



House of Commons  
International Development  
Committee

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# **The WTO Hong Kong Ministerial and the Doha Development Agenda**

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**Third Report of Session 2005–06**

*Volume I*





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*Volume I*

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### Footnotes

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## Summary

The Doha Development Agenda placed the needs and interests of developing countries at the heart of the current round of trade talks. It aimed to redress existing imbalances in the multilateral trading system which work against their interests. The Round must ensure that liberalisation commitments put 'trade at the service of development.'<sup>1</sup> In practice, this means giving priority to agreements in areas which have the potential to contribute most to poverty reduction.

Progress toward this end has been slow – offers have been tabled late and expectations of what could be achieved at the Hong Kong Ministerial were lowered in advance. The UK Government put Africa at the top of its priorities in 2005 and aimed to improve the trading climate for developing countries through the World Trade Organization. There have been some advances, especially for the Least Developed Countries, but progress has been hindered by an inconsistent approach. The Government has said that developing countries should not be forced to liberalise, and this commitment formed part of the G8 Communiqué in July. But the EU mandate explicitly demands liberalisation of developing country markets as a condition for opening EU agricultural markets further — something it has long promised to do. This is contrary to the idea of a development round.

The EU negotiating mandate seeks to divide developing countries into classifications which the WTO does not recognise. In response, the developing countries created a new coalition — the G110 — in Hong Kong, continuing the tradition of coalition-building among developing countries which began in Cancún.

The agreement to continue negotiations, despite limited outcomes, represents a major victory for the principle of multilateralism, which serves smaller, less powerful states better than the alternatives. However, much remains to be done in order to complete the development round.

- The EU needs to improve its offer in agriculture. Greater market access is the key to unlocking the round for developing countries. The EU must also reduce its proposed use of sensitive products so that it does not negate the benefits of market opening in areas where developing countries have a comparative advantage.
- The EU offer should not be made dependent on the actions of developing countries.
- The formula for reduction of non-agricultural market access must allow developing countries to protect, as necessary, and for limited periods, their emergent industrial sectors.

The meeting in Hong Kong rejected the attempt by the EU to impose a mandatory system of benchmarking in services. This is a good result. Developing countries must be allowed to decide the pace and sequence of liberalisation in services. To this end, the services negotiations are not timed to allow for sufficient analysis of the implications of new

<sup>1</sup> Lecture by Peter Mandelson, European Commissioner for External Trade and Competitiveness, London, 4 February 2005.

agreements for developing countries. This is a disappointing outcome.

The criteria for special and differential treatment, and its use, requires urgent attention otherwise smaller, low income, developing countries will suffer relative to larger developing countries. Commitments on aid for trade are welcome, but these should be in a separate category from the general aid budget. If developing countries lose as a result of trade liberalisation agreements, they must be compensated appropriately and unconditionally.

In the current Round, WTO members have delayed declaring their positions until the last moment. This makes negotiations difficult; there is insufficient time to assess the implications of an offer, especially by developing countries with limited capacities. In making new offers, there is good reason for the European Commission to make the first move since, in the WTO, 'nothing is agreed until everything is agreed'.

We support an ambitious outcome for this Round. We share the UK Government's commitment to 'kicking open the door' for developing countries so that the poor can trade their way out of poverty. The Government must put in place a strategy to ensure the EU is not the cause of failure in the development round.

# 1 Introduction

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1. The International Development Committee began this inquiry in October 2005. The intention was to follow-up two reports of the previous Committee on the Cancún Ministerial Conference which took place in 2003.<sup>2</sup> The Cancún Ministerial, intended to be a stocktaking exercise to enable the Doha Development Round to progress toward its scheduled end in January 2005, collapsed early with very little, if any, progress. The Ministerial in Hong Kong in December 2005 was consequently billed as a crucial stage in the Round – necessary to prevent failure, and timed to ensure an agreement could be reached before the fast-track authority of the US President expires on 1 July 2007.<sup>3</sup>

2. We therefore started our inquiry with a specific focus on the Hong Kong Ministerial intending to publish our report soon after the conference. However, even before the Ministerial began it became clear that insufficient progress had been made to enable a framework agreement with specific numerical formulas (or modalities) for tariff cuts to be agreed at Hong Kong. Thus in November we were informed, on a visit to the World Bank, that the WTO's Director General had 'recalibrated' (i.e. lowered) expectations for the Ministerial.

3. The Ministerial Declaration<sup>4</sup> which emerged from Hong Kong reflected the fact that trade negotiators remained too divided on key issues to enable the Ministerial to produce more than a statement of general principles and directions. While Hong Kong did not collapse, it did not make a significant amount of progress, and it still remains to be seen whether Doha will deliver a development round as promised. The challenge set in Hong Kong is considerable – members must agree the numerical formulas to reduce tariffs in agriculture and industrial goods by 30 April and also submit comprehensive draft schedules of commitments based on these by 31 July. For services, collective, or 'plurilateral', requests made by the end of February this year must be considered by 31 July. A time-line has been agreed and meetings are in progress.

4. As a result of this new timetable, we revised our inquiry timetable so that our report would be published before the end of April deadline. The deadline is significant because until modalities are agreed, it is impossible to determine whether or not the round will succeed in its objectives. The purpose of this report is not to revisit issues raised in our previous reports on the process and progress of the Doha Development Round. Instead we wish to look specifically at the Hong Kong Ministerial – the process leading up to it, and the outcome – and to make policy recommendations to the UK Government and the Commission about how to best ensure that the Doha Round can live up to its title of a 'development' round. The time table is tight and the implications of failure are great. Nevertheless, we think that there is still a small possibility that, with sufficient political will,

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2 International Development Committee, Seventh Report of Session 2002–3, *Trade and Development at the WTO: Issues for Cancún*, HC 400–I and, First Report of Session 2003–4, *Trade and Development at the WTO: Learning the lessons of Cancún to revive a genuine development round*, HC 92–I. Available at [www.parliament.uk/indcom](http://www.parliament.uk/indcom)

3 Fast track authority allows the President to pass legislation through Congress on a take it or leave it basis. Congress is unlikely to renew this authority after July 2007.

4 *Doha Work Programme*, Ministerial Declaration, WT/MIN(05)/DEC, 22 December 2005. Available at: [http://www.wto.org/english/thewto\\_e/minist\\_e/min05\\_e/final\\_text\\_e.pdf](http://www.wto.org/english/thewto_e/minist_e/min05_e/final_text_e.pdf)

and a strategy to effect it, a positive and ambitious outcome for the developing countries can be achieved. This report represents our contribution to that process.

5. In the course of the inquiry we received written memoranda from Government Departments, the European Commission, Non-governmental Organisations, academics and business and industrial organisations. We held five oral evidence sessions – three in the lead up to Hong Kong, and two following the Ministerial.

6. We are grateful to all those who gave evidence to the Committee: the Secretary of State for International Development, the Rt Hon Hilary Benn MP; Ian Pearson MP, Minister of State for Trade, Investment and Foreign Affairs; officials from the Department of Trade and Industry (DTI) and the Department for International Development (DFID); Pascal Lamy, Director General of the WTO; Roger Liddle, Directorate General for Trade in the European Commission; representatives of the Trade Justice Movement from Christian Aid, War on Want and the World Development Movement, Professor Robert Wade of the London School of Economics (LSE) and Sheila Page from the Overseas Development Institute (ODI). We also held informal discussions with L. Alan Winters of the World Bank and, when we were in Brussels, African Caribbean and Pacific (ACP) Ambassadors from Barbados, Jamaica and Fiji. We would like also to thank Sheila Page from ODI for acting as our Specialist Adviser on the inquiry.

7. We have not covered all aspects of the negotiations but have focused on those issues which we consider to be a necessary starting point for a development round. The Report begins by looking at the idea of a development round and the extent to which there is a coherent approach to this on the part of the UK Government and the European Commission. In chapter three we summarise what happened in Hong Kong and assess the implications of the outcomes for the developing countries. Chapter four looks at what needs to be done now to ensure an ambitious outcome for the development round. Our recommendations are directed primarily at the UK Government and the European Union, represented at the WTO by the European Commissioner for External Trade and Competitiveness, Peter Mandelson. This reflects the fact that we are a UK Parliamentary committee and our primary responsibility is to scrutinise HMG policy.

## 2 The development bargain and the Government position

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### The Doha Development Agenda (DDA)

8. WTO members committed themselves, in the Doha Ministerial Declaration, to a development round. The Declaration states that, ‘international trade can play a major role in the promotion of economic development and the alleviation of poverty. We recognise the need for all our peoples to benefit from the increased opportunities and welfare gains that the multilateral trading system generates. The majority of WTO members are developing countries. We seek to place their needs and interests at the heart of the Work Programme adopted in this Declaration.’<sup>5</sup>

9. The adoption of the Millennium Development Goals in 2000 has made the reduction of poverty a key goal for the international community. There is now a widely held assumption that these Goals will not be met without a successful, development focused, round of trade talks. The idea of a development agenda emerged during trade talks in Doha in November 2001. Although developing countries were not keen to embark on another round of talks, they agreed to support the emerging consensus on the need for greater liberalisation, to strengthen ties between countries in the aftermath of the terrorist attacks on the USA.

10. In its evidence to the Committee, the Government stated that it was committed to the development of ‘an open and rule-based international trading system that fulfils its potential to contribute to the reduction of poverty in poorer countries.’ The Government states that: ‘a pro-development outcome would result in improved participation by developing countries in the world trading system, particularly through substantially increased market access and the dismantling of trade distorting subsidies by industrialised countries. A development-friendly result will also ensure poor countries are given the flexibility to decide, plan and sequence trade reforms as part of a wider poverty reduction and development strategy.’<sup>6</sup> **We agree with the Government’s emphasis on the importance of improved participation by, and policy space for, developing countries in the WTO. As with the previous Committee in its last trade report<sup>7</sup>, we think that a development round should also produce development-friendly agreements in the areas which have the potential to contribute the most to poverty reduction.**

11. Despite such expressions of good intention, progress on the Doha Round has been intermittent and limited. The collapse of the Cancún Ministerial was a major setback – not least for multilateralism.<sup>8</sup> Subsequently, the round continued to limp forward with little progress until July 2004 when an interim agreement was reached. However, despite a number of mini-ministerials during the first half of 2005, the July 2005 deadline for an

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<sup>5</sup> WTO Ministerial Declaration, WT/MIN(01)/DEC/1 20 November 2001, Article 2. Available at: [http://www.wto.org/English/thewto\\_e/minist\\_e/min01\\_e/mindecl\\_e.pdf](http://www.wto.org/English/thewto_e/minist_e/min01_e/mindecl_e.pdf)

<sup>6</sup> Ev 60, para 3 [DFID and DTI]

<sup>7</sup> International Development Committee, *Trade and Development at the WTO: Learning the lessons of Cancún to revive a genuine development round*, para 12, [www.publications.parliament.uk/pa/lcm200304/cmselect/cmintdev/92/92.pdf](http://www.publications.parliament.uk/pa/lcm200304/cmselect/cmintdev/92/92.pdf)

<sup>8</sup> *ibid.*

outline deal was missed, largely due to deadlock over agriculture. All attention began to focus on the December Hong Kong Ministerial as the last possible deadline for concluding the general outlines of an agreement.

## The lead up to Hong Kong

12. Agriculture is seen as key to making progress with the DDA and much of the debate in the lead up to Hong Kong centred, therefore, on offers in agriculture. Although agriculture makes up a declining percentage of income in both developed and developing countries, it is economically significant to many of the world's poorest people who work in the sector. The agricultural sector may be very small in value terms for Africa, but it makes up 70 per cent of direct employment and dominates the exports of most countries.<sup>9</sup> As the World Bank states, it is precisely because agricultural earnings are so important to a large number of developing countries that the highly protective agricultural policies of the EU, US, Japan and other developed countries have been the centre of the debate.<sup>10</sup>

13. Agriculture first entered GATT talks during the Uruguay Round. Many developing countries felt that the Round did not go far enough in reducing harmful protectionist policies. Evidence suggests that the average tariff cut by developing countries was much greater than those by high-income countries. Consequently, there is a demand that the Doha Round should provide significantly more in terms of market access for developing country exports before those countries are asked to make concessions in other sectors. The leader of the G20, the Brazilian Minister of Foreign Relations, speaking on 10 March said that the kind of change which developing countries need in agriculture will never receive a quid pro quo response in Non-Agricultural Market Access (NAMA) or services. Reform, in terms of dismantling barriers to trade in agriculture lags significantly behind reform in industry.

14. After the collapse of the Cancún Ministerial it took ten months for WTO members to reach agreement on how to proceed. The July 2004 interim accord set out the parameters for further negotiations in the Doha Round in agriculture, services, NAMA, trade facilitation and development and extended the deadline for completing the Round to at least the end of 2005.<sup>11</sup> The agreement was seen as a major breakthrough in the Round; in particular, because it committed rich countries to eliminate all agricultural export subsidies. The leader of the G20 was reported as saying, 'it is a good deal for trade liberalisation and it is also a good deal for social justice, with liberalisation and social justice coming together in the elimination of (farm export) subsidies.'<sup>12</sup>

15. However, despite a number of mini-ministerials throughout 2005, and the much anticipated — but in terms of trade, ultimately disappointing — G8 Summit under the UK

9 *Our Common Interest: Report of the Commission for Africa*, (London, 2005), p 279.

10 K. Anderson & W. Martin *Agricultural trade reform and the Doha Development Agenda*, (Basingstoke and Washington, 2005), p 4.

11 WTO, *Doha Work Programme, Decision adopted by the General Council on 1 August 2004*, WT/L/579. Available at: [http://www.wto.org/english/tratop\\_e/dda\\_e/ddadraft\\_31jul04\\_e.pdf](http://www.wto.org/english/tratop_e/dda_e/ddadraft_31jul04_e.pdf). See also, *The Doha WTO trade round – progress so far*, Standard note SN/EP/2605 House of Commons Library, February 2006.

12 *The Independent*, 1 August 2004. Quoted in SN/EP/2605 *ibid*.

Presidency,<sup>13</sup> the July deadline for first approximations from negotiating group chairs was missed. There was, it seemed, a gulf between publicly proclaimed enthusiasm for progress and the intransigence of the negotiators. The EU and the USA traded blame for the lack of progress.

## Offers from the EU and the USA

16. In October there was a renewed attempt to put the negotiations back on track, with offers from both the US and EU on agriculture. The US offer included cutting payments to farmers by 60 per cent and reducing import tariffs on farm produce by between 55 and 90 per cent. The proposal was dismissed as ‘smoke and mirrors’ by Oxfam, who said that it would have cut US Government spending on agriculture by only 2 per cent at the end of the Doha Round implementation period.<sup>14</sup> The USA also offered to end export subsidies by 2010, although this did not amount to much, as the US provides very little in the way of export subsidies relying instead on export credits and food aid.

17. In response, the EU proposed a 70 per cent cut in its payments to farmers contingent on proportionate reductions from other major subsidisers like the US and Japan and a reduction in the EU *de minimis* allowance by at least 65 per cent.<sup>15</sup> On market access, the offer included a 50 to 60 per cent cut in the highest import tariffs and smaller cuts in lower tariffs. The average tariff cut would be 25 per cent. The EU offered to end export subsidies but did not offer a date for this.

18. The EU proposal was also seen as limited because the proposed cuts applied to permitted levels of support (Aggregated Measurement of Support), which are already quite small. In addition, after CAP reforms in 2003, most domestic support measures had been placed in the ‘Green Box’, deemed minimally or non trade distorting. According to Oxfam, the EU would not have to reduce the amount of money paid to farmers by a single euro.<sup>16</sup>

19. This offer met strong opposition from French ministers who accused the EU Commissioner for Trade, Peter Mandelson, of overstepping his mandate from the Council of Ministers. However, a meeting of European foreign ministers left France isolated in this opposition. The spokesman for President Chirac was reported as saying that France reserved the right not to approve any outcome of the Doha talks which undermined the 2003 CAP reforms which set out policy until 2013.<sup>17</sup>

20. On 28 October Peter Mandelson tabled a second offer on agriculture, with the proviso that this offer must unlock other areas of the negotiations. The Commissioner signalled that he was now at the outer limits of the EU mandate and that this was a credible and

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13 Oral evidence taken before the International Development Committee, on 19 July and 25 October 2005, HC (2005–06) 418–i,ii. Available at: <http://www.publications.parliament.uk/pa/cm/cmintdev.htm>

14 “US farm subsidies offer ‘smoke and mirrors’”, Oxfam Press Release, 10 October 2005.

15 All WTO members are permitted to provide minimal supports (*de minimis*) totalling no more than 5% of agricultural production for developed countries.

16 “No real gains for poor in EU Trade offer” Oxfam Press Release, 12 October 2005.

17 “France threatens to block trade deal” *Financial Times*, 28 October 2005.

substantial offer. The EU proposals were made explicitly conditional upon satisfactory movement in NAMA and services.<sup>18</sup>

21. The offer included: a 60 per cent reduction in the highest tariffs and 35 per cent in the lowest — averaging a 46 per cent reduction; a reduction in the number of sensitive products designated by the EU to 8 per cent, and a tariff rate quota for all sensitive products; a 70 per cent reduction in trade distorting agricultural subsidies; and, the end of all agricultural export subsidies by an agreed date.

22. The offer of cutting farm tariffs by an average of 46 per cent was below the 54–75 per cent cut called for by the G20 and well below the US demand for a cut of up to 90 per cent. Commenting on the EU offer a spokesman for Robert Portman, the US Trade Representative said, ‘if the final Doha agreement on agriculture were to go no further than this, the Doha round would not approach its potential for promoting development, opportunity and economic growth.’<sup>19</sup> The offer was also rejected by the developing countries. Kamal Nath, the Indian Commerce Minister, said he did not think that the Europeans had done their sums properly.<sup>20</sup>

23. Very little progress was made on the two other main areas for negotiation, non-agricultural market access and services. On NAMA, discussions tended to focus on the formula to be adopted for reducing tariffs and the options for allowing developing countries flexibility. The EU mandate called for an ambitious tariff reduction formula. This was criticised by NGOs because it required higher tariffs, which the developing countries have, to be cut the most. For the NGOs and the developing countries, this is seen as undermining the principle of less than full reciprocity.

24. On services, the EU sought to change the manner in which negotiations proceed from a ‘request and offer’ process, in which individual countries make requests to others which they are free to reject, to a mandatory system of benchmarking which would require all countries to make offers in number of sectors. Developing countries would be required to make offers, although in fewer sectors; LDCs were excluded from benchmarking but not from making offers. This controversial proposal was adopted by the chair of the services negotiations as the text which went forward to Hong Kong, despite a number of developing countries expressing concerns about it.

25. After a series of meetings in London and Geneva in the beginning of November, expectations for what could be achieved in Hong Kong were lowered. Member states’ positions appeared too far apart for any agreement on full modalities — the original goal of Hong Kong. Amidst the pessimism, the UK Government remained cautiously optimistic about pro-development outcomes.

**26. The EU and the US wasted much time between the July 2004 agreement and their subsequent offers, which were made only a few months before the Hong Kong Ministerial. These offers, once made, did not go far enough to close the gaps in member**

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18 “EU tables new offer in Doha World Trade talks”, 28 October 2005. Available at: [www.europa.eu.int/comm/trade/issues/newround/doha\\_da/pr281005\\_en.htm](http://www.europa.eu.int/comm/trade/issues/newround/doha_da/pr281005_en.htm)

19 “Mandelson seeks to save talks with 50% tariff cut” *The Times*, 29 October 2005.

20 “EU offer helps keep Doha talks alive” *Financial Times*, 1 November 2005.

states' positions. Consequently, expectations of what could be achieved in Hong Kong were lowered. Since Hong Kong was known to be the last Ministerial before the end of the Round, the EU and the US, as key players, should have made earlier offers to ensure that the Round kept to its timetable. The apparent lack of urgency in the EU and US approach to the negotiations raises questions about their commitment to a development round.

### The UK contribution: unrealistic expectations?

27. As holder of the Presidencies of the G8 and the European Council in 2005, the UK Government was particularly vocal in its support for progress in the Doha Round. At the start of the EU Presidency, Ian Pearson told a conference of NGOs, 'over the next six months there is a real prospect of improving the trade climate for Africa. Our top priority remains making good progress at Hong Kong toward a successful outcome to the Doha Development Agenda next year. I believe that it offers the best opportunity for Africa to benefit from increased trade.'<sup>21</sup> The Prime Minister, in his Mansion House speech, said, 'the Doha round is an opportunity to tackle some of the most fundamental injustices at the heart of world trade — an opportunity to create the conditions in which millions of people will have the chance to escape poverty.'<sup>22</sup> During the UN Summit in September the Prime Minister also commented that, 'if we end up with a failure in December, that will echo right around the world, and I am not prepared to have that, at least not without the most monumental struggle.'<sup>23</sup>

28. The Government agenda was in part set by the report of the Commission for Africa which was published in March 2005. The Commission recommended, among other things, the elimination of export subsidies by 2010 and of all other forms of tariffs by 2015. The Commission also recommended that all low income countries in sub-Saharan Africa be offered quota and duty free access to developed country markets. One year later, however, the Government has said that insufficient progress has been made on trade.<sup>24</sup>

29. Much was made of what could be achieved in 2005. To its credit the UK Government set itself an ambitious agenda, although in the end it too went into Hong Kong with diminished expectations,<sup>25</sup> and emerged disappointed with the outcome. As to the question of whether expectations about what the UK Government could achieve during its EU Presidency had been raised excessively, what emerged from our evidence sessions was a sense that the UK was isolated and unable to move the EU position towards its own. To some extent the UK Government had overplayed its hand, making more of the Presidency than it could deliver. An alternative interpretation is that the UK Government could easily insist it wanted to go further while doing very little in terms of strategy to advance this position and hiding behind the Commission's negotiating mandate. This is what the NGOs

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21 Speech by Ian Pearson MP, Traidcraft Event, 27 June 2005. Available at: [www.dti.gov.uk/ministers/speeches/pearson270605.html](http://www.dti.gov.uk/ministers/speeches/pearson270605.html)

22 Tony Blair's Mansion House Speech, 15 November 2005. Available at: [www.politics.guardian.co.uk](http://www.politics.guardian.co.uk)

23 Press conference at UN Summit, 16 September 2005. Available at: [www.number-10.gov.uk](http://www.number-10.gov.uk)

24 HM Government, *Implementation of the Commission for Africa Recommendations and G8 Gleneagles Commitments on Poverty*, March 2006.

25 Q 160 [Ian Pearson MP]

seemed to imply when they accused the Government of ‘open deceit.’<sup>26</sup> Sheila Page from the ODI told the Committee that she was ‘slightly surprised by how little attempt the UK Government has made to sell the benefits of free trade.’<sup>27</sup> **We accept that there were limitations on what the Government could achieve in terms of trade during its Presidency, but these limits should have been acknowledged earlier on so as not to raise the public’s expectations of the outcome unrealistically.**

## Differentiation between developing countries

30. The WTO uses a range of different systems for classifying countries.<sup>28</sup> In the main, categories are negotiated although there are some fixed definitions. However, for most purposes countries fall into one of three groups, Least Developed Countries (LDCs), developing countries or developed countries. The LDC category is defined by the UN and there are currently fifty LDCs, although not all are WTO members. The developing countries are a self-defined group and any member may graduate itself out of this category and into the category of developed country. The implication of being defined as a LDC or defining oneself as a developing country is that less will be expected of you in negotiations. LDCs were promised a ‘round for free’ by Pascal Lamy when he was European Commissioner for Trade, which was taken to mean that nothing was formally expected of them in terms of market openings.

31. The Government acknowledged that ‘there is no classification as such in the negotiations other than least developed and developing countries.’ In practice the UK Government accepts the EU negotiating mandate which includes a further sub-group of developing countries — advanced developing countries — from which the Commission expects more. The Commission have been quite explicit about this. After Hong Kong Peter Mandelson said, ‘any developed or emerging economy that thinks it can come to the table empty handed, will, I am afraid, go home the same way. We have to break the politically correct fallacy that developing countries are all alike. A policy of differentiation between developing countries is now realistic and necessary.’<sup>29</sup>

32. Similarly, in the lead up to Hong Kong, Hilary Benn implied a sub-classification within the category of developing countries when he told the Committee, ‘you have the big issues being negotiated up here...by the US, the EU, Brazil, India and others, and then you have the developing countries.’<sup>30</sup> After Hong Kong, Ian Pearson reaffirmed that his understanding of the EU mandate for the round was that Brazil and India would have to give more as advanced developing countries,<sup>31</sup> while also maintaining, ‘we do not seek to segment developing countries.’<sup>32</sup>

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26 “Anti-poverty protestors lobby MPs”, BBC News, 2 November 2005. Available at: [www.bbc.co.uk](http://www.bbc.co.uk)

27 Q 187 [Ms Page, ODI]

28 Peter Kleen and Sheila Page, *Special and Differential Treatment of Developing Countries in the WTO*, Global Development Studies no 2. (Sweden, Ministry of Foreign Affairs, 2005), p 79 .

29 “EU trade policy after Hong Kong,” speech by Commissioner Mandelson, Berlin, 23 January 2006. Available at: [www.europa.eu.int/com/commission\\_barroso/mandelson/speeches\\_articles/temp\\_ic](http://www.europa.eu.int/com/commission_barroso/mandelson/speeches_articles/temp_ic)

30 Q 78 [Rt Hon Hilary Benn MP]

31 Q 178 [Ian Pearson MP]

32 Q 113 [Ian Pearson MP]

33. While acknowledging that special and differential treatment would still be available to these advanced developing countries, the EU position has, in various other respects, been made dependent on a differentiation between developing countries which is not generally recognised and to which these countries have not themselves signed up. **We do not think that either the Government, or the EU should seek to divide the developing countries into categories which the WTO does not recognise and which the countries themselves have not agreed to. We accept that countries such as India and Brazil are competitive in some sectors, and that trade liberalisation in these sectors would be beneficial to them, however, ‘advanced developing country’ is not a recognised category of states in the WTO. Given the increased differentiation between developing countries with sustained and high rates of growth and competitive industrial or service sectors, and poorer developing countries with few competitive sectors, there is a need for the WTO to consider formally the issues of differentiation and graduation as part of its discussions on special and differential treatment. We are disappointed that the UK Government has not made more progress on this issue which the previous International Development Committee flagged up in its trade report.**<sup>33</sup>

### Policy space for developing countries

34. Prior to the Ministerial, concerns were raised by NGOs that the Government seemed to be stating one position in public and negotiating according to another behind closed doors and that a pro-development outcome for the Doha Round was unlikely. War on Want, for example, said, ‘it is now common understanding in Geneva that the much vaunted development agenda has been replaced by a mercantilist market access agenda, and that the interests of the developing countries — in particular, the poorest among them — have been wholly marginalised.’<sup>34</sup> Representatives of the Trade Justice Movement told us that, ‘we do not consider that Hong Kong is a deal worth having, based on what is on the table at present.’<sup>35</sup>

35. The Trade Justice Movement’s concerns were countered by an assurance from the Rt Hon Alan Johnson MP, the Secretary of State for Trade and Industry, that the UK supported their objective of no forced liberalisation. CAFOD responded by saying that positive noises in London need to be followed up by stiff political persuasion in Geneva and Brussels.<sup>36</sup>

36. The UK Government has repeatedly stressed that policy space and flexibility are a key part of its mandate. Ian Pearson reiterated this view to the Committee, ‘we do not believe in forcing developing countries to liberalise....and we want to see them develop their economies in accordance with their own poverty reduction strategies’<sup>37</sup> The Communiqué from the G8 Summit in July 2005 stated, ‘it is up to developing countries themselves and their governments to take the lead on development. They need to decide, plan and

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33 International Development Committee, *Trade and Development at the WTO: Issues for Cancún*, HC 400–I, para 145. Available at: [www.publications.parliament.uk/pa/cm200203/cmselect/cmintdev/400/400.pdf](http://www.publications.parliament.uk/pa/cm200203/cmselect/cmintdev/400/400.pdf)

34 Ev 79, para 1 [War on Want]

35 Q 18 [Mr Hilary, War on Want]

36 “Billions of dollars will be lost if trade protection continues says Lamy” *The Guardian*, 3 November 2005.

37 Q 80 [Ian Pearson MP]

sequence their economic policies to fit with their own development strategies, for which they should be accountable to all their people.<sup>38</sup> **We commend the Government for facilitating a commitment to policy space from the G8 members in the G8 Summit Communiqué.**

37. On our visit to Brussels, however, Roger Liddle, of the Directorate General for Trade in the Commission, told the Committee that a successful outcome to the Doha Round should be seen in terms of a grand bargain between the rich countries and what the EU now refers to as the advanced developing countries. He suggested that this would entail the EU allowing better access to its agricultural markets, and select developing countries lowering their industrial tariffs and creating more access for service providers.<sup>39</sup> Peter Mandelson has made this ‘grand bargain’ part of the EU negotiating mandate, ‘in order to demonstrate to our increasingly sceptical member states and civil society that this is not going to become an agriculture-only Round, we need to agree to move speedily and substantively forward on the other issues...(NAMA, services, antidumping and development). In other words, if — as we hope — we agree on agriculture, this can only be definitively confirmed by the EU in Hong Kong if by then we have achieved comparable agreement in these other areas of the negotiation.’<sup>40</sup>

38. The Government did not distance itself from the EU’s position. On industrial tariffs, the Government insisted that the principle of less than full reciprocity would still apply and that special and differential treatment would be part of the NAMA negotiations. Nevertheless, the Government was clear that it did expect countries like India and Brazil to reduce industrial tariffs significantly, especially in the areas in which the UK has interests.<sup>41</sup> Ian Pearson told the House of Lords Select Committee on the European Union, ‘I also want to stress the EU’s view and indeed the UK’s position as well is that we do need to see a balanced outcome....we need to see concentration on the other elements of the Doha Development Agenda dossier, non-agricultural market access and on services.’<sup>42</sup>

39. Commenting on the Government position, Sheila Page told the Committee, ‘I agree with the Minister that free trade is beneficial and comparative advantage does have a lot to be said for it. The question is whether the UK or the EU or other developed countries should be pressing the developing countries to do this....If we believe that liberalising the EU will benefit the EU, to say that we will not do it unless someone else does something first makes no economic sense. It certainly does not make development sense to tell developing countries, you must do what we consider sensible or we will not help you in other ways. It is quite important to keep the process of telling countries what we think is best for them separate from saying, if you do not do what we say, we will take various actions that do not help you.’<sup>43</sup> We agree.

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38 Gleneagles Communiqué on Africa, Climate Change, Energy and Sustainable Development, Article 31. Available at: [www.G8.gov.uk](http://www.G8.gov.uk)

39 Q 140 [Mr Liddle]

40 “EU tables new offer in Doha trade talks,” Press Release, 28 October 2005. Available at: [www.europa.eu.int](http://www.europa.eu.int)

41 Q 129 [Ian Pearson MP]. The product mentioned in this case was scotch whisky.

42 House of Lords, *The World Trade Organization: The Hong Kong Ministerial 13–18th December*, Seventeenth Report of the Select Committee on European Union, Session 2005–06, HL Paper 77, Q 4 [Ian Pearson MP]

43 Q 190 [Ms Page]

40. We consider that the Government is on the one hand defending the right of developing countries to choose their own policies, while at the same time arguing that movement in EU agriculture, which is crucial for the developing countries, is dependent on certain developing countries providing greater access to their non-agricultural markets and making offers in services. Neither the Commission nor the UK should be pressing developing countries in this way, nor should they be making EU policies dependent on actions of the developing countries. This is contrary to the idea of a development round in general and to the idea of policy space more specifically.

### Benchmarking in services

41. One aspect of the Commission's mandate which gave rise to some concern was the attempt to introduce a new mechanism — benchmarking — to encourage more offers in the services negotiations. This controversial proposal went forward as the basis for discussions in the services negotiations in Hong Kong. The Government's response to the EU proposal on benchmarking in services was inconsistent. Hilary Benn maintained that developing countries should be able to make their own decisions about when they choose to open up their services.<sup>44</sup> Ian Pearson also told us that, the UK has not been keen on benchmarking and that while they had gone along with it as the Presidency; they thought that the current system should be allowed to continue.<sup>45</sup> However, an informal note from the UK delegation indicates that the Government wished the WTO to use its resources to ensure that all WTO delegations, *including LDCs*, had tabled offers before the Hong Kong meeting and that the UK 'would be happy to continue discussion of benchmarking and the negotiating process with the Commission and with other 133 members.'<sup>46</sup>

42. **The proposal by the Commission on benchmarking in services was an attempt to change the rules of the game at half-time. It should not have gone forward as the basis for negotiations in Hong Kong. The UK, during its Presidency, did nothing to prevent this from happening. The benchmarking proposal was an attempt to set targets for offers in services in order to move the negotiations forward, but the targets were arbitrary and imposed by the EU. This should have been rejected in principle by all the EU member states and by the UK in particular. We do not consider that the Government used its Presidency acceptably by, in effect, supporting the Commission proposal. In addition, the Government should not have been seeking to ensure that LDCs made offers in services since they are exempt from all such requirements in the development round.**

### The Development Package

43. Shortly before the Hong Kong Ministerial there was heightened concern that the developmental dimension of the Round was being forgotten. This led Commissioner Mandelson to propose a six point development plan or package which he hoped might

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44 Q 133 [Rt Hon Hilary Benn MP]

45 Q 132 [Ian Pearson MP]

46 Note from the UK Government to the EU's 133 committee (services) on the EU's benchmarking proposal. Copy placed in the House of Commons Library.

provide an early harvest in Hong Kong — agreed without too much debate, early on, so that other issues could be discussed.

44. Unfortunately, many elements of this package had either already been agreed by the EU (such as duty and quota free entry for LDC exports) or were things the EU wanted the US to do (such as abolish export subsidies and tariffs in cotton). The package thus read like a list of demands on the US and other developed countries rather than a new European initiative on development. There was recognition of the need for aid for trade to help developing countries. However, there was no mention of what the EU needed to do for developing countries as a starting point — abolish trade distorting agricultural subsidies and support measures and provide improved market access. Instead Commissioner Mandelson defended the EU offer on agriculture to the G90 saying, ‘Be aware that some of the alternative tariff cutting proposals on the table will destroy completely your preferences and wipe out whole sectors of your economy. They must be rejected, and some realism injected into the negotiations. Neither you nor we are going to allow the DDA to demolish our rural economies. So you have a real self interest in combining forces with us to achieve a balanced outcome on agriculture.’<sup>47</sup>

**45. We consider that the Commission has been inconsistent in its advice to the developing countries. The Commission’s refusal to practice what it preaches in respect of liberalisation threatens the EU negotiating position. The Commission would have much greater credibility in the eyes of developing countries if it were more consistent. The attempt to argue that further liberalisation of European agriculture would be harmful to the interests of the G90 is disingenuous. The EU made a commitment to a development round which would redress the imbalances of previous rounds by opening its agricultural markets for developing countries. It should not attempt to renege on this. The Commission’s offer was insufficient to move the negotiations forward. The grand bargain which the EU sought — with progress in agriculture being dependent on access to developing country and US markets — was a ‘northern agenda’ and not a development one. The Government’s support for it was a negation of its commitment not to force liberalisation on developing countries.**

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47 Speech by Peter Mandelson to G90 Ministerial Meeting, ACP House, Brussels, 30 November 2005. Available at: <http://europa.eu.int>

## 3 Kicking open the door

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### The outcome of Hong Kong

46. The Hong Kong Ministerial proceeded very slowly with much time spent discussing the end date for export subsidies. The EU was the main obstacle to progress in this, despite reassurances from the Government prior to the Ministerial that they would seek to ensure offers were not left to the last minute.<sup>48</sup> Comments from Christian Aid revealed the lack of progress on substantive issues: ‘At the end of the second full day, negotiations were still mired in stalemate. The EU has shown not a flicker of interest in softening its line and making a more generous offer on cuts in agricultural subsidies. A large alliance of developing world nations is, as a result, standing firm and refusing to make new commitments on opening up industrial and services markets. All the talk of lowering expectations and putting back the substantive issues until a later date cannot mask the essential paralysis that has gripped these discussions. Hours of behind-closed-doors talks have failed to lead to a breakthrough and there is now a growing anger from developing country delegates that the EU is failing to be flexible on subsidies.’<sup>49</sup>

47. There were heated discussions on the US refusal to move on domestic support to its cotton farmers, the EU position on bananas, and on US food aid. In respect of the first two it is reported that ‘the rhetoric of the meeting went beyond the normal language of trade and obligations to emotional references to poverty and social costs.’<sup>50</sup> Subsequently there appeared to be determination not to let the meeting collapse. There was also a coming together of two developing country groupings, the G20 and the G90 — to form the G110 — united not in what they wanted to get out of the negotiations but in their resolve not to be used against each other by the EU and the US.

48. The final declaration revealed that six days of tough negotiations had saved the WTO from a premature demise — the fate of the two previous Ministerials. The fact that no country walked away from the negotiations was seen to demonstrate a commitment to the continuation of the WTO. There was a clear desire to avoid a breakdown of the system which was seen to be more important than any specific objectives. However, developmental outcomes were distinctly limited and heavily qualified. Alan Johnson’s comment immediately afterwards was that the outcome was one step up from failure. The price of maintaining unity was, it seems, minimal progress.

49. The Ministerial Declaration adopted on 18 December set out the outcomes of the Hong Kong Conference.<sup>51</sup>

- The elimination of all forms of export subsidies by the end of 2013 was agreed to. The specific manner in which this will be achieved (the modalities) has not yet been agreed

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48 Q 87 [Ian Pearson MP]

49 “WTO talks in stalemate” Christian Aid, 15 December 2005. Available at: [www.christian-aid.org.uk](http://www.christian-aid.org.uk)

50 Sheila Page, *Hong Kong: Success for the WTO, not for the Doha Round* (unpublished draft).

51 *Doha Work Programme*, Ministerial Declaration, 22 December 2005.

although the text states that a substantial part of the reductions is to be achieved in the first half of this period.

- Non-emergency food aid, export credit programmes and the practices of exporting state trading enterprises are to be disciplined by April 2006.
- All export subsidies for cotton will be eliminated in 2006 but there is no agreement to reduce domestic subsidies which are more extensive and harmful to African cotton producers.
- Because of the difficulty in getting agreement on an end date for export subsidies, the other two pillars of agricultural support — domestic subsidies and market access — received far less attention. Domestic subsidies will be limited overall and there will be three bands for their reduction. There will be limits on blue box payments and a review of the green box criteria is suggested.<sup>52</sup>
- The section on market access did not agree on the size of tariff cuts only that there would be larger cuts for higher tariff levels.
- Developing countries will be permitted to self-designate special products, 'guided by indicators of food security, livelihood and rural development.'<sup>53</sup> Developing countries will also have recourse to a Special Safeguard Mechanism (SSM) to protect farmers from a surge in imports or a collapse in import prices.
- Duty free, quota free (DFQF) access for 97% of all exports from all LDCs to the USA and Japan from 2008 was agreed. The EU already provides almost 100% access under its Everything But Arms initiative.
- On Non-Agricultural Market Access the declaration adopts the 'Swiss formula,' approach with an unspecified number of coefficients.<sup>54</sup> The text responds to two central concerns held by most developing countries, providing for 'less than full reciprocity in reduction commitments' and stipulating that the formula 'shall reduce [...] tariffs, including the reduction or elimination of tariff peaks, high tariffs, and tariff escalation, in particular on products of export interest'<sup>55</sup> to them. There is no agreement on numbers or timing.
- On services, the controversial benchmarking proposal from the EU was dropped. The final declaration allows for plurilateral negotiations<sup>56</sup> on the basis of a request and offer process and stipulates that in making requests (by 28 February 2006) members must pay attention to the developmental levels of countries.

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52 The blue box includes permissible domestic agricultural support measures which are production limiting. The green box contains permitted domestic agricultural support measures deemed minimally or non-trade distorting. No limits or reductions are required for these measures.

53 *Doha Work Programme*, Ministerial Declaration, 22 December 2005, Article 7.

54 The Swiss Formula approach reduces the highest levels of tariffs the most leading to greater harmonization of tariffs. The coefficients determine the maximum final tariff rate.

55 *Doha Work Programme*, Ministerial Declaration, 22 December 2005, Article 14.

56 Under plurilateral negotiations, the countries most interested in seeing a change make a joint request to the country or countries where the change is most important to them, and negotiations then take place between these groups. Any agreement to make a commitment, however, is then generalised to all WTO members.

- Immediately prior to the meeting, the agreement on trade related aspects of intellectual property rights (TRIPS) made in 2003 to allow generic drugs to be imported by developing countries was converted into a permanent amendment to the WTO agreement.
- A statement supporting initiatives on aid for trade was included and the Director General was invited to create a task force to recommend how to take aid for trade forward in the WTO. The task force is to report by July 2006.

## Implications for developing countries

### Agriculture

50. The agreement to end export subsidies is a significant outcome of the Hong Kong meeting. The 2010 end date hoped for by the Government was put back by the EU to 2013. This ties in with end of the current CAP reforms when most export subsidies will already have been eliminated. It does not require the EU to make any significant new commitments. **We agree with the Government that the 2013 end date for export subsidies was an important outcome. We, too, would have preferred an earlier end date. The Government should ensure there is an acceptance within the EU that the majority of such EU subsidies will be phased out by 2010.**

51. Although the US does not use export subsidies extensively, it does provide food aid in kind, rather than cash. This has the same effect as export subsidies in helping farmers find a market for their excess production and, importantly, hindering the development of local food supplies in developing countries. Other countries such as Canada, New Zealand and Australia operate a system of state trading enterprises with similar effect. The 2013 end date applies to all these practices although there is room for some emergency food aid in kind.

52. The agreement to end cotton export subsidies was similarly limited. The US does not have many export subsidies. The main form of support which the US gave to its cotton farmers was in the form of domestic pay outs when the price of cotton fell. The effect of this was to keep US farmers in business at the expense of more efficient African cotton farmers. Notwithstanding assurances that other trade distorting subsidies in cotton would be reduced faster than for other crops, cotton was not given the separate negotiation that developing countries requested. Subsequently, in February 2006, the US Congress agreed to withdraw domestic support for its cotton farmers, in response to a ruling by the WTO.

53. **At the WTO meeting in Hong Kong the US did not respond to concerns raised by cotton exporting states creating a significant amount of ill will which again, as in Cancún, soured the entire negotiations. The US stance was unnecessary given that the WTO had already ruled against the US system. It was also contrary to the spirit of a development round. The subsequent repeal of domestic support for cotton is welcome and long overdue.**

54. The real test of a development round lies in market access, especially agricultural market access. While the offer to end export subsidies is welcome, these comprise only 3.6 per cent of overall CAP support. While LDCs came off best, being offered access for 97 per

cent of their products in the US and other advanced country markets (they already have access for nearly 100 per cent in the EU market since 2001), it is not yet clear whether other developing countries will gain significantly in market access since no numerical targets for this have been agreed.

55. The Duty Free Quota Free agreement was shamefully restricted by the USA and Japan. Both retained the right to exclude up to 3 per cent of product lines from the LDCs during a transition period of indeterminate length. Because the range of exports of most LDCs is so narrow, excluding 3 per cent of product lines has a significant impact on access for LDCs. The US view is that countries such as Bangladesh and Cambodia are too competitive in textiles to allow them market access. Written evidence submitted by the DTI says that while such imports are small in value — comprising only 5 per cent of imports — exports of textiles and clothing comprise 98 per cent of all manufacturing exports from Bangladesh to the US and 98 per cent of total Cambodian exports to the US.<sup>57</sup> This illustrates the extent to which the developed countries, in this case the US, are failing to accommodate the needs of developing countries if these are seen to cause some difficulty. The costs of a development round should, in the main, be borne by the developed countries.

56. In addition, the DFQF commitment was not bound in the WTO, which means it can be withdrawn at any point. The offer will also impact on non-LDC developing countries. To this end Pakistan has requested that, when making offers, developed countries should take into account the impact of these on non-LDC developing countries.

**57. We support the UK Government in pressing developed countries to step up coverage of the Duty Free Quota Free entry for LDC exports to 100 per cent as part of the DDA package, and in their support to LDCs in this endeavour. We encourage the Government to pursue with vigour, and as part of the final agreement, an early date for 100 per cent coverage. Given the limited range of products which LDCs export, and given their negligible share in world trade, the minimum criteria for success in a development round would be Duty Free Quota Free access for all LDCs' products to all developed country markets.**

58. Limits to domestic support measures are still to be decided. At present there is no limit on the percentage of products which developed countries can designate as sensitive, and therefore only subject to limited reductions in tariffs. The EU has proposed that 8 per cent of its products be designated as sensitive. According to World Bank analysis, if even 2 per cent of products in developed countries, (and 4 per cent for developing countries) are deemed special or sensitive products this 'virtually eliminates the poverty impacts of a Doha agreement.'<sup>58</sup> Therefore, 'to have a significant poverty impact, the DDA must not only have ambitious numerical targets, it must also seek to limit — indeed eliminate — the use of sensitive and special product exemptions.'<sup>59</sup>

59. When pressed on this matter by the Committee, the Government admitted that it would like to see fewer sensitive products in the EU offer, but it had not had any

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57 Ev 68 [Ian Pearson MP]

58 Kym Anderson, Will Martin and Dominique van der Mensbrugge, "Would Multilateral trade reform benefit sub-Saharan Africans?" CIES discussion paper no 0518, (2005), p 25.

59 *Ibid.* p 25.

discussions with other EU member states about this.<sup>60</sup> **We consider the lack of discussion about the content of EU member states sensitive products to be unsatisfactory, given the pivotal role which the Government intended to play during its EU Presidency. If such products are indeed sensitive we would like to know the reasons for this. We also wish the Government to take a lead role in trying to reduce the percentage of products which the EU deems as sensitive. While we do not share the World Bank view that the use of special product exemptions by developing countries should be eliminated, we do question the EU's commitment to a development round if it sticks by anything like 8 per cent of its agricultural products.**

### **Non-agricultural market access (NAMA)**

60. On NAMA, developing countries have expressed concerns that allowing large multinational corporations greater access to some developing country markets will threaten, if not wipe out, their fledgling industrial sectors. We were told by DFID that the reason that India was so reluctant to lower its industrial tariffs was not because of the EU but because of Chinese industrial exports. The case for selective and time-limited protection for developing countries was made to the Committee by Professor Robert Wade.<sup>61</sup>

61. The Hong Kong Conference made limited progress on NAMA. The decision to adopt a Swiss formula with coefficients is seen as positive for developing countries in that it leaves the door open to a more development friendly two-coefficient, or multiple-coefficient approach linked to each country's average tariff.<sup>62</sup> The latter has been favoured by Argentina, Brazil, and India because they have quite high levels of bound industrial tariffs and the 'simple' Swiss formula, initially favoured by the developed countries, would have meant a higher level of tariff cuts for them.

62. Oxfam, War on Want, Action Aid and other NGOs, continue to see the NAMA text as an unacceptable recipe for de-industrialisation.<sup>63</sup> Research from Boston University expresses concerns that countries like Brazil will trade away the space for the policies which made their industrial sector so competitive — 'a mixture of markets, tariffs and subsidies and the strategic use of foreign investment.'<sup>64</sup>

**63. The debate about infant industry protection appears inconclusive. We have heard evidence to support both sides of the argument and evidence which tends toward a middle ground — some protection is useful, for limited periods of time, and for the right reasons. We believe that these are issues which must be decided on a case by case basis and that it is important for any WTO agreement to provide the space for developing countries to make decisions about which policies are most suitable. We are concerned that this type of policy space may already be limited by agreements made in**

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60 Q 120 [Ian Pearson MP]

61 Q 52 [Prof. Wade, LSE]

62 Oxfam, *What happened in Hong Kong?*, Briefing Paper 85, 2005.

63 Oxfam, *What happened in Hong Kong?*; Action Aid, "Trade Ministers must not sell out the world's poorest people", Press Release 8 March 2006.

64 K. Gallagher, *Brazil: trading away industrial development?* Americas Program Policy Report, International Relations Centre, 13 December 2005.

the Uruguay Round and would not like to see it limited further. Development is a process of diversification and developing countries must not be forced to remain exporters of primary commodities by policies which damage emerging industrial sectors.

### **Services**

64. In services, the EU was unsuccessful in its attempt to make compulsory a specified number of offers from all countries. This initiative from the Commission, which formed part of their negotiating position, was intended to ensure that there was some significant progress in the services sector when, according to the Commission, offers were limited and unambitious. The Government told the Committee that they thought it unlikely that this initiative would gain support in the WTO, although, as we have said, we do not think that Government was sufficiently critical of the proposal. **We consider the rejection of the EU's benchmarking proposal to be a positive outcome for developing countries.**

65. Plurilateral requests were to be submitted by the end of February 2006, or as soon as possible thereafter, with responses made by the end of July. Plurilateral negotiations have the advantage of allowing major suppliers and consumers of a particular service to reach an agreement, and in their current form will offer access, but not impose requirements, on the countries excluded from the negotiations.

66. **Our main concern is that the services negotiations are proceeding apace with few, if any, feasibility studies about the implications of these for developing countries and with decisions being made by people who know about tariffs rather than people who know about particular services.<sup>65</sup> It is important that decisions on services are carefully taken. We are unconvinced that the current timetable provides sufficient time for this.**

### **Aid for trade**

67. The failure to agree on any concrete commitments with respect to aid for trade, other than inviting the Director-General to create a task force to study the issue, was also a disappointment. Donors have pledged money — much of which is not additional to aid pledges made earlier in the year — but without some idea of the basis for allocation it is, thus far, a very preliminary and insubstantial gain.<sup>66</sup>

68. The Government have said that they are pursuing a development agenda, and that they want to see a pro-development outcome to the Round. **As Ian Pearson said, 'What we have to do at the very minimum is kick open the door of the developed world so that the poorest countries can actually trade with us.'<sup>67</sup> We are pleased by this approach, but what is crucially needed is an agreement which prioritises the needs of developing countries. The Hong Kong Declaration falls short of this requirement. The Government must now invest time and political effort to ensure that a development agenda can be agreed in December 2006.**

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65 Q 49 [Ms Page]

66 More detailed information on aid for trade can be found at: [www.odi.org.uk/iedg/aid4trade.html](http://www.odi.org.uk/iedg/aid4trade.html)

67 Q 78 [Ian Pearson MP]

## 4 Completing the development agenda

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### What is at stake?

69. Progress with the Doha Round has slowed down since December. Ian Pearson told us he was planning to hold talks with the Brazilian and Indian commerce ministers to help move the Round forward.<sup>68</sup> A meeting between President Lula de Silva of Brazil and the British Prime Minister on 9 March produced a joint statement which said that, ‘current offers on the table fall well short of the deal we want.’<sup>69</sup> A subsequent meeting of the G6 — US, EU, Brazil, India, Japan and Australia — produced no new outcomes and led some delegates to suggest that Members were unlikely to be able to meet the end of April deadline for agreeing numbers for tariff and subsidy cuts in agriculture and non-agricultural market access (NAMA), and that their chances of doing so were decreasing by the day.<sup>70</sup>

**70. There may well be value in joint statements with developing countries such as Brazil — demonstrating that the Government shares the concerns of developing countries. However, unless the EU position changes, and this requires changes in member states positions, the April deadline will be missed. The Government should therefore prioritise high level meetings with its EU member state partners.**

71. The Doha Round was labelled a development round because there was a consensus that multilateral trade rules were unbalanced in favour of developed countries. The intention, according to Pascal Lamy, Director General of the WTO, was to address these imbalances, particularly in agriculture and in industrial products of interest to developing countries.<sup>71</sup> Much has been made by the Government of the potential benefits for developing countries of a successful round.<sup>72</sup>

72. New research has begun to express reservations about the precise benefits of the Round for the developing countries, especially if only minimal changes are made to existing rules. Initial World Bank assessments about the value of trade liberalisation were revised during 2005 to reveal that the gains would not be as great as had originally been predicted. In 2003 the Bank had predicted gains of US\$539 billion to developing countries; in 2005 the gains for developing countries were now estimated at US\$90 billion. Much of this downgrading of the estimate was due to the use of a different base year, 2001 instead of 1997, and from incorporating trade agreements reached up to 2005 whose effects can not be counted as resulting from the Round. Research from the Centre for Global Development using a different data set, produces even lower estimated gains for developing countries and has

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68 Q 166 [Ian Pearson MP]

69 Joint Statement by President Lula and Tony Blair on trade, 9 March 2006. Available at: [www.number10.gov.uk](http://www.number10.gov.uk)

70 ICTSD, Bridges Weekly Trade Digest, 16 March 2005. Available at: [www.ictsd.org](http://www.ictsd.org)

71 Q 202 [Mr Lamy]

72 Hilary Benn MP ‘In order to make poverty history, we must make trade work for the poorest’ *Financial Times* 23 November 2005.

also thrown into question the precise benefits of what is on the table for developing countries.<sup>73</sup>

73. However, what both studies show is that ‘gains as a share of national income are higher in developing countries’<sup>74</sup> and that roughly 60 per cent of the potential gains from free trade come from liberalising agriculture, because that is where the major distortions are. Developing countries’ share of gains from liberalisation are estimated at between 30–50 per cent depending on whether countries such as Hong Kong, Korea, Singapore and Taiwan are included.

74. An important caveat is that these gains assume full liberalisation. Gains from a Doha scenario — limited and qualified liberalisation — both reduce the benefits and skew them toward the developed countries. The developing countries which gain the most in a Doha scenario are competitive Latin American exporters. A few lower income developing countries will lose because of preference erosion and higher food prices. Some of these will be able to compensate by moving factors of production but a few will gain too little to compensate for the loss of preferences.

75. Current offers on the table for improved market access fall far short of what is required for developing countries to benefit. Agricultural liberalisation has to be better structured so as to increase the benefits for developing countries. One aspect of the EU offer is the potentially devastating consequences for the Round if too many products are designated as sensitive by the EU. Pascal Lamy indicated to the Committee that the areas which the EU was likely to designate as sensitive would be so deemed precisely because they were products which other non-EU countries also produced, for example sugar. While these sectors would not be immune from tariff reductions, the basis for the reduction — for example, as a percentage of existing imports, or of domestic consumption, or of the existing tariff rate quota, — and the quota of imports allowed in, are as important as the overall number of products. **Peter Mandelson has indicated to us that there may be some room for a reduction in the number of sensitive products within the limits of CAP reform, provided new commitments are forthcoming from other players. We would welcome an offer to reduce the number of products which the EU designates as sensitive, otherwise market access for developing countries will be severely limited and Doha will not be a development round. In making this offer conditional upon the actions of other states, the EU is going against the spirit of the Round. This improved offer should not, under any circumstances in this Round, be conditional on actions by developing countries.**

76. In industrial sectors, estimates of gains are similarly heavily qualified and depend entirely on what formula is used to reduce industrial tariffs. Most of the debate is, rightly in our view, focused on allowing developing countries sufficient policy space to tailor a

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73 For a detailed discussion of the different models and the basis on which their assumptions are made in respect of agriculture see, Kimberly Elliott, *Looking for the Devil in the Doha Agricultural Negotiations*, CGD brief, December 2005. World Bank studies are found in, K. Anderson and W. Martin (eds.) *Agricultural Trade Reform and the Doha Development Agenda*, (Basingstoke and Washington, 2005), and T. Hertel and L. A. Winters (eds) *Poverty and the WTO*, (Basingstoke and Washington, 2006). See also, W. Cline, *Trade Policy and Global Poverty*, (Washington, 2004). For analysis of the limits of these complex modelling exercises see, F. Ackerman, “*The shrinking gains for trade: a critical assessment of Doha round projections*” GDAE Working paper no 05–01, Tufts University, (2005).

74 Kimberly Elliot, “*Looking for the Devil*” *ibid* p 2.

country specific industrial policy. Joseph Stiglitz in his recent book, *Fair Trade for All*, argues that the Round has concentrated on the wrong things if the intention is to promote development.<sup>75</sup> In his view, a true development agenda should go beyond agriculture and encourage industrial development, especially in the poorest countries so that they are not consigned to producing primary commodities for export. **We agree with Stiglitz's recommendation that the WTO needs to promote a culture of robust, impartial and publicly available economic analysis of the effect of different initiatives on different countries, and groups within countries, if it is to effectively identify pro-development proposals and promote them to the top of the agenda. Mechanisms must be found to facilitate industrial diversification. We urge the Government to ensure that the formula for tariff reductions in NAMA does not discriminate against this.**

77. In the book, *Poverty and the WTO*, World Bank authors conclude somewhat pessimistically: 'the impact of global trade reform on global poverty, as measured by the model in this chapter, is modest.'<sup>76</sup> This is partly because in many developing countries changes in prices at the world market level do not always translate to the household level. These internal blockages are significant but they cannot be addressed by the WTO.

78. How then can the developed countries best ensure that developing countries reap the benefits of liberalisation? It should be noted that the existence of losses for some developing countries in some areas should not be taken as evidence that reform is not needed, but rather that more gradual liberalisation by developing countries might help and/or that assistance is necessary to help developing countries benefit from the reforms.

79. The idea of a more gradual approach to liberalisation for developing countries is part of special and differential treatment (SDT). The report by the previous Committee in the last Parliament, *Trade and Development at the WTO: Issues for Cancún*, proposed general principles to inform discussions about SDT.<sup>77</sup> Since then, research by the ODI and the Swedish Ministry of Foreign Affairs has indicated that it remains important to make SDT more effective and to do so by agreeing a revised framework agreement in the WTO.<sup>78</sup> While Pascal Lamy's idea of a 'round for free' for the LDCs is a recognition of the need to treat the poorest differently, questions about who else should be eligible for SDT have made further discussion difficult. This question is made more complicated by the fact that some non-LDC countries in Africa, the Caribbean and the Pacific will lose as the value of their preferences are eroded by multilateral liberalisation.

**80. There has been limited discussion of SDT in the negotiations, despite a commitment to ensure that SDT would be part of all areas of negotiation.<sup>79</sup> To some extent this is to be expected, since SDT is usually agreement specific and without numerical formulas it is impossible to calculate what SDT might be in any given case. Nevertheless, recognition of SDT is important, and the UK Government should work to ensure that once numerical formulas are agreed for agriculture and NAMA, effective**

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75 J. Stiglitz and A. Charlton, *Fair Trade for all?* (Oxford, 2006).

76 T. Hertel and L.A. Winters, *Poverty and the WTO*, p 499.

77 International Development Committee, *Trade and Development at the WTO: Issues for Cancún*, HC 400-I, para 145.

78 S. Page and P. Kleen, *Special and Differential Treatment of Developing Countries in the WTO*, (Sweden, 2005)

79 Ev 60–61, paras 5 and 8 [DFID and DTI]

**SDT is possible according to the needs of developing countries. Particular attention should be paid to the needs of smaller, low income developing countries, especially those which will lose because of preference erosion.**

81. Some adjustment assistance will be necessary in order to help developing countries benefit from trade liberalisation. One aspect of the Commission's development package was enhancing aid for trade. Aid for trade describes several categories of assistance, only some of which are relevant to the WTO. According to Oxfam, its objectives include: 'enhancing worker skills, modernizing customs systems, building roads and ports, and improving agricultural productivity and export diversification. Aid for trade should also help developing countries to meet the adjustment costs of implementing trade agreements, together with preference losses and more expensive food imports.'<sup>80</sup> This latter interpretation is the most important one in the current WTO context — compensating developing countries for losses incurred as a result of a new agreement. A wider pro-development agenda would also include appropriate assistance for labour and social security policies to enable developing countries to properly tackle the social and developmental costs of rapid change in their domestic economies, as well as trade facilitation.

82. Member states of the EU have promised to spend almost €3 billion a year by 2010<sup>81</sup> and the UK Government has £100 million per year by 2010. However, this money is part of the Government's Gleneagles pledge to increase aid. It is not new money. If the Government, or the EU, enters into agreements which harm developing countries, for example by eroding preferences, it should seek to compensate developing countries for those losses.<sup>82</sup>The reason for giving money — compensation — is distinct from the reason development assistance in general is given. The EU contribution is welcome. **The WTO, should as a matter of priority, turn its attention to how the aid for trade mechanism will work and provide a clear mandate by the end of the year as agreed in the Doha time line. This should be done with input from potential beneficiaries in developing countries. There is also the need to clarify the relationship between aid for trade assistance and general development assistance. Aid for trade should be additional to and not simply a diversion of aid monies already pledged. We do not believe that the Government should consider aid for trade as part of its general aid budget.**

## Making multilateralism work for developing countries

83. One positive outcome of Hong Kong was that all members agreed to keep negotiating, and not to walk away as they had in Cancún. This is a success for the principle of multilateralism. The multilateral system is particularly important for small developing countries who can protect their interests better in a rules-based rather than a power-based system. As Pascal Lamy told us, 'if you are a developing country, if you are poor, if you are weak, if you are small, getting a bit of the EU market or the US market or of the potential

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80 Oxfam, *Scaling up Aid for Trade: how to support poor countries to trade their way out of poverty*, Briefing note, November 2005.

81 Ev 100 [Rt Hon Peter Mandelson, EU Commissioner for External Trade]

82 In Brussels we met with ACP Ambassadors who expressed concerns about their loss of preference as a result of reform of the EU sugar regime. The compensation which they have been promised will not meet their adjustment costs.

Chinese market is so important for you that you will concede things you would not concede around a multilateral table.<sup>83</sup>

84. In addition, there are an increasing number of bilateral and regional trade negotiations which are not always in the best interests of developing countries, or of the multilateral system. We were told, 'it is not obvious that the two things are compatible and complementary, preferential trade agreements may be undermining agreements reached in the WTO and there is a question of whether the WTO is going to try and exert some sort of multilateral discipline on the formation of these agreements.'<sup>84</sup> **We consider the multilateral system to be important for developing countries and are pleased that the Doha Round did not collapse in Hong Kong. The Government should work to ensure that the EU does not in any way prejudice a successful and timely conclusion to the Doha Round.**

85. Cancún saw the emergence of developing country coalitions, capable and willing to exert pressure on the developed countries. The collapse of the Cancún Ministerial is attributed to coalitions of developing countries being unwilling to accept the deal which was on the table. Hong Kong saw the continuation of this practice. Of particular note was the formation, at the request of Brazil, of the G110, combining the influential G20 and the group of poorer developing countries the G90. Whereas the interests of the two groups are far from identical, the groups came together because they felt the EU and the US were trying to 'divide and rule' the developing countries. Certainly, as we have said, the EU mandate does attempt to do so. It is not clear whether, or for how long, such a coalition will last. **However, the formation of the G110 should not be seen as just a trade union, as was suggested by Pascal Lamy, rather as a response to an attempt by the developed countries to exert pressure on developing countries to agree to things which they did not feel were in their interest. The Commission should step back and ensure that it is not abusing its position in the WTO.**

86. One aspect of the process which gives us concern is the practice of mini-ministerials, or meetings of select members of the WTO. The London mini-ministerial was attended by only two developing countries, Brazil and India. There were no representatives from Africa. **We accept that the use of smaller ministerial meetings make for easier decision-making but consider this an unrepresentative approach in an organisation which has facilitated greater participation and ownership by developing countries than its predecessor the GATT. It is not good from the point of view of either transparency or accountability. The Government should not condone such a practice, especially if a development agenda is still the goal of the Doha Round.**

87. In summary, whilst it is good news that the Doha Round, and the principle of multilateralism, did not collapse at Hong Kong, much remains to be done in order to bring the Round to a successful conclusion. **The minimum criteria for a successful agreement would be one which does not differentially hurt developing countries or provide disproportionate benefits for developed countries. At present we have concerns that sufficient progress is not being made.**

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83 Q 215 [Mr Lamy]

84 Q 70 [Prof Wade]

88. Peter Mandelson says that any further margin of manoeuvre in agriculture could only be considered if other key players make offers in manufacturing trade and services.<sup>85</sup> **The Commission position must change, and there is good reason for the Commission to act pre-emptively on this since, in the WTO, nothing is agreed until everything is agreed. Such action would demonstrate leadership and political commitment to a development round. The developing countries have much to gain from an ambitious outcome. The EU must not become the cause of failure.**

89. The outcome of the development agenda is not a forgone conclusion. Much work remains to be done now, and subsequently after the formulas for tariff reductions are finally agreed. Despite overall commitment to multilateralism, it is still not clear that members will make ambitious new offers. A development round will not be the result of a gradualist approach. While the LDCs have secured a (limited) deal in market access, the remainder of developing countries have not. There is no more time to lose. As a key player within the EU, the UK has a major role to play. This role must be to encourage the EU member states to put the interests of developing countries first in this case. This will be the true test of a development round.

## Conclusions and recommendations

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1. We agree with the Government's emphasis on the importance of improved participation by, and policy space for, developing countries in the WTO. As with the previous Committee in its last trade report, we think that a development round should also produce development-friendly agreements in the areas which have the potential to contribute the most to poverty reduction. (Paragraph 10)
2. The EU and the US wasted much time between the July 2004 agreement and their subsequent offers, which were made only a few months before the Hong Kong Ministerial. These offers, once made, did not go far enough to close the gaps in member states' positions. Consequently, expectations of what could be achieved in Hong Kong were lowered. Since Hong Kong was known to be the last Ministerial before the end of the Round, the EU and the US, as key players, should have made earlier offers to ensure that the Round kept to its timetable. The apparent lack of urgency in the EU and US approach to the negotiations raises questions about their commitment to a development round. (Paragraph 26)
3. We accept that there were limitations on what the Government could achieve in terms of trade during its Presidency, but these limits should have been acknowledged earlier on so as not to raise the public's expectations of the outcome unrealistically. (Paragraph 29)
4. We do not think that either the Government, or the EU should seek to divide the developing countries into categories which the WTO does not recognise and which the countries themselves have not agreed to. We accept that countries such as India and Brazil are competitive in some sectors, and that trade liberalisation in these sectors would be beneficial to them, however, 'advanced developing country' is not a recognised category of states in the WTO. Given the increased differentiation between developing countries with sustained and high rates of growth and competitive industrial or service sectors, and poorer developing countries with few competitive sectors, there is a need for the WTO to consider formally the issues of differentiation and graduation as part of its discussions on special and differential treatment. We are disappointed that the UK Government has not made more progress on this issue which the previous International Development Committee flagged up in its trade report. (Paragraph 33)
5. We commend the Government for facilitating a commitment to policy space from the G8 members in the G8 Summit Communiqué. (Paragraph 36)
6. We consider that the Government is on the one hand defending the right of developing countries to choose their own policies, while at the same time arguing that movement in EU agriculture, which is crucial for the developing countries, is dependent on certain developing countries providing greater access to their non-agricultural markets and making offers in services. Neither the Commission nor the UK should be pressing developing countries in this way, nor should they be making EU policies dependent on actions of the developing countries. This is contrary to the

idea of a development round in general and to the idea of policy space more specifically. (Paragraph 40)

7. The proposal by the Commission on benchmarking in services was an attempt to change the rules of the game at half-time. It should not have gone forward as the basis for negotiations in Hong Kong. The UK, in its Presidency, did nothing to prevent this from happening. The benchmarking proposal was an attempt to set targets for offers in services in order to move the negotiations forward, but the targets were arbitrary and imposed by the Commission. This should have been rejected in principle by all the EU member states and by the UK in particular. We do not consider that the Government used its Presidency acceptably by, in effect, supporting the Commission proposal. In addition, the Government should not have been seeking to ensure that LDCs made offers in services since they are exempt from all such requirements in the development round. (Paragraph 42)
8. We consider that the Commission has been inconsistent in its advice to the developing countries. The Commission's refusal to practice what it preaches in respect of liberalisation threatens the EU negotiating position. The Commission would have much greater credibility in the eyes of developing countries if it were more consistent. The attempt to argue that further liberalisation of European agriculture would be harmful to the interests of the G90 is disingenuous. The EU made a commitment to a development round which would redress the imbalances of previous rounds by opening its agricultural markets for developing countries. It should not attempt to renege on this commitment. The Commission's offer was insufficient to move the negotiations forward. The grand bargain which the EU sought — with progress in agriculture being dependent on access to developing country and US markets — was a 'northern agenda' and not a development one. The Government's support for it was a negation of its commitment not to force liberalisation on developing countries. (Paragraph 45)
9. We agree with the Government that the 2013 end date for export subsidies was an important outcome. We, too, would have preferred an earlier end date. The Government should ensure there is an acceptance within the EU that the majority of such EU subsidies will be phased out by 2010. (Paragraph 50)
10. At the WTO meeting in Hong Kong the US did not respond to concerns raised by cotton exporting states creating a significant amount of ill will which again, as in Cancún, soured the entire negotiations. The US stance was unnecessary given that the WTO had already ruled against the US system. It was also contrary to the spirit of a development round. The subsequent repeal of domestic support for cotton is welcome and long overdue. (Paragraph 53)
11. We support the UK Government in pressing developed countries to step up coverage of the Duty Free Quota Free entry for LDC exports to 100 per cent as part of the DDA package, and in their support to LDCs in this endeavour. We encourage the Government to pursue with vigour, and as part of the final agreement, an early date for 100 per cent coverage. Given the limited range of products which LDCs export, and given their negligible share in world trade, the minimum criteria for success in a

development round would be Duty Free Quota Free access for all LDCs' products to all developed country markets. (Paragraph 57)

12. We consider the lack of discussion about the content of EU member states sensitive products to be unsatisfactory, given the pivotal role which the Government intended to play during its EU Presidency. If such products are indeed sensitive we would like to know the reasons for this. We also wish the Government to take a lead role in trying to reduce the percentage of products which the EU deems as sensitive. While we do not share the World Bank view that the use of special product exemptions by developing countries should be eliminated, we do question the EU's commitment to a development round if it sticks by anything like 8 per cent of its agricultural products. (Paragraph 59)
13. The debate about infant industry protection appears inconclusive. We have heard evidence to support both sides of the argument and evidence which tends toward a middle ground — some protection is useful, for limited periods of time, and for the right reasons. We believe that these are issues which must be decided on a case by case basis and that it is important for any WTO agreement to provide the space for developing countries to make decisions about which policies are most suitable. We are concerned that this type of policy space may already be limited by agreements made in the Uruguay Round and would not like to see it limited further. Development is a process of diversification and developing countries must not be forced to remain exporters of primary commodities by policies which damage emerging industrial sectors. (Paragraph 63)
14. We consider the rejection of the EU's benchmarking proposal to be a positive outcome for developing countries. (Paragraph 64)
15. Our main concern is that the services negotiations are proceeding apace with few, if any, feasibility studies about the implications of these for developing countries and with decisions being made by people who know about tariffs rather than people who know about particular services. It is important that decisions on services are carefully taken. We are unconvinced that the current timetable provides sufficient time for this. (Paragraph 66)
16. As Ian Pearson said, 'What we have to do at the very minimum is kick open the door of the developed world so that the poorest countries can actually trade with us.' We are pleased by this approach, but what is crucially needed is an agreement which prioritises the needs of developing countries. The Hong Kong declaration falls short of this requirement. The Government must now invest time and political effort to ensure that a development agenda can be agreed in December 2006. (Paragraph 68)
17. There may well be value in joint statements with developing countries such as Brazil — demonstrating that the Government shares the concerns of developing countries. However, unless the EU position changes, and this requires changes in member states positions, the April deadline will be missed. The Government should therefore prioritise high level meetings with its EU member state partners. (Paragraph 70)
18. Peter Mandelson has indicated to us that there may be some room for a reduction in the number of sensitive products within the limits of CAP reform, provided new

commitments are forthcoming from other players. We would welcome an offer to reduce the number of products which the EU designates as sensitive, otherwise market access for developing countries will be severely limited and Doha will not be a development Round. In making this offer conditional upon the actions of other states, the EU is going against the spirit of the Round. This improved offer should not, under any circumstances in this Round, be conditional on actions by developing countries. (Paragraph 75)

19. We agree with Stiglitz's recommendation that the WTO needs to promote a culture of robust, impartial and publicly available economic analysis of the effect of different initiatives on different countries, and groups within countries, if it is to effectively identify pro-development proposals and promote them to the top of the agenda. Mechanisms must be found to facilitate industrial diversification. We urge the Government to ensure that the formula for tariff reductions in NAMA does not discriminate against this. (Paragraph 76)
20. There has been limited discussion of Special and Differential Treatment (SDT) in the negotiations, despite a commitment to ensure that SDT would be part of all areas of negotiation. To some extent this is to be expected, since SDT is usually agreement specific and without numerical formulas it is impossible to calculate what SDT might be in any given case. Nevertheless, recognition of SDT is important, and the UK Government should work to ensure that once numerical formulas are agreed for agriculture and NAMA, effective SDT is possible according to the needs of developing countries. Particular attention should be paid to the needs of smaller, low income developing countries, especially those which will lose because of preference erosion. (Paragraph 80)
21. The WTO should as a matter of priority turn its attention to how the aid for trade mechanism will work and provide a clear mandate by the end of the year as agreed in the Doha time line. This should be done with input from potential beneficiaries in developing countries. There is also the need to clarify the relationship between aid for trade assistance and general development assistance. Aid for trade should be additional to and not simply a diversion of aid monies already pledged. We do not believe that the Government should consider aid for trade as part of its general aid budget. (Paragraph 82)
22. We consider the multilateral system to be important for developing countries and are pleased that the Doha Round did not collapse in Hong Kong. The Government should work to ensure that the EU does not in any way prejudice a successful and timely conclusion to the Doha Round. (Paragraph 84)
23. The formation of the G110 should not be seen as just a trade union, as was suggested by Pascal Lamy, rather as a response to an attempt by the developed countries to exert pressure on developing countries to agree to things which they did not feel were in their interest. The Commission should step back and ensure that it is not abusing its position in the WTO. (Paragraph 85)
24. We accept that the use of smaller ministerial meetings make for easier decision-making but consider this an unrepresentative approach in an organisation which has

facilitated greater participation and ownership by developing countries than its predecessor the GATT. It is not good from the point of view of either transparency or accountability. The Government should not condone such a practice, especially if a development agenda is still the goal of the Doha Round. (Paragraph 86)

25. In summary, whilst it is good news that the Doha Round, and the principle of multilateralism, did not collapse at Hong Kong, much remains to be done in order to bring the Round to a successful conclusion. The minimum criteria for a successful agreement would be one which does not differentially hurt developing countries or provide disproportionate benefits for developed countries. At present we have concerns that sufficient progress is not being made. (Paragraph 87)
26. The Commission position must change, and there is good reason for the Commission to act pre-emptively and make known what it is prepared to offer in terms of improved agricultural market access on this since, in the WTO, nothing is agreed until everything is agreed. Such action would demonstrate leadership and political commitment to a development round. The developing countries have much to gain from an ambitious outcome. The EU must not become the cause of failure. (Paragraph 88)

# Glossary

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## **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.

## **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.

## **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.

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

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

## **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.

## **G20**

The G20 is a group of developing countries which have called for substantial reductions in agricultural subsidies of developed countries and increased market access for developing countries’ agricultural products. The G20 include: 5 from Africa (Egypt, Nigeria, South Africa, Tanzania and Zimbabwe), 6 from Asia (China, India, Indonesia, Pakistan,

Philippines and Thailand) and 8 from Latin America (Argentina, Bolivia, Brazil, Chile, Cuba, Mexico, Paraguay and Venezuela).

### **G33 (also called Alliance for Strategic Products and a Special Safeguard Mechanism)**

The G33 is a group of developing countries which has argued that any framework for agricultural modalities should allow developing countries to protect their own agricultural sectors through mechanisms including ‘strategic products’ (see below) and a Special Safeguard Mechanism (see below). The group included: Antigua and Barbuda; Barbados; Belize; Botswana; Cuba; Dominica; Dominican Republic; Grenada; Guyana; Haiti; Honduras; Indonesia; Jamaica; Kenya; Mongolia; Montserrat; Nicaragua; Nigeria; Pakistan; Panama; the Philippines; Saint Kitts; Saint Lucia; Saint Vincent and the Grenadines; Suriname; Tanzania; Trinidad and Tobago; Turkey; Uganda; Venezuela; Zambia and Zimbabwe.

### **G90**

The G90 brought together the African, Caribbean and Pacific, LDC and Africa Union groupings. At Cancún it represented 91 developing countries, 60 of which were WTO members. Their objectives have included protecting their preferential access to northern markets, and resisting the introduction of the Singapore Issues. Members include: Bangladesh; Jamaica; Botswana; China; Cuba; Egypt; India; Indonesia; Kenya; Malaysia; Nigeria; the Philippines; Tanzania; Venezuela; Zambia and Zimbabwe.

### **G110**

At the Hong Kong Ministerial Conference Brazil encouraged the G20 to band together with the G90 and in so doing to take on board their concerns. The primary purpose of the new grouping was halt US and EU attempts to divide developing countries so as to secure better access to the larger developing country markets.

### **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.

### **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.

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

Fifty 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. Multilateral liberalisation is that which is achieved by many countries through negotiation and cooperation.

### **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.

### **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.

### **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.

### **Sensitive products**

Both developed and developing countries may designate a number of sensitive agricultural products — the number each government may select is to be negotiated. These will be subject to smaller tariff reductions. Even for these products, there has to be “substantial improvement” in market access, which can partly be achieved by creating or expanding tariff quotas.

### **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.

### **Special products**

Developing countries will be given additional flexibility for products that are specially important for their food security, livelihood security and rural development. How many, how they will be selected, and how they will be treated, is to be negotiated.

### **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.

### **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 in 1995.

### **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 member countries and are ratified as international treaties.

# Formal minutes

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**Thursday 20 April 2006**

Members present:

Malcolm Bruce, in the Chair

John Battle  
Richard Burden  
Mr Jeremy Hunt

Ann McKechin  
Joan Ruddock  
Mr Marsha Singh

The Committee deliberated.

Draft Report (The WTO Hong Kong Ministerial and the Doha Development Agenda), proposed by the Chairman, brought up and read.

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

Paragraphs entitled 'Summary' read and postponed.

Paragraphs 1 to 89 read and agreed to.

Paragraphs entitled 'Summary' read and agreed to.

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

*Ordered*, That the provisions of Standing Order 134 (Select committees (reports)) be applied to the report.

*Ordered*, That the Appendices to the Minutes of Evidence taken before the Committee be reported to the House.

Several papers were ordered to be reported to the House.

[Adjourned till Tuesday 25 April at 10.15am]

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<b>Sheila Page</b> , Senior Research Associate, Overseas Development Institute, and <b>Professor Robert Hunter Wade</b> , Professor of Political Economy, Development Studies Institute, London School of Economics	Ev 10
<b>Thursday 1 December 2005</b>	
<b>Rt Hon Hilary Benn MP</b> , Secretary of State for International Development, <b>Ian Pearson MP</b> , Minister of State for Trade, Investment and Foreign Affairs, <b>Carlton Evans</b> , International Trade Department, Department for International Development (DFID), and <b>Amanda Brooks</b> , Director, Trade Negotiation and Development, Department of Trade and Industry (DTI)	Ev 18
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<b>Roger Liddle</b> , Member of Cabinet for the European Commissioner for External Trade and Competitiveness, the Rt Hon Peter Mandelson	Ev 32
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<b>Wednesday 15 March 2006</b>	
<b>Pascal Lamy</b> , Director-General, World Trade Organization ( <i>by video-conference link</i> )	Ev 50

## List of written evidence

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*Written evidence submitted by witnesses who also gave oral evidence:*

Department for International Development (DFID) and the Department of Trade and Industry (DTI)	Ev 60
Ian Pearson MP, Minister of State for Trade, Investment and Foreign Affairs	Ev 68
Roger Liddle, Member of Cabinet for the EU Commissioner for External Trade and Competitiveness, the Rt Hon Peter Mandelson	Ev 70
Christian Aid	Ev 70
Overseas Development Institute	Ev 76
War on Want	Ev 79
World Development Movement	Ev 83

*Other written evidence:*

Rt Hon Peter Mandelson, EU Commissioner for External Trade and Competitiveness	Ev 99
ActionAid International UK	Ev 103
Business Action for Africa	Ev 108
Consumers International	Ev 109
Institute for Development Policy and Management	Ev 117
UK Industrial Sugar Users Group	Ev 121
WWF-UK	Ev 122

## List of unprinted papers

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Additional papers have been received from the following and have been reported to the House but to save printing costs they have not been printed and copies have been placed in the House of Commons Library where they may be inspected by Members. Other copies are in the Record Office, House of Lords, and are available to the public for inspection. Requests for inspection should be addressed to the Record Office, House of Lords, London SW1 (Tel 020 7219 3074). Hours of inspection are from 9:30am to 5:00pm on Mondays to Fridays.

ACP Ministerial Group on Sugar, letter to the Rt Hon Peter Mandelson, European Commissioner for External Trade and Competitiveness, 6 December 2005

Kym Anderson, Will Martin and Dominique van der Mensbrugghe, Centre for International Economic Studies, WTO Program, University of Adelaide, Australia, *Would Multilateral Trade Reform Benefit Sub-Saharan Africans?* Discussion Paper No. 0518, August 2005

Business Action for Africa: Appendix to memorandum

Consumers International advocacy pack, *Why trade matters to consumers*

Kimberly A Elliott, *Looking for the Devil in the Doha Agricultural Negotiations*, CGD Brief, December 2005, Center for Global Development

*Hong Kong: Time to Deliver on Trade and Development: Position Paper on the Doha Development Round of the World Trade Talks*, adopted by the Socialist Group in the European Parliament, November 2005

International Trade Union Statement on the Agenda for the 6<sup>th</sup> Ministerial Conference of the World Trade Organization (WTO)

UK Government note to the EU's Article 133 (Services) Committee on the EU's benchmarking proposal, June 2005

Robert Hunter Wade, 'After Geneva: The WTO still has a long way to go', *International Herald Tribune*, Tuesday 3 August 2004

## Reports from the International Development Committee

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The Government Responses to International Development Committee reports are listed here in brackets by the HC (or Cm) No. after the report they relate to.

### Session 2005–06

First Report	Delivering the Goods: HIV/AIDS and the Provision of Anti-Retrovirals – Volumes I and II	HC 708–I&II (HC 922)
Second Report	Darfur: The killing continues: Government Response to the Committee's Second Report of Session 2005–06	HC 657 (HC 1017)