



## Dialogue on Globalization

FACT SHEET  
FES GENEVA

August 2008/N°4

### Major setback for WTO's Doha Round: "Mini-Ministerial" failed and future looks dim – a chance for reclaiming its "development dimension"?

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It must have been one of the most difficult moments for Pascal Lamy, Director-General of the World Trade Organization (WTO), on the evening of 29 July 2008, when he dryly announced the failure of the "Mini-Ministerial" with the following words: "It is no use beating around the bush. This meeting has collapsed." It is the third time in a row that a major high-level meeting broke down after July 2006 and July 2007. However, it was not the "same procedure as every year".

Ministers from around 40 countries had failed in a 9-day and night negotiating marathon to establish modalities in the areas of agriculture and NAMA (Non-Agricultural Market Access), which have for a long time been considered a precondition for concluding the Doha Round. The "Mini-Ministerial" kicked off on 21 July in Geneva and, on the evening of 25 July, a breakthrough on key elements supposedly had been within reach. However, talks finally broke down on 29 July due to differences between the US and India on the specifics of the "Special Safeguard Mechanism".

The collapse was a major setback for the Doha Round, a political debacle for the WTO and huge frustration for Lamy personally. He had taken a great risk by calling for this meeting, served as the Chairman of the Trade Negotiations Committee (TNC) and dominated the process from the outset. Although success had never been closer, he could not conjure up final convergence. The meeting made clear that developing countries, such as India, China and Brazil, had emerged as coequal powers and irrevocably changed negotiation dynamics. They showed that no deal will be possible against their development interests, which gives hope that a real "development outcome" might be possible sometime in the future.

#### What was central to the "Mini-Ministerial"?

The clearly stated objective of the meeting was to establish modalities in agriculture and NAMA. Given the diversity of issues involved, Lamy identified key elements, but increased the pressure again by warning delegations that "partial modalities" do not exist. At the same time, he reaffirmed the "Single Undertaking" principle, which says that nothing is agreed until all issues of the Doha Round are finally agreed upon. Thus, two other topics of interest, i.e. services and certain areas of the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), were also taken on board.

#### Agriculture: deal-breaker

Lamy prioritized the following six issues for the agriculture negotiations: Overall Trade-distorting Domestic Support (OTDS); cotton; market access formula; sensitive products; special products (for developing countries); and the "Special Safeguard Mechanism" (for developing countries).

Indeed, negotiations started when the European Commission (EC) and US announced already before the meeting that they would improve their respective offers in tariff cuts and OTDS. The US' offer for the ceiling of OTDS was US\$15 billion (down from US\$21 billion), which was still double the currently applied level of around US\$7-8 billion. The EC offered a 60 per cent tariff cut (compared to 54 per cent before); however, with clear exceptions for its sensitive products. Thus, on 21 July, Brazil warned that the agriculture negotiations were far from being finalized. Signs of convergence were reported during the following days on the specifics of sensitive and special products.

On 25 July, Lamy presented a “package of compromise numbers” to the most important negotiating circle, the new G-7 (Australia, Brazil, China, the EC, India, Japan and the US). Therein he offered a concrete numerical solution to the major issues.<sup>1</sup> While the US supported the proposal and Brazil accepted it, India (and later China) strongly opposed some of the key numbers. The subsequent discussions in the “Green Room” between some 30 ministers, and in the informal TNC meeting with the whole WTO membership, revealed more concerns, especially from members of the G-33. Nevertheless, the majority of the membership seemed to accept the proposal as a working basis for further negotiations.

Thus, it was much of a surprise that the talks finally broke down due to major differences on the “Special Safeguard Mechanism” (SSM). This is a mechanism that allows developing countries to raise tariffs temporarily to counter sudden or large import surges and price falls. While it was already agreed that developing countries would be granted the SSM, the thorny question was which conditions need to be fulfilled (“triggers”) to raise tariffs, and whether these could be raised beyond the pre-Doha Round bound rates. Indian Minister of Commerce and Industry, Kamal Nath, supported by other members of the G-33, had been stating that he won’t compromise the livelihoods of India’s approximate 500 million small farmers. The US defended the export interests of its multinational food companies and finally ended negotiations by rejecting the latest SSM compromise proposal.

Therefore, the critical talks on cotton did not even start, which led to major dissatisfaction by the African countries, in particular the Cotton-4 (Benin, Burkina Faso, Chad and Mali). Some observers argued that it would have been politically very difficult for the US to offer faster and deeper reduction commitments than in its overall OTDS (as required in the draft modalities). They argued that this issue was the real deal-breaker and that the US wanted to avoid being blamed the scapegoat.

### ***NAMA: offensive vs. development interests***

The NAMA negotiations focused on the following three areas, as identified by Lamy: coefficients of the tariff cutting formula (“Swiss Formula”) and the flexibilities that developing countries would be

granted; the recently proposed anti-concentration clause, which would prevent developing countries from shielding an entire sector from tariff cuts by using flexibilities; and the (voluntary) sectoral initiative, which aims at reducing tariffs to zero or close to zero in specific sectors.

European Trade Commissioner Peter Mandelson made unmistakably clear from the outset that the political bottom line for the EC was “new market access *in practice*” to emerging developing countries. Adding to this offensive, he defended the anti-concentration clause as important for the European industry’s export interests. Developing countries had opposed these calls for cuts into their applied tariffs for a long time and criticized the “last-minute” anti-concentration-clause, arguing that it would constrain the “flexibility of the flexibilities”. Moreover, they rejected the suggested mechanism to award countries, which participate in the supposedly voluntary sectoral initiative, with additional flexibilities.

Lamy proposed in his “package of compromise numbers” concrete figures for the very politically sensitive coefficients and flexibilities. The coefficients of 8 for developed and 20, 22 or 25 (with sliding scale flexibilities) for developing countries were accepted by the EC and US. India and Brazil, which heavily opposed such numbers before, refrained from commenting them. Yet, in the following “Green Room” consultations, Argentina and other members of the NAMA-11 reiterated their strong reservations over the package.

The proposal would lead to cuts into applied rates in a number of developing countries. The percentage tariff reductions would be greater for developing countries that have to apply the formula than for developed countries, i.e. reversing the “less than full reciprocity” principle. Unsurprisingly, trade unions from developing countries strongly criticized this NAMA proposal, warning that it would lead to massive job losses and would constrain the possibilities for their industrial development in the future.

### ***Services: right signals at the wrong time***

The Services Signalling Conference was convened on 26 July, two days later than originally scheduled. The objective was that countries indicated their planned liberalization efforts in a still non-binding manner (“signals”). A number of encouraging proposals were presented in almost all services sectors, including cross-border supply of services (“Mode 1”) and temporary cross-border

<sup>1</sup> For an unofficial version of the text, see: <http://www.tradeobservatory.org/library.cfm?refid=103398> (consulted on 3 August 2008).

labour movement ("Mode 4").<sup>2</sup> Thus, the reactions were throughout positive from both developed and developing countries and the conference could have played a strong facilitating role for an overall Doha Round compromise deal.

### **TRIPS: no solution to the long-lasting debate**

Norwegian Foreign Minister Jonas Gahr Støre was entrusted to chair the consultations on TRIPS, which centred around the following three issues: Geographical indications ("GI") for the multilateral register for wines and spirits; extending the higher level of geographical indications beyond wines and spirits ("GI extension"); and the relationship between the TRIPS Agreement and the UN Convention on Biological Diversity (CBD). The EC has strong interests in "GI extension", which is vehemently opposed by the US in particular. Developing countries, such as Brazil, India and Peru have long pushed on the third issue, i.e. the relationship between patents and the disclosure of genetic resources or traditional knowledge, which was opposed by the US and (to a lesser extent) by the EC. No breakthrough could be achieved on these issues yet, since they were allegedly traded off against a "peace clause" for the US in farm subsidies.

### **What does the failure mean? Some reactions**

Members missed another opportunity to prove that a multilateral trade agreement in favour of developing countries is possible. This could have also been a chance to demonstrate that developed countries were willing to compromise in the interest of a "Global Development Partnership", as envisaged in Millennium Development Goal 8.

In his statement at the formal TNC meeting on 30 July, Lamy expressed his disappointment that members had again not been able to bridge their differences. He characterized the status of the multilateral trading system as "dented" and mentioned that the "dust needs to settle" before a process of serious reflection could start.

Reactions of the members ranged from disappointment and disbelief to the call to capture the progress that was made. Remarkably, there was not much of the typical acrimonious blame game but rather a constructive mood. The US stated that it was committed to the multilateral trading system and its offers would remain on the table.

The EC talked of "massive collective failure" and a "coalition of the unwilling", indicating that the negotiations would not take off from where they had stopped. India mentioned that it was difficult to understand that no agreement could be found on an issue concerning the livelihoods of millions of poor farmers in a round, which was supposed to be a "Development Round". Brazil was deeply disappointed and expressed scepticism about a breakthrough in the near future. African countries uttered frustration over the collapse and that their issues of concern, such as cotton, had not even been discussed. South Africa stated that the "development mandate" should be reinforced and that it would support an "early harvest" for issues in favour of Least Developed Countries.

Some criticism was expressed concerning the lack of inclusiveness and transparency in the negotiation process, especially from the delegations that were neither part of the G-7 nor the "Green Room". Civil society organizations warned that in the latest proposal there was a huge imbalance between concessions and expected benefits for the majority of developing countries.

### **The way forward: major turnaround needed**

After the Geneva summer break, negotiations will probably be resumed, although members are unlikely to make major unpopular concessions before the end of 2009 due to the looming elections in the US, India and EU. Thus, the Doha Round will probably not be finalized before 2010 and the team of negotiators will have changed by then.

The "time for reflection" should be used for a major turnaround in attitude. The narrow mercantilist horse-trading approach has proven inadequate. Ideological trenches must be overcome and the idea of a "Development Round" should be concretized by searching for a commonly shared understanding of the preconditions for a fair, just and development-friendly multilateral trading system and for the ways how to achieve it. This round is the most ambitious and difficult one. Its result will be measured by its development (and not purely economic) impact and any agreement that falls short of this would be considered as failure. Developing countries made it irrevocably clear that they won't compromise their development concerns and aspirations for a rushed deal.

<sup>2</sup> For the detailed report of the Services Signalling Conference, see: WTO, JOB(08)/93, 30 July 2008.