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WTO's Doha Development Round in crisis: Squaring the "triangle of issues"

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Three areas of the Doha Development Agenda (DDA) hold the key to the successful completion of the whole Round, i.e. agricultural domestic support, agricultural market access and non-agricultural market access (NAMA). Pascal Lamy, Director-General of the World Trade Organization (WTO) called them the "triangle of issues". Members had failed to meet the deadline set by the Hong Kong Ministerial Declaration to establish modalities in these areas by the end of April.¹ The ensuing process of continuous negotiations proceeded only sluggishly. Since the decision needed was rather political than technical, a high-level meeting of some 60 ministers ("Mini-Ministerial") was arranged to break the deadlock. The negotiations took place from 28 June to 1 July in Geneva and were fairly inclusive, transparent and bottom-up. Group meetings, such as of the G-6 group of key players (Australia, Brazil, EC, India, Japan, US) and of countries with common interests, such as the G-20 group of major developing countries or the African Group alternated with Ministerial meetings. The latter occurred in various forms, including "green room" meetings, where about 30 ministers participated, representing all key players, as well as regional and interest-based country groupings. They were followed by informal Trade Negotiations Committee (TNC) meetings and a final TNC meeting, comprising the entire WTO membership. On 1 July, however, Lamy had to concede the failure of negotiations, stating at the informal TNC meeting: "I will not beat about the bush. We are now in a crisis."

What was at the core of the June "Mini-Ministerial"?

The clearly stated purpose of the "Mini-Ministerial" was to establish modalities in agriculture and NAMA. Modalities comprise the formulae and figures to cut tariffs and subsidies, as well as the flexibilities and exemptions granted to developing countries. Full modalities are needed to allow WTO members to translate them into legally binding reduction commitments for their thousands of tariff lines and subsidies accordingly; this process is known as "drafting schedules" and will take – together with the ensuing verification process by all WTO members – no less than six months. To provide the basis for the ministers to bargain over numbers, the Chairs of the Agriculture Negotiation Group and the Negotiation Group on Market Access circulated texts, which contained the state-of-play in these negotiation areas ("draft modalities").

The major stumbling blocks for modalities are well known: the EU should improve its offer on agricultural market access; the US should improve its offer on reductions of agricultural domestic support and scale back its demands on agricultural and non-agricultural market access; and the G-20 should agree to deeper cuts in industrial tariffs. To facilitate the finding of a "second wind" in negotiations, Lamy came up with a proposal to achieve real subsidy cuts and new trade flows in agriculture and industrial products. He thereby referred to the "magic number 20", which means: the adoption of the G-20 proposal to cut EU average agricultural tariffs by 54 % compared to its proposal on the table of 39 %; the ceiling of US\$ 20 billion for US' overall trade-distorting agricultural

¹ See Grammling, Steffen: An update on negotiations of WTO's Doha Development Round: Another missed chance or business as usual?, FES Fact Sheet, May 2006.

domestic support compared to its current proposal of US\$ 22.5 billion; and the coefficient of 20 for cutting industrial tariffs in developing countries (which would bring all bound tariffs under 20 %) compared to their claim for significantly lower cuts.

While the EC was indicating willingness to move towards the G-20 request, the US was refusing to agree to further cuts in domestic support, mainly due to internal pressure of its farm lobby. Some developing countries, including the G-20 leaders Brazil and India, mentioned that ambitious results in agriculture were a condition for further flexibility in NAMA.

The way forward: The end of July will be the moment of truth

While the "Mini-Ministerial" failed, all delegations reaffirmed their commitment to a successful completion of the Round by the end of the year 2006, just in time to submit the DDA package to US Congress before the US President's Trade Promotion Authority expires. The TNC formally provided Lamy with a more prominent role as "facilitator" for establishing modalities and "catalyst" for a final agreement, requesting him to consult members intensively. However, he was not asked to author the final agreement on his own ("Dunkel text"²). The pressure from several developing country groups will increase against the key players to overcome their brinkmanship and to show leadership by moving towards consensus. Lamy will start further negotiations with the important G-6 group members and shall report back to the members "as soon as possible". Since it will be technically impossible to finalize the Round by the end of the year unless full modalities were established in the end of July, this will be the moment of truth. However, even if modalities could be established, it will be difficult to conclude the Round in time, due to the principle of "Single Undertaking", which means that all negotiation issues have to be agreed on as a package. In this context, the next deadline for other subjects such as services; trade facilitation; subsidies, including fisheries subsidies; countervailing measures; and anti-dumping, is looming by the end of July.

What is at stake if the DDA cannot be concluded by the end of 2006?

Several trade unions and NGOs stated that "no deal is better than a bad deal", indicating that the current state-of-play in negotiations would not benefit the developing countries. US lawmakers used the same expression for their purpose, threatening to reject a world trade deal without gaining substantial new market access. If the Round failed to be concluded successfully by the end of 2006, there would be three effects: First, the offers that are already on the table in areas such as agriculture, NAMA, trade facilitation, cotton, duty- and quota-free market access for least-developed countries (LDCs) and Aid for Trade would disappear. These offers are more ambitious and comprehensive than those during the negotiations of the Uruguay Round and would have the potential to correct some of the imbalances of the multilateral trading system. Nevertheless, a higher level of political will of the key players is still needed. Second, there would be an increase of protectionism and a further shift towards bilateralism and regionalism. While the latter are not bad things per se, poor developing countries have less negotiating power or are left out completely of this kind of negotiations. Moreover, the US or EU would never be willing to include crucial areas as for example agricultural domestic subsidies in such agreements. Third, the legitimacy of the WTO and the multilateral trading system itself would suffer, as Lamy stated at the informal TNC meeting of 30 June 2006: "[...], failure to agree very soon on Agriculture and NAMA modalities means that we are putting at risk the future of the Round itself and, as a consequence of that, the WTO and the multilateral system."

While the squaring of the circle was proven to be technically impossible, the squaring of the "triangle of issues" is technically possible. Simply, the ambition to prove it is still missing. Negotiators should not forget that there is no less at stake than the unique chance to correct major imbalances and shape a fairer multilateral trading system. While this should be in the long-term interest of all WTO members, the probability that it will happen depends very much on the political will of the handful of major players.

² In December 1991, the then GATT Director-General and Chairman of the TNC, Arthur Dunkel, authored a Draft Final Act for the Uruguay Round agreements in order to facilitate consensus. This was criticized by some WTO members as overstretching his mandate.

Friedrich-Ebert-Foundation, Geneva Office, Steffen Grammling, Program Officer (Trade and Development), fes.geneva@econophone.ch, 7 July 2006.