15 [HMG memorandum]

2 Ev 43, para 2 [Oxfam memorandum]

round of multilateral trade negotiations.<sup>3</sup> This round, which the WTO envisions as the “Doha Development Agenda”, provides an important window of opportunity for the international community to build a multilateral trading system which will provide developing countries with the opportunity to trade out of poverty and towards meeting the MDGs. The UK Government, with the Department for International Development (DFID) at the fore, is fully behind the MDGs, and is a strong proponent of the “Doha Development Agenda”.<sup>4</sup> The round is scheduled for completion by 1 January 2005. At the WTO’s Fifth Ministerial Conference in Cancún in September 2003, it will become clearer whether the WTO’s members are living up to their promises. The World Development Movement, doubting the ability of the WTO and its members to deliver a genuine development round, suggested that failure at Cancún would be “potentially positive, if there is a shock to the system and if there is then a process of reflection and reform.”<sup>5</sup> **We disagree strongly with those who would like to see Cancún fail; reflection and reform are desirable, but failure at Cancún would be very bad news for developing countries.**

### The inquiry and the report(s)

5. We announced our inquiry into “Trade and development: Aspects of the Doha Agenda” on 26 November 2002, and invited organisations with relevant experience or expertise – and particularly those based in developing countries—to submit written evidence. We intended to produce a single report in July 2003, but mid-way through the inquiry we decided that it would better serve our aims to extend the inquiry until after the Cancún Ministerial, and to produce two reports. This is the first of these reports, and is focused on issues which are directly relevant for Cancún; other issues will be addressed in a post-Cancún report.

6. Our aim in this report is not to provide a comprehensive assessment of the relationship between multilateral trade rules, national trade policies, trade and poverty reduction. The UK Government’s views on these matters are set out in its second White Paper on International Development;<sup>6</sup> alternative perspectives are widely available.<sup>7</sup> Neither is it our aim to question the wisdom of WTO members seeking to place the needs and interests of developing countries at the heart of a round of negotiations which is based upon hard-bargaining between states with vastly unequal resources, although we do consider how this circle might best be squared. Rather, our aim is to maximise the chances of the current round of WTO negotiations amounting to a genuine development round, by influencing the UK Government’s input into the EU’s positions before and at Cancún.<sup>8</sup> Our second aim is to encourage the Government and through

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3 WTO, *Ministerial Declaration adopted by the Fourth Session of the WTO Ministerial Conference, Doha, 9-14 November 2001*, (WT/MIN(01)/DEC/1), para 2. See also *The Doha Declaration explained*. Both available at <http://www.wto.org>

4 Ev 2, paras 3 and 5 [HMG memorandum]

5 Q 268 [Peter Hardstaff, World Development Movement]

6 Ev 2, para 4 [HMG memorandum]; HMG, *Eliminating world poverty: Making globalisation work for the poor*, Cm 5006, December 2000. Available at <http://www.dfid.gov.uk/Pubs/files/whitepaper2000.pdf>

7 See, for example: Oxfam’s *Rigged rules and double standards*; the work of the Third World Network; UNCTAD’s *Trade and Development Report*; *Making global trade work for people whose preparation was co-sponsored by the UNDP*; and the World Bank’s report on *Making trade work for the world’s poor*.

8 Trade is a matter of Community competence; the EU speaks with one voice at the WTO.

them the EU to ensure that developing countries can play a full, active and well-informed part in negotiations. In addition, we hope that this report will inform our Parliamentary colleagues about Cancún and the WTO's "Development Round".

7. We have made considerable efforts to listen to the views of organisations and representatives from developing countries, including pioneering the use of video-link technology by a Select Committee for a public evidence session. In addition to hearing from the International Monetary Fund (IMF), the South Centre, the United Nations Conference on Trade and Development (UNCTAD), the United Nations Development Programme (UNDP) and the World Bank – we have met or received evidence from Heads of Government, Ambassadors, negotiators, parliamentarians, business organisations and non-governmental organisations (NGOs) from Bangladesh, China, Ethiopia, India, Jamaica, Kenya, Mauritius, South Africa and Thailand. But we make no claim to speak for them. Developing countries, and people within those countries, hold a wide variety of views about trade, development and the WTO. Their views must be listened to and taken seriously within the WTO if there is to be any chance of the "Doha Development Agenda" producing a genuine development round.

8. In chapter two we examine the notion of a "Development Round", explaining why one is needed, and outlining what we believe are the necessary components of a genuine development round. In chapters three and four we examine – for a range of issues— what was agreed at Doha; assess what the current state of play is; examine the key issues; and suggest what the UK Government should do to maximise the chances of a development-friendly outcome. In chapter three our focus is agriculture, the most important and most intractable of the issues. In chapter four we look beyond agriculture, considering: non-agricultural market access; the "new" or "Singapore Issues" of investment, competition, transparency in government procurement, and trade facilitation; Trade-Related Intellectual Property Rights (TRIPS); the General Agreement on Trade in Services (GATS); and commodities. Whilst chapters three and four include suggestions about what should be done in particular issue areas to achieve a development round, in chapter five we examine two other components which are fundamental to a genuine development round: effective participation by developing countries; and, the creation of development-friendly rules. Finally, we emphasise the importance of policy coherence, political commitment, and the opportunity and responsibility which the UK has to provide leadership in making Cancún a successful staging post in a genuine development round.

## 2 A “Development Round”?

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### Why is a “Development Round” needed?

9. A successful round of WTO trade negotiations is needed to demonstrate the value and vitality of multilateralism to the international community, and to begin to rebuild the trans-atlantic relations damaged by the build up to war with Iraq. A successful development round is needed to enable more rapid progress to be made towards achieving the MDGs.

10. Progress at the WTO has taken on much greater significance since the Iraq conflict, with trade seen as a “bastion of multilateralism.”<sup>9</sup> As Richard Eglin, Director of the WTO’s Development Division, put it: “you get the sense that politically there is an awful lot at stake in making sure that multilateral co-operation in the economic area is seen to be alive and well, and moving forward.”<sup>10</sup> Failure would be very serious: “Not just for traders or trading countries but for the international community as a whole, and for the world system as we know it.”<sup>11</sup>

11. Multilateral progress towards the MDGs and poverty reduction will play an important role in enhancing international security too. Poverty does not cause terrorism – there are many poor places where there are no terrorists, and there are terrorists where there is little poverty—but poverty and terror are linked in a complex process leading from poverty to frustration, a sense of injustice, bitterness, division and conflict.<sup>12</sup> Enlightened self-interest, as well as morality, demands that the North commit itself to poverty reduction. As Patricia Hewitt explained to the European Parliament in January, “When world security is threatened by terrorism and failing states, when political uncertainty compounds economic downturn, the need for the new world trade round is overwhelming.”<sup>13</sup> The Prime Minister of Ethiopia put it most starkly: “The developed countries cannot shelter themselves from the impact of a continent that is in deep crisis and which has, in effect, become the continental ghetto of a globalised world. Unless Africa develops, it will spawn all sorts of criminal groups *en masse*, including drug cartels and terrorists, which will haunt all of us.”<sup>14</sup>

12. But international cooperation to reduce poverty – and to harness trade for poverty reduction – is not solely about enlightened self-interest. Neither is it fundamentally about the North fulfilling its MDG commitments to develop a global partnership for development. There is a strong moral case for engaging developing countries in a multilateral approach to problem solving and poverty reduction. The UNDP reported in 1997 that the Least-Developed Countries (LDCs) would lose \$600 million per year, and

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9 Q 360 [Carlos Fortin, UNCTAD]

10 Q 310 [Richard Eglin, WTO]

11 Q 360 [Carlos Fortin, UNCTAD]

12 Clare Short, *The dangers to Doha: The risks of failure in the trade round*, speech at Chatham House, 25 March 2003 - available at <http://www.dfid.gov.uk/News/Speeches/files/sp25march03.html>; and Patricia Hewitt, *Trade and development: Europe’s role in spreading prosperity*, speech to the European Parliament, 21 January 2003 - available at <http://www.dti.gov.uk/ministers/speeches/hewitt210103.html>

13 Patricia Hewitt, *ibid.*

14 Q 83 [H.E. Meles Zenawi, Prime Minister of the Federal Republic of Ethiopia]

that sub-Saharan Africa would lose \$1.2 billion per year, as a result of the Uruguay Round agreement.<sup>15</sup> Many developing countries feel that the Uruguay Round did not deliver what they were led to expect, and that the results were inequitable and led to serious implementation problems.<sup>16</sup> Developing countries had agreed to Northern demands on TRIPS, Trade Related Investment Measures (TRIMS) and Sanitary and Phyto-sanitary Standards (SPS) in exchange for as yet unfulfilled promises about Northern progress on removing barriers to trade in agriculture and textiles.<sup>17</sup> As the Director-General of the WTO, Dr. Supachai Panitchpadki, reported to us, some developing countries feel that the exchange has not been balanced,<sup>18</sup> and will expect to be reimbursed at, or preferably before, Cancún.<sup>19</sup> If developing countries are to be engaged, they must be able to see the developmental benefits of engagement, and be enabled to play an active role in multilateral trade negotiations.

### ***The WTO, Cancún and poverty reduction***

13. The current round of negotiations can play an important role in developing a framework of trade rules which will enable developing countries to harness the growth potential of increased trade, and to use the resources for poverty reduction or other national priorities. But success at Cancún will not in itself reduce poverty; neither will failure increase it. The WTO is only part of a complex trade and development picture.<sup>20</sup> The path from the WTO to development and poverty reduction has many steps and is complicated by many intervening factors (see figure 1). Multilateral trade rules can provide the opportunity for countries to trade their way out of poverty. But rules alone cannot ensure that developing countries achieve this.

14. The implication is not that Cancún and the WTO are irrelevant or unimportant for development; it is that although multilateral trade rules can set the framework within which national policies operate, they are not necessarily the most direct or the most appropriate route to addressing the causes of poverty. For instance, we agree that eliminating gender inequalities is vital to poverty reduction;<sup>21</sup> we acknowledge that trade and trade liberalisation are likely to have different impacts on men and women;<sup>22</sup> we share the view that any gender-differentiated impacts of trade liberalisation should be addressed; and we would want to ensure that the WTO's rules do not foreclose countries' options for gender-focused poverty reduction policies. But, in our view, it is the national-level, rather than the WTO, which is the appropriate level at which to pursue such policies. Success at Cancún will only be translated into poverty reduction if donors and developing countries support and implement appropriate national policies,

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15 UNDP, *Human Development Report, 1997*, p. 82. Available at <http://hdr.undp.org>

16 Ev 263 [Bangladesh Parliament Secretariat memorandum]

17 Q 403 [Lakshmi Puri, UNCTAD]

18 Q 335 [Supachai Panitchpadki, WTO]

19 Q 403 [Lakshmi Puri, UNCTAD]

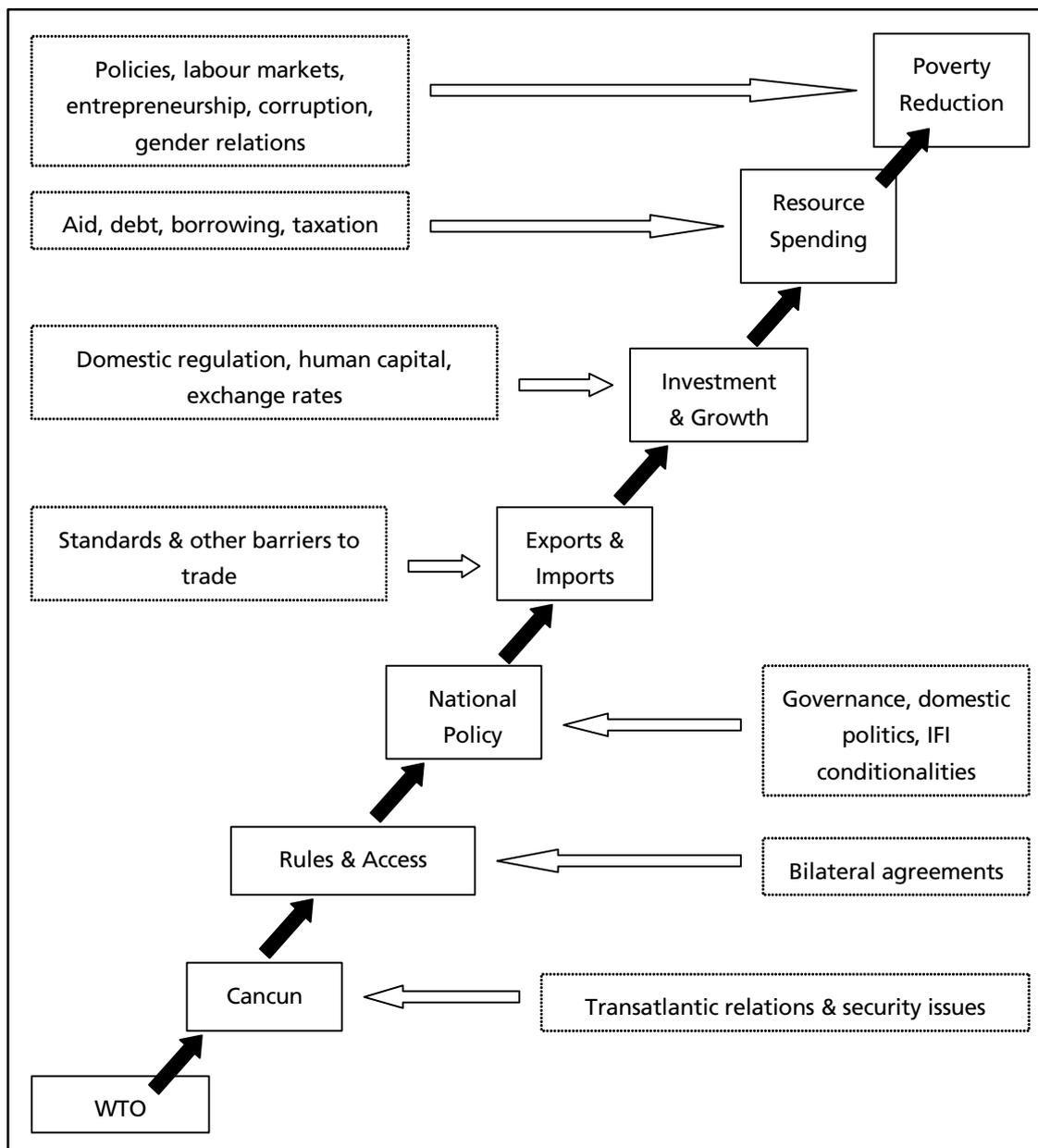
20 Q 385 [Richard Kozul-Wright, UNCTAD]

21 Ev 318 [Women's League for International Peace and Freedom memorandum]

22 Women's EDGE Global Trade Program, *Framework for gender assessments of trade and investment agreements*, 2002. Summary available at <http://www.genderandtrade.net/Regions/EDGEframework.pdf>

which encourage and harness the dynamism of the private sector.<sup>23</sup> For this to occur, the trade agenda must be well integrated with other elements of the development agenda including the provision and use of aid.

Figure 1: From the WTO to poverty reduction



Data source: Committee's own

## What would a genuine "Development Round" look like?

15. The WTO can establish and develop multilateral trade rules, but it cannot directly reduce poverty. A proper understanding of the role of the WTO will lead to greater

<sup>23</sup> The private sector is crucial, but the focus of this report is the multilateral trading system rather than the private sector activities which must be enabled and regulated by policies and rules at national and international levels if development is to be achieved.

clarity about just what a genuine “Development Round” might look like. If the benchmark for a development round is “a round that leads directly to reduced poverty”, then failure is guaranteed. If instead the benchmark is “a round that develops multilateral trade rules which are more compatible with international and national poverty reduction policies”, then there is some chance of success. Pascal Lamy explained with frankness that: the “WTO is not, above all, a philanthropic organisation. It is a bargaining system. The philanthropy of the system stems from the fact that trade opening, with rules and the necessary conditions, is a win-win game.”<sup>24</sup> We accept this analysis, and so does the Government. The questions which remain are what these rules and necessary conditions are, whether the WTO is a forum in which they can be created,—or, failing that, a forum which is compatible with these rules and necessary conditions – and also whether the WTO, whilst an imperfect forum, offers the best practicable forum to discuss these issues.

### ***Hard-bargaining and/or a development round?***

16. Various witnesses commented on the apparent mismatch between the notion of a “Development Round” and the reality of concessions-trading, hard-bargaining WTO negotiations.<sup>25</sup> Hard-bargaining between unequal players sits uneasily with the notion of a development round, firstly because developing countries are not in a strong position to trade concessions on market access. As Prime Minister Zenawi of Ethiopia explained to us:

“international trade negotiations are based on bargaining and give and take. We know that whatever the rhetoric might be, those with the bigger bargaining power get what affects their interest more. That is the reality. The poor countries, particularly those in Africa, because their share in global trade is insignificant, have no significant bargaining power. They cannot engage in meaningful give and take.”<sup>26</sup>

17. Secondly, developing countries do not have the analytical and negotiating capacities of developed countries to deal with a full and complex WTO agenda. This is exacerbated by the Single Undertaking, an arrangement which requires countries to sign up to the whole WTO agenda, rather than those agreements which suit them. The Single Undertaking does provide scope for trade-offs between countries<sup>27</sup> – “I’ll give you a win on agriculture if you give me a win on investment” – but it also means that developing countries may find themselves signing up to a raft of agreements which they neither requested, nor wanted, and which they have little capacity to understand or implement.<sup>28</sup> A significant proportion of developing countries have little if any permanent presence in Geneva,<sup>29</sup> a situation which clearly hinders their effective participation in negotiations.<sup>30</sup> Those countries that do have a Geneva presence face a

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24 Q 155 [Pascal Lamy, European Commission]

25 Q 399 [Lakshmi Puri, UNCTAD] and Q 51 [Duncan Green, CAFOD]

26 Q 83 [H.E. Meles Zenawi, Prime Minister of the Federal Republic of Ethiopia]

27 Q 313 [Richard Eglin, WTO]

28 Q 72 [Michael Bailey, Oxfam]

29 Ev 256, para 8.1 [ActionAid memorandum] and Q 398 [Lakshmi Puri, UNCTAD]

30 Ev 314, para 4 [Quaker Peace and Social Witness memorandum]

very demanding, if not impossible, workload<sup>31</sup> (see para 132). Other issues are perhaps more important right now, but we do have some reservations about the wisdom of the Single Undertaking.

18. Hard-bargaining is an inappropriate way to deal with some issues. It may have been suitable for tariff negotiations, but as WTO negotiations increasingly encompass complex “behind the border” domestic issues, the adversarial concessions-trading format becomes less suitable. Agreeing rules about how countries can regulate investment and competition is not like agreeing on tariff levels, but is about coming up with some notion of “best practice.” As Ambassador Ransford Smith of Jamaica explained, a forum in which hard-bargaining is the *modus operandi* may not be an appropriate forum for setting rules about such qualitative matters, where countries may have their own views on what is best practice. If the definition and regulation of “best practice” – for instance, how inward investment should be regulated – is determined by the balance of negotiating power, the resulting definition of best practice may not be one which is appropriate for the less powerful negotiating countries<sup>32</sup> (see paras 93-96).

19. The outcome of a WTO round is a package of rules and market access commitments. The definition of a genuine development round will depend upon what is understood by development-friendly rules and market access commitments. This in turn will depend upon: first, one’s reading of the evidence about the relationship between trade liberalisation, trade, development and poverty reduction; second, one’s view about the extent to which multilateral trade rules can impose constraints on national policy decisions and still be development-friendly;<sup>33</sup> and third, for which countries the assessment of development-friendliness is being made, for instance, an advanced developing country or an LDC. Finally, the development-friendliness of the outcome of a WTO round should be assessed in comparison not with an ideal outcome, but in comparison to a non-development round, and a complex network of bilateral treaties, in which hard-bargaining between countries with vastly unequal resources remains the norm, and from which the poorest countries may well be excluded.

## **Trade rules, trade policies, trade and poverty reduction**

### **Interpreting the evidence**

20. There is no consensus on the relationship between trade rules, trade policies (liberalisation or protectionism) and poverty reduction. “Trade optimists” believe that trade and trade liberalisation can be major contributors to poverty reduction. “Trade pessimists” believe trade liberalisation, and in extreme cases even trade itself, will not lead to poverty reduction and are more likely to exacerbate inequalities and heighten poverty.<sup>34</sup> The optimists’ were well-represented by Richard Eglin, the Director of the WTO’s Development Division. His belief is that “all rounds are development rounds, in

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31 Ev 31 [CAFOD memorandum] and Q 359 [Carlos Fortin, UNCTAD]

32 Q 426 [H.E. Ransford Smith, Jamaican Ambassador to the UN in Geneva]

33 To put it another way, just how much does local ownership of development policies matter to their success?

34 Some commentators, particularly the less optimistic NGOs, insist on the distinction between being a “trade optimist” and a “trade liberalisation optimist”. In their view, it is perfectly compatible to be both a “trade optimist” and a “trade liberalisation pessimist”.

the sense that they deliver better market access to developing countries; that they assist developing countries to integrate into the international economy.”<sup>35</sup> For the Confederation of British Industry (CBI), processes of liberalisation offer opportunities to all countries “to benefit from greater economic growth, to increase living standards and work towards sustainable development.”<sup>36</sup> The UK Government is more circumspect in its support for trade liberalisation. But consistent with the view that recent progress by China and India is due to increased economic openness,<sup>37</sup> it does have “a general presumption in favour of trade liberalisation as one mechanism to reduce poverty”, a presumption backed up by its view that “[m]ost development specialists and practitioners would agree that trade openness is a necessary condition for national economic prosperity.”<sup>38</sup>

21. Towards the other end of the spectrum are those organisations which are less optimistic about the likelihood of trade, and specifically trade liberalisation, offering a route out of poverty for developing countries. These critics point to what they see as the unrealistic and excessively abstract models which are used to predict the gains from trade liberalisation,<sup>39</sup> and emphasise a particular reading of the historical evidence.<sup>40</sup> The pessimists argue variously that the models: are inconclusive in their findings;<sup>41</sup> fail to demonstrate convincingly the poverty-reducing effects of growth; neglect the role of the domestic institutional environment;<sup>42</sup> confuse cause and effect in their analysis of the relationship between trade liberalisation and development;<sup>43</sup> and employ different meanings of trade “openness”.<sup>44</sup>

22. The pessimists point to the historical experience of most developed countries – the UK, the USA, South Korea and Taiwan for instance – each of which developed behind protectionist barriers. Some commentators suggest that the developed world’s current efforts to persuade developing countries to liberalise now, amount to “kicking away the ladder” of development.<sup>45</sup> Trade liberalisation pessimists also cite more recent evidence from Haiti, Mali, Nepal, Peru and Zambia (countries where rapid liberalisation has failed to deliver poverty reduction) and contrast this with the poverty reduction successes of China, Mauritius and Vietnam (countries which have been much more cautious liberalisers).<sup>46</sup> In addition, the failure of development in Africa over the last few decades, despite widespread liberalisation, suggests to the pessimists – who overlook the role of corruption and poor governance—that liberalisation is not a reliable route to

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35 Q 309 [Richard Eglin, WTO]

36 Ev 289, para 1 [CBI memorandum]

37 Patricia Hewitt, *Progressive globalisation: Achieving global justice through trade*, speech to the Fabian society, 23 June 2003. Available at <http://www.dti.gov.uk/ministers/speeches/hewitt230603.html>

38 Ev 2 para 6 [HMG memorandum]

39 Ev 118 [World Development Movement memorandum]

40 Ev 37 [Christian Aid memorandum]

41 Ev 114 [Save the Children Fund memorandum]

42 Dani Rodrik, *The global governance of trade as if development really mattered*, UNDP, 2001, pp. 14-21. Available at [http://www.undp.org/mainundp/propoor/docs/pov\\_globalgovernancetrade\\_pub.pdf](http://www.undp.org/mainundp/propoor/docs/pov_globalgovernancetrade_pub.pdf)

43 *Ibid.* p. 5; Ev 67 [CAFOD supplementary memo]; Q 49 [Duncan Green, CAFOD]

44 Q 50 [Duncan Green, CAFOD]

45 Q 61 [Duncan Green, CAFOD]

46 Ev 45, para 24 [Oxfam memorandum]; Ev 37, para 1.1 [Christian Aid memorandum]; Ev 294 [International Forum for Alternative Trade, UK Fair Trade Leaders Forum memorandum]

development. As Prime Minister Zenawi of Ethiopia put it: “Some would argue that across-the-board and reciprocal trade liberalisation is the right thing. The economic reforms in Africa over the past 20 years have been guided by such a view. The results, I believe, can speak for themselves.”<sup>47</sup> In our view this factor has to be seen as one of a number contributing to Africa’s lack of development.

23. As a Committee, we are optimists and enthusiasts for the benefits of trade, but more cautious as far as trade liberalisation is concerned. From our reading of the evidence, we would concur with the statement made by Claire Melamed of Christian Aid: “The one clear message that comes out of a review of the evidence is that there is no single relationship between any given policy, be it trade liberalisation or any other trade policy, and economic development”.<sup>48</sup> There is a complex pattern with both rapid liberalisers and non-liberalisers performing poorly, whilst cautious liberalisers seem to do best.<sup>49</sup> As the Government acknowledged in its memorandum: “The relationship between trade reform and poverty is complex and very country-specific.”<sup>50</sup>

### *Dealing with the down-sides*

24. The “optimists” and the “pessimists” agree on one point: that the distribution of any gains from trade will be uneven, both between and within countries. The World Bank, for instance, predicts that out of an increase of \$335 billion in global income by 2015 as a result of trade liberalisation, developing countries would enjoy 50 percent of these gains. But sub-Saharan African and South Asia would receive minimal net gains, in both cases lower than the aggregate losses resulting from displacement due to liberalisation.<sup>51</sup> Within countries, the immediate impact of trade liberalisation on people and groups will depend on its impact on prices, profits/employment/wages, government revenues, and how different individuals and groups and individuals are socially positioned.<sup>52</sup> That is, whether they are consumers or producers, employers or employees, employees with or without rights,<sup>53</sup> tax-payers or subsidised consumers, men or women.

25. The Government accepts that – at least in the short term—there will be losers as well as winners from trade liberalisation. The fact that some may lose is not a reason to prevent others winning.<sup>54</sup> As the Government’s memorandum put it: “Growth benefits the poor, but it should be recognised that trade reforms can hurt some groups, perhaps pushing them into or deeper into poverty, and that some reforms may increase the number of the poor even though they raise incomes in general. ... The important policy questions are how to implement [trade liberalisation] in a way that maximises its benefits for poverty reduction and what to do about any poverty that it does create.”<sup>55</sup>

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47 Q 83 [H.E. Meles Zenawi, Prime Minister of the Federal Republic of Ethiopia]

48 Q 49 [Claire Melamed, Christian Aid]

49 Q 380 [Charles Gore, UNCTAD]

50 Ev 3, para 11 [HMG memorandum]

51 World Bank, 2002, *Global Economic Prospects*, p. 168. Available at <http://www.worldbank.org/prospects/gep2002>

52 Ev 2, para 8 [HMG memorandum]

53 Ev 315 [Trades Union Congress memorandum] and Qq 479-87 [Ethical Trading Initiative]

54 Q 4 [Adrian Wood, DFID]

55 Ev 2, para 6 [HMG memorandum]

The Government's approach to this is to "predict, pre-empt and protect";<sup>56</sup> predicting the impacts of trade liberalisation on particular groups of people, taking pre-emptive measures to enable potential losers to "shift easily into other lines of activities", and protecting those who are unable to help themselves.<sup>57</sup>

26. Moving to the dynamic effects of trade liberalisation, the final effect will depend on the response of countries, their industries and firms, to a more liberalised trading environment, which in turn will depend upon their existing level of development, their capacity to produce for export, their infrastructure, their natural resources, their human capacity, their domestic legal and financial systems, and the assistance they receive to build their export capacity.<sup>58</sup> Inexperienced exporters in an LDC will not respond to enhanced market access in the same way in which an experienced exporter in Switzerland might.<sup>59</sup> Market access is not a magic bullet.<sup>60</sup> It is not enough simply to let likely winners from liberalisation off the leash so that they can trade on their comparative advantages. Potential medium-term winners from liberalisation need to be helped to take advantage of enhanced trading opportunities through the provision of technical assistance and capacity-building. Probable losers from liberalisation, such as some in LDCs, need aid to protect their vulnerable populations, and assistance to move towards a position where they can contemplate becoming more active participants in the international trading system.

27. Cutting oneself off from trade is not a realistic route to development. Rather, trade and cautious liberalisation offer an important opportunity for progress on poverty reduction. They may also increase transparency and predictability, and improve governance. As far as poverty reduction is concerned, the real debate concerns the management of trade, the timing and sequencing of trade liberalisation and domestic reforms, the provision of trade-related technical assistance and capacity-building to enable countries to take advantage of trading opportunities, and the provision of aid to those countries and interest groups who are likely to lose out. In the longer term, poverty reduction also requires enabling countries to move swiftly up the value-added/industrial ladder, ensuring that the benefits are distributed in as equitable a fashion as possible. If the WTO's members are to deliver a genuine development round, it must be a round which includes sufficient flexibility for developing countries. As Richard Kozul-Wright of UNCTAD put it: "All one can say is that a certain degree of humility on the part of advanced countries, a certain respect for their own history, and a certain recognition that flexibility in the multilateral system is the defining quality of a development component of multilateralism, as it works for developing countries, are essential."<sup>61</sup> (see paras 135-146).

28. There is a debate about the relationship between international trade and sustainable development. Some argue that trade is bad because it increases production and

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56 The phrase comes from Neil McCulloch, Alan Winters, Xavier Cirera, *Trade liberalization and poverty: A handbook*, 2001, CEPR/DFID.

57 Q 4 [Adrian Wood, DFID]

58 Q 166 [Mauro Petriccione, European Commission]

59 Q 393 [Charles Gore, UNCTAD]

60 Q 495 [Rob Davies, South African National Assembly]

61 Q 396 [Richard Kozul-Wright, UNCTAD]

consumption; that the globalisation of trade is bad because it increases transport costs and pollution; and that global trade rules are bad because they undermine more local democracy.<sup>62</sup> Others argue that trade, including international trade, is good because it improves resource allocation (sugar would be grown in more sensible places), and, that by increasing incomes, it will provide more resources to address environmental problems. There are important questions about the interface between the WTO and environmental issues, but there is no reason to assume that well-designed multilateral trade rules, which seek to balance economic and environmental objectives, will necessarily hinder progress towards sustainable development.

### ***Whose benchmarks? Which comparisons?***

29. A simple way of assessing the development-friendliness of a round might be to listen to the developing countries. But as we have often been reminded – though not by developing countries themselves—developing countries have diverse interests and views. The EU’s Agricultural Commissioner, Franz Fischler, comparing Brazil’s agricultural competitiveness with that of a sub-Saharan African country, suggested that it is “not very logical just to speak about ‘developing countries.’”<sup>63</sup> There is no longer a bloc of developing countries, as Carlos Fortin of UNCTAD acknowledged.<sup>64</sup> At the WTO, Richard Eglin went further, suggesting that WTO negotiations have never been conducted on a North-South basis. Rather, countries have their own selfish interests at heart, which will lead them to line up with different countries for different issues.<sup>65</sup> But there are some issues which will be looked at in a North-South way, including Special and Differential Treatment (SDT), which is, as Richard Eglin acknowledged, “a guiding parameter for the whole Round”.<sup>66</sup>

30. The degree of convergence or divergence between developing countries’ various interests depends on the issue area. On SDT and the implementation of existing agreements most developing countries are likely to have similar interests. But on TRIPS and public health, and agriculture, interests diverge.<sup>67</sup> To take agriculture, for instance, it is not possible to simply read off a country’s stance on liberalisation from its level of development (see figure 2 and chapter 3).<sup>68</sup> The “Singapore Issues” and the General Agreement on Trade in Services (GATS) fall somewhere between the two extremes of agriculture (divergent interests) and SDT (convergent interests).

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62 Ev 303 [New Economics Foundation memorandum]

63 Q 187 [Franz Fischler, European Commission]

64 Q 358 [Carlos Fortin, UNCTAD]

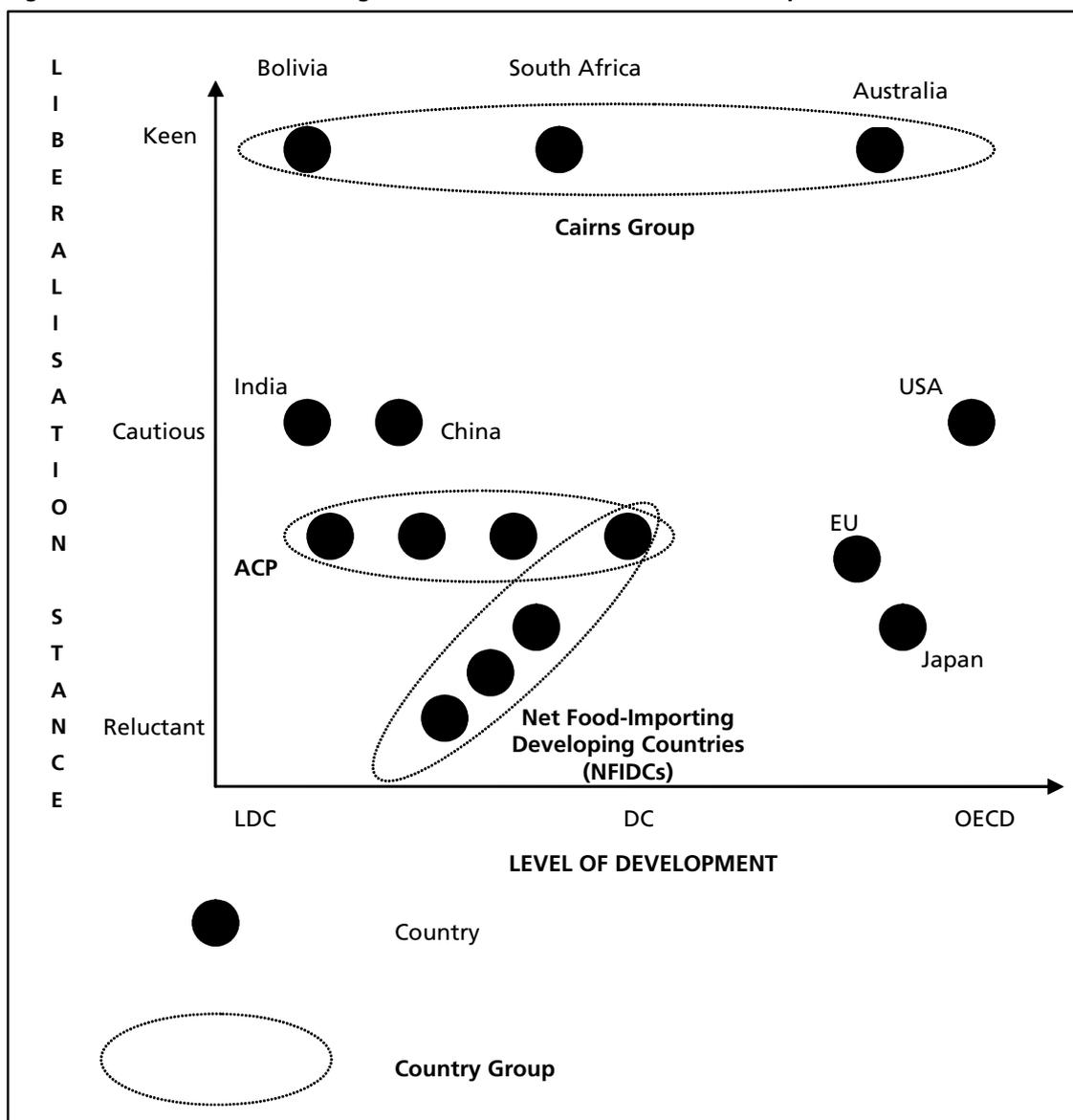
65 Q 310 [Richard Eglin, WTO]

66 Q 310 [Richard Eglin, WTO]

67 Q 358 [Manuela Tortora, UNCTAD] and Q 343 [Alberto Campeas, WTO]

68 “In practice, the stance of most countries on liberalisation is that they would like others to liberalise but would rather not do so themselves. As such it is not easy to identify a country’s overall position on liberalisation. Whilst recognising this, figure 2 attempts to plot countries’ positions on liberalisation, to illustrate the point that one cannot read off a country’s views from its level of development.

Figure 2: Countries' stances on agricultural liberalisation: A schematic representation



Data source: Committee's own NB: Axes are not to scale. NFIDCs are Net Food-Importing Developing Countries.

31. The degree of divergence should not be exaggerated. At a general level, there are common interests and expectations, by which developing countries themselves are likely to judge whether or not a round amounts to a genuine development round. According to Carlos Fortin these are:

- a) that markets, including agricultural markets, are opened to developing countries;
- b) that SDT is provided to help countries during the transition towards full liberalisation;
- c) that development-friendly rules are established, including in relation to the "Singapore Issues";
- d) that implementation issues are addressed; and

- e) that account is taken of the interdependence between trade and other issues such as technology, transport, finance and debt.<sup>69</sup>

32. Judgements about the development-friendliness of the “Doha Development Agenda” and the Agreements which it may deliver, ought to be made in comparison to the likely alternatives—a standard WTO round or a network of bilateral trade agreements—not solely to commentators’ conceptions of an ideal multilateral trading system. All the witnesses, even those who see the WTO as seriously flawed, regard a rules-based multilateral trading system as desirable.<sup>70</sup> A rules-based system, where developing countries’ negotiating power is enhanced, is preferable to one which is solely power-based.<sup>71</sup> As Pascal Lamy put it:

“Where on this planet can Peru have the European Union do what it wants it to do? In [the] WTO there is the dispute settlement system, and Peru can win a case against the European Union on the denomination of sardines. There are not many organisations on this planet where they can do that. It is much more rules-based and equity-based than most of the other organisations.”<sup>72</sup>

33. However imperfectly, the WTO’s Dispute Settlement Mechanism and the ability of countries who are not themselves party to disputes to benefit from generally applicable rules, attenuates the differences of power between countries.<sup>73</sup> Multilateral is preferable to bilateral. In bilateral negotiations, rules are more easily swayed by power, and many developing countries will—because they don’t offer large enough markets to be of interest to the major players—be excluded.<sup>74</sup>

## Benchmarks and prospects for Cancún and beyond

34. There is some inconsistency between the notion of a development round and the reality of hard-bargaining in the WTO. There is also much debate about the relationship between trade liberalisation, trade and poverty reduction. And developing countries’ interests are diverse. But if the international community is truly interested in development, from whatever combination of morality, self-interest and international security concerns, it must not simply throw its collective hands up in the air and declare that the WTO and its members are inherently incapable of delivering a development round which will be accepted as such by developing countries. To do so would call into question the sincerity of WTO members in agreeing to the “Doha Development Agenda”, and would not be in the interests of developing countries. Instead, pressure must be exerted on the WTO’s members to deliver on their developmental promises. Similarly, we cannot simply declare that it is impossible to assess the development-friendliness of a WTO round. It is only through such assessments that WTO members can be held to their promises. Assessments require benchmarks. We urge the Government in consultation with developing countries, NGOs and others, to establish

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69 Q 358 [Carlos Fortin, UNCTAD]

70 Q 253 [Peter Hardstaff, World Development Movement]

71 Ev 3, para 13 [HMG memorandum] and Q 490 [Rob Davies, South African National Assembly]

72 Q 163 [Pascal Lamy, European Commission]

73 Q 430 [Frieder Roessler, Advisory Centre on WTO Law]

74 Q 490 [Rob Davies, South African National Assembly]

clear benchmarks by which it will assess the success or failure of Cancún and the Round as a whole.<sup>75</sup>

35. It is not our intention in this report to provide such benchmarks, but there are three areas where progress must be made if there is to be a genuine development round. First, there must be effective participation by developing countries (see paras 129-134), with the result that they judge the Round to have been a developmental success. Second, the rules which are agreed on, including the rules about market access, must be development-friendly. They must provide developing countries with enhanced market access, and greater opportunities to trade in goods, services and labour. They must also be flexible enough to enable countries at different stages of development to pursue their nationally-determined priorities, and give sufficient time for developing countries to enact and implement the agreed rules (see paras 135-146). Third, there must be development-friendly progress on the specific issues which are on the WTO's agenda.

36. The WTO continues to insist that there should be no lowering of expectations.<sup>76</sup> In its view, the deadline of 1 January 2005 remains achievable, progress is better than at a similar stage of the Uruguay Round, and all that is required is political commitment.<sup>77</sup> But progress has been very slow and appears almost stalled. **The deadlines for resolving issues which were supposed to be resolved at an early stage—TRIPS and public health, SDT, Implementation—have been missed** (see figure 3). **Early resolution of these issues was part of the mandate delivered at Doha, and was supposed to be a key component of a development round.** Such issues were to be resolved early to rebuild trust, to avoid overloading developing countries' negotiators, and to ensure that the resolution of such outstanding issues did not become subject to concessions-trading.<sup>78</sup> Implementation for instance is about fulfilling commitments made in the Uruguay Round. **The resolution of Implementation issues should not, as paragraph 47 of the Doha Ministerial Declaration insisted, be a bargaining chip in this so-called "Development Round."**<sup>79</sup> **Regrettably, it is.** The lack of progress is postponing everything until the last possible moment, stretching further the capacities of developing countries to participate effectively in negotiations, and risks overloading Cancún.<sup>80</sup> The WTO now appears incapable of reaching significant agreements outside the diplomatic pressure cooker of ministerial meetings. If the EU is to play its part in delivering on the promised development agenda, it should therefore call for the Cancún summit to concentrate on reaching agreements on agriculture, Trips and public health, SDT and implementation.

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75 DFID produced the document *As good as our word: Building a development round* – see [http://www.dfid.gov.uk/Pubs/files/con\\_asgoodas.pdf](http://www.dfid.gov.uk/Pubs/files/con_asgoodas.pdf)—but this was a discussion document, not a statement of Government policy, and does not quantify its recommendations. See also Joint Statement by ActionAid, CAFOD, Christian Aid, Fairtrade, Intermediate Technology Development Group, Oxfam, Save the Children, Traidcraft, World Development Movement and World Vision, *A genuine development agenda for the Doha round of WTO negotiations*, January 2002. Available at [http://www.scfuk.org.uk/development/resources/gen\\_dev\\_agenda.pdf](http://www.scfuk.org.uk/development/resources/gen_dev_agenda.pdf)

76 Q 309 [Richard Eglin, WTO]

77 Q 332 [Supachai Panitchpadki, WTO]

78 Q 51 [Claire Melamed, Christian Aid]

79 Ev 264, para 6.1 [Bangladesh Parliament Secretariat memorandum]

80 Q 80 [Duncan Green, CAFOD]

Figure 3: Progress with the Doha Development Agenda

Agreement/Issue	Deadline	State of Play
<b>SDT</b>	30 June 2002, (Recommendations) Extended to 31 December 2002	Deadline missed—14 from 88 proposals "accepted for agreement"
<b>Implementation</b>	31 December 2002 (To report for action)	Deadline missed – Chair's proposal
<b>TRIPS &amp; Public Health</b>	31 December 2002 (To resolve and report)	Deadline missed—USA blocking agreement
<b>Agriculture</b>	31 March 2003 (Modalities)	Deadline missed—Chair's 2nd Draft Modalities
<b>Services</b>	31 March 2003 (Offers)	Requests and offers made by around 30 countries
<b>Industrial Market Access</b>	31 May 2003 (Modalities)	Deadline missed—Chair's 1st Draft Modalities
<b>Dispute Settlement</b>	31 May 2003 (Concluding agreement)	Deadline missed – Chair's 2 <sup>nd</sup> Draft Modalities. Referred to Cancún

Data source: ICTSD and IISD BRIDGES Weekly Trade Digest, various issues

37. The USA's decision to submit the EU's moratorium on the approval of genetically modified organisms to WTO adjudication, the decision by Brazil and several West African countries to query the WTO-compatibility of US cotton subsidies, and the USA and the EU's aggressive pursuit of regional and bilateral trade agreements, do not bode well for Cancún. But there are some glimmers of hope. The G8 at Evian in June singled out TRIPS and public health for agreement before Cancún. France has softened its opposition to reform of the Common Agricultural Policy (CAP) with the result that watered-down reform proposals have now been agreed, and it would seem that the UK Government, or DFID at least, no longer regards the Singapore Issues as a priority, and

may be prepared to accept limited progress on them.<sup>81</sup> Perhaps the best hope for progress by Cancún is the desire of the developed countries to prevent a repeat of Seattle and the bitterness and resentment which Seattle's failure in 1999 produced, and the need for the EU and the USA to avoid another trans-atlantic row. The following chapters explain what was agreed at Doha, assess the current state of play, and suggest what the UK Government and the EU should be doing to ensure a development-friendly outcome.

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81 Q 517 [Valerie Amos, Secretary of State for International Development]; Q 359 [Carlos Fortin, UNCTAD]; and The Federal Trust, *Expanding WTO rules?: Should there be WTO rules on competition, investment, trade facilitation and transparency in government procurement?*, June 2003 – available at <http://www.fedtrust.co.uk/newissues.htm>

### 3 Agriculture

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#### World trade in agriculture: A world of subsidies, dumping and barriers

38. Agriculture is the key issue in the current round of WTO negotiations. It is the most distorted sector and it is the most important issue for developing countries.<sup>82</sup> Three quarters of the world's poor live in rural areas. Twenty-seven percent of developing countries' GDP and export earnings come from agriculture. Agriculture provides 50 percent of employment in developing countries,<sup>83</sup> and its importance in LDCs is even more pronounced. It provides employment and livelihoods for more than 60 percent of the labour force of LDCs, and for some countries accounts for more than 70 percent of their exports.<sup>84</sup>

39. Agriculture plays very different social and economic roles in North and South. In many developing countries, especially LDCs, agriculture is the backbone of the economy and the establishment of a prosperous agricultural sector, with a large number of small and medium-sized farms, generating employment and income and a significant internal market, is one of the keys to development and economic growth. Land reforms in Taiwan and South Korea in the immediate post-war years laid the foundations for their subsequent rapid economic development. In contrast agriculture provides a little over one per cent of UK employment and one per cent of GDP.

40. Member states of the EU agreed to limited reform of their Common Agricultural Policy on 26 June 2003. Decoupling, the central principle of reform, aims to sever the link between subsidies and production. The shift of emphasis to rural development (modulation) will see farmers rewarded for the production of environmental goods rather than purely food. Degression will focus support on small farmers (see para 56). Post-reform, farmers will be supported by a single farm payment, conditional on their compliance with environmental and other standards.<sup>85</sup> As part of the reforms, support prices for butter and rice will be reduced. But, the reforms fail to address sugar and make little progress on the dairy sector. Reforms will not start until 2005, or 2007 for countries which prefer delay. France has claimed that the essential principles of the CAP have been preserved.<sup>86</sup> There may be greater political support for scrapping the CAP if these limited reforms prove to work for farmers, but the watered down agreement will do little to address the distortions in international agriculture.<sup>87</sup> The agreement may provide the EU with some leverage on the USA in negotiations, but the primary test of CAP reform must be its impact on poverty. The massive subsidisation of European agriculture remains, as Baroness Amos put it, "not acceptable."<sup>88</sup>

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82 Ev 251 [ActionAid memorandum]

83 Clare Short, *The dangers to Doha*—see footnote 12.

84 Second LDC Trade Ministers Meeting, *Dhaka declaration*, 2 June 2003, p. 4, para 1. Available at [http://www.sdnbd.org/sdi/issues/economy/ldc\\_dhaka/](http://www.sdnbd.org/sdi/issues/economy/ldc_dhaka/)

85 HC Deb, 26 June 2003, col 1220

86 HC Deb, 26 June 2003, col 1223

87 Oxfam, *EU CAP reforms a disaster for the poor*, 26 June 2003.

88 Q 514 [Valerie Amos, Secretary of State for International Development]

41. Removing subsidies, ending dumping and reducing barriers to trade would put an end to what Oxfam's Michael Bailey described as the "catalogue of scandalous destruction of livelihoods or missed trade opportunities for developing countries."<sup>89</sup> It would also benefit developed and developing countries enormously. The World Bank estimates that 70 percent of the gains from merchandise trade liberalisation would come from agricultural liberalisation,<sup>90</sup> and that agricultural liberalisation would increase developing countries' exports by between \$30 billion and \$100 billion per year. For Africa, this could add an extra one percent to GDP growth.<sup>91</sup> As the main stumbling block to progress on other issues,<sup>92</sup> progress on agriculture is crucial for all those – developed as well as developing countries – who wish to see a successful conclusion to the round. As Patricia Hewitt told us: "if we do not deliver significant market opening on agriculture and significant cuts in export subsidies, including the food aid and the American version of export subsidies, then we will not get a round."<sup>93</sup> In our view, the EU has to deliver cuts in domestic subsidies, as well as the export subsidies mentioned by the Secretary of State. It is not evident that the CAP reform agreed by the EU will deliver such significant market opening, although it may, as Baroness Amos revealed, "open the door with respect to negotiations at Cancún."<sup>94</sup>

42. The current system of production subsidies, export subsidies, dumping and barriers leads to farmers in the North producing more food than the market demands. The origins of this state of affairs lie in the power of the farming lobby, primarily in the EU and the USA.<sup>95</sup> Farmers' production costs are subsidised by the taxpayer and consumers pay higher prices for their food than would otherwise be the case. In 2002, total agricultural support in OECD countries amounted to 1.2 percent of GDP,<sup>96</sup> and prices received by OECD farmers were an average of 31 percent above world prices.<sup>97</sup> With the help of export subsidies, excess production is dumped on world markets and developing countries. In the EU, export subsidies are explicit. In the USA, food aid and the system of export credits perform the same function. Dumped food depresses prices and reduces the incentive for Southern farmers to produce and sell their products, either domestically or through export to third countries.<sup>98</sup> The competitiveness of potentially efficient developing country producers is undermined, since they are prevented from using their comparative advantages of cheaper labour, more appropriate climates and lower production costs. Market distortions produce a wasteful warped world in which millions of people are unnecessarily trapped in poverty (see figure 4).

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89 Q 56 [Michael Bailey, Oxfam]

90 Ev 3, para 10 [HMG memo]

91 Clare Short, *The dangers to Doha*—see footnote 12.

92 Q 51 [Michael Bailey, Oxfam]

93 Q 118 [Patricia Hewitt, Secretary of State for Trade and Industry]

94 Q 503 [Valerie Amos, Secretary of State for International Development]

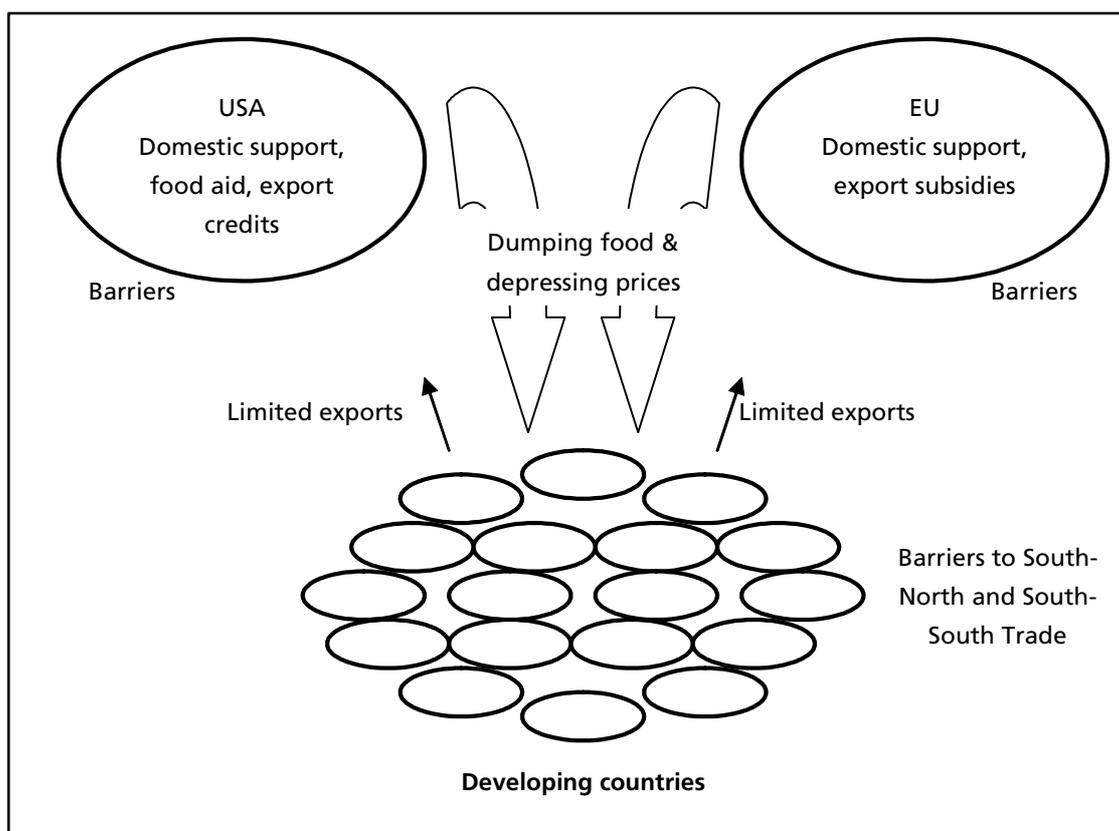
95 Q 436 [Frieder Roessler, Advisory Centre on WTO Law]

96 This compares to an average Official Development Assistance contribution of 0.23 percent of national income achieved by the OECD countries in 2002.

97 OECD, *Agricultural policies in OECD countries, Monitoring and evaluation*, 2003, p. 9.

98 Ev 245 [Rob Davies, South African National Assembly] and House of Lords, Tenth Report of the Select Committee on the European Union, Session 2002-03, *Mid-term review of the Common Agricultural Policy: External implications*, HL Paper 62, Ev 14, Q 31 – available at <http://www.parliament.the-stationery-office.co.uk/pa/ld200203/ldselect/ldcom/62/62.pdf>

Figure 4: World trade in agriculture (pre-liberalisation)



Data source: Committee's own

43. The evidence we received cited numerous examples of the impact of these policies. These included: the devastation caused to the Jamaican dairy sector by the dumping of skimmed milk powder by the EU;<sup>99</sup> the inability of India to compete with subsidised European milk products for exports to the Middle East and the Mediterranean;<sup>100</sup> small farmers being forced out of the sugar business in South Africa as a result of the EU's sugar regime and its effect on world prices;<sup>101</sup> the deleterious impact on cotton producers in Benin, Burkina Faso, Chad and Mali of heavily subsidised US cotton exports; and, the inability of Ethiopian producers to compete with subsidised US corn exports to Yemen.<sup>102</sup> Dumping and unfair competition for markets also makes investment in developing countries less attractive by limiting the potential returns, and – as growth in agricultural exports would have spin-off benefits for other sectors – causing damage beyond the agricultural sector itself.<sup>103</sup> The recently agreed CAP reform will not tackle directly export subsidies,<sup>104</sup> and will fall far short of stopping the dumping of EU surpluses.

99 Ev 33, para 1 [CAFOD memorandum] and Ev 300-303 [Jamaican Dairy Farmers Federation]

100 Q 56 [Michael Bailey, Oxfam]

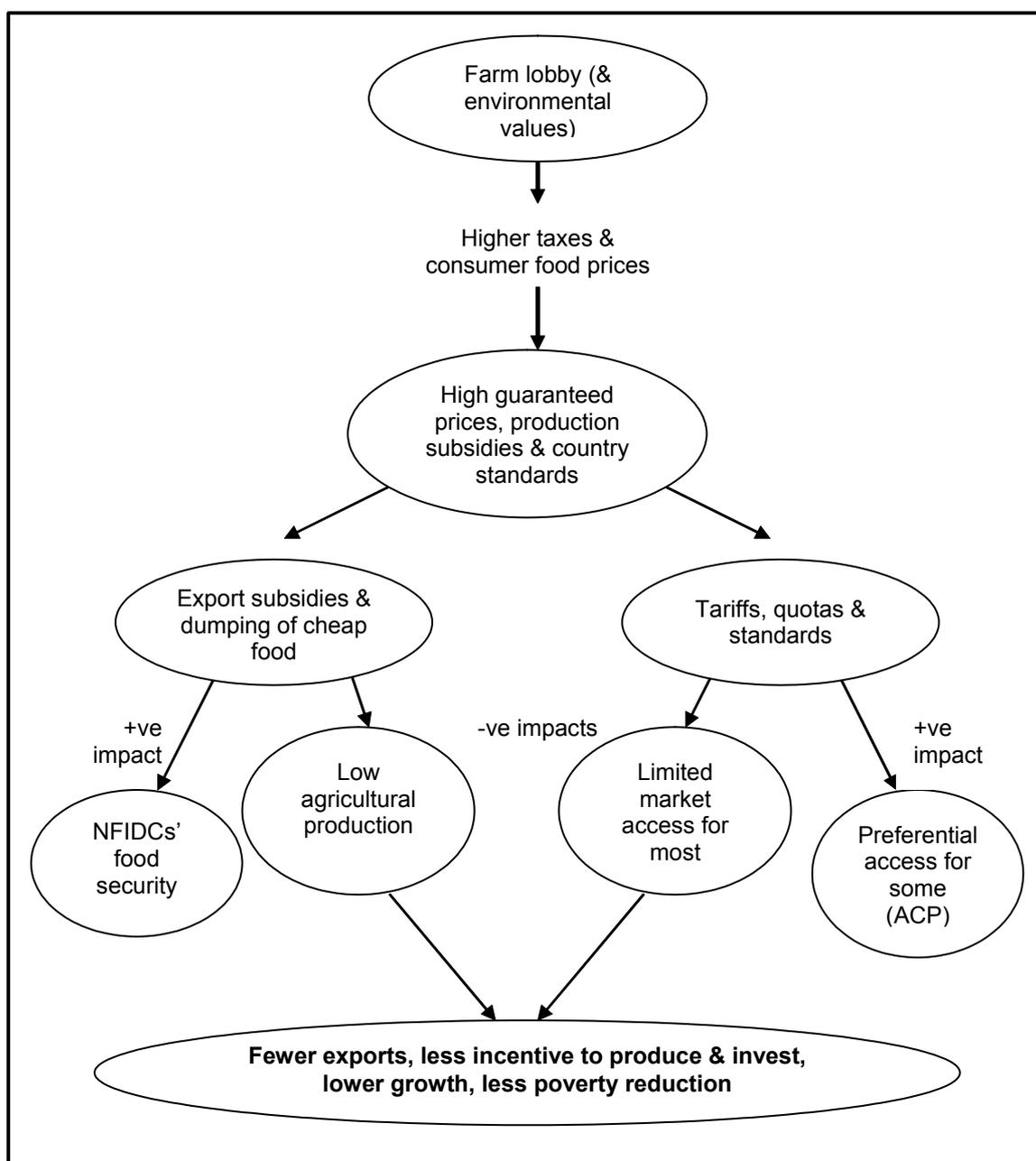
101 Ev 33, para 1 [CAFOD memorandum]

102 Q 90 [H.E. Meles Zenawi, Prime Minister of the Federal Republic of Ethiopia]

103 Q 56 [Claire Melamed, Christian Aid]

104 Q 504 [Dianna Melrose, DFID]

Figure 5: The EU's Common Agricultural Policy and its external effects



Data source: Committee's own

44. Agriculture in the EU and USA is protected within its domestic markets by tariffs, quotas and standards which keep out cheaper imports. The average agricultural tariff around the EU is 19 percent (peak of 260%); for the USA it is 5 percent (peak of 350%).<sup>105</sup> As the then Secretary of State for International Development, Clare Short, explained, the average bound tariff imposed by OECD countries for agricultural products is 60 percent, twelve times that for industrial products.<sup>106</sup> Especially high tariffs (tariff peaks) on products of particular export interest to developing countries such as

105 Communication from Ian Gillson, Overseas Development Institute – figures from UNCTAD database.

106 Clare Short, *The dangers to Doha*—see footnote 12.

beef, sugar and rice, and tariffs which increase as agricultural outputs are processed (tariff escalation), ensure that developing countries' exports to the developed world are restricted. **Additionally, tariffs which developing countries themselves maintain restrict South-South trade and regional integration, and result in lost potential gains of between \$140 and \$390 billion per year.**<sup>107</sup>

45. Overall, the consequences for developing countries of policies such as those pursued by the EU are fewer exports, less incentive to produce and to invest, lower growth, and less poverty reduction (see figure 5). Northern subsidies and protectionism do benefit some developing countries. Net Food-Importing Developing Countries (NFIDCs) are able to buy cheap food, and exporters from those countries which have preferential access to Northern markets—such as members of the African, Caribbean and Pacific (ACP) Group—receive high prices for their produce. These can be important benefits for the countries concerned, but overall there is no doubt that the agricultural policies pursued by the EU, the USA and other developed countries are seriously harmful to developing countries' interests. Despite the claims made by the Agriculture Ministers of Austria, Belgium, France, Ireland, Luxembourg, Portugal and Spain in September 2002, the CAP is certainly not something we can be proud of.<sup>108</sup> In what amounts to Special and Differential Treatment for developed countries, the North subsidises its agriculture and is protected in this practice until the end of 2003 by a Peace Clause which prevents other countries challenging the system through the WTO.

### A development-friendly outcome

46. Paragraphs 13 and 14 of the Doha Ministerial Declaration reaffirmed the commitment of WTO members “to establish a fair and market-oriented trading system through a programme of fundamental reform.” Members committed themselves, “without prejudging the outcome”, 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. In addition, the declaration emphasised that SDT should be integral to the agreement, and that developing countries must be enabled to meet their needs, particularly as regards food security and rural development. Ministers also took note of non-trade concerns around environmental protection, food security, animal welfare and rural development. A 31 March deadline was set for “modalities” (a framework for negotiations), with countries' comprehensive draft commitments to be ready by Cancún.<sup>109</sup> The deadline has been missed. Discussions continue around a draft agreement on modalities issued by Stuart Harbinson, the Chairman of the WTO Special Session of the Committee on Agriculture (see paras 72-76). In its memo, the UK Government committed itself to working for agricultural reform within the EU, in part so that the EU is able to make a proposal at the WTO which will offer developing countries better access to the EU

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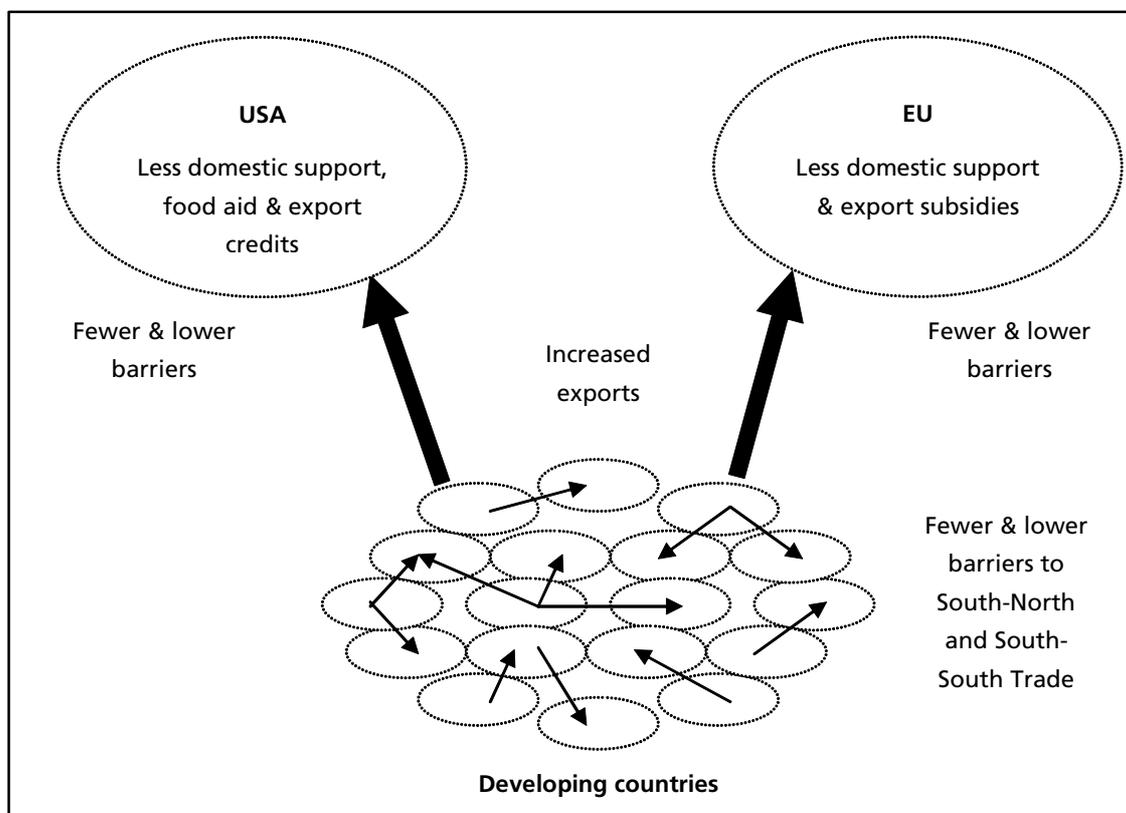
<sup>107</sup> *Ibid.*

<sup>108</sup> “CAP is something we can be proud of”, Letter to the editor, *Financial Times*, 23 September 2002.

<sup>109</sup> WTO, *Doha Ministerial Declaration*, paras 13 and 14 – see footnote 3.

market and to wider world markets.<sup>110</sup> The coming months will show whether the 26 June CAP reform package succeeds in unblocking the Doha negotiations.

Figure 6: World trade in agriculture (post-liberalisation)



Data source: Committee's own

47. For the WTO's members simply to honour their Doha commitments on agriculture would be a major step towards securing a development-friendly outcome. **By making agriculture more responsive to market signals and less trade-distorting, such an outcome would reduce significantly North-South dumping of agricultural produce, and pave the way for increased South-North and South-South export of agricultural goods** (see figure 6). The priority is to reduce and reform domestic support. In the absence of domestic support, there would be no need for export subsidies or tariff barriers, and no excess food to be dumped on Southern markets. For an outcome to be truly development-friendly, attention must also be paid to the fate of those developing countries which benefit from the existing system, and to the spin-off effects of rapid agricultural liberalisation.<sup>111</sup> For instance, were the sugar market to be liberalised, inefficient ACP producers who currently enjoy preferential access into the EU's market would lose out. Brazil and South Africa, which have the capacity to increase their exports rapidly, rather than LDC sugar producers, would capture large shares of the market (see paras 63-69). The poor in Brazil and South Africa are no-less deserving than the poor elsewhere, but the developmental benefits of agricultural liberalisation ought perhaps to spread more evenly.

110 Ev 1, para 3 [HMG memo]

111 Q 23 [Adrian Wood, DFID]

## The state of play: Progress, or the lack of it

48. The 31 March deadline for agreeing modalities for agriculture has passed. Progress with the negotiations has been painfully slow, held up by disagreements between the EU and the USA, and complicated by the diversity of developing countries' interests (see figure 2).<sup>112</sup> As Ambassador Ransford Smith explained to us, there are at least three major interest groups within the developing countries group, not to mention different interest groups within countries. There are the efficient agricultural exporters who favour rapid and extensive liberalisation of agriculture (e.g. Brazil, South Africa, Argentina). Then there are the preference-receiving countries who have an interest in the EU maintaining its protectionist policies and its subsidy regimes (e.g. Fiji, Guyana, Mauritius). Finally, there are the large rural agrarian countries who are interested in market access, but are also keen to defend their own small farmers and agricultural sectors through high tariffs (e.g. Argentina, Indonesia, Philippines).<sup>113</sup>

### *The EU and the USA: "Two bald men squabbling over a comb"*

49. Progress on agriculture would produce enormous benefits for many developing countries, but has been stalled primarily by the stubbornness of the EU and the USA. In Brussels and Washington in March we heard contrasting accounts of which party was the main stumbling block to progress on agriculture. In Washington, our attention was drawn to the damaging effects of the EU's export subsidies. In Brussels, we were reminded that the USA's system of export credits and their abuse of food aid act as implicit export subsidies. Whilst acknowledging that the USA had made an ambitious proposal on agriculture at the WTO,<sup>114</sup> EU Commissioners emphasised that that whereas the EU was moving in the direction of reducing trade-distorting support, admittedly from a higher starting point, the USA was moving in the opposite direction and under the new Farm Act would be likely to continue to do so<sup>115</sup> (see paras 55-57 on types of domestic support). The EU claims that its recent agreement on CAP reform will put the ball of agricultural reform back in the USA's court.

50. The level of domestic support provided to a country's agricultural sector can be measured in a number of ways. Depending upon the measure used—the Aggregate Measure of Support, the Producer Support Equivalent—and whether the issue is total support, support per farmer, or support per hectare, both the EU or the USA can be cast as the villain in distorting agricultural production and markets. The OECD has made good progress with developing a framework to enable comparison of different forms of support.<sup>116</sup> Such work is essential background for negotiations and may clarify the positions of the EU and the USA, but we share the view of Rob Davies, Chairman of the South African National Assembly's Committee on Trade and Industry, who described efforts made by the EU and the USA to blame each other for the stalemate in agriculture

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112 Q 473 [Jean-Claude Tyack, ACP London Sugar Group]

113 Q 415 [H.E. Ransford Smith, Jamaican Ambassador to the UN in Geneva]

114 Q 334 [Supachai Panitchpadki, WTO]

115 Q 187 [Franz Fischler, European Commission]

116 OECD Joint Working Party on Agriculture and Trade, *Agricultural policies in OECD countries: A positive reform agenda*, November 2002.

as “two bald men squabbling over a comb”<sup>117</sup> Such disputes are a distraction. **If there is to be a development-friendly outcome on agriculture, both the USA and the EU must set binding deadlines to reduce and in time eliminate the trade-distorting support they provide to their farmers, and to eliminate all forms of export subsidies.**

## The EU, CAP reform and the WTO

51. Substantial reform of the Common Agricultural Policy could provide benefits of the order of \$25-\$40 billion to developing countries,<sup>118</sup> and is crucial to progress on agriculture at the WTO. The EU’s agriculture Commissioner (Franz Fischler), not the Trade Commissioner (Pascal Lamy), handles WTO negotiations on agriculture. This indicates the importance of the relationship between CAP reform and WTO negotiations, as well as the power of agriculture within the EU. The EU can meet its current WTO commitments without CAP reform,<sup>119</sup> and the EU is not the only country which is guilty of distorting markets, but the EU has been seen widely as the principal obstacle to progress on agriculture. It is as yet unclear whether this will change now that limited CAP reform has been agreed. We are not in the business of apportioning blame to the EU or the USA, but as a Committee of the national Parliament of an EU member state the focus of our advocacy is UK and EU policy.

52. The relationship between CAP reform and the WTO’s negotiations on agriculture is complex. For Franz Fischler, CAP reform is the priority; his hope is that progress on CAP will be accelerated by the demands of the WTO. For Pascal Lamy, a successful WTO round is the priority; his hope is that CAP reform will give the EU more negotiating capital at the WTO, enabling WTO members to reach agreement on agriculture, and in turn on the round as a whole.<sup>120</sup> This complex interplay between CAP reform and WTO negotiations has stalled progress. We hope that the recent agreement to limited if significant reform of the CAP will inject fresh momentum. The interplay could lead to further progress if the EU’s non-agricultural interest groups continue to exert pressure on the EU to actually deliver CAP reform so as to ensure a successful conclusion to the wider round.<sup>121</sup> Whatever the interplay, there can be no denying that CAP reform has important international dimensions, which should not be neglected in discussions on reform proposals. **We share the disappointment felt by DFID, and the Lords’ Committee on European Union, that the Commission has paid insufficient attention to the developmental impacts of CAP and CAP reform proposals,<sup>122</sup> and trust that the Government has been doing its utmost to encourage its European partners to take seriously the external impacts of domestic policies.**

53. Domestic rather than developmental factors drive CAP reform. The main pressure for change comes from EU consumers, taxpayers and producers.<sup>123</sup> A UK family of four

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117 Q 494 [Rob Davies, South African National Assembly]

118 Q 7 [Adrian Wood, DFID]

119 Q 139 [Pascal Lamy, European Commission]

120 Q 139 [Pascal Lamy, European Commission]

121 Q 105 [Patricia Hewitt, Secretary of State for Trade and Industry]

122 House of Lords, Tenth Report of the Select Committee on the European Union, Session 2002-03, *Mid-term review of the Common Agricultural Policy: External implications*, HL Paper 62, para 77 – see footnote 98.

123 Ev 285, para 3 [Centre for Research in Economic Development and International Trade (CREDIT) memorandum]

spends an extra £10 per week as a result of the CAP, about half through higher food prices and half through higher taxes to support EU farmers.<sup>124</sup> As the WTO's Director-General suggested to us, progress on agricultural reform in the EU and other developed countries might be accelerated if the debate focused more on consumers and taxpayers.<sup>125</sup> The European agro-food industry—with British Sugar as a notable exception—also has significant interests in CAP reform.<sup>126</sup> Environmental concerns and the EU's wish to move towards a sustainable model of agriculture, which balances food production with environmental stewardship, and which does not provide incentives for the unsustainable exploitation of natural resources, are a related driver of CAP reform.

54. EU enlargement and budgetary pressures are the second major driver of CAP reform. The CAP costs the EU around \$50 billion, or 50% of the EU's total budget. If the CAP were simply extended to another ten countries, it would bankrupt the EU. The Franco-German compromise in November 2002 froze the CAP budget until 2013; we assume that the UK was unable to amass enough support to secure a cut. This compromise makes substantial cuts in CAP spending unlikely. But a financial ceiling which falls in real terms, combined with the addition of ten new EU member states, each demanding their share of the CAP, may exert some limited downward pressure on the extent to which farmers' production is subsidised.<sup>127</sup>

### ***Multifunctionality, decoupling and (degressive) modulation***

55. The Mid-Term Review's proposals for CAP reform were for a 55 percent reduction in trade-distorting domestic support, a 45 percent reduction in export subsidies, and a 36 percent reduction in tariffs. Though seemingly radical, these reductions are measured from the existing ceilings rather than from actual amounts paid, and, as they refer to average reductions, may not produce benefits as regards products which are important to developing countries.<sup>128</sup> These proposals, and the modified version of them agreed at the end of June, would re-orient rather than reduce agricultural support. The purpose of CAP reform is not primarily to reduce support for agriculture, but rather to reduce the level of support which is defined as "trade-distorting".<sup>129</sup> The EU's starting point for CAP reform is the notion that the agricultural sector fulfils several functions (multifunctionality), including both the production of agricultural goods, and the production of public goods such as landscape amenity.<sup>130</sup> The view of some within the EU, particularly the farm lobby, is that farmers should be paid to provide these valuable public goods. What matters, as Franz Fischler emphasised, is how such support is provided, and how trade-distorting it is.<sup>131</sup> Our view is that farmers who deliver identifiable and measurable amenity and environmental benefits should indeed be supported.

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124 Communication from Dianna Melrose, head of DFID's Trade Department, 27-6-03.

125 Q 340 [Supachai Panitchpadki, WTO]

126 Q 288 [Jonathan Peel, Food and Drink Federation]

127 Q 28 [Elaine Drage, DTI] and Q 31 [Ian Newton, DEFRA]

128 Oxfam, *EU hypocrisy unmasked: Why EU trade policy hurts development*, May 2003, p. 3. Available at <http://www.oxfam.org.uk/policy/papers/euhypocrisy/euhypocrisy.html>

129 Q 187 [Franz Fischler, European Commission]

130 Ev 316 [Trades Union Congress memorandum]

131 Q 205 [Franz Fischler, European Commission]

56. Central to the recently-agreed CAP reform are the notions of decoupling and degressive modulation. Decoupling is about severing, or weakening, the link between agricultural support and production. The idea is that farm incomes can and should be supplemented in ways that do not support or stimulate production. Degressive modulation is a way of decoupling support, reducing support provided to the largest farms which currently receive 80 percent of CAP funds (degressivity) and instead using these funds to encourage small farmers to undertake rural development and environmental measures (modulation). In WTO terms, CAP reform will shift the balance of domestic agricultural support from the Amber Box (production-boosting and trade-distorting support, including price support) and to some extent the Blue Box (production-limiting support provided on the basis of farm size), towards the Green Box (at most minimally trade-distorting). Under the existing WTO Agreement on Agriculture, members are committed to reducing their Amber Box support, but there are no limits or reduction commitments for Green Box support. The Blue Box is not subject to reduction commitments, but is not used by many countries as it was designed specifically for the EU. The developmental question is, what will be the impact of a shift to Green Box support on production, trade and developing countries?

57. From a developmental perspective, the technicalities of whether support to agriculture might be provided in a manner which is defined as “minimally trade-distorting” is a distraction from the requirement to reduce the overall level of support which the EU and other developed countries provide to their agricultural sectors. The OECD, whilst introducing the concept of degrees of decoupling, concludes that: “The key point is that while a reorientation of support is itself significant, the effects are stronger if there is also a reduction in the overall level of support.”<sup>132</sup> Indeed the suspicion in some quarters is that the notion of a Green Box was introduced during the Uruguay Round so that the USA and the EU could continue to provide domestic agricultural support, away from the prying eyes of WTO disciplines. The WTO estimates that \$78 billion per year of agricultural support is provided through Green Box measures.<sup>133</sup> Seventy-eight billion dollars of subsidies cannot fail to distort production and trade.

**58. We understand that the politics of CAP reform are complex, and welcome the recent agreement. The agreement—albeit a watered down version of the Commission’s proposals—and the notion of decoupling which is central to it, are important steps towards the ending of subsidies. But Green Box subsidies, although classified as “minimally trade-distorting”, will continue to distort production and trade.<sup>134</sup> Rural development payments may be less distorting than price support or direct payments, but they still enable farmers to shelter from the winds of market forces, at the expense of farmers in developing countries.**

**59. At long last some progress has been made on CAP reform. But the UK must continue to exert pressure on its European partners—particularly France—to live up**

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132 OECD, *Decoupling: A conceptual overview*, p. 31.

133 International Centre for Trade and Sustainable Development (ICTSD) and International Institute for Sustainable Development (IISD), *Doha Round Briefings Series, Agriculture*, February 2003, p. 1. Available at <http://www.ictsd.org/pubs/dohabriefings/index.htm>

134 Ev 252, para 4.8 [ActionAid memorandum] and Ev 43, para 7 [Oxfam memorandum]

to the letter and the spirit of their WTO commitments, to reduce all agricultural support rather than only that which is defined as production and trade-distorting. Fifteen or twenty-five members of the European Union must not allow the fate of their Common agricultural policy to be determined by President Chirac, and sealed in horse-trading between France and Germany. In addition, the UK must insist, when the EU finally does reduce the amount of trade-distorting support it provides to agriculture, that the reductions include products of export interest to developing countries. The UK and the EU should, within the EU and the WTO respectively, be pressing for discussions on capping the Green Box, as proposed by a number of developing countries.

### *The Chirac proposal*

60. President Chirac's proposal for a trade initiative to benefit sub-Saharan Africa includes three elements: a moratorium on export subsidies, including export credits and food aid, for products exported to sub-Saharan Africa; a preferential trade regime; and, a range of mechanisms which might be used to address volatility and vulnerability in commodity markets. The Chirac proposal represents a welcome recognition that export subsidies harm developing countries. But temporary bilateral agreements focused on Africa, to the exclusion of the rest of the world's poor, are not the best way to tackle distortions in agricultural markets.<sup>135</sup>

### **The losers from agricultural liberalisation**

61. Two main groups of countries will lose out from agricultural liberalisation, at least in the short to medium term. The first group are those countries which will see their preferential access to profitable markets eroded. The second group are the Net Food-Importing Developing Countries (NFIDCs) which currently benefit from the depressed prices which the developed world's subsidy regimes produce.

### *Preference holders: Bananas and sugar*

62. Preference erosion takes place when countries which enjoy preferential market access see the value of these preferences reduced as other countries gain enhanced market access. As a result, the initial preference holders, depending upon how competitive their export industries are without the preferences, will lose markets for their exports.<sup>136</sup> Preference erosion is not unique to the WTO, but multilateral liberalisation through the WTO clearly threatens countries such as the ACP countries. For example, in the early 1990s the regime which granted the exporters of Caribbean bananas – the Caribbean producers and the European transporters—preferential access to the EU market was challenged by the USA and Latin American banana-exporters at the request of Chiquita, and deemed contrary to WTO disciplines.<sup>137</sup> The EU has been ordered to reform drastically its banana regime to make it WTO-compliant, a result

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135 Q 133 [Patricia Hewitt, Secretary of State for Trade and Industry]

136 Ev 4, para 19 [HMG memorandum]

137 Ev 271 [Caribbean Banana Exporters Association memorandum]

which by eroding the preferences of relatively inefficient Caribbean producers, has handed much of the EU banana market to Latin American producers.

63. Sugar, a product which provides a case study in the complexities of agricultural liberalisation, is also of export interest to several Caribbean countries. Currently, the EU's sugar regime—a combination of high EU prices, tariffs, and export subsidies—ensures that although it costs \$660 to produce a tonne of white sugar in the EU compared with around \$280 in Brazil, Colombia, Guatemala, Malawi and Zambia, EU producers have a 40 percent share of the white sugar export market. This is economic nonsense. But it nevertheless benefits sugar producers in ACP countries, most crucially in countries such as Barbados, Trinidad and Jamaica where production costs are similar to those in the EU. Without preferential access to the EU's "extremely closed regime",<sup>138</sup> they would not be in the sugar business. Preferences are very important for some countries, but, as Oxfam notes in its report on "The great EU sugar scam", 80 percent of the value of the preferences goes to only five countries (Fiji, Guyana, Jamaica, Mauritius and Swaziland), and only a handful of ACP beneficiaries are LDCs (Democratic Republic of the Congo, Madagascar, Malawi, Tanzania, Zambia).<sup>139</sup> The regime produces developmental benefits for some countries, but it also restricts non-ACP producers' access to EU markets, dumps sugar in developing countries, depresses world prices for sugar, and undermines the potential for developing countries to export products containing sugar. The net effect is seriously to harm developing countries.

64. As a result of intensive lobbying, which was exposed recently by Clare Short,<sup>140</sup> and powerful alliances between European and ACP sugar interests, the EU's sugar regime is not included in current CAP reform proposals, despite its disastrous developmental consequences.<sup>141</sup> But a mid-term review of the EU-ACP sugar protocol is scheduled for this year. There are various pressures for reform, including EU enlargement, and a WTO challenge to the regime by Brazil and Australia. The main pressure comes, however, from the progressive extension of the EU's Everything But Arms agreement to sugar. Under this agreement, LDCs will enjoy duty and quota-free access to the EU market. Maintaining a high guaranteed internal price for sugar in the face of increasing imports from LDC countries would be very costly for the EU. Therefore, serious reform is on the cards, with a cut in EU sugar prices the most likely result.<sup>142</sup>

65. There will be winners and losers from liberalisation. The fate of a country's sugar exporters will be determined by what happens to the world price of sugar post-liberalisation, and whether the exporters are able to produce at that price; in short, whether they are efficient and competitive. The losers will be inefficient ACP producers in places such as Barbados, Côte d'Ivoire, Jamaica, Madagascar, St. Kitts and Trinidad, as well as EU sugar beet producers and processors such as British Sugar. The winners will be competitive producers; efficient producers such as Australia, Brazil and South

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138 Q 170 [Karl Friedrich Falkenberg, European Commission]

139 Oxfam, *The great EU sugar scam: How Europe's sugar is devastating livelihoods in the developing world*. Available at <http://www.oxfam.org.uk/policy/papers/27sugar/27sugar.html>

140 "Short attacks government sugar lobby", *BBC News Online*, 10 June 2003. Available at <http://news.bbc.co.uk/1/hi/uk/2968580.stm>

141 Ev 44, para 8 [Oxfam memorandum]

142 Q 24 [Elaine Drage, DTI]

Africa, and perhaps some LDCs such as Mozambique, Malawi and Zambia which, with the assistance of preferential access under the EU's Everything But Arms Agreement, may be able to capture sufficient market share.<sup>143</sup>

66. Jean-Claude Tyack, representing the ACP London Sugar Group, expressed his fundamental disagreement with the liberalisation paradigm which, in his view, prioritises winners and neglects the legitimate development needs of many of the ACP sugar exporting countries.<sup>144</sup> His argument was that the preferential access which the ACP countries currently enjoy enables their sugar sectors to survive, and that this provides multiple social, environmental and developmental benefits for small, vulnerable and poor countries. In their appeal to “multifunctionality”, the ACP deliberately echo the EU's position on domestic agricultural support under the CAP. They argue that if the EU can use multifunctionality to justify its agricultural support, then the ACP countries can too. There are clear parallels, but we are not persuaded in either case that multifunctional objectives are best pursued through production and trade-distorting support which is at the expense of other poor countries. This is not the most efficient or the fairest way of transferring resources and sustaining livelihoods. Indeed, few ACP countries have successfully increased their exports and achieved significant levels of economic growth on the basis of their preferential market access. The ACP share of total EU imports in fact declined from seven percent in 1976 to 2.8 percent in 2000.<sup>145</sup>

67. Nevertheless, rapid liberalisation poses its own problems. The market is likely to become dominated by the most efficient producer, Brazil, to the exclusion of the poorer developing countries who one might wish to see gain from reform.<sup>146</sup> For this reason, Jean-Claude Tyack suggested as an alternative a more managed market, involving the use of fixed quotas.<sup>147</sup> We are not technical experts in the complexities of the world sugar market, but trust that in considering its options the EU is examining all the alternatives rather than blindly putting its faith in “untrammelled free trade”.<sup>148</sup>

68. A further set of issues concerns the treatment of likely losers from liberalisation. **The EU has certain moral, historical and legal responsibilities to its ACP partners. The WTO requires that if the EU expands it must compensate other WTO members for loss of preferences. In much the same way, the WTO should require that the EU consults adequately and compensates appropriately those countries whose preferences are eroded.<sup>149</sup> In the case of sugar, preference losers should also be provided with assistance to either become more efficient sugar producers or to diversify into other areas of economic activity.** It must however be recognised that few of the small and vulnerable countries affected have a portfolio of activities into which they can diversify.

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143 LMC International Ltd, *The possible effects of erosion of preferences on ACP sugar producing countries*.

144 Q 462 [Jean-Claude Tyack, ACP London sugar group]

145 Ev 4, para 20 [HMG memorandum]

146 Q 24 [Ian Newton, DEFRA]

147 Q 475 [Jean-Claude Tyack, ACP London Sugar Group]

148 Ev 271, para 8 [Caribbean Banana Exporters Association memorandum]

149 Ev 222, para 2.1.2 [ACP London Sugar Group memorandum]

69. The case of sugar illustrates a point which we believe should be adopted as a general principle of trade liberalisation; 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 countries at the expense of inefficient EU producers rather than solely at the expense of inefficient ACP producers. If development as well as liberalisation is to be a multilateral endeavour, sharing the short term costs of adjustment, or “burden-sharing”, must become a reality rather than simply rhetoric.<sup>150</sup> Poor and vulnerable countries should not bear the burden of agricultural reform in the North. But whilst the needs of preference-holders must not be neglected, such concerns do not excuse the continued use of distorting agricultural policies by the EU, the USA and other developed countries.<sup>151</sup>

### **Net Food Importing Developing Countries and food security concerns**

70. The second group to lose from agricultural liberalisation in the North is the Net Food-Importing Developing Countries (NFIDCs), a group of 23 countries including: Barbados, Egypt, Jamaica, Kenya, Morocco, Pakistan and Venezuela. These countries benefit from the current regime because they are able to purchase their food requirements more cheaply as a result of dumping and the depression of world prices. Liberalisation will, at least until efficient producers respond to higher prices, make their food more expensive.<sup>152</sup> On the positive side, NFIDCs ought to benefit from liberalisation which enables them to trade their non-food exports across South-South borders. In the meantime, **WTO members must honour the commitments made in the Marrakesh Decision, and restated at Doha, to help the NFIDCs as well as the LDCs to maintain their food security whilst world agricultural markets adjust.**

#### **Aims of a development box**

- To protect developing countries' domestic food production, particularly of key staple foods;
- To sustain the employment, food security and livelihoods of the rural poor;
- To allow developing country governments more flexibility to provide support to small farmers; and
- To protect low income, resource poor farmers against the dumping of subsidised imports and from damaging fluctuations in import prices and quantities.<sup>153</sup>

71. Addressing other food security concerns has been the objective of developing country proposals for a so-called “Development Box” to be included within a revised WTO Agreement on Agriculture. The overall intention is to minimise the negative impact of agricultural trade liberalisation on rural poverty and to promote food security in developing countries. A Development Box would primarily benefit ex-preference countries and NFIDCs, but many other developing countries are also arguing for a

150 Q 476 [Jean-Claude Tyack, ACP London Sugar Group]

151 Q 317 [Richard Eglin, WTO]

152 Ev 4, para 20 [HMG memorandum]

153 Ev 5, para 22 [HMG memorandum] and Ev 48, para 37 [Oxfam memorandum]

Development Box, reflecting their experience that many of the worst impacts of agricultural liberalisation have been on their own small farmers even though their commercial farmers may have gained. CAFOD argues that WTO members' acceptance of the need to minimise the negative effects of agricultural trade liberalisation, and of the importance of placing food security and development needs at the heart of the negotiating process, should be seen as a fundamental shift in the approach to designing trade rules.<sup>154</sup> It remains to be seen whether this will be the case, but **we urge the Government to continue in its efforts both to promote rules and instruments such as strategic or Special Products and the Special Safeguard Mechanism, and to provide aid and other assistance, to enable developing countries to safeguard their food security needs,<sup>155</sup> and—particularly whilst the North stalls on agricultural liberalisation—to protect themselves from dumping.**

### The Harbinson Draft

72. Prior to the 31 March 2003 deadline for modalities, and in an effort to stimulate progress, the Chairman of the WTO Special Session of the Committee on Agriculture, Stuart Harbinson, produced what has become known as the Harbinson Draft (hereafter, Harbinson). This paper is a suggested framework of modalities—commitments on market access, domestic support and export competition—and was an attempt to bridge the gap between the diverse positions held by WTO members<sup>156</sup> (see figure 7). On market access, Harbinson tries to steer a middle course between the EU's proposal for a simple Uruguay Round type reduction of tariffs, and the insistence of many members, including the USA and the Cairns Group on a more aggressive approach to tackling tariff peaks. Under Harbinson's proposals: goods with the highest tariffs should see the largest tariff cuts; there is an attempt to deal with tariff peaks and escalation; and developing countries are required to undertake less substantial and slower tariff reductions than developed countries. Harbinson also introduces the notion of strategic or Special Products for developing countries, in relation to which required tariff cuts would be much smaller. These products are those which are crucial for food security, rural development or livelihood concerns. And he suggests that developing countries might be allowed to make more use of the Special Safeguard Mechanism so that they can erect temporary barriers to protect themselves from sudden influxes of imports of particular products which threaten domestic production.

73. On developed countries' domestic support, Harbinson proposes substantial (60 percent) reductions in Amber Box support, offers two alternative approaches to limiting the use of the Blue Box (capping and reducing by 50 percent in 5 years, or immediate elimination), and slightly stricter eligibility criteria for Green Box support. On export competition, Harbinson proposes the reduction and eventual elimination of export subsidies 9 years from the conclusion of the round, some new rules on export credits,

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154 Ev 35 [CAFOD memorandum]

155 Ev 22, answer 6 [DFID response to written questions] and Q 510 [Valerie Amos, Secretary of State for International Development]

156 Oxford Policy Management, Stock-take of the WTO agriculture negotiations: Implications for developing countries, March 2003. Available at <http://www.opml.co.uk/docs/ACF71D6.pdf>

and some tightening of disciplines on food aid. LDCs are not required to make any changes to their policies on market access, domestic support, or export subsidies.

Figure 7: The Harbinson Draft, proposed modalities

<b>Market Access</b>				
<b>Tariffs</b>	<b>Present level</b>	<b>Average cut</b>	<b>Minimum cut per tariff line</b>	<b>Time period</b>
<b>Developed countries</b>	Over 90%	60%	45%	5 years
	15-90%	45%	35%	5 years
	Under 15%	40%	25%	5 years
<b>Developing countries</b>	Over 120%	40%	30%	10 years
	60-120%	35%	25%	10 years
	20-60%	30%	20%	10 years
	Under 20%	25%	15%	10 years
<b>Domestic Support: Amber Box (trade-distorting subsidies)</b>				
<b>Developed countries:</b>	Reduce by 60 percent over five years			
<b>Developing countries:</b>	Reduce by 40 percent over ten years			
<b>Domestic Support: Green Box (at most minimally trade-distorting support)</b>				
<b>Developed countries:</b>	No reductions/spending ceiling, but stricter eligibility criteria possible			
<b>Developing countries:</b>	Maintain at least present flexibility under the Agreement on agriculture			
<b>Domestic Support: Blue Box (direct payments under production-limiting programmes)<sup>157</sup></b>				
<b>Developed countries:</b>	Capped and bound, reduce by 50 percent over five years			
<b>Developing countries:</b>	Reduce by 33% over ten years			
<b>Export Competition: Subsidies<sup>158</sup></b>				
<b>Developed countries:</b>	Phase out 50 percent within five years, the rest within nine years			
<b>Developing countries:</b>	Phase out 50 percent within ten years, the rest within twelve years			

Data source: BRIDGES Monthly Trade Digest, Volume 7, no. 3, p.5.

74. Given the diverse views of WTO members, it is not surprising that the Harbinson Draft attracted criticism from all parties to the negotiations.<sup>159</sup> It was variously described as, lacking ambition, too ambitious, and paying insufficient attention to the needs of developing countries.<sup>160</sup> For the USA and the Cairns Group, Harbinson is not ambitious enough in its proposals for tariff reductions and the elimination of export subsidies. For the EU, Harbinson is unbalanced in that it aims for the elimination of export subsidies, but does little to discipline export credits, and leaves loopholes for the abuse of food

157 The draft also proposes a [bracketed] alternative: the immediate elimination of the blue box for developed countries and after five years for developing countries.

158 Unlike export subsidies, some export credits could be considered in conformity with WTO rules, while others would be subject to specific financing reduction commitments.

159 Q 492 [Rob Davies, South African National Assembly]

160 Oxford Policy Management, *Stock-take of the WTO agriculture negotiations*, March 2003, p. 3—see footnote 156.

aid.<sup>161</sup> From the point of view of developing countries, Harbinson fails to take their particular concerns—be they preference erosion, food security, or market access—sufficiently into account. Stuart Harbinson himself explained to us that the Doha Ministerial Declaration did not say “Do everything possible for developing countries and do nothing for developed countries”, but he insisted that, “there is a lot for developing countries in my paper”.<sup>162</sup> The Harbinson draft attempts to mediate between the interests of the EU and the USA. As such, it says much about the nature of WTO negotiations, even in what is billed as a “Development Round”.

75. As regards dumping, 10 to 12 years to eliminate export subsidies is too long. **There should be a complete ban on the use of export subsidies, and the abusive use of export credits and food aid, from day one of an Agreement on Agriculture.** As regards domestic support, a 60 percent reduction in Amber Box support is, given its baseline of low 1999-2001 prices, less ambitious than it sounds. Additionally, Harbinson would leave major loopholes in terms of Blue Box, and particularly Green Box, support. As regards the room for developing countries to protect themselves from dumping, the concept of Special Products is helpful, but, if they are products which are crucial for food security and rural livelihoods, they should not be subject to any reduction commitments. Similarly, the extension of the Special Safeguards Mechanism is welcome, but the extent to which developing countries will be able to use it remains unclear.

76. Harbinson fails to address fundamental questions about the sequencing of agricultural liberalisation. It does not make sense for developing countries to be forced to reduce tariffs more quickly than developed countries reduce their domestic support and export subsidies. As Ambassador Ransford Smith put it, on this issue, Harbinson is “out of whack.”<sup>163</sup> **We urge the UK Government, through the EU, to do its utmost to ensure that developing countries are not forced to open up their markets until developed countries eliminate the practices which lead to dumping. There may be value in considering a “balancing mechanism” which would allow developing countries to protect their domestic markets in the event that distortions caused by domestic and export subsidies are not eliminated.**<sup>164</sup> Finally, if this is to be a genuine development round, it seems to us that the implementation schedule for reducing tariffs should be based not on politically negotiated and somewhat arbitrary time-frames but on clear developmental indicators.

## Conclusions

77. **Any agreement on agriculture must, at a minimum, pass two developmental tests; will it stop dumping, and will it allow developing countries to protect themselves from any continuation of dumping? On both counts, despite making some progress, the Harbinson draft fails,<sup>165</sup> as will the CAP reform agreed recently. A**

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161 Q 187 [Franz Fischler, European Commission]

162 Q 328 [Stuart Harbinson, WTO]

163 Q 416 [H.E. Ransford Smith, Jamaican Ambassador to the UN in Geneva]

164 Luisa Bernal, *Developing country proposals on modalities for further reform in agriculture*, February 2003. Available at <http://www.cafod.org.uk/policy/proposals2003.shtml>

165 Oxfam, *Missing the point: Why Harbinson got it wrong* – available at <http://www.oxfam.org.hk/english/resource/document/harbinson.shtml>; see also CAFOD/ActionAid, *Development and*

**development-friendly outcome on agriculture must pass these tests, must not make the poor pay for the poorest, and must:**

- a) **Reduce tariffs and tackle tariff peaks and escalation.**
- b) **Extend duty-free and quota-free access to all LDC exports into all developed countries.**
- c) **Ensure that tariff barriers are not replaced by other protectionist barriers.**
- d) **Include binding timetables to reduce and in time eliminate domestic support and export subsidies of all types.**
- e) **Compensate and assist current preference holders and ensure the food security of the NFIDCs and LDCs.**

78. Transforming world agricultural trade is a complex challenge. But huge benefits would be gained by both the developed and developing world simply by the implementation of sensible policies. A world where millions of people—rich and poor—pay to subsidise sugar production in Europe when it can be grown much more efficiently elsewhere is an inefficient and unfair world. The savings made from reform could and should be invested in development in much more profitable ways. Indeed the Government should make a commitment to transfer a proportion of any savings from CAP reform to its development budget so that the losers from agricultural liberalisation can be helped to move into other activities.

79. The CAP reform agreed by the European Union is welcome but will do little to end the dumping of subsidised production.<sup>166</sup> The EU must re-orient the support it provides to farmers, doing its utmost to eliminate the distortions caused by billions of euros of support. To treat CAP reform as primarily a domestic issue is far too short-sighted. As CAP is reformed and agriculture liberalised, preference holders must be compensated and assisted to move into new lines of activity. In the interim, the CAP reform agreed must be translated into greater flexibility at the WTO.

80. The UK has a reputation for international development of which the Government is rightly proud. It ought not to allow this to be overshadowed by what might be perceived by many in developing countries as its continuing acquiescence to a European agricultural regime which devastates livelihoods and hinders international development. As well as implementing quickly the CAP reform agreed, the UK must continue to exert pressure on its European partners – particularly France – to deliver real development-friendly CAP reform.

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*agriculture in the WTO: A comparison between the development box, the EU's food security box and the Harbinson draft modalities*, 10 March 2003 – available at <http://www.cafod.org.uk/policy/harbinson2003.shtml>

166 Oxfam, *EU CAP reforms a disaster for the poor*, 26 June 2003.

## 4 Beyond agriculture: Other issues for Cancún

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81. Agriculture is the key obstacle to progress at Cancún, but a genuine development round would include progress on other fronts too. In this chapter, we look more briefly at non-agricultural market access, the Singapore Issues, Trade-Related Intellectual Property Rights (TRIPS) and public health, the General Agreement on Trade in Services (GATS), and commodities. For each topic in turn we outline what was agreed at Doha, examine the key issues and suggest what action the Government should be taking to secure such a development-friendly outcome.

### Non-agricultural market access: Providing real market access?

82. The WTO and its predecessor, the General Agreement on Tariffs and Trade, have helped to reduce average tariffs on industrial goods from 40 percent in 1947 to less than four percent at the end of the Uruguay Round in 1994. But barriers continue to restrict access to developed country markets for products where developing countries have a comparative advantage. These products extend beyond agriculture to include textiles, footwear, clothing, and low-tech manufactures.<sup>167</sup> Most damaging of all to developing countries' interests are tariff peaks which restrict their ability to export key products to developed countries' markets, and escalating tariffs which act as a disincentive to adding value to products through pre-export processing.<sup>168</sup> The EU for instance imposes a zero tariff on unprocessed textiles, 2.8 percent on semi-finished textile products and 10.6 percent on finished products.<sup>169</sup> However, the final phasing out of the Multi-Fibre Arrangement by 2005 is welcome.

83. A forty percent reduction in industrial tariffs would lead to a \$380 billion annual increase in the volume of international trade. Three-quarters of the associated welfare gains would accrue to developing countries.<sup>170</sup> But the distribution of benefits would be highly uneven; countries with low export capacities would be unable to take advantage of trading opportunities. This is why building the export capacities of developing countries is so important.<sup>171</sup> Nevertheless, the majority of developing countries are keen to see developed countries reduce their tariff levels, and tackle tariff peaks and escalation. They are less keen to reciprocate, fearing that they will be flooded with products, to the detriment of their vulnerable infant industries. Developing countries also tend to have low tax bases and the loss of tariff revenues could have a major impact on their government finances.<sup>172</sup> And as we explained earlier for the cases of bananas and sugar (see paras 62-69), the ACP countries are concerned about preference erosion

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167 Q 489 [Rob Davies, South African National Assembly]

168 Q 460 [David Willers, South African Sugar Association]

169 UNCTAD, *Back to basics: Market access issues in the Doha agenda*, 2003, p. 27.

170 Ev 5, para 23 [HMG memo]

171 This issue, whilst important, is not a key issue for Cancún. We will return to it in a post-Cancún report.

172 Ev 285, para 8 [CREDIT memorandum]. In correspondence with the Committee, Oliver Morrissey of CREDIT confirmed that "It would be fair to say that trade taxes rarely account for less than 15% of government revenue and often account for over 50% in sub-Saharan African countries."

as a result of multilateral liberalisation and initiatives to extend duty and quota-free access to a wider range of countries. The landscape of market access is indeed in flux, with the EU, Norway, Australia, Hungary, the Czech Republic and Slovakia now providing duty-free and quota-free access to LDCs' exports, and the USA offering preferential access to qualifying African countries through its Africa Growth and Opportunity Act.<sup>173</sup>

84. The Doha Ministerial Declaration sets out the aim of negotiations on non-agricultural market access as “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”. Members also agreed at Doha to take into account the special needs and interests of developing and Least Developed Countries, and to recognise that such countries should not be expected to provide fully reciprocal tariff-reduction commitments. “Studies and capacity-building measures to assist least-developed countries to participate effectively in the negotiations” were also requested.<sup>174</sup> The Doha Ministerial Declaration did not set a deadline for agreeing modalities, but following much debate in 2002, a deadline of 31 May 2003 was set. That deadline has now passed. Discussions continue around draft negotiating modalities issued by the Chairman of the Negotiating Group on Market Access. **Any attempt to define a development-friendly outcome for non-agricultural market access on the basis of the highly ambiguous Doha Ministerial Declaration is fraught with difficulty. But at a minimum, we believe that a development-friendly outcome would make substantial progress on reducing tariffs, tackle tariff peaks and tariff escalation, address the issue of preference erosion, and acknowledge the developmental value of less than full reciprocity.**

85. The draft agreement on modalities produced by the Chair of the Negotiating Group on Market Access reflects the slow progress made in negotiations and the diversity of views. Disagreement remains on a range of issues including, in addition to the approach to be taken to tariff reduction: the range of products to be covered; the timeframes to be employed; the baseline years to be used for calculating reductions; whether or not to grant developing countries credit for liberalisation undertaken outside of WTO disciplines; the meaning of less than full reciprocity; and whether and how adjustments might be made for preference erosion. The Chairman's proposal is for a formula approach towards tariff reductions which would move towards tariff harmonisation – getting rid of the peaks – whilst requiring less than full reciprocity from developing countries. The proposal also includes the elimination of tariffs for seven categories of products which are of particular export interest to developing and Least Developed Countries (electronics and electrical goods; fish and fish products; footwear; leather goods; motor vehicle parts and components; stones, gems and precious metals; and textiles and clothing). As the Doha Ministerial instructed, **the proposal includes longer implementation periods and more flexibility for developing countries, and no reduction commitments for LDCs.**

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173 Ev 116 [Save the Children memorandum]

174 WTO, Doha Ministerial Declaration, para 16 – see footnote 3.

86. For the USA, the proposal falls far short of its own ambitious proposal to eliminate all non-agricultural tariffs by 2015. Japan would prefer to see more tariff reduction in developing countries, apparently because it wants to see more South-South integration. For some countries, including India, the draft modalities do not do enough for developing countries. From a developmental perspective, given the lack of clarity, it is hard to say whether discussions are headed in the right direction. But a few points are worth stressing. First, the “appropriate studies and capacity-building measures to assist least-developed countries to participate effectively in the negotiations” which were mandated in Doha, seem to have slipped off the agenda.<sup>175</sup> Second, tackling tariff peaks and escalation must be a priority; any formula or other approach to calculating tariff reduction commitments must achieve this goal. Third, tariff reduction calculations must also take account and give credit for liberalisation which developing countries have undertaken of their own accord, or, more likely, at the request of the International Financial Institutions (IFIs). Fourth, less than full reciprocity for countries at an early stage of development should be acknowledged as an important way of delivering a development-friendly round.<sup>176</sup> And fifth, tariff barriers must not simply be replaced by strict rules of origin, Sanitary and Phyto-sanitary Standards which cannot be met by developing country exporters without technical assistance from the imposers of standards, and other non-tariff and technical barriers to trade.<sup>177</sup> Ninety-nine percent of all EU imports from LDCs were eligible for preferential access in 1999, but only 34 percent received them, a statistic which illustrates how far there is to go to achieve real market access.<sup>178</sup> As Rob Davies, Chairman of the National Assembly of South Africa’s Committee on Trade and Industry told us by video-link from South Africa’s National Assembly:

“We need this [enhanced market access] to be implemented on an asymmetrical and preferential basis, which means addressing tariff peaks, escalation, subsidies, rules, technical barriers to trade, and not allowing a process in which the negotiated removal of one barrier sees its replacement by another. Therefore Africa needs an asymmetrical and development-focused process, a process which will build the capacity of developing countries to participate in multilateral negotiations.”<sup>179</sup>

87. Most importantly, **we urge developed countries to keep to their Doha promises,<sup>180</sup> and to respond positively to the calls from LDCs for “binding commitments on duty-free and quota-free market access for all products from LDCs on a secure, long-term and predictable basis with realistic, flexible and simplified rules of origin to match the industrial capacity of LDCs in order to raise their market share in world trade.”<sup>181</sup> The USA’s Africa Growth and Opportunity Act<sup>182</sup> and the EU’s Everything But Arms agreement are important steps in opening up markets.<sup>183</sup> But more should**

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175 Ev 250, para 3.4 [ActionAid memorandum]

176 Q 83 [H.E. Meles Zenawi, Prime Minister of the Federal Republic of Ethiopia]

177 Q 489 [Rob Davies, South African National Assembly] and Ev 139 [Co-operative Retail memorandum]

178 Q 383 [Charles Gore, UNCTAD]

179 Q 489 [Rob Davies, South African National Assembly]

180 WTO, Doha Ministerial Declaration, para 42 – see footnote 3.

181 Second LDC Trade Ministers Meeting, Dhaka declaration, 2 June 2003, p. 5, para 5—see footnote 84.

182 Q 92 [H.E. Meles Zenawi, Prime Minister of the Federal Republic of Ethiopia]

183 Ev 23, answer 4 [DFID response to written questions]

**be done, and more should be done on a multilateral basis, to provide developing countries – including non-LDCs such as Kenya and India where some half a billion people live on less than a dollar a day<sup>184</sup>—with enhanced market access.<sup>185</sup>**

88. Enhanced market access ought not to be solely about South-North trade. Instead developing countries need to consider the benefits of the increased South-South trade and regional integration which could result from a lowering of their barriers.<sup>186</sup> Richard Eglin at the WTO reminded us that 75 percent of the tariffs applied to developing countries' exports are applied by other developing countries.<sup>187</sup> In summary, **the Government must, through the EU, actively push the case for offering real market access to developing countries, delivered and guaranteed on a multilateral basis, with special attention paid to tariff peaks and escalation. The erosion of preferences must be addressed and the principle of less than full reciprocity, based on a country's developmental state, should be adopted.**

### The Singapore Issues: Overloading the agenda?

89. WTO Working Groups on Investment, Competition, Transparency in Government Procurement, and Trade Facilitation were established at the WTO's Singapore Ministerial in 1996 (see figure 8). At Doha, developed countries, including the EU and Japan, were keen to see these "New" or "Singapore Issues" added to the negotiating agenda for Cancún and beyond. But there was much opposition. Twenty-nine developing countries mentioned the Singapore Issues explicitly in their statements. Twenty-two of these countries opposed their inclusion. Three – Mexico, South Korea and Venezuela – supported their inclusion.<sup>188</sup> At the last minute, the EU—the principal *demandeur* for the inclusion of the Singapore Issues—was able to persuade developing countries, including eventually India, to agree to this conditionally, in return for promises of significant concessions on agriculture. The condition is that the scope and timeframe of negotiations, and whether or not they will take place at all, must be decided "by explicit consensus" at Cancún.<sup>189</sup> There would then be 15 months for negotiations to be concluded by 1 January 2005 as part of the Single Undertaking.

90. The EU, and within it the UK, has been the prime mover behind the proposal to include the Singapore Issues on the agenda.<sup>190</sup> By 1 June 2003 only the EU had tabled formal modalities proposals.<sup>191</sup> One of the Government's stated priorities for Cancún is to "ensure that the 'new issues' of competition, investment, trade facilitation and government procurement are put firmly on the negotiation agenda of the Round." The Government argues that agreement on these issues offers benefits for countries at all

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184 DFID, India Country Strategy Paper, p. 1.

185 Ev 285, para 7 [CREDIT memorandum] and Ev 262, para 29 [Action for Southern Africa memorandum]

186 Q 497 [Rob Davies, South African National Assembly]

187 Q 324 [Richard Eglin, WTO]

188 ActionAid, CAFOD, Christian Aid, Oxfam, Save the Children and World Development Movement, *Unwanted, unproductive and unbalanced: Six arguments against an investment agreement at the WTO*, May 2003, p. 7. Available at <http://www.oxfam.org.uk/policy/papers/argumentswto/sixarguments.htm>

189 WTO, Doha Ministerial Declaration, paras 20, 23, 26 and 27 – see footnote 3. See also ICTSD and IISD, *Doha Round Briefings Series, Singapore Issues*, February 2003 – see footnote 133.

190 Ev 7, paras 34-37 [HMG memorandum]

191 The Federal Trust, *Expanding WTO rules?* June 2003, p. 9—see footnote 81.

stages of development,<sup>192</sup> and states that it will “not sign up to something that it did not believe to be in the interests of developing countries.”<sup>193</sup> Opposition is not unanimous, and the strength of opposition varies by issue, but it seems clear to us that a majority of developing countries do not want to launch negotiations on a package of Singapore Issues.<sup>194</sup> Discussions about whether or not they should be included on the post-Cancún negotiating agenda, and about whether the EU and the UK should be pushing for their inclusion, concern both the issues themselves, and general questions of principle and process.

**Figure 8: The Singapore Issues**

Issue	Questions posed to Working Groups by the Doha Ministerial Declaration
<b>Investment</b>	How to develop non-discriminatory multilateral rules for investment which will: increase transparency and stability; balance the needs of countries receiving investment with the needs of countries where investment originates; pay due attention to countries’ right to regulate; and work through a positive-list approach.
<b>Competition</b>	How to develop a multilateral framework to enhance the contribution of competition policy to international trade and development, and how issues of transparency, non-discrimination and procedural fairness might be addressed.
<b>Transparency in Government Procurement</b>	How to develop a multilateral framework to enhance the transparency of government procurement. For transparency only; not to restrict countries scope to give preferences to domestic suppliers.
<b>Trade Facilitation</b>	How to expedite the movement, release and clearance of goods, by clarifying and improving relevant WTO agreements on issues including import and export fees and formalities, and customs procedures. And, what are the needs and priorities of WTO members in this regard?

Data source: WTO Doha Ministerial Declaration, paras 20-27 – see footnote 3.

91. Trade Facilitation and Transparency in Government Procurement are the least contentious of the four issues. Multilateral rules on these issues would increase the transparency and efficiency of international trade, and play an important role in improving governance and tackling corruption.<sup>195</sup> There is some concern amongst NGOs that an agreement on Transparency in Government Procurement might be the thin end of a wedge which would in time prevent developing country governments

192 Ev 1, para 3 [HMG memorandum]

193 HMG, UK Government briefing on the proposed WTO agreements on investment and competition, 16 June 2003, p. 2. Available at <http://www.dti.gov.uk/ewt/ukgvt.pdf>

194 Second LDC Trade Ministers Meeting, Dhaka declaration, 2 June 2003, p. 14 – see footnote 84. See also WTO, The Doha agenda: Towards Cancún, Communication from 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 and Zimbabwe, 6 June 2003, (TN/C/W/13), p. 3 – available at <http://www.wto.org>

195 Q 116 [Patricia Hewitt, Secretary of State for Trade and Industry]

favouring suppliers from their own countries, but these are relatively muted concerns. Basic WTO agreements in these two areas are desirable.

92. As far as Competition is concerned, the UK wants a framework agreement based on common core principles, which, alongside the national competition policies it would foster, would help to tackle hard core cartels and anti-competitive business practices and work to maximise the benefits of liberalisation.<sup>196</sup> DFID referred to a World Bank study which found that the effects of just 16 cartels on developing country imports in 1997 amounted to an estimated \$81.1 billion.<sup>197</sup> **Tackling hardcore cartels and restrictive business practices is important. But developing countries, including the LDCs, lack the exposure to and experience with competition law. This has hampered their participation in discussions. We ask the Government to provide aid for increased technical assistance to enable their effective participation.**<sup>198</sup>

93. Investment is without doubt the most contentious of the Singapore Issues. Many NGOs including Action Aid, CAFOD, Christian Aid, Oxfam, Save the Children and the World Development Movement are vigorously opposed to launching negotiations on Investment at the WTO.<sup>199</sup> They, and we, acknowledge that foreign investment can deliver economic benefits to developing countries, including jobs, technology transfer, increased efficiency and better infrastructure. Indeed without foreign investment and engagement with the private sector, there will be little or no development. The Government takes the view that fair and transparent multilateral rules on investment will produce a secure, stable and predictable regime which will increase investment, and increase the flow of investment to developing countries.<sup>200</sup> The CBI shares this view, and regards an investment agreement as a high priority.<sup>201</sup> **But we have seen no evidence that multilateral or bilateral investment agreements increase the flow of investment to developing countries.** The World Bank concludes that the overall impact of new multilateral investment rules on new flows of investment would be “small – and virtually non-existent for low-income developing countries.”<sup>202</sup> The Government, even in its most recent attempt to persuade its doubters, does not dispute this.<sup>203</sup> **In the absence of evidence to the contrary, we fail to see how the Government can claim<sup>204</sup> that a new multilateral agreement on investment would increase the flow of investment to developing and Least Developed countries, and contribute to a genuine development round. However, we do believe that the application of good governance and the rule of law is important for all countries.**

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196 Q 47 [Elaine Drage, DTI] and Ev 26, answer 12 [DFID response to written questions]

197 Ev 26, answer 12 [DFID response to written questions]. See also The Federal Trust, *Expanding WTO rules?*, June 2003, footnote 3 – see footnote 81.

198 Second LDC Trade Ministers Meeting, Dhaka declaration, 2 June 2003, p. 15, para 30a—see footnote 84.

199 ActionAid, CAFOD, Christian Aid, Oxfam, Save the Children and World Development Movement, *Unwanted, unproductive and unbalanced: Six arguments against an investment agreement at the WTO*, May 2003 – see footnote 188.

200 Ev 7, para 34 [HMG memorandum]

201 Ev 291, para 17 [CBI memorandum]

202 World Bank, *Global Economic Prospects*, 2003, p. 133. Available at <http://www.worldbank.org/prospects/gep2003/>

203 HMG, UK Government briefing on the proposed WTO agreements on investment and competition, 16 June 2003, p. 7—see footnote 193.

204 Ev 26, answer 12 [DFID response to written questions]

94. An argument which is made in support of including the Singapore Issues, and particularly investment, on the WTO's negotiating agenda is that a multilateral agreement is preferable to a complex patchwork of bilateral agreements. In multilateral fora, developing countries are less vulnerable to arm-twisting by more powerful countries, less likely to be excluded, and more able to keep track of negotiations.<sup>205</sup> This is a persuasive argument, but in practice multilateral trade agreements are more likely to supplement rather than replace bilateral agreements.<sup>206</sup> And, multilateral agreements on investment would in practice work through bilateral request-offer processes. Multilateral agreements are certainly preferable to bilateral, but if multilateral agreements supplement rather than replace bilateral agreements, they will not entirely eradicate arm-twisting.

95. An investment agreement at the WTO, as currently envisaged, would do nothing to promote corporate social responsibility, such as the improved transparency called for by the "publish what you pay" initiative. And if applied to investment, the WTO's fundamental principle of non-discrimination between domestic and foreign investors would, so the argument goes, prevent developing countries from implementing policies such as limits on ownership, performance requirements on local employment, and insistence on joint ventures to maximise the developmental benefits of foreign direct investment.<sup>207</sup> The UK and the EU claim that their plans for an investment agreement would not rule out such policies. The UK argues, somewhat confusingly, firstly that countries will be able to discriminate between domestic and foreign firms, and secondly that non-discrimination will not rule out national development-focussed investment policies.<sup>208</sup> Indeed the Government emphasises that the "UK wants the inclusion of provisions that would allow developing WTO members to pursue development policies".<sup>209</sup> In a "Development Round" this should be a prerequisite, not a desire. The Government is also "interested in hearing developing countries' proposals relating to the flexibilities they would wish to have."<sup>210</sup> In a "Development Round" it is important that this is spelt out. Despite strident assurances to the contrary, NGOs and others are concerned that simply by acting in accordance with its core principles, the WTO will necessarily squeeze developing countries' policy space on investment (see paras 138-143).

**96. We are not persuaded that an agreement on investment would be a driver for development, or that the WTO is the right place to conclude an investment agreement, especially as part of a development round. In the absence of evidence to suggest that multilateral rules will increase investment flows to developing countries, and in the face of persuasive arguments that an investment agreement at the WTO might not be developmentally-optimal, we were pleased to hear Baroness Amos**

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205 Q 365 [Carlos Fortin, UNCTAD]

206 Q 78 [Michael Bailey, Oxfam]

207 ActionAid, CAFOD, Christian Aid, Oxfam, Save the Children and World Development Movement, *Unwanted, unproductive and unbalanced: Six arguments against an investment agreement at the WTO*, May 2003, p. 3 – see footnote 188.

208 HMG, UK Government briefing on the proposed WTO agreements on investment and competition, 16 June 2003, p. 8—see footnote 193.

209 Ev 7, para 35 [HMG memorandum] – "development" was underlined in the original document.

210 HMG, UK Government briefing on the proposed WTO agreements on investment and competition, 16 June 2003, p. 8—see footnote 193.

**acknowledge that the Singapore Issues are not a priority.<sup>211</sup> We trust this means that the Government no longer supports the launch of WTO negotiations on investment in this round.**

97. There are other more general objections to the inclusion of the Singapore Issues on the WTO's negotiating agenda. First, that their inclusion would over-stretch developing countries' capacities, to negotiate agreements, and to implement them. Second, that their inclusion would over-burden an already full agenda for Cancún and beyond. We have received a great deal of evidence to suggest that the inclusion of the Singapore Issues on the agenda would stretch developing countries' negotiating capacities.<sup>212</sup> Baroness Amos totally agreed.<sup>213</sup> In their Dhaka Declaration LDC Trade Ministers noted that: "In view of the overwhelming workload ... LDCs with limited resources are not being able to follow negotiations and evaluate the implications/impact of negotiations on Singapore Issues on their economies."<sup>214</sup> Over-stretching developing countries' capacities makes an already demanding bargaining framework simply unfair.

**98. The UK Government is committed to improving the capacity of developing countries to negotiate effectively in the Doha Round. In responding to suggestions that this valuable commitment might be undermined by including the Singapore Issues on the agenda, DFID states that the "significant benefits" which the Issues offer for developing countries "should be set against the costs of negotiating and implementing the proposed agreements."<sup>215</sup> In the absence of reliable estimates of either the costs or the benefits, and in the face of opposition from many developing countries who argue that pushing the Singapore Issues will not lead to a genuine development round, we urge the Government not only to stop promoting the inclusion of the package of Singapore Issues on the WTO's negotiating agenda, but to persuade its EU partners and the Commission to do so too.**

99. Other concerns about the inclusion of the Singapore Issues on the post-Cancún agenda are more systemic. It has, for instance, been suggested that the EU will lose interest in the Round and will not deliver on agricultural liberalisation unless the Singapore Issues are included as part of a Grand Bargain. The more cynical observer may be tempted to conclude that the EU has hedged its bets, pushing for the Singapore Issues, secure in the knowledge that a refusal of this demand would provide a good excuse for not delivering on even the limited CAP reform agreed to. Speaking frankly about the EU's strategy, Pascal Lamy told us that: "We got them on the agenda because of the view we have that overall it is good for the system and good for them [developing countries]."<sup>216</sup> We appreciate that within a hard-bargaining framework, the EU, and the interests it represents, will want to win something, and that such motivations drive the system of negotiations forward. Indeed, we would welcome more openness about the

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211 Q 517 [Valerie Amos, Secretary of State for International Development]

212 Ev 36, section 4 [CAFOD memorandum]; Ev 256, section 8.1 [ActionAid memorandum]; Ev 126, section 4 [World Development Movement memorandum]; Ev 51, para 57 [Oxfam memorandum]; and Q 72 [Claire Melamed, Christian Aid]

213 Q 517 [Valerie Amos, Secretary of State for International Development]

214 Second LDC Trade Ministers Meeting, Dhaka declaration, 2 June 2003, p. 14, para 28 -see footnote 84.

215 Ev 26, answer 12 [DFID response to written questions]

216 Q 153 [Pascal Lamy, European Commission]

likely benefits to the UK economy of various WTO agreements; we, and the public, might then be better able to understand the dynamics. But Rounds have been concluded before, without the Singapore Issues included. And if the EU believes what it says about the benefits of trade liberalisation, and indeed about the internal benefits of CAP reform, then agricultural liberalisation should not be conditional on the inclusion of the Singapore Issues.

100. Rather than being good for the system, there are serious concerns that the Singapore Issues may overload the WTO and lead to failure at Cancún and beyond. Duncan Green of CAFOD told us that: “I do not think one should underestimate the extent to which the new issues are, along with other things admittedly, a potential round-breaker or round-spoiler.”<sup>217</sup> Carlos Fortin of UNCTAD, who was broadly supportive of having a multilateral investment agreement, noted an emerging view that “pushing the new issues, the Singapore issues, at this stage may not be the best way to unblock things.”<sup>218</sup> **The chances of a genuine development round being delivered, and of Cancún being a success, are not improved by overloading an already crowded agenda. A genuine development round needs to focus on issues which are – and are felt by the majority of developing countries to be – development priorities.**<sup>219</sup>

101. We appreciate fully the important role which multilateral rules can play in shaping a more secure, stable, predictable, transparent and well-governed environment for development and for the firms who are the engine of development. Attracting investment, developing appropriate competition policies, increasing the transparency of government procurement, and facilitating trade through more effective customs procedures are important. We are very supportive of development-friendly multilateral rules. But in a development round, the priority must be pro-poor development. There is little evidence to suggest that WTO agreements, particularly on investment and competition, are a pro-poor development priority. In addition, process matters (see paras 129-134). The WTO may by definition be a hard-bargaining framework, but there is a limit to just how hard bargaining can be without it undermining the developmental objectives of a round. **Pushing for the inclusion of the Singapore Issues on the post-Cancún agenda is excessively hard bargaining. We trust that the Government’s move to disassociate itself from supporting the Singapore Issues<sup>220</sup> signals that the views of developing countries have been heard and acted upon. If there is no support for the Singapore Issues, they surely must be dropped.**

102. Multilateral agreements on investment, competition, procurement and trade facilitation are desirable. The WTO provides a good home for agreement on some of these issues. On others it probably does not, and certainly does not at the moment. Developing countries’ capacities to negotiate should not be over-stretched. Cancún and the development agenda must not be over-loaded. The Singapore Issues should be unbundled and the case for including each issue considered on its own merits. Trade Facilitation and Transparency in Government Procurement offer the clearest and least

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217 Q 53 [Duncan Green, CAFOD]

218 Q 359 [Carlos Fortin, UNCTAD]

219 Q 491 [Rob Davies, South African National Assembly]

220 Q 517 [Valerie Amos, Secretary of State for International Development]

contentious development gains. WTO negotiations in these areas should be launched, and included as part of the Single Undertaking; WTO negotiations on Competition and Investment should not. Before progress can be made on Competition, either in the WTO or elsewhere, there needs to be a better understanding of the needs of developing countries in this area. In the meantime, work to deal with hardcore cartels should proceed as a matter of some urgency. A future investment agreement must be based on a better understanding and greater consensus about what a pro-poor development-friendly investment agreement would look like. And the relationship of any such agreement with existing WTO agreements and disciplines would need to be clarified. In these views we are broadly in agreement with the excellent recent report by the Federal Trust.<sup>221</sup>

### **TRIPS: Enabling public health needs to be met?**

103. Property rights secure ownership and control of land and other assets. Intellectual property rights (IPRs) secure ownership and control over the use of knowledge.<sup>222</sup> Rules about IPRs attempt to square the circle by maintaining the incentives for technological innovation by protecting the holders of rights and their profits on the one hand, and, on the other, facilitating the transfer and use of technological innovation. Effective well-balanced rules on IPRs are crucial for development.

104. In 1995, the Agreement on Trade-Related Aspects of Intellectual Property (TRIPS) was established within the WTO. The TRIPS Agreement sets minimum levels of protection that all WTO members must provide, for the main categories of intellectual property.<sup>223</sup> But since it was signed the concerns that it may not be development-friendly have grown. Many NGOs, developing countries and indeed the UK Government,<sup>224</sup> feel that the TRIPS Agreement and the patent protection it requires may limit developing countries' access to technologies – including medicines and seeds—which are important for public health and food security needs.<sup>225</sup> There are also concerns that the Agreement fails to protect so-called Traditional Knowledge from patenting and exploitation by foreign companies and that it provides virtually no protection for indicators of geographic origin. Of most concern are questions about whether the TRIPS Agreement allows developing countries sufficient flexibility to address their public health needs. That is, can they over-ride patents (compulsory licensing) to produce cheap versions of medicines (generics), for domestic use and for export to other needy countries, in order

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221 The Federal Trust, *Expanding WTO rules?*, June 2003—see footnote 81.

222 Commission on Intellectual Property Rights, *Integrating intellectual property rights and development policy*, 2002, p.174. Available at <http://www.iprcommission.org/>

223 Ev 6, para 31 [HMG memorandum]

224 In 2001 the UK Government took the highly commendable step of establishing an independent international Commission on Intellectual Property Rights. The Commission reported in September 2002 and the UK Government responded in turn in May 2003. We will consider the report, the Government's response and wider issues concerning IPRs in a post-Cancún report.

225 Ev 6, para 31 [HMG memorandum]

to improve the availability and affordability of medicines to address public health needs such as those resulting from HIV/AIDS, tuberculosis, malaria and other epidemics?<sup>226</sup>

105. The Doha Ministerial Declaration and a separate Declaration on TRIPS and public health sought to clarify matters by reaffirming that the Agreement “can and should be interpreted and implemented in a manner supportive of WTO Members’ right to protect public health and, in particular, to promote access to medicines for all.”<sup>227</sup> Countries can, therefore, engage in compulsory licensing, producing generics in order to address serious public health problems. The declaration acknowledged however that under the TRIPS Agreement, countries without sufficient capacity in pharmaceutical manufacturing “could face difficulties in making effective use of compulsory licensing”.<sup>228</sup> For such countries, the right to engage in compulsory licensing would be of little or no use. The solution would seem to lie in the export of generics from countries with the production capacity to countries without the capacity but with pressing public health needs. But the stumbling block is article 31f of the TRIPS Agreement, which requires generics to be produced primarily for the supply of the domestic market.<sup>229</sup> At Doha, WTO members instructed the Council for TRIPS to “find an expeditious solution to this problem and to report to the General Council before the end of 2002.”<sup>230</sup> This deadline was missed.

**106. Back in November 2001, the declaration on TRIPS and public health was seen as a major gain for developing countries. Since then, as with so much of the promised “Doha Development Agenda”, deadlines have been missed and hopes have been disappointed. All that was and still is needed for a development-friendly outcome on TRIPS and public health is for all WTO members to honour the letter and spirit of their Doha commitments. In this case the blame for failure lies squarely with the USA; it was the only country that would not agree to a compromise agreement in December 2002.**<sup>231</sup> Since November 2001, the USA has insisted that developing countries should not themselves be able to determine when their public health needs are sufficiently serious to necessitate the importation of generics, and that the right to import generics for public health reasons should only apply to the poorest countries. The USA has also argued that cheap generic drugs from developing countries might be diverted into developed countries’ markets, undermining the profitability of the pharmaceutical industry, and that without sufficient patent protection there would be no incentive for research and innovation. **There does need to be a balance between enabling legitimate public health needs to be met, and securing the rights of ownership and maintaining the incentives for innovation. Doha had that balance right. The US Government, in its unwillingness to stand up to its powerful pharmaceutical lobby, has the balance wrong, to the detriment of the public health**

226 International Development Committee, Third Report of Session 2002-03, The humanitarian crisis in Southern Africa, HC116, paras 141-153. Available at <http://www.publications.parliament.uk/pa/cm200203/cmselect/cmintdev/690/690.pdf>

227 WTO, Ministerial declaration on the TRIPS Agreement and Public Health, 14 November 2001, (WT/MIN(01)/DEC/2), para 4 – available at <http://www.wto.org> - see also Ev 6, para 33 [HMG memorandum]

228 WTO, Ministerial declaration on the TRIPS Agreement and Public Health, para 6.

229 Ev 253, para 5.7 [ActionAid memorandum]

230 WTO, Ministerial declaration on the TRIPS Agreement and Public Health, para 6.

231 Q 508 [Baroness Amos, Secretary of State for International Development]

**needs of developing countries.<sup>232</sup> And US opposition to agreement on TRIPS and public health<sup>233</sup> puts Cancún and the whole “development agenda” at risk. Now that the EU has moved on agriculture, the USA should move on TRIPS and public health.**

107. Since the end-2002 deadline for “an expeditious solution” was missed, there have been several proposals for compromise, most of which have sought to narrow the range of diseases and/or the range of countries which should be eligible for any flexible treatment under TRIPS.<sup>234</sup> Following the breakdown of talks in December 2002 the USA announced that it would not challenge any country breaking WTO rules to export generics to a country in need. Switzerland and Canada have joined the US moratorium. The EU has declared its own. Temporary solutions are better than nothing but what is needed is a clear and permanent multilateral solution, based on the full acceptance of the Doha Declaration on TRIPS and public health. As Pascal Lamy explained, a multilateral rule is preferable to a temporary moratorium so that both the pharmaceutical industry and other contributors to public health needs can base their plans on a sure footing.<sup>235</sup> **A satisfactory resolution on TRIPS and public health prior to Cancún, not as part of a new exchange of concessions, is hugely important. As well as enabling developing countries to better meet their public health needs, agreement would go some way to restoring their faith in the WTO process and the ability of developed countries to keep to their promises.**

108. At Doha it was agreed that LDCs should not be obliged to implement or apply the TRIPS Agreement to pharmaceutical products until 2016. This was a welcome move and may suggest a simple and direct solution to the TRIPS and public health impasse. If transition periods to full patent protection were determined by developmental progress rather than arbitrary deadlines, developing countries would have more flexibility to deal with their legitimate public health needs. **Oxfam’s proposal to establish a mechanism for determining and extending transition periods for individual developing countries on the basis of the achievement of agreed development milestones makes good sense.<sup>236</sup> This principle could, if related carefully to the MDGs and to countries’ MDG commitments, play an important role across the multilateral trading system and beyond.** We intend to return to this and other issues relating to intellectual property rights, development, TRIPS and the lessons of TRIPS in a post-Cancún report.

## **GATS: Maintaining the right to regulate?**

109. Services and trade in services are increasingly important to developing countries.<sup>237</sup> At Dhaka recently, LDC trade ministers noted that the services sector is the “fastest growing component of GDP growth in many LDC countries”, and that along with generating economic benefits services play an important role in achieving social and

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232 Q 501 [Rob Davies, South African National Assembly]

233 Q 118 [Patricia Hewitt, Secretary of State for Trade and Industry]

234 Ev 314, section 5 [Quaker Peace and Social Witness memorandum]

235 Q 157 [Pascal Lamy, European Commission]

236 Ev 250, para 3.7 [Oxfam memorandum]

237 Such claims are not made in the evidence we received, but the close relationship between GATS and privatisation is a key theme of some NGOs’ campaigning. The World Development Movement’s “Sale of the century” national tour is one example.

economic development objectives.<sup>238</sup> Services, provided by the public and the private sector, have a vital role to play in development and poverty reduction. Private sector involvement in service provision, properly regulated, is essential to improving the supply of public services and the lives of poor people. As Pascal Lamy explained, the idea that the developing world is a landscape of high-quality efficient providers of public services which the developed world is seeking to undermine by forced privatisation is pure fantasy.<sup>239</sup>

110. The General Agreement on Trade in Services (GATS) was established in 1995. GATS seeks to establish a framework of legally-binding multilateral rules, which, by increasing certainty, security and transparency, and guaranteeing market access, will make it easier for firms to sell their services in foreign markets.<sup>240</sup> GATS commits member governments to undertake negotiations on specific issues and to enter into successive rounds of negotiations to progressively and—effectively irreversibly—liberalise trade in services. Restrictions which apply to foreign but not domestic firms must first be listed, and then progressively removed as liberalisation proceeds. Negotiations on services began in 2000 and were incorporated into the “Development Agenda” at Doha, where Ministers declared that “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.”<sup>241</sup> The Declaration recognised the work that had already been undertaken, reaffirmed the guidelines and procedures for negotiations, and reiterated the need for appropriate flexibility to be granted to developing countries.

111. The GATS Agreement differs from most other WTO agreements in two ways. First, it is designed to work through a bottom-up or positive-list approach. **Countries choose which sectors to liberalise, and to what extent to liberalise them. Second, negotiations proceed through requests and offers. Countries make requests to other countries to open up particular sectors, and countries make offers to open up particular sectors.** These offers and requests then become the subject of bilateral bargaining between requesting and offering countries. At Doha, countries were invited to submit requests to other countries for GATS commitments by 30 June 2002, and to respond with offers by 31 March 2003. Cancún is to be a stocktaking exercise, and negotiations are to be completed as part of the Single Undertaking by 1 January 2005. Thirty WTO members have tabled GATS requests. The US and the EU made detailed requests of many countries for market access commitments in most services sectors. Some developing countries, including India, made requests of developed countries in relation to the temporary movement of labour. By 30 June 2003 twenty-seven had submitted offers. Only one is an LDC (Senegal); the vast majority of the rest are developed countries.<sup>242</sup> Also in June, a group of 26 developing countries described

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238 Second LDC Trade Ministers Meeting, Dhaka declaration, 2 June 2003, p. 6, para 9 -see footnote 84.

239 Q 155 [Pascal Lamy, European Commission]

240 Q 116 [Patricia Hewitt, Secretary of State for Trade and Industry]

241 WTO, Doha Ministerial Declaration, para 15 – see footnote 3.

242 Communication from WTO. Countries are: Argentina, Australia; Bahrain; Canada; Chinese Taipei; Czech Republic; European Communities and its Member States; Fiji; Hong Kong, China; Iceland; Israel; Japan; Republic of Korea; Liechtenstein; Macao; China; Mexico; New Zealand; Norway; Panama; Paraguay; Poland; Senegal; Slovenia; St Christopher and Nevis; Switzerland; United States and Uruguay.

progress as moderate, and suggested that there was a need to increase the number of requests and offers.<sup>243</sup>

112. GATS has come in for severe criticism from many NGOs, particularly as regards its possible impact on the provision of pro-poor public services.<sup>244</sup> But from a development perspective the positive-list approach to liberalisation makes GATS perhaps the best-designed WTO Agreement. Patricia Hewitt reported to us that GATS is seen by most developing country governments as “a model of a trade agreement precisely because it is bottom up and it allows governments to determine the pace and the extent of market opening for themselves”,<sup>245</sup> a view which was endorsed with some reservations by Lakshmi Puri at UNCTAD.<sup>246</sup> But the NGO campaign on GATS persists. Patricia Hewitt described it as a dialogue of the deaf,<sup>247</sup> suggesting that the NGOs do not understand GATS and that whilst their criticisms may have been warranted in relation to the mid-1990s proposal for a Multilateral Agreement on Investment, in relation to GATS their fear is unfounded.<sup>248</sup>

113. Some critics claim that GATS will lead to privatisation. The Government on the other hand asserts that “it is totally a matter of legal fact that GATS does not and cannot require any government, whether it is us or one of the poorest countries in the world, to privatise public services or indeed to open markets that a government does not want to open.”<sup>249</sup> This is true. GATS cannot force the privatisation of public services; indeed services supplied exclusively by public authorities are excluded. In addition, the Government emphasises that “properly regulated private sector participation in public services can sometimes provide increased efficiency and investment which brings real benefits to poor people.”<sup>250</sup> We concur with this too. But that is not the end of the matter.

114. GATS does not force privatisation, but if that option has been selected then it will be “locked-in” by GATS. The provision of such certainty is part of GATS’ *raison d’être*. Some NGOs fear that GATS may lock-in privatisation policies that developing countries have been pressurised to implement as a condition of receiving financial assistance from the International Financial Institutions (IFIs). Some NGOs are concerned too that if countries privatise or partially privatise the provision of public services this may make such services a legitimate target for GATS requests.<sup>251</sup> Public services are excluded from GATS, but the situation as regards services delivered through public-private partnerships is less clear. Both of these issues—locking-in privatisation and opening up public services for GATS requests—are legitimate concerns which raise important issues

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243 WTO, The Doha agenda: Towards Cancún, 6 June 2003, (TN/C/W/13), p. 2, paras 11 and 12—see footnote 194.

244 Save the Children, GATS and water: The threat of services negotiations at the WTO, 2003 – available at <http://www.savethechildren.org.uk/campaigns/trade/GATSandwater.pdf>—see also Ev 118 [World Development Movement memorandum]

245 Q 120 [Patricia Hewitt, Secretary of State for Trade and Industry]. See also Q 43 [Elaine Drage, DTI]

246 Q 406 [Lakshmi Puri, UNCTAD]

247 Q 120 [Patricia Hewitt, Secretary of State for Trade and Industry]. It seems to us that it is not a dialogue of the deaf, but a dialogue devoid of trust. The Government suspects that some NGOs are anti-WTO, anti-liberalisation and perhaps anti-capitalist; some NGOs think the government is excessively pro-business.

248 Q 522 [Valerie Amos, Secretary of State for International Development]

249 Q 120 [Patricia Hewitt, Secretary of State for Trade and Industry]

250 [http://www.dfid.gov.uk/News/News/files/gats\\_brief.htm](http://www.dfid.gov.uk/News/News/files/gats_brief.htm)

251 Ev 269, section 6 [Bretton Woods Project memorandum]

about the coherence of policies followed by the WTO and other international organisations. A further coherence issue concerns the crediting of developing countries within the GATS negotiations for liberalisation undertaken “autonomously” and at the behest of the IFIs. These are not insurmountable problems, but they do demand the vigilance of the UK and others who are keen to ensure that GATS really is development-friendly.

115. Critics of GATS are also concerned that a country making GATS commitments will effectively surrender its right to regulate the provision of services in those sectors which are part of its GATS commitments. The Government denies this, pointing out that GATS recognises explicitly the right of governments to regulate for national policy objectives. The Government argues that national treatment—the requirement that domestic and foreign enterprises are treated in the same way—does not remove a country’s right to regulate. Rather it means that whatever level and type of regulation a country decides upon must apply equally to domestic and foreign firms.<sup>252</sup> This is a helpful clarification, but it should be noted that some developing countries, including the Least Developed Countries, regard the right to discriminate in favour of local firms as important.<sup>253</sup>

116. GATS guarantees governments’ right to regulate. But, Article VI.4 of GATS does require countries to develop rules aimed at restricting their domestic regulation to measures which are “not more burdensome than necessary.” This may limit the right to regulate. Whether or not GATS will limit a country’s right to regulate in a pro-poor manner would seem to hinge on whether such regulation is deemed “more burdensome than necessary.” The UK Government supports the development of a “necessity test” and proposes to add to GATS some wording which will require that a regulatory measure be proportionate to its objective. Judgements will need to be made about necessity and proportionality. Such judgements need not rule out pro-poor regulation. But to address the concern that judgements made by the WTO’s dispute settlement panel may not be development-friendly, any tests of necessity and proportionality must leave space for nationally-determined pro-poor development policies.

117. For its supporters the architecture of GATS, and what they perceive as the WTO’s democracy, will ensure that developing countries are not unduly pressured into making liberalisation commitments. As Patricia Hewitt insisted: “The whole GATS process depends on governments making requests and then governments making offers. Obviously nobody has to accept a request if they do not want to.”<sup>254</sup> GATS is designed to allow developing countries to choose the scope, speed and extent of liberalisation. And in a multilateral forum, developing countries perhaps have more power to refuse requests for market opening. But the critics of GATS dispute this.<sup>255</sup> They point out that whilst GATS is an opt-in process, its aim is progressive liberalisation. So, as Ambassador Ransford Smith put it: “the freedom that you thought you had is precisely what is being targeted when you next negotiate.”<sup>256</sup> They also suggest that in practice GATS boils

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252 Q 43 [Elaine Drage, DTI]

253 Second LDC Trade Ministers Meeting, Dhaka declaration, 2 June 2003, p. 7, para 12b—see footnote 84.

254 Q 122 [Patricia Hewitt, Secretary of State for Trade and Industry]

255 Q 254 [John Hilary, Save the Children]

256 Q 424 [H.E. Ransford Smith, Jamaican Ambassador to the UN in Geneva]

down to a series of bilateral negotiations. These points are true, but they are aspects of GATS to which WTO members willingly signed up. And at present there is no evidence of developing countries having been forced to accede to requests. As Mauro Petriccione of the European Commission noted: “I think that the history of the original GATS negotiation—and what we are seeing across the board in the Doha development agenda—shows that our ability to twist the arm of developing countries, even if we wanted to, is not what it is said to be.”<sup>257</sup>

118. If countries are to gain benefits from the GATS negotiations—making sensible offers and requests, and refusing requests that are not in their best interests—they must be able to make well-informed decisions. This requires that a country is able to determine its interests and the likely implications of agreeing to liberalise, and has the capacity to understand, follow and participate in complex negotiations. Given the complexity of GATS, and the detailed requests made by the EU and others, there are serious concerns about whether developing countries have the capacity and information to make well-informed decisions about GATS. LDC trade ministers recently drew attention to their “difficulties in addressing complex issues of Services negotiations due to a lack of institutional and human capacities”, calling for this to be factored in to the process of making requests of and negotiating with the LDCs.<sup>258</sup> **We are concerned about the ability of developing countries to handle negotiations on GATS and urge the UK and its developed country partners to seek to ensure that developing countries can participate effectively** (see paras 129-134). **A rushed process, with developing countries unable to follow negotiations, will not make for a development-friendly outcome, and would be detrimental to the long-term health of the multilateral trading system.**

119. The Government has played an important role in building the capacity of developing country negotiators. This is very welcome. The Government is also supporting an assessment of GATS by UNCTAD.<sup>259</sup> This too is very welcome although it remains to be seen whether this will satisfy the GATS Guidelines’ request for an “assessment of trade in services on overall terms and on a sectoral basis”, so that the negotiation process can be revised in the light of this assessment.<sup>260</sup> Nevertheless, **along with UNCTAD, the Government is to be applauded for its commitment to assessing GATS and for its tentative acknowledgement that there may be some lessons to be learnt from how GATS operates in practice.**<sup>261</sup> **There is perhaps some hope that the “dialogue of the deaf” on GATS might be replaced by a more useful conversation. NGOs have a responsibility in this regard too; to portray GATS and its implications as fairly and accurately as possible, and to shift the balance of their commentary from outright condemnation to constructive advocacy.**

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257 Q 185 [Mauro Petriccione, European Commission]

258 Second LDC Trade Ministers Meeting, Dhaka declaration, 2 June 2003, p. 7, para 11—see footnote 84.

259 Ev 5, para 25 [HMG memorandum]

260 ICTSD and IISD, Doha Round Briefings Series, Services, February 2003, p. 2—see footnote 133.

261 HMG, UK Government briefing on the proposed WTO agreements on investment and competition, 16 June 2003, p. 10—see footnote 193.

120. Developing countries are particularly interested in progress with what is termed Mode 4 of GATS.<sup>262</sup> Mode 4 concerns the trading of services through temporary migration. Recent research suggests that a visa scheme allowing three percent of the OECD labour force to be provided by the temporary movement of labour would produce economic benefits for developed and developing countries amounting to between \$150 and \$200 billion.<sup>263</sup> Progress on Mode 4 has been painfully slow. In the Dhaka Declaration, the LDCs noted that there had been—“virtually no liberalization of markets for cross-border labour services.”<sup>264</sup> Security concerns post-September 11<sup>th</sup> may hamper progress on Mode 4, and care will be needed to minimise and compensate for the loss of skilled and trained personnel from developing countries, but the potential benefits for developing countries—particularly if the developed world were to offer market access to low-skilled labour—cannot be ignored. We intend to return to this issue, the relationship between migration and development, in a future inquiry. In the meantime **we urge the Government and the EU to consider seriously developing country requests on Mode 4.**

**121. If attention is paid to how GATS works in practice, it could fulfil its promise of being the WTO’s most development-friendly agreement. It could provide a model for other agreements. But for this to happen, WTO members need to ensure that the development-friendly architecture of GATS is translated into development-friendly outcomes. Otherwise GATS could join the TRIPS Agreement in being regarded as little more than a burden for many developing countries. The UK and the EU have a huge responsibility. If GATS is to fulfil its promise, the UK and the EU must ensure that the right to regulate includes the right to regulate for development as well as to provide a welcoming business environment. They must ensure that this right is supported by the IFIs. They must not put undue pressure on developing countries to make liberalisation commitments. They must seek to address capacity constraints. And they must—in return for market access commitments for their service providers—make progress on Mode 4.**

### **Commodities: Sustaining livelihoods?**

122. It is not the role of the WTO to stabilise prices or sustain livelihoods, but a report on trade and development cannot neglect the crisis currently facing commodity producers. Commodity dependence and extreme poverty, particularly amongst the LDCs, are very much linked and “commodity dependency continues unabated.”<sup>265</sup> Coffee provides a good example. More than 50 developing countries depend on three or fewer commodities for at least 50 percent of their export earnings. In Uganda, a quarter of the population depends in some way on coffee production. In Ethiopia, coffee provides more than half of export revenues; in Burundi, the dependency ratio is more than 80 percent.<sup>266</sup>

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262 Ev 266, section 10 [Bangladesh Parliament Secretariat memorandum]

263 World Bank, *Global Development Finance*, 2003, p.168. Available at <http://www.worldbank.org/prospects/gdf2003/>

264 Second LDC Trade Ministers Meeting, Dhaka declaration, 2 June 2003, p. 7, para 10—see footnote 84.

265 Q 370 [Carlos Fortin, UNCTAD]

266 Ev 46, para 29 [Oxfam memorandum]

123. The crisis for commodity producers is that the share of commodities in world trade has been declining for at least 50 years, and prices have been falling and remain volatile. The price of coffee beans has fallen by nearly 50 percent in the past three years to a 30-year low.<sup>267</sup> The world market for coffee has expanded from \$30 billion per year in the early 1990s, to \$60 billion in 2000-01, but the developing countries' share of this revenue has shrunk from around \$10 billion to just under \$6 billion. Not only are developing countries earning a smaller share of the coffee market, they are also earning less in absolute terms.<sup>268</sup> Lower export earnings means lower growth, lower investment in basic public services, and less development. For coffee-farmers' families lower earnings means less money to buy food and schoolbooks, less money to pay for health services, increased insecurity, and less money to invest in alternative livelihoods.

124. The immediate cause of the situation facing coffee growers is low, declining and volatile export earnings. The deeper cause is the nature of the international coffee market: excess supply and a buyer's market, resulting in low prices and a small share for those at the bottom of the commodity chain. The supply of coffee has increased as a result of new producers such as Vietnam, being encouraged to move into coffee by the World Bank, and technological change which allows the use of lower quality beans. At the processing level, the market is dominated by a small number of companies including Kraft, Nestlé, Procter and Gamble, and Sara Lee. Each of these firms is in a powerful position to dictate the terms of trade down through the commodity chain. Oxfam reports that Nestlé makes 26p profit for every £1 of instant coffee sold,<sup>269</sup> whilst coffee growers receive only 6 pence.<sup>270</sup>

125. A long-term solution to the commodity crisis is for developing countries to reduce their dependence on a small number of commodities by diversifying their economies, and exporting products which can earn them more, and more stable, revenue. A medium-term solution would lead to commodity-dependent countries and smallholders receiving a higher income for their efforts. Various measures have been suggested but as Oxfam acknowledges there is no magic policy that will solve the coffee crisis overnight. First, as Sainsbury's and Co-operative Retail particularly explained to us, niche marketing of products on the basis of their being produced in particular places or in particular ways (including organically), and fair trade can provide higher prices to farmers.<sup>271</sup> Second, actions taken to reduce the supply and increase the quality of coffee may also increase the prices received by farmers; this indeed is something that coffee-producing governments have agreed to do under the auspices of the International Coffee Organisation. Nestlé supports this move. Third, coffee-producing countries should be encouraged and assisted to move up the commodity chain by adding more value to their coffee prior to its export. As the Prime Minister of Ethiopia explained, when coffee prices fall it is the people at the bottom of the commodity chain who suffer most. If Ethiopian producers could move to the "softer end" of the market, they would

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267 Oxfam, *Mugged: Poverty in your coffee cup*, 2002, p. 2. Available at <http://www.maketradefair.org/assets/english/mugged.pdf>

268 Q 388 [Charles Gore, UNCTAD]

269 Oxfam, *Mugged: Poverty in your coffee cup*, 2002, p. 26—see footnote 267.

270 Ev 47, para 32 [Oxfam memorandum]

271 Q 273 [Terry Hudgton, Co-operative Retail] and Q 274 [Tony Sullivan, Sainsbury's]

fare better.<sup>272</sup> Fourth, although there is little support for such a step given their previous perceived failures, international action might be taken to stabilise the price of commodities through the sort of international commodity policies supported by UNCTAD and others in the 1970s.

126. The WTO has a marginal role to play in relation to these measures. But by tackling tariff escalation the WTO could enable coffee producers to add more value prior to export. As Franz Fischler intimated, rather than protecting Nestlé and other companies, the EU and other developed country markets should be tackling tariff escalation.<sup>273</sup> Tariff reduction would also open up possibilities for coffee-producing countries and farmers to diversify into other areas. Reducing tariffs and protection on dairy, sugar, bananas and cotton would provide new and improved trading opportunities for many developing countries, and reduce countries over-dependence on such a narrow range of commodities.

**127. The WTO is not central to tackling the commodity crisis, but a development-friendly agreement on agriculture which reduced tariffs, tackled tariff escalation and provided processed coffee and other goods from developing countries with easier access to Northern markets, would enable countries to better address the crisis. This illustrates the need for coherent and coordinated policies at international and national levels. Donors should commit themselves to assisting commodity-dependent countries and farmers to increase their productivity, to add more value, and to diversify their activities. And, to increase coherence further, serious consideration should be given to linking the debt service schedules of commodity-dependent LDCs to changes in commodity prices which are beyond their control.**

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272 Q 87 [H.E. Meles Zenawi, Prime Minister of the Federal Republic of Ethiopia]

273 Q 205 [Franz Fischler, European Commission]

## 5 Prioritising development

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128. Development-friendly agreements and progress on agriculture, non-agricultural market access, the Singapore Issues, TRIPS and public health, and GATS are essential components of a genuine development round. Satisfactory outcomes in these areas are more likely if the “Development Round” proceeds in a development-friendly manner. And in addition to issue-specific outcomes, for the round to amount to a genuine development round, new and revised rules must themselves be development-friendly.

### Effective participation by developing countries

129. A development-friendly process is one which developing countries, including the LDCs, can participate in effectively. In its White Paper on “Eliminating world poverty: Making globalisation work for the poor”, the Government commits itself to working towards an international trading system which “provides an effective voice for developing countries”.<sup>274</sup> Voices are not provided by a system, but supporting and enabling the effective participation of developing countries is an important objective. To participate effectively: a country must be able to determine its national interest and what this entails for its negotiating positions; a country’s representatives must be able to keep up with proceedings, and express their views and positions clearly; and, the country’s representatives must be listened to. As Franz Fischler said, only when developing countries are able “to make their point, to defend themselves, to go on the offensive and to think about the economic impact of new WTO rules, will it be possible to have a more balanced negotiation.”<sup>275</sup> If developing countries are to participate effectively, a range of issues must be addressed.

130. As regards the determination of national interests and negotiating positions the WTO’s members must ensure that studies are undertaken by the WTO, the World Bank, UNCTAD, UNDP and other appropriate bodies, to assess and predict the impact of existing and potential agreements.<sup>276</sup> Developing countries have requested full and thorough assessments for many years. WTO members committed themselves to such assessments at various points in the Doha declaration (for instance on non-agricultural market access and GATS).<sup>277</sup> They must deliver on these commitments. **We applaud the Government for the lead it has taken in supporting the assessment of particular agreements and the round as a whole.**<sup>278</sup> **The Government must ensure that developing countries are fully involved in designing and carrying out such assessments. Without appropriate assessments and predictions of impact, developing countries cannot participate effectively in the multilateral trading system. Neither can they follow DFID’s example of predicting, pre-empting and protecting the vulnerable from the effects of trade liberalisation.**

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274 Ev 1, para 1 [HMG memorandum]

275 Q 201 [Franz Fischler, European Commission]

276 Sustainability Impact Assessments have been undertaken by the Institute for Development Policy and Management—see <http://idpm.man.ac.uk/sia-trade/>

277 Ev 250, para 3.4 [ActionAid memorandum]

278 Ev 2 [HMG memorandum]

131. The WTO is committed to the objective of sustainable development. This was made clear in the preamble to the WTO's inaugural Marrakesh agreement and reiterated by the Doha Ministerial Declaration.<sup>279</sup> But is not formally signed up to the MDGs in the way in which the IMF, the United Nations and the World Bank are. It has been suggested to us that the WTO should be assessed in terms of its contribution to the MDGs.<sup>280</sup> Although the WTO is not primarily a development organisation its members have agreed that the current trade round should be a development round. We therefore believe that the WTO ought to be accountable for its contribution to the MDGs and should sign up to them in the same way as other international bodies. Development and poverty reduction goals should guide deliberations at the WTO, and should be an important yardstick by which the WTO is assessed. Development and poverty reduction should never be an afterthought; such issues must be to the fore. In particular, the "development round" must be assessed in terms of its contribution towards the international effort to meet the MDGs. **We urge the Government to press for regular assessment of the current round in terms of its likely contribution to meeting the MDGs. Richard Eglin at the WTO raised the possibility of the WTO's Committee on Trade and Development being given the role of monitoring the implementation of the current round's agreements.<sup>281</sup> We strongly encourage the Government to push at this partially open door and ensure that such monitoring includes assessment of developmental impact as well as progress with implementation. With the involvement of organisations other than the WTO, this would go some way towards bringing together trade and development interests at both the international and the country level.**

132. A second component of effective participation is the ability to keep up with proceedings, and express views and positions clearly. Developing countries are not helped by an over-loaded agenda and an over-ambitious timetable. There has been some increase in developing countries' negotiating capacities in recent years,<sup>282</sup> but the workload for developing countries is extremely demanding, if not practically impossible.<sup>283</sup> The capacity constraints faced in the capitals of developing countries are also severe. We urge the Government to address these issues.<sup>284</sup> **The WTO's agenda should not be expanded against the wishes of developing countries and careful consideration should be given to the wisdom of imposing tight deadlines which prevent their effective participation. If developed countries wish to expand the WTO's agenda, this must be backed up by increased resources for developing countries at the WTO, and realistic timetables for negotiation.<sup>285</sup>**

133. The Government must remain committed to providing technical assistance and capacity-building for developing countries, both in Geneva and in developing country capitals. If the right structures are in place, this can be a cost-effective way of making the

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279 WTO, Doha Ministerial Declaration, para 6 – see footnote 3.

280 Q 52 [Duncan Green, CAFOD]

281 Q 320 [Richard Eglin, WTO]

282 Q 344 [Shishir Priyadarshi, WTO]

283 Ev 31 [CAFOD memorandum]

284 Sheila Page, Overseas Development Institute, *Developing countries: Victims or participants? Their changing role in international negotiations*, 2003. Available at [http://www.odi.org.uk/iedg/publications/dev\\_countries\\_web.pdf](http://www.odi.org.uk/iedg/publications/dev_countries_web.pdf)

285 Ev 127 [World Development Movement memorandum]

WTO more development-friendly. We were impressed by the work of the Geneva-based Advisory Centre on WTO Law. The Government and especially DFID can be proud of its support for such work. We encourage the Government to consider supporting other initiatives such as regional collaboration by groups of developing countries at the WTO. But capacity-building is a long-term process which rarely achieves quick results.<sup>286</sup> And care must be taken to ensure that capacity-building and technical assistance is about providing developing countries with the knowledge and expertise to consider their options,<sup>287</sup> rather than helping them to implement policies favoured by donors.<sup>288</sup> Finally it should be recognised that problems of governance cannot be resolved simply by providing more technical assistance.<sup>289</sup>

134. Effective participation also demands that the voices of developing countries are heard and carefully listened to by the more resourceful and powerful countries. Despite undoubted improvements since Seattle, we remain doubtful that they are. Despite it being a multilateral forum, the WTO works by hard-bargaining and power politics. Practices such as mini-Ministerials exclude developing countries and their concerns. We trust that the UK will consider seriously suggestions made by developing countries,<sup>290</sup> and by others, as to how the WTO's governance structures and practices can be improved to ensure that the voices of developing countries are heard.<sup>291</sup> The Government itself must listen to developing countries' concerns too. **Patricia Hewitt has recently stated that the Government "will not accept any proposal we believe will damage the prospects of developing countries trading themselves out of poverty."<sup>292</sup> This sounds good, and is to be expected in a "Development Round", but it doesn't go far enough. The UK will have its own views on what makes for development-friendly trade rules, but the Government cannot determine developing countries' interests. It must listen to the views of developing countries.**

## Development-friendly rules

135. More than any other issue, the fundamental request made by developing countries at Doha was that the WTO must become an institution which allows and enables countries at all stages of development to benefit from, and prosper within, a framework of flexible multilateral trade rules. Behind this request is the idea that countries at different stages of development should have different rights and obligations in relation to the WTO; they should either be exempt from certain WTO rules or be granted preferential treatment in their application. The hope is that such Special and Differential Treatment (SDT) will create "a level playing field for unequal players in the multilateral

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286 Q 363 [John Burley, UNCTAD]

287 Ev 317 [Trades Union Congress memorandum]

288 Ev 270, para 11 [Bretton Woods Project memorandum] and Ev 36, para 4 [CAFOD memorandum]

289 Q 73 [Claire Melamed, Christian Aid]

290 WTO, Preparatory process in Geneva and negotiating procedure at the Ministerial conferences, Communication from Cuba, Dominican Republic, Egypt, Honduras, India, Indonesia, Jamaica, Kenya, Malaysia, Mauritius, Pakistan, Sri Lanka, Tanzania, Uganda and Zimbabwe, (WT/GC/W/471). Available at <http://www.wto.org>

291 Ev 250, para 3.1 [ActionAid memorandum]

292 Patricia Hewitt, "We will act for the World's poor", *The Guardian*, 23 June 2003, p. 16.

trading system”,<sup>293</sup> making the notion of a “Development Round” compatible with the reality of hard-bargaining.

136. SDT is hardly a new feature of the multilateral trading system. Developed countries have been able to offer trade preferences to developing, and developing countries have had more freedom to control trade or discriminate against developed countries, since the 1970s. The Uruguay Round Agreements include 155 SDT provisions for developing countries, including: specific exemptions for Least Developed Countries from restrictions on tariffs and subsidies; smaller tariff reductions for developing countries; non-reciprocity between developed and developing countries; longer transition periods in which to implement GATT/WTO agreements; and promises of assistance with implementation costs.<sup>294</sup> But developed and developing countries have become increasingly dissatisfied with the way in which SDT works. SDT has rarely led to assistance with implementing agreements, lengthy transition periods have rarely encouraged development, and by allowing opt-outs SDT has led to a fragmentation of the multilateral trading system.

137. SDT provisions may have been ineffective, but new and improved SDT has become a priority because of the increased membership and diversity of the WTO, because of the WTO’s increasing interest in legislating for behind-the-border domestic regulations, and because of the Single Undertaking.<sup>295</sup> At Doha the WTO’s membership mandated a review of SDT provisions “with a view to strengthening them and making them more precise, effective and operational.”<sup>296</sup> Members also committed themselves to providing SDT within agreements on specific issues. The deadline for the review was July 2002. This was extended to 31 December 2002, by which time developing countries had submitted over 80 proposals for amendments and improvements to existing agreements. Proposals covered issues of: preferential market access; space to follow policies that would otherwise be subject to WTO disciplines; exemptions from WTO rules requiring the adoption of harmonised regulatory or administrative disciplines; the provision of financial and technical assistance to help with implementing WTO rules; and, proposals to make SDT mandatory and legally binding.<sup>297</sup> Only 4 proposals were agreed to by the deadline and progress remains slow. Of eighty-four proposals, 14 are in principle agreed; 24 have a “greater likelihood” of being agreed or have significant “developmental value”, 38 have some chance of an “early harvest” at Cancún, and 12 are proving particularly difficult. This sounds like substantial progress, but there are questions about the developmental value of those proposals which are close to agreement, and doubts too about just how close to agreement most of the proposals are.<sup>298</sup> The Government’s view is that a positive outcome is needed to demonstrate that

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293 WTO, Proposal for a framework agreement on Special and Differential Treatment, Communication from Cuba, Dominican Republic, Honduras, India, Indonesia, Kenya, Malaysia, Pakistan, Sri Lanka, Tanzania, Uganda and Zimbabwe, (WT/GC/W/442), p. 2, para 10. Available at <http://www.wto.org>

294 Ev 6, para 27 [HMG memorandum] and Ev 29, para 7 [DTI supplementary memorandum]

295 Q 498 [Rob Davies, South African National Assembly] and ICTSD, UNCTAD and UNDP, Making special and differential treatment more effective and more responsive to development needs, Report of a seminar held on 6 and 7 May 2003, p. 9—available at <http://www.ictsd.org/dlogue/2003-05-06/Dialogue-draft-meeting-report.pdf>

296 WTO, Doha Ministerial Declaration, para 44 – see footnote 3.

297 Ev 6, para 29 [HMG memorandum]

298 Christian Aid, What is on the table? An analysis of proposals for changes to Special and Differential Treatment at the WTO, June 2003. Available at <http://www.christian-aid.org.uk/indepth/trade.htm>

multilateral rules can be flexible enough to accommodate countries at all stages of development and to help developing countries to participate in the multilateral trading system.<sup>299</sup>

138. SDT is a complex and politically sensitive matter at the WTO, with debates touching on the purpose of the WTO, the nature of multilateralism and multilateral rules, the meaning and practice of sovereignty in a globalising world, the relationship between liberalisation and development, and whether and how to differentiate between developing countries. These are not issues which we can settle, but they are extremely important issues which the international community, and the international development community especially, must address. Such issues are perhaps made most concrete in discussions about SDT and “policy space”. In this context, policy space refers to the latitude which a country has to pursue within its borders policies which have been determined through its political processes. Policy space is sovereignty. In this respect, all countries have the right to policy space. But in an increasingly globalised world where the effects of national policies such as agricultural subsidies cross borders, sovereignty and policy space may need to be constrained. Indeed by joining the WTO, countries have agreed to pool some of their sovereignty. The central questions are: what is, and what should be, the relationship between the WTO and policy space; and what type of policy space is needed to enable the multilateral trading system to function to the benefit of all, whilst preventing its fragmentation?

139. In early 2003 the publication of a book called “Making global trade work for people” caused some excitement amongst NGOs and others.<sup>300</sup> A team of authors led by Kamal Malhotra produced the book through extensive and comprehensive discussions with a wide range of stakeholders, and listened carefully to many southern voices. The production if not the message of the book was supported by the UNDP. The book’s starting point was that the purpose of trade should be to enhance human development. The central message was that if development really mattered, the global governance of trade would not be as it is. The argument is that a development-focused WTO should function to manage the interface between different national systems – providing policy space and flexibility—rather than reducing national institutional differences.<sup>301</sup>

140. The WTO chose not to participate in the book’s launch, but Dr. Supachai did offer a response to its critique. In his view, the WTO is not in the main about reducing national institutional differences, and in the cases where this does happen—when the WTO moves away from its core market access issues and into areas such as services, TRIPS, TRIMS and maybe some of the new issues (his examples)—this is only possible when sovereign members make the decision to surrender policy space or exchange it for other benefits within negotiations.<sup>302</sup> Additionally, Dr. Supachai stressed to us that the

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299 Ev 28, para 2 [DTI supplementary memorandum]

300 UNDP state on their web-site that “The responsibility for opinions expressed in this book rests solely with its authors. Publication does not constitute an endorsement by the United Nations Development Programme or the institutions of the United Nations system or the Heinrich Boll Foundation, Rockefeller Brothers Fund, Rockefeller Foundation, or Wallace Global Fund.”

301 Dani Rodrik, *The global governance of trade as if development really mattered*, UNDP, 2001, p. 7 -see footnote 42.

302 Q 342 [Supachai Panitchpadki]

principle of national treatment does not necessitate regulatory change, merely that domestic and foreign firms are treated the same.

141. Oxfam meanwhile asserts that: “Multilateral trade rules now constrain the development of national policies in a wide range of areas that are vital to poverty reduction.”<sup>303</sup> Particularly for the trade liberalisation pessimists, policy space is such an important resource that it should not be surrendered or exchanged by developing countries within multilateral trade negotiations. There is no consensus as to what trade policies are most effective for development and poverty reduction. It is a complex picture, in which the effects of trade liberalisation are highly country-specific. Developing countries should therefore be allowed to use—subject to the constraint of not unduly harming other countries’ interests—whichever policies they regard as suitable for the pursuit of their developmental priorities. For some countries this may include selective interventions to protect infant industries, to move exporters towards products with greater market and productivity dynamism, or subsidies to encourage linkages with other sectors of the domestic economy.<sup>304</sup> Patricia Hewitt explained recently that: “Just as we all have a right to good health, but don’t all need the same medicines, there is no one-size fits all solution in trade. Different countries have different needs.”<sup>305</sup> We would go further. **Even if there were greater consensus on what constitutes the best trade policies for poverty reduction, it is a “big step” from recommending these policies, to enacting international agreements which prohibit governments from using other policies.**<sup>306</sup> **Each country, as Patricia Hewitt states, has “the sovereignty to make their own choices.”**<sup>307</sup> **Sovereign states may have the right to surrender or exchange policy space, but such exchanges must only ever take place on a level playing field where developing countries can participate effectively. The WTO is not such a place.**

142. It might be argued that policy space matters only to the extent that the policies selected are effective in reducing poverty. We disagree. Local ownership of policies matters hugely. Multilateral agreements must take great care not to undermine emerging democratic processes. The right to policy space is fundamental; how such space is used is a second order issue. Pascal Lamy explained to us, in relation to the Singapore Issues, that: “Of course it is putting a constraint on their governance systems, but I think that we would all agree that part of the development problem is improving the governance system. If this can be done as a sort of trade-off, in the WTO not plugging extremely sophisticated systems but the sort of basic systems which improve the level of economic governance of these countries, then it is a good deal for everybody.”<sup>308</sup> Improving developing countries’ governance is very important, and is a reasonable request for donors to make of developing country aid recipients.<sup>309</sup> But whereas no country has a right to aid, all countries have the right to pursue—within

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303 Ev 48, para 40 [Oxfam memorandum]

304 Ev 115 [Save the Children memorandum]

305 Patricia Hewitt, Progressive globalisation—see footnote 37.

306 Ev 121 [World Development Movement memorandum]

307 Patricia Hewitt, Progressive globalisation—see footnote 37.

308 Q 153 [Pascal Lamy memorandum]

309 Such capacity-building is not a time-sensitive issue for Cancún, but we will address it in a post-Cancún report.

limits set by the international community and the UN—their priorities and policies. **Aid decisions do and will take account of how well policy space is used, but the right to pursue nationally-determined policies is not something to be granted to developing countries on the condition that they use it in a certain way (conditionality).<sup>310</sup> Such treatment of policy space is undemocratic. The Government, along with other donors and developing countries themselves, needs to consider carefully the limits of effective and legitimate conditionality.**

143. The hope held by many is that new and improved SDT at the WTO will help developing countries to protect and perhaps regain their policy space, and will even in Prime Minister Zenawi's words, "empower the poor countries, particularly the Least Developed Countries, to design their own trade policies".<sup>311</sup> The fear held by some, including the UK, is that some SDT proposals will cut developing countries out of the multilateral trading system, to the detriment of developing countries and the multilateral trading system.<sup>312</sup>

144. Determining the amount of flexibility needed for an effective multilateral trading system is a complex issue. Equally challenging is the issue of determining which countries should be eligible for different degrees of SDT. Currently there are three groups of countries which the WTO recognises for SDT purposes: the developed, the developing, and the least developed. The LDC category is defined by the UN, but countries decide for themselves whether they are "developing". Even for LDC status, countries which do develop have a big incentive to lobby to ensure that they are not reclassified out of SDT-eligibility. The result of such a situation is that Special and Differential Treatment is poorly differentiated, and that the developed world's generosity is spread very thinly. In addition, developed countries have managed to exclude big poor countries such as India and Pakistan from LDC status for dubious reasons. This is clearly a highly ineffective way of delivering SDT, but developing countries are extremely resistant to change. In their view, SDT is not costly for the developed world—and according to trade liberalisation optimists ought to be beneficial—and greater differentiation would serve simply to undermine one of the few strengths which developing countries enjoy at the WTO, the weight of numbers.

145. Progress on SDT, including on the issues of differentiation and graduation out of eligibility is essential. We are pleased that DFID, along with other organisations including the International Centre for Trade and Sustainable Development, is playing a leading role in stimulating discussion, and considering a range of options for the more effective delivery of SDT.<sup>313</sup> We are not in a position to endorse one or other of the options, but we can state some general principles which ought to be followed. These are:

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310 This raises important issues of policy coherence between the IFIs and the WTO which we will return to.

311 Q 83 [H.E. Meles Zenawi, Prime Minister of the Federal Republic of Ethiopia]

312 Q 42 [Elaine Drage, DTI]

313 ICTSD, UNCTAD and UNDP, Making special and differential treatment more effective and more responsive to development needs – see footnote 295; Bernard Hoekman (World Bank) and Susan Prowse (DFID), More favourable treatment for developing countries in the WTO: Policy options for a way forward, Paper for a high-level meeting on trade and development, Copenhagen, 27 May 2003 – available at <http://www.um.dk/udenrigspolitik/handel&udvikling/background/SDT-paper.pdf>

- a) **SDT ought not to be primarily about opt-outs or longer time periods to implement rules. Development-friendly rules to which all countries can agree are preferable to opt-outs. Longer transition periods or assistance with implementation do not make bad rules good. If agreement cannot be reached on rules in a particular issue area, it may be that the WTO is not the appropriate forum for dealing with such issues.**
- b) **When countries cannot implement new rules to which they have agreed, “positive SDT” should be employed to enable them to do so.<sup>314</sup> Assistance should be based on developmental status and resource needs. Transition periods should be based on development milestones.**
- c) **SDT must not be something which countries have to offer concessions in other areas to gain. Still less should developing countries have to make repeated concessions to gain SDT for each and every agreement.<sup>315</sup> To prevent this happening there must be – as some developing countries have suggested<sup>316</sup>—a framework agreement which establishes the fundamental role of SDT in a development-friendly WTO.**
- d) **SDT should be mandatory, legally binding and enforceable through the WTO.<sup>317</sup> Any other arrangement would suggest that SDT and the needs of developing countries are not central to the WTO.**
- e) **SDT should be more differentiated, with clear, open and transparent mechanisms for effectively determining the needs of developing countries,<sup>318</sup> for monitoring the implementation, impact and effectiveness of SDT, and for graduating countries from SDT as they develop. In this way, SDT could fulfil its promise of being “a tool for development, adjustment or integration depending on the situation and capacities of individual countries”.<sup>319</sup>**

146. If developing countries are to benefit from the multilateral trading system, effective SDT is crucial. It is only in this way that the right balance between multilateral cooperation and sovereign policy space can be achieved. If SDT can be tailored to the needs and priorities of individual countries, and if local ownership of poverty reduction strategies can be made a reality which is supported by the IFIs, there may – despite the neglect of trade in Poverty Reduction Strategy Papers<sup>320</sup>—be exciting possibilities ahead

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314 Chris Stevens, “If one size doesn’t fit all, what does? Rethinking special and differential treatment in the World Trade Organization”, IDS Bulletin, volume 34, no. 2, p. 6.

315 Q 65 [Claire Melamed, Christian Aid]

316 WTO, Proposal for a framework agreement on Special and Differential Treatment – see footnote 293.

317 ICTSD, UNCTAD and UNDP, Making special and differential treatment more effective and more responsive to development needs, p. 14 – see footnote 295.

318 Bernard Hoekman (World Bank) and Susan Prowse (DFID), More favourable treatment for developing countries in the WTO, p. 9 – see footnote 313.

319 ICTSD, UNCTAD and UNDP, Making special and differential treatment more effective and more responsive to development needs, p. 12—see footnote 295.

320 Overseas Development Institute and Christian Aid, A review of the trade and poverty content in PRSPs and loan-related documents, March 2003 – available at [http://www.odi.org.uk/iedg/projects/christian\\_aid\\_paper.pdf](http://www.odi.org.uk/iedg/projects/christian_aid_paper.pdf); and, Christian Aid, Too hot to handle?: The absence of trade policy from PRSPs, April 2003 – available at <http://www.christian-aid.org.uk/indepth/0304toohot/toohot.pdf>

in integrating the trade and development agendas at both the international and national levels.<sup>321</sup>

## Policy coherence, political commitment and leadership

147. There is much to be done if Cancún is to be part of a genuine development round. The stakes are high, including not only the development prospects and livelihoods of billions of people, but also the future of multilateralism in trade and international relations more generally. Success at Cancún would consist of: substantial progress with reducing the distortions in agriculture; a successful outcome to the TRIPS and public health stalemate; and agreement to act to make SDT a central component of the WTO. If these goals are achieved, the international community will have done a good job. If they are not, WTO members will have failed to live up to their Doha promises.

148. We have made a number of specific recommendations and suggestions as to what the Government should do—in large part through the EU—to maximise the chances of achieving success at Cancún and of securing a genuine development round. We have two more general recommendations to make; on coherence, and on leadership. It is the Government's view, and ours too, that international trade has the potential to be a win-win game. Therefore there should be no fundamental contradiction between policies which favour international development and policies which favour European agricultural, industrial or consumer interests. So policy coherence across UK Government Departments and between European Commission Directorates General should be achievable.

149. It was significant that the Government's memorandum to the inquiry was jointly produced by DFID, DEFRA, the DTI, the Foreign Office and the Treasury. And we were very pleased to take evidence from Patricia Hewitt and DTI and DEFRA officials as well as Baroness Amos and DFID officials. This is indicative of the serious efforts made to ensure that UK policy on trade is coherent and that government is joined-up. But we do have some concerns. It is not easy to see inside inter-Departmental relations, but we know that Departments do not always agree. We hope that the inter-Departmental disputes which Clare Short recently exposed concerning the sugar regime,<sup>322</sup> and some time ago revealed as regards the export to Tanzania of an air traffic control system,<sup>323</sup> were exceptions to a rule of inter-Departmental harmony. On the Singapore Issues too, we wonder where the balance of power lies. On a positive note, we welcome the fact that the DTI and indeed HM Treasury are increasingly development-minded. We are less concerned about which Department is in the lead, than that development is at the forefront of the Government's thinking as regards a "Development Round". **Greater transparency about how various interests are balanced in the practice of joined-up government would be very welcome, to us and to the public whose interests we represent and balance.**

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321 We intend to return to these issues in our post-Cancún report.

322 "Short attacks government sugar lobby", BBC News Online, 10 June 2003—see footnote 140.

323 Defence, Foreign Affairs, International Development and Trade and Industry Committees, First Joint Report of Session 2001-02, Strategic export controls: Annual report for 2000, licensing policy and prior parliamentary scrutiny, HC718, paras 119-135 – available at <http://www.publications.parliament.uk/pa/cm200102/cmselect/cmintdev/718/718.pdf>

150. A second general recommendation relates to leadership. The Government, largely as a result of DFID's work since 1997 under Clare Short, has an excellent reputation for international development. The UK has been one of the most enthusiastic proponents of a "Development Round". Without real leadership, the Round is in danger of collapsing. Failure at Cancún may tempt the USA to move further away from multilateralism in trade and other areas. The Government and the Prime Minister have a responsibility to do their utmost to prevent this happening. They should seize the opportunity to provide the necessary leadership. This is an opportunity not to be missed, and a responsibility not to be shirked.

151. The Prime Minister stated in May 2003 that "the biggest thing happening in the next six months is world trade."<sup>324</sup> War in Iraq has understandably absorbed his energies recently, but nevertheless there does seem to have been a shortfall of effort on trade. In Europe, Margaret Beckett has no doubt done as well as she could given the Franco-German compromise on CAP reform reached in November 2002. It is disappointing that the UK did not object more forcefully to this initial compromise. Given the UK's support of the USA in Iraq, the Prime Minister must have accumulated plenty of political capital with the USA. Now is the time to spend it, persuading the USA on TRIPS and public health, and building bridges between the EU and the USA on agriculture, so that the interests of developing countries are not drowned out by transatlantic arguments.

152. A genuine development round can still be secured if leadership and political commitment are forthcoming. The UK must not be found wanting. Neither must other countries. All that is needed is that the WTO's members honour the promises they made at Doha.

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324 Reported in article by Patricia Hewitt, "We will act for the World's poor", *The Guardian*, 23 June 2003, p. 16.

# Conclusions and recommendations

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## Introduction

1. We disagree strongly with those who would like to see Cancún fail; reflection and reform are desirable, but failure at Cancún would be very bad news for developing countries. (Paragraph 4)

## A “Development Round”?

2. The deadlines for resolving issues which were supposed to be resolved at an early stage—TRIPS and public health, SDT, Implementation—have been missed. Early resolution of these issues was part of the mandate delivered at Doha, and was supposed to be a key component of a development round. [...] The resolution of Implementation issues should not, as paragraph 47 of the Doha Ministerial Declaration insisted, be a bargaining chip in this so-called “Development Round.” Regrettably, it is. (Paragraph 36)

## Agriculture

3. Additionally, tariffs which developing countries themselves maintain restrict South-South trade and regional integration, and result in lost potential gains of between \$140 and \$390 billion per year. (Paragraph 44)
4. By making agriculture more responsive to market signals and less trade-distorting, such an outcome would reduce significantly North-South dumping of agricultural produce, and pave the way for increased South-North and South-South export of agricultural goods (Paragraph 47)
5. If there is to be a development-friendly outcome on agriculture, both the USA and the EU must set binding deadlines to reduce and in time eliminate the trade-distorting support they provide to their farmers, and to eliminate all forms of export subsidies. (Paragraph 50)

## *The EU, CAP reform and the WTO*

6. We share the disappointment felt by DFID, and the Lords’ Committee on European Union, that the Commission has paid insufficient attention to the developmental impacts of CAP and CAP reform proposals, and trust that the Government has been doing its utmost to encourage its European partners to take seriously the external impacts of domestic policies. (Paragraph 52)
7. We understand that the politics of CAP reform are complex, and welcome the recent agreement. The agreement – albeit a watered down version of the Commission’s proposals—and the notion of decoupling which is central to it, are important steps towards the ending of subsidies. But Green Box subsidies, although classified as “minimally trade-distorting”, will continue to distort production and trade. Rural development payments may be less distorting than

price support or direct payments, but they still enable farmers to shelter from the winds of market forces, at the expense of farmers in developing countries. (Paragraph 58)

8. At long last some progress has been made on CAP reform. But the UK must continue to exert pressure on its European partners—particularly France—to live up to the letter and the spirit of their WTO commitments, to reduce all agricultural support rather than only that which is defined as production and trade-distorting. Fifteen or twenty-five members of the European Union must not allow the fate of their Common agricultural policy to be determined by President Chirac, and sealed in horse-trading between France and Germany. In addition, the UK must insist, when the EU finally does reduce the amount of trade-distorting support it provides to agriculture, that the reductions include products of export interest to developing countries. The UK and the EU should, within the EU and the WTO respectively, be pressing for discussions on capping the Green Box, as proposed by a number of developing countries. (Paragraph 59)

### *The losers from agricultural liberalisation*

9. The EU has certain moral, historical and legal responsibilities to its ACP partners. The WTO requires that if the EU expands it must compensate other WTO members for loss of preferences. In much the same way, the WTO should require that the EU consults adequately and compensates appropriately those countries whose preferences are eroded. In the case of sugar, preference losers should also be provided with assistance to either become more efficient sugar producers or to diversify into other areas of economic activity. (Paragraph 68)
10. The case of sugar illustrates a point which we believe should be adopted as a general principle of trade liberalisation; the poor should not pay for the poorest. In the case of sugar, full liberalization is preferable, but if there is only partial reform it should be managed so that market share is redistributed to efficient producers in poor countries at the expense of inefficient EU producers rather than solely at the expense of inefficient ACP producers. If development as well as liberalisation is to be a multilateral endeavour, sharing the short term costs of adjustment, or “burden-sharing”, must become a reality rather than simply rhetoric. Poor and vulnerable countries should not bear the burden of agricultural reform in the North. But whilst the needs of preference-holders must not be neglected, such concerns do not excuse the continued use of distorting agricultural policies by the EU, the USA and other developed countries. (Paragraph 69)
11. WTO members must honour the commitments made in the Marrakesh Decision, and restated at Doha, to help the NFIDCs as well as the LDCs to maintain their food security whilst world agricultural markets adjust. (Paragraph 70)
12. We urge the Government to continue in its efforts both to promote rules and instruments such as strategic or Special Products and the Special Safeguard Mechanism, and to provide aid and other assistance, to enable developing

countries to safeguard their food security needs, and—particularly whilst the North stalls on agricultural liberalisation—to protect themselves from dumping. (Paragraph 71)

### *The Harbinson Draft*

13. There should be a complete ban on the use of export subsidies, and the abusive use of export credits and food aid, from day one of an Agreement on Agriculture. (Paragraph 75)
14. We urge the UK Government, through the EU, to do its utmost to ensure that developing countries are not forced to open up their markets until developed countries eliminate the practices which lead to dumping. There may be value in considering a “balancing mechanism” which would allow developing countries to protect their domestic markets in the event that distortions caused by domestic and export subsidies are not eliminated. And, if this is to be a genuine development round, it seems to us that the implementation schedule for reducing tariffs should be based not on politically negotiated and somewhat arbitrary time-frames but on clear developmental indicators. (Paragraph 76)
15. Any agreement on agriculture must, at a minimum, pass two developmental tests; will it stop dumping, and will it allow developing countries to protect themselves from any continuation of dumping? On both counts, despite making some progress, the Harbinson draft fails, as will the CAP reform agreed recently. A development-friendly outcome on agriculture must pass these tests, must not make the poor pay for the poorest, and must: a) reduce tariffs and tackle tariff peaks and escalation; b) extend duty-free and quota-free access to all LDC exports into all developed countries; c) ensure that tariff barriers are not replaced by other protectionist barriers; d) include binding timetables to reduce and in time eliminate domestic support and export subsidies of all types; and, e) compensate and assist current preference holders and ensure the food security of the NFIDCs and LDCs. (Paragraph 77)

## **Beyond agriculture: Other issues for Cancún**

### *Non-agricultural market access: Providing real market access?*

16. Any attempt to define a development-friendly outcome for non-agricultural market access on the basis of the highly ambiguous Doha Ministerial Declaration is fraught with difficulty. But at a minimum, we believe that a development-friendly outcome would make substantial progress on reducing tariffs, tackle tariff peaks and tariff escalation, address the issue of preference erosion, and acknowledge the developmental value of less than full reciprocity. (Paragraph 84)
17. The proposal includes longer implementation periods and more flexibility for developing countries, and no reduction commitments for LDCs. (Paragraph 85)

18. We urge developed countries to keep to their Doha promises, and to respond positively to the calls from LDCs for “binding commitments on duty-free and quota-free market access for all products from LDCs on a secure, long-term and predictable basis with realistic, flexible and simplified rules of origin to match the industrial capacity of LDCs in order to raise their market share in world trade.” The USA’s Africa Growth and Opportunity Act and the EU’s Everything But Arms agreement are important steps in opening up markets. But more should be done, and more should be done on a multilateral basis, to provide developing countries – including non-LDCs such as Kenya and India where some half a billion people live on less than a dollar a day—with enhanced market access. (Paragraph 87)
19. The Government must, through the EU, actively push the case for offering real market access to developing countries, delivered and guaranteed on a multilateral basis, with special attention paid to tariff peaks and escalation. The erosion of preferences must be addressed and the principle of less than full reciprocity, based on a country’s developmental state, should be adopted. (Paragraph 88)

*The Singapore Issues: Overloading the agenda?*

20. Tackling hardcore cartels and restrictive business practices is important. But developing countries, including the LDCs, lack the exposure to and experience with competition law. This has hampered their participation in discussions. We ask the Government to provide aid for increased technical assistance to enable their effective participation. (Paragraph 92)
21. We have seen no evidence that multilateral or bilateral investment agreements increase the flow of investment to developing countries. [...] In the absence of evidence, we fail to see how the Government can claim that a new multilateral agreement on investment would increase the flow of investment to developing and Least Developed countries, and contribute to a genuine development round. However, we do believe that the application of good governance and the rule of law is important for all countries. (Paragraph 93)
22. We are not persuaded that an agreement on investment would be a driver for development, or that the WTO is the right place to conclude an investment agreement, especially as part of a development round. In the absence of evidence to suggest that multilateral rules will increase investment flows to developing countries, and in the face of persuasive arguments that an investment agreement at the WTO might not be developmentally-optimal, we were pleased to hear Baroness Amos acknowledge that the Singapore Issues are not a priority. We trust this means that the Government no longer supports the launch of WTO negotiations on investment in this round. (Paragraph 96)
23. The UK Government is committed to improving the capacity of developing countries to negotiate effectively in the Doha Round. In responding to suggestions that this valuable commitment might be undermined by including the Singapore Issues on the agenda, DFID states that the “significant benefits”

which the Issues offer for developing countries “should be set against the costs of negotiating and implementing the proposed agreements.” In the absence of reliable estimates of either the costs or the benefits, and in the face of opposition from many developing countries who argue that pushing the Singapore Issues will not lead to a genuine development round, we urge the Government not only to stop promoting the inclusion of the package of Singapore Issues on the WTO’s negotiating agenda, but to persuade its EU partners and the Commission to do so too. (Paragraph 98)

24. The chances of a genuine development round being delivered, and of Cancún being a success, are not improved by overloading an already crowded agenda. A genuine development round needs to focus on issues which are – and are felt by the majority of developing countries to be—development priorities. (Paragraph 100)
25. Pushing for the inclusion of the Singapore Issues on the post-Cancún agenda is excessively hard bargaining. We trust that the Government’s move to disassociate itself from supporting the Singapore Issues signals that the views of developing countries have been heard and acted upon. If there is no support for the Singapore Issues, they surely must be dropped. (Paragraph 101)

*TRIPS: Enabling public health needs to be met?*

26. Back in November 2001, the declaration on TRIPS and public health was seen as a major gain for developing countries. Since then, as with so much of the promised “Doha Development Agenda”, deadlines have been missed and hopes have been disappointed. All that was and still is needed for a development-friendly outcome on TRIPS and public health is for all WTO members to honour the letter and spirit of their Doha commitments. In this case the blame for failure lies squarely with the USA; it was the only country that would not agree to a compromise agreement in December 2002. [...] There does need to be a balance between enabling legitimate public health needs to be met, and securing the rights of ownership and maintaining the incentives for innovation. Doha had that balance right. The US Government, in its unwillingness to stand up to its powerful pharmaceutical lobby, has the balance wrong, to the detriment of the public health needs of developing countries. And US opposition to agreement on TRIPS and public health puts Cancún and the whole “development agenda” at risk. Now that the EU has moved on agriculture, the USA should move on TRIPS and public health. (Paragraph 106)
27. A satisfactory resolution on TRIPS and public health prior to Cancún, not as part of a new exchange of concessions, is hugely important. As well as enabling developing countries to better meet their public health needs, agreement would go some way to restoring their faith in the WTO process and the ability of developed countries to keep to their promises. (Paragraph 107)
28. Oxfam’s proposal to establish a mechanism for determining and extending transition periods for individual developing countries on the basis of the achievement of agreed development milestones makes good sense. This

principle could, if related carefully to the MDGs and to countries' MDG commitments, play an important role across the multilateral trading system and beyond. (Paragraph 108)

*GATS: Maintaining the right to regulate?*

29. The GATS Agreement differs from most other WTO agreements in two ways. First, it is designed to work through a bottom-up or positive-list approach. Countries choose which sectors to liberalise, and to what extent to liberalise them. Second, negotiations proceed through requests and offers. Countries make requests to other countries to open up particular sectors, and countries make offers to open up particular sectors (Paragraph 111)
30. We are concerned about the ability of developing countries to handle negotiations on GATS and urge the UK and its developed country partners to seek to ensure that developing countries can participate effectively. A rushed process, with developing countries unable to follow negotiations, will not make for a development-friendly outcome, and would be detrimental to the long-term health of the multilateral trading system. (Paragraph 118)
31. Along with UNCTAD, the Government is to be applauded for its commitment to assessing GATS and for its tentative acknowledgement that there may be some lessons to be learnt from how GATS operates in practice. There is perhaps some hope that the “dialogue of the deaf” on GATS might be replaced by a more useful conversation. NGOs have a responsibility in this regard too; to portray GATS and its implications as fairly and accurately as possible, and to shift the balance of their commentary from outright condemnation to constructive advocacy. (Paragraph 119)
32. We urge the Government and the EU to consider seriously developing country requests on Mode 4. (Paragraph 120)
33. If attention is paid to how GATS works in practice, it could fulfil its promise of being the WTO's most development-friendly agreement. It could provide a model for other agreements. But for this to happen, WTO members need to ensure that the development-friendly architecture of GATS is translated into development-friendly outcomes. Otherwise GATS could join the TRIPS Agreement in being regarded as little more than a burden for many developing countries. The UK and the EU have a huge responsibility. If GATS is to fulfil its promise, the UK and the EU must ensure that the right to regulate includes the right to regulate for development as well as to provide a welcoming business environment. They must ensure that this right is supported by the IFIs. They must not put undue pressure on developing countries to make liberalisation commitments. They must seek to address capacity constraints. And they must—in return for market access commitments for their service providers—make progress on Mode 4. (Paragraph 121)

### *Commodities: Sustaining livelihoods?*

34. The WTO is not central to tackling the commodity crisis, but a development-friendly agreement on agriculture which reduced tariffs, tackled tariff escalation and provided processed coffee and other goods from developing countries with easier access to Northern markets, would enable countries to better address the crisis. This illustrates the need for coherent and coordinated policies at international and national levels. Donors should commit themselves to assisting commodity-dependent countries and farmers to increase their productivity, to add more value, and to diversify their activities. And, to increase coherence further, serious consideration should be given to linking the debt service schedules of commodity-dependent LDCs to changes in commodity prices which are beyond their control. (Paragraph 127)

## **Prioritising development**

### *Effective participation by developing countries*

35. We applaud the Government for the lead it has taken in supporting the assessment of particular agreements and the round as a whole. The Government must ensure that developing countries are fully involved in designing and carrying out such assessments. Without appropriate assessments and predictions of impact, developing countries cannot participate effectively in the multilateral trading system. Neither can they follow DFID's example of predicting, pre-empting and protecting the vulnerable from the effects of trade liberalisation. (Paragraph 130)
36. We urge the Government to press for regular assessment of the current round in terms of its likely contribution to meeting the MDGs. Richard Eglin at the WTO raised the possibility of the WTO's Committee on Trade and Development being given the role of monitoring the implementation of the current round's agreements. We strongly encourage the Government to push at this partially open door and ensure that such monitoring includes assessment of developmental impact as well as progress with implementation. With the involvement of organisations other than the WTO, this would go some way towards bringing together trade and development interests at both the international and the country level. (Paragraph 131)
37. The WTO's agenda should not be expanded against the wishes of developing countries and careful consideration should be given to the wisdom of imposing tight deadlines which prevent their effective participation. If developed countries wish to expand the WTO's agenda, this must be backed up by increased resources for developing countries at the WTO, and realistic timetables for negotiation. (Paragraph 132)
38. Patricia Hewitt has recently stated that the Government "will not accept any proposal we believe will damage the prospects of developing countries trading themselves out of poverty." This sounds good, and is to be expected in a

“Development Round”, but it doesn’t go far enough. The UK will have its own views on what makes for development-friendly trade rules, but the Government cannot determine developing countries’ interests. It must listen to the views of developing countries. (Paragraph 134)

### *Development-friendly rules*

39. Even if there were greater consensus on what constitutes the best trade policies for poverty reduction, it is a big step from recommending these policies, to enacting international agreements which prohibit governments from using other policies. Each country, as Patricia Hewitt states, has “the sovereignty to make their own choices.” Sovereign states may have the right to surrender or exchange policy space, but such exchanges must only ever take place on a level playing field where developing countries can participate effectively. The WTO is not such a place. (Paragraph 141)
40. Aid decisions do and will take account of how well policy space is used, but the right to pursue nationally-determined policies is not something to be granted to developing countries on the condition that they use it in a certain way. Such treatment of policy space is undemocratic. The Government, along with other donors and developing countries themselves, needs to consider carefully the limits of effective and legitimate conditionality. (Paragraph 142)
41. SDT ought not to be primarily about opt-outs or longer time periods to implement rules. Development-friendly rules to which all countries can agree are preferable to opt-outs. Longer transition periods or assistance with implementation do not make bad rules good. If agreement cannot be reached on rules in a particular issue area, it may be that the WTO is not the appropriate forum for dealing with such issues. (Paragraph 145a)
42. When countries cannot implement new rules to which they have agreed, “positive SDT” should be employed to enable them to do so. Assistance should be based on developmental status and resource needs. Transition periods should be based on development milestones. (Paragraph 145b)
43. SDT must not be something which countries have to offer concessions in other areas to gain. Still less should developing countries have to make repeated concessions to gain SDT for each and every agreement. To prevent this happening there must be – as some developing countries have suggested—a framework agreement which establishes the fundamental role of SDT in a development-friendly WTO. (Paragraph 145c)
44. SDT should be mandatory, legally binding and enforceable through the WTO. Any other arrangement would suggest that SDT and the needs of developing countries are not central to the WTO. (Paragraph 145d)
45. SDT should be more differentiated, with clear, open and transparent mechanisms for effectively determining the needs of developing countries, for monitoring the implementation, impact and effectiveness of SDT, and for

graduating countries from SDT as they develop. In this way, SDT could fulfil its promise of being “a tool for development, adjustment or integration depending on the situation and capacities of individual countries”. (Paragraph 145e)

*Policy coherence, political commitment and leadership*

46. Greater transparency about how various interests are balanced in the practice of joined-up government would be very welcome, to us and to the public whose interests we represent and balance. (Paragraph 149)

## Glossary<sup>325</sup>

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### **African, Caribbean and Pacific (ACP)**

Group of 71 African, Caribbean and Pacific countries whose partnership with the EU has been defined in a series of agreements, the latest being the Cotonou Agreement.

### **Amber box**

Domestic agricultural support measures – income support and production subsidies - which distort production and trade (with a few exceptions) fall into the “amber box”. These subsidies are subject to reduction commitments under the WTO’s Agreement on Agriculture.

### **Blue box**

Domestic agricultural support measures regarded as exceptions to the general rule that all subsidies linked to production must be reduced or kept within defined minimal levels. Covers payments directly linked to land size or livestock as long as the activity being supported limits production.

### **Cairns Group**

Comprises 18 developing and industrial agricultural exporting countries which lobby for agricultural trade liberalisation. Formed in 1986 in Cairns, Australia, it includes: Argentina, Australia, Bolivia, Brazil, Canada, Chile, Colombia, Costa Rica, Fiji, Guatemala, Indonesia, Malaysia, New Zealand, Paraguay, Philippines, South Africa, Thailand and Uruguay.

### **Common Agricultural Policy (CAP)**

The CAP is the EU’s system of domestic support, export subsidies and tariffs which was designed to support and protect European agriculture. It is now supposed to provide landscape amenity and environmental benefits too.

### **Compulsory licensing**

Authorization by a government for a government or company to make and sell a product (such as a drug) without the permission of the patent holder. Compulsory licenses are generally issued on the basis of public interest, such as for reasons of public health or defence.

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<sup>325</sup> This glossary has been constructed using a range of sources including: Making global trade work for people; DFID’s Departmental Report for 2003; the report of the Commission on Intellectual Property Rights; and the WTO’s website.

## **Confederation of British Industry (CBI)**

### **Decoupling**

The severing or weakening of the link between agricultural support and production. The purpose of decoupling is to enable farmers to be supported in ways which do not distort production or trade, and which are WTO-compliant. May include degressive modulation (see below).

### **Degressive modulation**

A way of decoupling (see above) which reduces support provided to the largest (degressive) farms and instead uses these funds to encourage small farmers to undertake rural development and environmental measures (modulation).

## **Department for International Development (DFID)**

## **Department of Trade and Industry (DTI)**

### **Development box**

Measures proposed to give developing countries the flexibility needed to enhance domestic agricultural production for home consumption and to take other measures needed to ensure food security, protect farmer livelihoods and reduce poverty.

### **Dumping**

Occurs when goods are exported, with the help of explicit or implicit subsidies, at a price less than their market value, generally meaning that they are exported to a given market for less than the price at which they are sold in the home market or third-country markets, or at less than production cost. Dumping of Northern produced agricultural surpluses on world markets and directly into Southern countries (for example through food aid), depresses prices and reduces the incentive for Southern farmers to produce and export.

## **Everything But Arms Agreement**

The name given by the EU to the package it offered to the Least Developed Countries in 2001. From 2002, it eliminated tariffs and quotas on all of their exports – except arms, sugar, rice and bananas. From 2009, it will be everything but arms.

## **General Agreement on Tariffs and Trade (GATT)**

A multilateral forum for trade discussion and negotiation aimed at encouraging trade among its members through the reduction of trade barriers. It led to a series of trade agreements, the first of which was in 1947. The Uruguay Round, completed in 1994, created the World Trade Organization which superseded the GATT in 1995.

### **General Agreement on Trade in Services (GATS)**

WTO agreement concluded at the end of the Uruguay Round. It provides a legal framework for trade in services and the negotiated, progressive liberalization of regulations that impede this. It covers areas such as transport, investment, education, communications, financial services, energy and water services and the movement of persons.

### **Green box**

Domestic agricultural support measures that are expected to cause little or no trade distortion. The subsidies have to be funded by governments but must not involve price support. Environmental protection subsidies are included. No limits or reductions are required by the WTO for such measures.

### **Intellectual Property Rights (IPRs)**

These secure ownership and control over the use of knowledge. They attempt on the one hand to maintain incentives for technological invention by protecting the profits of the rights holders and on the other hand to promote innovation by facilitating the transfer and use of new inventions.

### **International Financial Institutions (IFIs)**

The International Monetary Fund and the World Bank.

### **Least Developed Countries (LDCs)**

Forty-nine countries that have been identified by the UN and recognised by the WTO as 'least developed' in terms of their low GDP per capita, their weak human assets and their high degree of economic vulnerability.

### **Liberalisation (of trade)**

The process of reducing tariffs and other restrictions on international trade (see also National Treatment). Multilateral liberalisation is that which is achieved by many countries through negotiation and cooperation (see also Most-Favoured-Nation).

### **Millennium Development Goals (MDGs)**

At the UN General Assembly in 2000, governments committed to achieving the following goals by 2015: eradicating extreme poverty and hunger, achieving universal primary education, promoting gender equality and empowering women, reducing child mortality, improving maternal health, combating HIV/AIDS, malaria, and other diseases, ensuring environmental sustainability and developing a global partnership for development.

**Modalities**

An agreed framework upon which trade negotiations can be based. May include targets, including numerical targets for achieving the objectives of the negotiations as well as issues relating to rules.

**Mode 4**

One of four modes of supply identified under GATS to classify transactions based on the territorial presence of the supplier and the consumer at the time of the transaction. Mode 4 refers to the provision of services by a national of one member state while present in the territory of any other member.

**Most-favoured-nation (MFN)**

A commitment that a country will extend to another country the lowest tariff rates it applies to any other country. All WTO contracting parties undertake to apply such treatment to one another under article I of the GATT (see Special and Differential Treatment).

**Multifunctionality**

A term indicating that agriculture plays non-commodity roles in addition to providing food and fibre, including the provision of landscape and open space amenities, rural economic viability, cultural heritage, domestic food security, prevention of natural hazards and preservation of biodiversity. When used in negotiations, it assumes that agriculture not only can play such a role, but is an efficient way of achieving the results, and therefore requires special treatment.

**National treatment**

Commitment to treat foreign and domestic producers, sellers, investors etc. in the same way.

**Necessity test**

Procedure to determine whether a policy restricting trade is necessary to achieve its intended objective.

**Net Food Importing Developing Countries (NFIDCs)**

A group of 23 countries including: Barbados, Egypt, Jamaica, Kenya, Morocco, Pakistan and Venezuela. These countries depend on food imports rather than producing food domestically.

### **Organisation for Economic Cooperation and Development (OECD)**

Group of industrial countries that 'provides governments a setting in which to discuss, develop and perfect economic and social policy'. It aims to foster international trade and contribute to global economic development. In July 2002 it had 30 members.

### **Peace Clause**

A provision in article 13 of the WTO's Agreement on Agriculture designed to reduce the threat of trade disputes during the period of agricultural trade reform, especially in industrial countries. It stipulates that agricultural subsidies permitted by the agreement cannot be challenged under other WTO agreements. Expires at the end of 2003. Unless renewed, its expiry will subject agricultural subsidies to the same disciplines as industrial subsidies.

### **Poverty Reduction Strategy Paper**

Initiated by the boards of the World Bank and International Monetary Fund, this is a document describing a country's macroeconomic, structural and social policies and programmes to promote growth and reduce poverty, as well as associated external financing needs. PRSPs are expected to be prepared by governments through a participatory process involving civil society and development partners, including the World Bank and IMF, and are required for countries seeking to obtain concessional lending and debt relief under the enhanced Heavily Indebted Poor Countries (HIPC) initiative.

### **Preference erosion**

Takes place when countries which enjoy preferential market access see the value of these preferences reduced as other countries gain enhanced market access through Most Favoured Nation liberalisation or through other preferences. As a result, the initial preference holders, depending upon how competitive their export industries are without the preferences, will lose markets for their exports.

### **Preferential access**

Granting by developed (and some developing) countries of access to developing countries on terms more favourable than the Most-Favoured Nation terms agreed in the WTO. It is allowed under Special and Differential Treatment.

### **Sanitary and Phytosanitary Standards (SPS)**

A World Trade Organization agreement on how governments can apply food safety and animal and plant health measures.

### **Singapore Issues (also called 'New Issues')**

The four issues on which it was agreed at the 1996 WTO Singapore Ministerial Conference to form working groups: trade and investment, competition policy, transparency in government procurement and trade facilitation.

### **Single Undertaking**

Provision that requires countries to accept all the agreements reached during a round of WTO negotiations as a single package, rather than on a case-by-case basis. Nothing is agreed until everything is agreed.

### **Special and Differential Treatment (SDT)**

The principle in the WTO that developing countries be accorded special privileges, either exempting them from some WTO rules or granting them preferential treatment in the application of WTO rules. It specifically allows developed countries to offer preferential access as an exemption from the Most Favoured Nation principle.

### **Special Safeguard Mechanism**

An instrument which allows countries to erect temporary barriers to protect themselves from sudden influxes of imports of particular products which threaten domestic production.

### **Strategic/ Special products**

Products which are crucial for food security, rural development or livelihood concerns, in relation to which tariff cuts required by the WTO would be much smaller than for other goods.

### **Tariff**

A government-imposed tax on imports.

### **Tariff escalation**

An increase in tariffs as a good becomes more processed. For example, low duties on fresh tomatoes, higher duties on canned tomatoes and higher still on tomato ketchup. Tariff escalation protects domestic processing industries and discourages the development of processing activity in countries where raw materials originate.

### **Trade-Related aspects of Intellectual Property Rights (TRIPS) Agreement**

WTO agreement aimed at establishing minimum standards of intellectual property rights protection for all products and services, covering copyrights, trademarks, geographical indications, industrial designs, integrated circuits, patents and trade secrets.

**Trade-Related Investment Measures (TRIMS) Agreement**

WTO agreement aimed at eliminating the trade-distorting effects of investment measures taken by members.

**Uruguay Round**

The last round under the GATT, which began in Uruguay in 1986 and was completed in 1994 after nearly eight years of negotiations. Included agreements in trade-related intellectual property rights and services for the first time, in addition to agreements in traditional trade areas such as agriculture and textiles and clothing. Its conclusion led to the creation of the World Trade Organization.

**World Trade Organization (WTO)**

The World Trade Organization exists to ensure that trade between nations flows as smoothly, predictably and freely as possible. To achieve this the World Trade Organization provides and regulates the legal framework which governs world trade. Decisions in the World Trade Organization are typically taken by consensus among the 146 member countries and are ratified as international treaties.

# Formal minutes

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**Monday 7 July 2003**

Members present:

Tony Baldry, in the Chair

John Barrett  
Hugh Bayley  
Alistair Burt  
Chris McCafferty

Tony Colman  
Mr Piara S. Khabra  
Mr Robert Walter  
Tony Worthington

The Committee deliberated.

Draft Report (Trade and Development at the WTO: Issues for Cancún), proposed by the Chairman, brought up and read.

*Ordered*, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 152 read, amended and agreed to.

Summary agreed to.

*Resolved*, That the Report be the Seventh Report of the Committee to the House.

*Ordered*, That the Chairman do make the report to the House.

Several papers were ordered to be appended to the Minutes of Evidence.

*Ordered*, That the Appendices to the Minutes of Evidence taken before the Committee be reported to the House.—(*The Chairman*)

[Adjourned till Tuesday 15 July at 2.15 pm

## Witnesses (page numbers refer to Volume II)

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### Tuesday 4 February 2003

Page

**Professor Adrian Wood**, Chief Economist, Department for International Development (DFID), **Dr Elaine Drage**, Director for Trade and Development, Europe and World Trade Directorate, Department of Trade and Industry (DTI) and **Mr Ian Newton**, Head of Trade Policy Unit, European Union International Division, Department for Environment, Food and Rural Affairs (DEFRA).

Ev 8

### Tuesday 11 February 2003

**Mr Duncan Green**, Policy Analyst, CAFOD, **Claire Melamed**, Senior Policy Officer, Christian Aid, and **Mr Michael Bailey**, Senior Policy Adviser on Trade, Oxfam.

Ev 51

### Tuesday 25 February 2003

**His Excellency Mr Meles Zenawi**, Prime Minister of the Federal Republic of Ethiopia.

Ev 68

### Tuesday 11 March 2003

**Rt Hon Patricia Hewitt MP**, Secretary of State for Trade and Industry, and **Dr Elaine Drage**, Director for Trade and Development, Europe and World Trade Directorate, Department of Trade and Industry.

Ev 76

### Wednesday 19 March 2003

**Commissioner Pascal Lamy**, Directorate-General for Trade, European Commission.

Ev 86

### Thursday 20 March 2003

**Mr Karl Friedrich Falkenberg**, Director, and **Mr Mauro Petriccione**, Head of Unit (Directors), Directorate-General for Trade, European Commission.

Ev 93

**Commissioner Franz Fischler** and **Mrs Maeve Doran-Schiratti**, Directorate-General for Agriculture, Rural Development and Fisheries, European Commission.

Ev 101

**Commissioner Poul Nielson**, Directorate-General for Development and Humanitarian Aid, European Commission.

Ev 108

## Tuesday 8 April 2003

**Mr John Hilary**, Trade Policy Adviser, Save the Children UK and **Mr Peter Hardstaff**, Head of Campaigns Policy, World Development Movement. Ev 129

## Tuesday 29 April 2003

**Mr David Croft**, Head of Quality and Consumer Care, and **Mr Terry Hudghton**, Head of Co-op Brand and Corporate Marketing, Co-operative Retail, **Ms Alison Austin**, Senior Manager for Sustainability and Product Safety, and **Mr Tony Sullivan**, Senior Trading Manager for Produce and Floral, Sainsbury's Supermarkets Limited. Ev 140

**Mr Jonathan Peel**, Director, EU and International Policy, Food and Drink Federation, **Mr Simon Harris**, Director of Corporate Affairs, British Sugar plc, **Ms Ruth Rawling**, Vice-President – Public Affairs Europe, Cargill plc, and **Mr Chris Tyas**, Group Supply Chain Director, Nestlé UK Ltd. Ev 151

## Wednesday 7 May 2003

**Mr Richard Eglin**, Director, Trade and Finance Division, WTO (World Trade Organization). Ev 158

**Dr Supachai Panitchpadki**, Director-General, and **Mr Stuart Harbinson**, Agriculture Director, WTO. Ev 164

**Mr Alberto Campeas**, Director, and **Mr Shishir Priyadarshi**, Senior Counsellor, Development Division, WTO. Ev 169

**Mr Carlos Fortin**, Deputy Secretary-General, **Mr John Burley**, Director, Division for Services Infrastructure for Development and Trade Efficiency, and **Ms Manuela Tortora**, Co-ordinator, Capacity-Building, UNCTAD (United Nations Conference on Trade and Development). Ev 175

## Thursday 8 May 2003

**Mr Charles Gore**, Senior Economic Affairs Officer, Office of the Special Co-ordinator for the Least Developed, Landlocked and Island Developing Countries, and **Mr Richard Kozul-Wright**, Globalisation and Development Strategies Division, UNCTAD. Ev 184

**Mrs Lakshmi Puri**, Director, Division on International Trade in Good and Services, and Commodities, UNCTAD. Ev 190

**H.E. Mr Ransford Smith**, Ambassador and Permanent Representative, Permanent Mission of Jamaica to the United Nations, Geneva. Ev 196

**Mr Frieder Roessler**, Executive Director, Advisory Centre on WTO Law. Ev 203

### Tuesday 13 May 2003

**Mr David Willers**, Overseas Representative, South African Sugar Association. Ev 213

**Mr Jean-Claude Tyack**, (Mauritius), Chairman, and **Mr Julian Price**, (Tanzania and Malawi), ACP London Sugar Group. Ev 232

**Mr Dan Rees**, Director, and **Mr Alan Roberts**, Chair, Ethical Trading Initiative. Ev 237

### Monday 9 June 2003

**Dr Rob Davies** (ANC), Chair, National Assembly Portfolio Committee on Trade and Industry, **Mr Bagudi Tolo** (ANC), Chair, National Council of Provinces Select Committee on Economic and Foreign Affairs, **Ms Connie September**, (ANC), and **Mr Mark Lowe** (Democratic Alliance), Members of National Assembly Portfolio Committee on Trade and Industry. Ev 243

### Monday 30 June 2003

**Rt Hon Baroness Amos**, Secretary of State for International Development, and **Mrs Dianna Melrose**, Head of International Trade Department, Department for International Development. Ev 322

# Reports from the International Development Committee since 2001

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The Government Response to the report is printed in brackets after the HC printing number

## Session 2002-03

First Report	Afghanistan: the transition from humanitarian relief to reconstruction and development assistance	HC 84 (HC 621 )
Second Report	International Development Committee: Annual Report 2002	HC 331
Third Report	The humanitarian crisis in southern Africa	HC 116-I and -II (HC 690)
Fourth Report	Preparing for the humanitarian consequences of possible military action against Iraq	HC 444-I and -II (HC 561)
Fifth Report (First Joint Report)	The Government's proposals for secondary legislation under the Export Control Act	HC 620
Sixth Report (Second Joint Report)	Strategic Export Controls Annual Report for 2001, Licensing Policy and Parliamentary Scrutiny	HC 474

## Session 2001-02

First Report	The humanitarian crisis in Afghanistan and the Surrounding Region	HC 300-I and -II (HC 633)
Second Report	The Effectiveness of the Reforms of European Development Assistance	HC 417-I and -II (HC 1027)
Third Report	Global Climate Change and Sustainable Development	HC 519-I and -II (HC 1270)
Fourth Report (First Joint Report)	Strategic Export Controls: Annual Report for 2000, Licensing Policy and Prior Parliamentary Scrutiny	HC 718 (CM 5629)
Fifth Report	Financing for Development: Finding the Money to Eliminate World Poverty	HC 785-I and -II (HC 1269)
Sixth Report	Department for International Development: Departmental Report 2002	HC 964 (HC 357, Session 2002-03)