

# What happened in Hong Kong?

## Initial analysis of the WTO Ministerial, December 2005

The WTO Hong Kong ministerial meeting was a lost opportunity to make trade fairer for poor people around the world. Rich countries put their commercial interests before those of developing countries. Most of the difficult decisions were put off to a further meeting in early 2006, but it is far from clear why rich countries that were unable to show the necessary leadership in Hong Kong will behave any differently in a few months' time.

## Summary

The WTO Hong Kong ministerial meeting was a lost opportunity to make trade fairer for poor people around the world. Rich countries put their commercial interests before those of developing countries. Small progress in agriculture was more than cancelled out by anti-development texts in services and industrial tariffs. Most of the difficult decisions were put off to a further meeting in early 2006.

Developing countries in Hong Kong continued to consolidate into a number of different blocs, thereby increasing their voice in the negotiations. Hong Kong saw the different groups come together to form a loose alliance called the G110 to put pressure on the EU and USA to reform their agriculture regimes. This was partly in response to the rich countries' attempts to play developing countries off against one another.

In agriculture, the bulk of the work remains to be done, notably in disciplining rich country domestic subsidies, which lead to dumping and remain largely untouched.

The final ministerial declaration contained some minor gains on agriculture, such as setting a 2013 end date for export subsidies, and providing developing countries with extra flexibility to protect their small farmers. There was some progress on preventing the abuse of food aid as a disguised form of dumping, but on cotton, the steps agreed fell short even of those required by the cotton panel ruling against the USA.

Developing countries successfully fended off some of the attempts to force open their markets to Northern industrial and service sectors. However, even the toned-down text on non-agricultural market access (NAMA) and services is inimical to development.

The offer of duty-free, quota-free market access to the poorest countries contains sufficient loopholes to rob the agreement of almost all value. An 'aid for trade' deal was agreed consisting largely of recycled money, and there was no progress on other 'development issues'.

When talks recommence in early 2006, rich-country negotiators cannot simply turn up and carry on where they left off in Hong Kong. They need to go away, examine their consciences, and make a New Year's resolution to turn this into a development round for the world's poor.

# 1 Introduction

Unlike the previous three WTO ministerial meetings in Seattle, Doha, and Cancún, the 2005 WTO Hong Kong ministerial did not fold in a chaos of street riots; it did not drag past deadline to a strained conclusion with many delegations already on their planes home; and it did not collapse in a flurry of finger pointing and blame. There, however, the relative success largely ends, for the text agreed in Hong Kong was a lost opportunity to make trade fairer for poor people around the world. The agreement reflects rich country interests far more than those of developing countries. Most of the difficult decisions were put off to a further meeting by the end of April 2006, but it is far from clear why rich countries that were unable to show the necessary leadership in Hong Kong will behave any differently in a few months' time.

This paper offers a preliminary analysis of the outcome of the Hong Kong ministerial and looks at the implications for the Doha Round, the WTO, and development.

## What was needed from Hong Kong?

Four years since the launch of the Doha Round, global trade negotiations were clearly in trouble going into Hong Kong. Oxfam laid out in detail the challenges facing WTO members in its pre-ministerial paper 'Blood on the Floor'.<sup>1</sup> Broadly, to justify the title of a 'development round', Hong Kong needed to make progress towards:

- reforming Northern agriculture policies to end dumping;
- providing developing countries with sufficient 'policy space' to protect vulnerable farmers and promote new manufacturing and service industries;
- increasing access to rich country markets for developing country farmers and industries.

Even though it was obvious that this would not be achieved in Hong Kong alone, the ministerial needed to agree meaningful progress on development issues that could restore some credibility to the round. Sadly, it did nothing of the sort.

## What happened in the run up to the ministerial?

The collapse of the previous ministerial meeting in Cancún was remedied by an agreement in Geneva in July 2004 setting out a framework for the remainder of the round. Since then, however, progress in Geneva had been minimal. Deadlines and meetings had come and gone, with most countries repeating known positions.

Blame for this paralysis was widely laid at the door of the rich countries' agriculture policies, and in October 2005, in an effort to rekindle momentum prior to Hong Kong, the USA and EU made proposals on agriculture that purported to offer major progress on all three 'pillars' of the agriculture agreement (domestic support, export competition, and market access). On closer inspection, however, the proposals proved to be more spin than substance, offering few or no real cuts in subsidies or tariffs and insisting on numerous loopholes to allow governments to continue to heavily subsidise agriculture and dump the surplus on world markets. Even then, the EU demanded a quid pro quo in the form of greatly improved access for European industries to developing country markets.

Despite these failings, the proposals led to a flurry of discussions with other trading partners and raised hopes of progress in Hong Kong.

Progress was minimal or negative in the other two main areas of negotiation: industrial tariffs (non-agricultural market access, NAMA) and services. In NAMA, talks were bogged down over what kind of formula to apply to tariff reductions, and what sort of flexibility would be provided to developing countries.

In services, rich countries have not been satisfied with developing countries' offers, so prior to Hong Kong they sought to change the rules of the game halfway through. Instead of a development-friendly 'bottom up' approach, whereby (unlike other WTO agreements) countries decide for themselves which sectors to include in the negotiations, the EU instead called for 'benchmarking' — a negotiated minimum commitment in terms of numbers of sectors and level of ambition — from all members. In a move symptomatic of the way development considerations are squeezed out by power politics as a ministerial approaches, the chair of the services negotiations produced a draft text in October 2005 that suited the EU's proposals, despite developing country opposition.

As the ministerial approached, the EU focused on what it dubbed a 'development package' of measures such as agreeing an amendment to the TRIPS (Trade-Related Aspects of Intellectual Property Rights) agreement to improve access to patented medicines for poor countries; duty-free, quota-free market access for LDCs (least developed countries); 'aid for trade'; and measures to address the problem of 'preference erosion'.<sup>2</sup> However, sceptics portrayed the development package as an attempt to divert attention from the need for reform of the Common Agricultural Policy (CAP).

In the final month before the ministerial, as it became clear that ambitions for full 'modalities' (essentially agreements with numbers which members must then turn into individual country schedules) would not be realised, the WTO Director General Pascal Lamy and other major powers began to talk down expectations. Instead of agreeing numbers, Hong Kong largely became an exercise in shadow

boxing and ambiguity, laced with some small and heavily qualified steps on development issues.

## How did the Hong Kong ministerial work?

WTO ministerials are invariably chaotic and Hong Kong was no exception, involving the usual maelstrom of rumours of changes in position, climb-downs, deals, walk-outs and divisions between groups, some of them doubtless spread on purpose.

That said, many delegates praised the efficiency and organisation displayed by the Hong Kong SAR Government, and saw the ministerial as more transparent and inclusive than its predecessors. Ministerials now operate on the basis of an emerging pseudo-parliamentary 'green room' system whereby the different country groupings are represented in small group discussions and receive report-backs of the issues under discussion. However, these lines of communication deteriorated as delegates became exhausted from lack of sleep, and the pace of negotiations picked up, meaning that in the final crucial hours, many delegates, especially from smaller delegations, had only a partial understanding of what was under discussion. Sleep deprivation only adds to the imbalance of negotiating capacity between delegations large enough to take turns to sleep such as the USA (356 delegates) and those who had to be on 24-hour duty such as Burundi (3 delegates).

In such a pressure cooker, it is easy for an 'auction mentality' to be created where delegates bid for something, even if they are not sure they really need it. This can be easily manipulated by bigger players to sell minor gains as apparent victories. It is a traditional negotiating tactic to start by offering something worse, so that other delegates must waste time and political capital just to hold the line. By the end of a few days of this, it is extremely hard to disentangle which amendments are significant, and which are mere window-dressing.

Moreover, as increasing numbers of developing countries become actively involved in the negotiations, the 'variable geometry' of different groups of countries working together around particular issues grows, with a concomitant increase in the amount of time required to consult and report back from green rooms to wider groups. This growing 'reporting burden' puts huge strain on a meeting limited to five days.

At a deeper level, this system does not address some basic issues of accountability and good governance, such as the keeping of minutes of meetings and sufficient time to analyse text and confer with governments back in the capital.

In short, the WTO remains, in Pascal Lamy's phrase, a 'medieval organisation', and many countries sign up to agreements with very little time to consider their implications.

Delegates from the G90 — an umbrella group of the ACP (African, Caribbean, Pacific Group of States), LDCs, and African Union countries — grew increasingly frustrated when they made a number of several proposals for changes to the text that had not been opposed by any other members, but had simply been ignored by the facilitator and others in charge of accepting or rejecting amendments. Examples included proposals to delete the reference to concessional loans in the aid for trade paragraph (**para 57**) or to distinguish between developed and developing country state trading enterprises (**para 6**).

The most serious abuse of process was arguably over the services negotiations, where the heavy-handed tactics of the Geneva-based chair of the services negotiating group were adopted by the Korean minister appointed to facilitate the discussions in Hong Kong. He tried to force through acceptance of the controversial annex C on services as part of the text, despite vehement developing country opposition. In the end he succeeded, although developing countries managed to make a number of amendments to moderate what had been a drastic text.

Delegates also reported that the Secretariat, and particularly the new Director General, Pascal Lamy, played a much more active role in brokering the final agreement, using bilaterals ('confessionals') with key countries to arrive at a text they could live with. In essence, this process managed to pull the text back to just below the threshold of unacceptability that would have precipitated a walk-out. There is, however, a fine line between leadership and applying undue pressure, and some delegates reported that they felt Mr Lamy crossed that line in the services discussions. However, Mr Lamy returns to Geneva with a good deal of political capital — it is now critical that he use this capital to put development concerns at the heart of the round.

## What were the different country groupings?

The years since the 2001 Doha ministerial have seen developing countries come together to try and increase their influence. By negotiating together, broad coalitions such as the G20 (led by Brazil and India) and G33 (led by Indonesia and the Philippines) on agriculture, or the Africa Group, ACP, and LDC group on all topics, have acquired increased clout in the negotiations. Brazil and India in particular have become leaders of broad developing country coalitions and in consequence have secured a seat in the inner negotiating circle, alongside the EU and USA.

The consolidation of developing country blocs appeared to deepen in Hong Kong, when the various developing country groupings came together to form a loose alliance on agriculture that became known as the 'G110', representing 80 per cent of humanity. The G20 had asked Brazil to convene a meeting with ministers of the ACP, African Union, LDCs, and G33 to start what they termed 'a process' (stressing that this was not a return to the North-South splits of the 1970s).

Ministers at the press conference stressed that they intended to work together where they agreed (e.g. on northern agricultural reform and policy space in developing countries) and manage any disagreements to prevent the EU or USA from using traditional 'divide and rule' tactics — this may have helped persuade the big players to focus on substance rather than political manoeuvring. However it remains to be seen whether the G10 can rise above the contradictory interests of some of its members on issues such as preferences or SDT and become a force to be reckoned with. Brazil portrayed its consolidation as a post-Hong Kong exercise.

The power play between these groupings and the major rich countries (principally the EU and USA) was that the EU in particular has attempted to split off some 15 'advanced developing countries' (e.g. Brazil, India, Indonesia, Argentina) from the rest and target them for major concessions in NAMA and services, and to a lesser extent agriculture. The EU and USA see these countries as competitors who can expect no quarter in trade negotiations, yet they contain many of the world's poorest people and clearly deserve support in using trade to develop.

The rich countries' attempts to divide developing countries have involved both carrots (aid for trade, extending exemptions for LDCs to small economies) and sticks (at this ministerial, the stick of choice appears to have been phoning either the capital, or senior figures in the delegation to warn them that their country would be blamed for the ministerial collapsing if they did not back away from their positions). In Hong Kong, the USA seemed largely content to hide behind the EU and let it take the flak for these tactics.

The EU's widely publicised internal divisions on agriculture seemed to increase its determination to make big demands on NAMA and services. The EU also seemed to resent being on the back foot, under pressure on export subsidies for much of the conference. Just before the ministerial it had further damaged its image by offering the ACP countries a paltry €40m in compensation for its sugar farmers as part of a sugar reform package that doled out €7.5bn to European sugar interests. The EU then appealed to the ACP to side with them against the US and G20 demands for market access, a blatant attempt to shelter rich country protectionism behind legitimate development concerns.

The USA seemed constrained by domestic politics — there appeared to be little enthusiasm from its business lobbies, while protectionist interest in textiles, apparel, agriculture, and industry were very outspoken. In response, the USTR (United States Trade Representative) appeared to prioritise sectoral and plurilateral agreements, which it thinks offer it greater chances of improved market access. It made few friends among developing countries with its grudging attitude to cotton reform, especially when it offered duty-free, quota-free access to its cotton market (para 11), safe in the knowledge that West Africa does not actually export cotton to the USA.

Much of the manoeuvring amounted to little more than trying to switch blame onto the other side, with the EU trying to get off the back foot on agriculture by focusing on the US problem areas of duty-free, quota-free market access for LDCs, cotton subsidies, and food aid, while the USA constantly came back to the EU's 'unambitious' proposals on market access.

These tactics distracted from substantial development issues such as dumping and the continued obstacles to real market access imposed by rich countries, and enabled them to advance their offensive interests in NAMA and services. As India's Commerce Minister, Kamal Nath, said, 'The developed countries talk in the plenary halls of a round for free for developing countries. Then they move into the green room and continue to ask for a round for free, this time for themselves.'

Canada and Japan also failed to behave as if development was a priority for them. Canada seemed more interested in defending its farming state trading enterprises and supply management systems from challenge, and opening up new markets for its industries and services. Japan for its part showed little support to developing countries, focusing instead on protecting its own market, while aggressively pursuing access to developing country markets in manufacturing and services. When Japan announced a \$10bn 'development initiative' of aid for trade it stated that the initiative was 'to encourage developing countries to sit down and start talks', provoking accusations that the aid (much of which had already been previously announced) was being made conditional on trade reforms which benefit Japanese industries.

## 2 The Ministerial Declaration

### Minor gains in agriculture, paras 3-10

Fully 96 per cent of the world's farmers live in developing countries, where they include over three-quarters of the world's poorest people. For many countries, a healthy, productive agricultural sector constitutes an essential first step on the road to development.

Rich countries and poor countries support their farmers in different ways. Cash-strapped poor countries have to use import tariffs to keep up prices for their farmers and protect themselves from dumping and import surges. Subsidy superpowers like the EU and USA support agriculture with large helpings of state aid. Excessive subsidies lead to massive overproduction in the North, which is then dumped on world markets, driving down prices and damaging developing country agriculture. US subsidies on cotton are notorious for their impact on millions of small cotton farmers in Africa.

Agriculture in Hong Kong probably qualified as the 'least worst' part of the final text in the form of several qualified steps forward.

- 1 **End date for export subsidies (para 6):** An end date of 2013 was agreed for export subsidies and their equivalents. However, this is later than almost all countries wanted (2010), and export subsidies are a relatively minor part of the farm support that leads to dumping — they are mainly used by the EU (€2.5 bn), but only constitute 3.6 per cent of overall EU farm support. This decision, while welcome, should not obscure the fact that EU export subsidies have been falling for years, and would have largely been phased out by 2013 in any case. Moreover, the text contains deliberately vague language calling on members not to wait until the last moment, but to 'frontload' subsidy cuts early in the period between an agreement and 2013. Vigilance will be required on this issue, given rich countries' previous preference for 'back loading' e.g. in implementing the WTO textile and clothing agreement.
- 2 **Developing countries won measures to protect poor farmers (para 7):** While not accepting the G33's proposal that developing countries should be able to designate up to of 20 per cent of all tariff lines as special products, (it merely talks of an 'appropriate number' to be negotiated in Geneva), the text includes good language on Special Products and a Special Safeguard Mechanism (SSM.) For example, it recognises the need for developing countries to decide for themselves which products need to be protected to safeguard food security, rural development, and the livelihoods of poor farmers. On the SSM, it agrees both price and volume triggers, which should ensure that the SSM is more effective in curbing import surges. What treatment is actually

given to these products will determine how useful they are in practice, and that remains to be negotiated in Geneva.

- 3 **Strengthened language on domestic support (para 5):** this should cut into real levels of rich country subsidies, not just the 'water' between bound and applied levels. Although the wording is ambiguous, the text opens the way for tightening disciplines on the notorious Blue Box, one of the most blatant loopholes built into the Agreement on Agriculture by the rich countries to help them avoid cuts in their subsidies.

Developing countries, especially India, that only have a limited right to use domestic support under the so-called 'de minimis' rule were also pleased that their ability to subsidise agriculture was exempted from cuts.

However, the bulk of work on the main agricultural issues remains to be done within an implausible deadline of 30 April 2006 for agreement on modalities, and comprehensive country schedules by 31 July 2006 (**para 10**). The text's ambition is particularly low on addressing dumping caused by excessive levels of domestic support in the rich countries (**para 5**), both in terms of cutting the amount spent and closing down loopholes that enable countries to exempt their subsidies via the Green Box.

Moreover, the text offers few opportunities for increased access to Northern markets (**para 7**), which are able to protect an unspecified number of 'sensitive products' — a loophole that drastically reduces the value of any overall reductions.

### **Cotton (paras 11, 12)**

The blatant injustice of US cotton subsidies and their impact on African cotton producers was one of the developmental litmus tests of the Cancún ministerial. The 2004 July Framework subsequently set up a cotton sub-committee to discuss both trade and development issues around cotton. Furthermore, a WTO dispute brought by Brazil which ruled against the US use of subsidies has forced the USA to take steps to reform its system. So far, however there has been little tangible progress.

In an effort to quell the dispute over cotton, in November 2005 US Trade Representative Robert Portman proposed a new \$7m scheme called 'The West Africa Cotton Improvement Program'. The offer was hard to take seriously, since only \$5m of the \$7m on offer was new money (the USA pays out that much in subsidies to its own cotton farmers in just 10 hours), it only applied to five of the 33 African countries that grow cotton, and the amounts were a tiny fraction of the losses incurred by them due to US dumping.

In Hong Kong, days of hard bargaining saw the mood among the 'cotton 4' group of Mali, Chad, Benin, and Burkina Faso, along with Senegal, move from willingness to engage with the USA, through frustration and anger, to resignation. However, their resolve was strengthened by the presence of a number of cotton farmers'

organisations at the ministerial. In the end, they achieved some limited progress:

- elimination of all forms of export subsidies by developed countries in 2006 (although export subsidies make up only 10 per cent of US subsidies for cotton);
- some level of commitment to reducing other trade-distorting subsidies faster and further for cotton than for other crops.

However, rather than being separately negotiated, cotton has become part of the wider agriculture negotiations, and thus of the single undertaking. This is particularly outrageous in that both of the 'concessions' fall short of the findings of the cotton dispute panel. In Hong Kong, US negotiators managed to turn a dispute settlement ruling against the USA into a bargaining chip for which developing country negotiators were expected to make concessions in other areas.

#### **Food aid (para 6)**

Food aid was one of the most acrimonious issues between the EU and USA (the main provider of food aid, the overwhelming bulk of it in the form of US-grown crops), with both sides accusing the other of manipulating the issue for their own commercial benefit. Defenders of the status quo argued that constraints could lead to aid being denied to the starving, whereas those calling for disciplines have been clear from the start that emergency food aid should be exempt. The real problem in the WTO is the dumping of non-emergency food aid, which undermines local farmers, wastes up to 50 per cent of the total money spent, and constitutes a disguised form of export subsidy.

In the end, there was some solid progress in Hong Kong, producing a framework (still vague, but clearer than earlier commitments) to agree new disciplines to prevent the abuse of food aid, and a 'safe box' for exemption of bona fide emergency aid.

### **Fending off the rich-country offensive in non-agricultural market access (NAMA), paras 13-23**

NAMA covers tariffs on manufacturing, fisheries, and mining, and came to the fore in the July 2004 Framework Agreement, when developing countries fiercely, but unsuccessfully, opposed a draft text that called for drastic cuts.

Developed countries have pushed hard for a tariff reduction formula (known as a 'simple Swiss Formula', although its simplicity is relative), that cuts higher tariffs more than it cuts lower ones. This puts developing countries at a disadvantage since their tariffs are generally higher, and is in direct contradiction of the 'less than full reciprocity' promised in Doha.

NAMA produced a new grouping around the ministerial, the so-called 'Core Group' comprising nine countries led by India and South Africa, along with Argentina, Brazil, Egypt, Indonesia, Philippines, Namibia, and Venezuela.<sup>3</sup> They sought to keep flexibilities for developing countries, while curbing Northern tariff peaks and escalation.<sup>4</sup>

This group successfully fended off attempts led by the rich countries to push for a simple Swiss Formula, and managed to get some more general language (Swiss Formula with coefficients) that opens the possibility of using a different, more pro-developing country formula, such as that proposed by the ABI (Argentina, Brazil, India) group (**para 14**). That battle now returns to Geneva in essentially the same state as it was prior to the ministerial.

The Core Group also fended off a concerted effort to link the level of flexibility they receive in binding and reducing tariffs (set out in paragraph 8 of the NAMA annex to the agreement), and the extent of 'less than full reciprocity' contained in the tariff reduction formula. This issue is unresolved (**para 15**) and likely to resurface in Geneva.

With regard to particular industrial sectors (e.g. textiles and garments, or fish products), the text introduces language on sectoral initiatives (**para 16**), where there was none before — participation is non-mandatory, but groups of rich countries eager to gain markets are bound to exert pressure on others to take part.

One arcane, but important, issue concerns the way unbound tariff lines will be converted into bound rates (**para 17**). They will receive a 'non-linear mark-up' on their current applied rate, and the tariff reduction formula will then be applied to the marked-up rate. This is clearly unfair since developed countries largely bound their tariffs in previous rounds, when they were allowed to bind at any level they liked. Countries that have unilaterally liberalised and so have low applied rates were particularly unhappy with the mark-up idea, and the reference to non-linearity is to enable them to have a larger mark up than countries with high applied tariff rates.

Overall, the ministerial agreement is still essentially the unacceptable recipe for de-industrialisation that was so controversial in the July 2004 Framework Agreement negotiations. At that time, developing countries insisted on a 'vehicle' — a first paragraph that stated that none of what followed had been agreed. Yet that same text has now become the heart of the NAMA annex. Oxfam continues to believe it cannot provide the basis for a pro-development negotiation.

A new paragraph (**para 24**) calls for 'balance between agriculture and NAMA' in the negotiations. Although originally introduced by Argentina, which feared that the rich countries would push for more rapid progress on NAMA than on agriculture, and vigorously opposed by the EU, the paragraph has been seized upon by the USA to argue for deeper cuts in both areas.

As in agriculture, the future of the NAMA negotiations is uncertain, since the text sets out deadlines for modalities (30 April 2006) and draft schedules (31 July 2006) that are wholly unrealistic, judging by the pace of negotiations to date (**para 23**).

## Services, paras 25-27

Services involved a disturbing abuse of process in the run up to this ministerial. An annex rejected by many developing countries in Geneva was nevertheless tabled in Hong Kong, and has now become the basis for future negotiations. The G90 and ASEAN groups made substantial alternative proposals for Annex C, but were largely ignored. Even so, their opposition helped open discussion on the annex and led to some improvements.

In approving even a toned-down version of the original annex, the WTO is altering the structure of the GATS (General Agreement on Trade in Services) negotiations half way through the round, moving away from a more development-friendly bottom-up approach agreed by the developing countries as the basis for including services in the WTO, towards something more closely resembling other areas of negotiation.

While the bilateral request-offer process is preserved, developing countries face increased pressure to also take part in plurilateral negotiations (**Annex C, para 7b**). If a group of countries ask another to take part in plurilateral negotiations, they are obliged to consider such requests. This is, however an improvement on the first draft, which obliged countries to enter into negotiations, rather than merely 'consider' doing so.

Developing countries are also being urged to aim for new 'qualitative benchmarks' (**Annex C, para 1**), such as enhancing levels of foreign equity participation, designed to encourage them to open up new service sectors, whether or not it is in their development interest.

The text also contains some worrying deadlines (**para 11b**).

Plurilateral requests are to be submitted within two months (end February 2006 or 'as soon as possible thereafter'), to which countries are obliged to respond by 31 July 2006. Oxfam does not believe that a maximum of five months provides adequate time to consider the request, consult with the people affected, and assess the potential impact of different kinds of liberalisation.

## Duty-free, quota-free (DFQF) market access for LDCs (Annex F, decision 36)

For the LDCs, this issue became a litmus test of the rich world's sincerity, and in many ways, it failed. The spotlight was almost entirely on the USA and Japan, since the EU and Canada have already unilaterally agreed DFQF packages. DFQF will be provided

for all LDCs on a 'lasting basis' by 2008 for at least 97 per cent of all products.

The decision was a step back from the Doha mandate of full DFQF access, and much less generous than it sounds, as the key products of most LDCs will be exempted. Almost 94 per cent of tariff lines already enjoy access to the USA at low or zero tariffs and in any case, LDCs tend to export a limited range of products. Three per cent comprises some 330 tariff lines, when 20-25 tariff lines currently account for some two thirds of Bangladesh's total exports. The USA insisted on a ceiling of 97 per cent of tariff lines precisely because it allows it to protect its textile and garment sectors from imports from countries such as Bangladesh, Cambodia, and Nepal (which earlier in the meeting it tried to exclude altogether). That figure also allows Japan to continue to protect rice, fish, and leather goods and footwear.

Moreover, 'lasting' is not the same as 'bound' (the USA even refused to accept 'long-lasting') and so is hostage to political opinion and special interests in the future.

This was a truly disillusioning decision. If a so-called 'development round' cannot provide the poorest countries with markets to enable them to trade their way out of poverty, it is very hard to see how negotiations can produce results for the poor.

## Aid for trade (paras 57, 48-51)

The decision to create a WTO task force to build supply-side capacity for poor countries to take advantage of trading opportunities is welcome, but Oxfam has several concerns with the way aid for trade was discussed in Hong Kong. The overriding concern is that this is unlikely to involve significant new money on top of that already pledged earlier in the year, for example in the run-up to the Gleneagles G8. Instead, money already promised will be rebranded as 'aid for trade'. When chief US negotiator Rob Portman announced the US offer, for example, he explicitly said that it needed to come 'hand in hand' with market access. Tying previously agreed aid to such trade concessions from aid recipients is unacceptable.

The IMF and World Bank are likely to be given the leading role, for example via the Integrated Framework (**paras 48-51**). This raises concerns given these institutions' previous track record for imposing conditionality, including premature trade liberalisation. The text also refers to 'concessional loans' (final line), whereas 100 per cent grant aid would be better in order to avoid further adding to developing country debt burdens. It is, however, welcome that aid for trade is not restricted to LDCs, but is extended to other developing countries.

## Tonga's accession

Oxfam has repeatedly raised the unfairness of the way negotiations are held over accession of new members to the WTO, and this ministerial was no exception. The tiny kingdom of Tonga (population 100,000) was accepted into the WTO in Hong Kong, after negotiations resulting in eye-watering concessions, including imposing a ceiling of 20 per cent on all agricultural and industrial tariffs (by comparison, the USA applies a 350 per cent tariff on beef, while the EU charges 300 per cent on sugar). Tonga has also been forced to make serious concessions in a range of service sectors.

## Other development issues

The numerous other issues of pressing importance to developing countries received barely any attention in Hong Kong, as in the rest of the round to date. Annex F agrees some minor technical issues, notably an extension for LDCs of their exemption from the disciplines of the Trade-Related Investment Measures (TRIMS) agreement. Elsewhere, the text largely consists of hollow exhortations to members to 'redouble their efforts' on a range of issues including special and differential treatment (**paras 35-38**), implementation of previous agreements (**para 39**), the particular problems faced by small economies (**para 41**), trade, debt, and finance (**para 42**), trade and technology transfer (**para 43**), commodities (**para 55**) and preference erosion (**paras 9 and 20**).

### **3 If the Hong Kong declaration is so bad, why did developing countries sign up to it?**

The mood among most developing countries in the final Heads of Delegation meeting was one of grudging acceptance rather than celebration. Cuba (on NAMA) and Venezuela (on NAMA and services), asked for their reservations to be noted, but did not bring about a collapse.

Almost all delegates agreed that a further Cancún-style collapse would damage the WTO as an institution, perhaps terminally, and were keen to avoid such an outcome.

From the first day of the ministerial, delegates appeared fearful of being blamed for collapse and there were regular reports of Northern negotiators using this tactic to put pressure on developing countries. They placed developing countries between a rock and a hard place, pushing their own agendas while saying that developing country intransigence would precipitate a breakdown for which they would be blamed. Crude though it is, the tactic clearly worked with some ministers.

Beyond the psychology of the ministerial, the truth is that most of the big decisions on issues like NAMA, services, and agriculture were deferred until later. The doors were left sufficiently open in complex negotiations that all ministers left feeling that at least something could be achieved for their countries in the future. If developing countries had not asserted themselves in the way they did, the final text would have been much worse.

Developing country ministers, like politicians anywhere, are keen to return from the ministerial with something tangible to show their voters and businesses and so could be persuaded to accept concessions now (DFQF, an end date for export subsidies) in exchange for vaguer, but potentially much more significant concessions further down the line. The political economy of negotiations also plays a role — for LDCs in particular, the future industries and service sectors that might one day be undermined by bad NAMA or services agreements do not yet exist, and so have no lobbyists to press their case.

#### **What happens next?**

‘Kicking the can down the road’ as one US senator termed it, is not an option for more than a few months, due to the deadlines imposed by US trade legislation. Under the US government’s ‘trade promotion

authority' (better known as 'Fast Track'), Congress is only able to vote for or against trade agreements negotiated by the government, but not amend them. Fast Track runs out in June 2007, setting a hard political deadline. Without Fast Track, Congressional consideration of a trade agreement is considered legislatively impossible.

Even with Fast Track, any final Doha Round agreement must go to Congress several months earlier if it is to be approved in time. That means modalities must be completed in mid-2006, to allow time for the technical work required to complete detailed schedules of commitments in different sectors and products within the Fast Track timetable.

The text approved in Hong Kong requires that modalities be agreed by 30 April 2006, but few delegates believe that this can be done. After 16 months of hard bargaining, Hong Kong was only able to inch the process forward from the July 2004 framework. As delegates and governments digest this situation over the next few weeks, the realisation is likely to dawn that we are probably in for a long round. The mood in the US Congress is such that Fast Track is not expected to be renewed and may have to await a new president and a new political mood before it becomes feasible. This could take a long while — Congress denied President Clinton Fast Track authority for most of his 8 years in office.

If the round stretches into the next decade, the developmental implications depend on broader geopolitical shifts, but events since Doha (the growing assertiveness of developing country groups such as the G20 and G33, the wider crisis of the Washington Consensus) give some cause for optimism that the longer the round, the better the eventual outcome. Furthermore, as long as negotiations are proceeding, they may exercise some level of restraint on Northern protectionism and perhaps on the push for WTO-plus regional trade agreements. However, the price of a long round is high in terms of prolonging the agony of an unjust world trading system that condemns developing countries to poverty.

In order to try and reach its 30 April 2006 deadline for modalities in agriculture and NAMA, delegates will be congregating once more in the first few months of 2006. This could either be a full ministerial or (more probably) a 'general council plus ministers' like the one that agreed the July Framework Agreement in 2004.

Oxfam has serious concerns about this General Council option. It is vital that any such decision does not seek to move negotiations behind the closed doors of the WTO, away from public scrutiny, and even some ministers, as happened to some extent in July 2004. A General Council is not the place to make decisions of this gravity. Moreover, when they reconvene, WTO members will still face the same hard choices that confronted them in Hong Kong, and unless the rich countries are willing to put radically new offers on the table, it will be no easier to reach agreement, still less one that delivers on the development promises made in Doha. Rich country negotiators

cannot simply turn up and carry on where they left off in Hong Kong. They need to go away, examine their consciences, and make a New Year's resolution to turn this into a development round for the world's poor.

The Doha Round, launched with such a fanfare four years ago, is in danger of grinding to a standstill. Rich countries have both a moral duty and long-term self interest in seeing a world free from extreme poverty and hunger. Not only have they failed to deliver on their Doha promises, there are worrying signs that the round has lost its way and reverted to a traditional 'might is right' negotiation in which the final outcome could do more harm than good for development. It is up to world leaders, from both developed and developing countries, to make sure that does not happen, and to make trade fair.

## Notes

<sup>1</sup> Duncan Green (2005) 'Blood on the Floor: How the Rich Countries have Squeezed Development out of the WTO Doha Negotiations', Oxfam Briefing Paper No.82, Oxford: Oxfam International, available at: [www.oxfam.org.uk/what\\_we\\_do/issues/trade/bp82\\_blood.htm](http://www.oxfam.org.uk/what_we_do/issues/trade/bp82_blood.htm).

<sup>2</sup> Preference erosion refers to the loss of benefits to preference-receiving countries because, as rich countries lower their tariffs, the advantage conferred by preference schemes is also reduced.

<sup>3</sup> This group was also known as the 'NAMA 11', but we have yet to identify the other two members.

<sup>4</sup> Tariff escalation: higher import duties on semi-processed products than on raw materials, and higher still on finished products. This practice protects domestic processing industries and discourages the development of processing activity in the countries where raw materials originate.

Tariff peaks: relatively high tariffs, amidst generally low tariff levels. For industrialised countries, tariffs of 15 per cent and above are generally recognised as 'tariff peaks'.

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