Oxfam Briefing Paper
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A recipe for disaster

Will the Doha Round fail to deliver for development?

As yet another deadline approaches in the Doha Round of trade negotiations, the chances of a deal being done this year that helps developing countries are looking increasingly slim. Aggressive demands by rich countries mean that, far from being able to pursue reforms that will lift people out of poverty, poor countries are having to engage in damage limitation. Unless the substance of the offers on the table changes radically, then no deal should be signed in 2006.

Oxfam International

MAKE TRADE FAIR

Summary

As yet another deadline approaches in the Doha Round of trade negotiations, the chances of a deal being done this year that helps developing countries are looking increasingly slim. Following an inconclusive Ministerial meeting in Hong Kong in December 2005, developed countries are continuing to offer very little in agriculture, while demanding that poor countries open their industrial and services markets to foreign competition.

Having missed numerous deadlines over the years, World Trade Organisation (WTO) members and commentators are now taking the end of the US 'Trade Promotion Authority' in 2007 as a final date by when the WTO talks must finish. This means having at least some proposals in place by the end of this month (April 2006), and the rest by July. Yet the deal that is currently emerging would harm rather than help most developing countries.

Unless the offers change, Oxfam believes developing countries would be better off missing the current deadline and waiting longer for a new set of rules. No deadline is hard enough to justify signing a new trade deal that is going to undermine development. Although a slow round would prolong existing imbalances, it could at least prevent things from getting worse. Developing countries could hold out for the reforms that they were promised, and avoid sacrificing future economic development.

In **agriculture**, acknowledged by most experts as the key to unlocking poverty, offers so far have not been good enough. Oxfam analysis shows that, if their current proposals are accepted, both the EU and USA could actually *increase* their trade-distorting spending on agriculture, despite having announced cuts of 70 per cent and 54 per cent respectively. The offer made in Hong Kong to end export subsidies by 2013 was welcome, but these only account for 3.6 per cent of EU spending on agriculture. Current offers will not put a stop to export dumping.

The US proposal on agricultural market access has serious implications for food security and livelihoods because it denies developing countries the right to defend essential products on which poor farmers depend. The EU offer would exempt many products exported by developing countries from tariff cuts, thereby significantly diluting market-access gains.

Although the Hong Kong meeting reaffirmed the right of poor countries to protect certain products of vital importance to food security or livelihoods, research indicates that *additional* special measures are needed to prevent increases in rural poverty. This special treatment could be extended with only minor reductions in other countries' gains from the Doha round.

Developing countries at the WTO are being asked to sign up to a deal on **Non-Agricultural Market Access** (NAMA) that defies the lessons of history. In return for minimal progress on agriculture, they are under pressure to dramatically and permanently open their industrial markets to foreign competition.

The vast weight of historical evidence suggests that countries must be able to raise and lower tariffs according to changing circumstances if they are to promote growth and industrialisation successfully. Yet the current negotiations at the WTO aim to eliminate this flexibility.

While negotiators mistakenly concentrate on the formulae, no attention is being paid to the areas where developing countries stand to gain. Discussion of how to regulate the use of non-tariff barriers, and eliminate tariff peaks and tariff escalation in developed countries, has been wrongly sidelined but is essential to ensure a pro-development outcome.

When negotiations on **services** were launched in 1994, it was with the promise that developing countries would be allowed the flexibility to take into account their levels of development and national policy objectives. Negotiations were to be carried out on a request-offer basis, and countries would only have to participate when they felt ready. Yet, over the last year, increasing pressure has been placed on developing countries to agree to open their markets. Before making offers, countries need to assess the potential costs and benefits of liberalisation, but so far the negotiations have not provided space for this.

Although the language used in the WTO Services texts makes some efforts to allay concerns regarding developing countries' rights to regulate and provide universal service in significant areas like telecommunications, sanitation, or education, in practice the system can be very inflexible. The stated aim that regulation and restrictions will be 'no more burdensome than necessary' is one that carries grave implications for poor people in developing countries.

To make matters worse, negotiations in the area in which developing countries could gain from liberalisation, namely labour mobility, are stuck because rich countries are unwilling to contemplate opening their labour markets to foreign workers.

A minimal **development package** was presented to developing countries in Hong Kong. This included commitments on aid-for-trade, DFQF (duty-free and quota-free) market access for the poorest countries, and a permanent amendment to the TRIPS (trade-related aspects of intellectual property rights) agreement. Efforts to provide trade-related assistance to poor countries are welcome, but what has been agreed so far does not constitute a sufficiently attractive package to make up for the concessions and damage being done in other areas.

There is an urgent need for fairer trade rules that more evenly benefit developing countries. However, what is on offer at the moment looks very unlikely to deliver this, and could actually make things worse. Unless rich countries fundamentally alter their approach to the talks and withdraw many of the demands they are making on the poorer members, there can be no deal this year that helps to reduce poverty. An extended round that gives members a chance to reassert the primacy of development, and that saves poor countries from signing away their future, seems increasingly the best option.

Recommendations for a pro-development outcome

Agriculture

- Deeper cuts to rich countries' trade-distorting agricultural subsidies
- Better market access offers, with no unreasonable demands for reciprocation
- Elimination of tariff peaks and tariff escalation in rich countries
- Disciplines on the use of Non-Tariff Barriers
- Adequate Special and Differential Treatment, including Special Products and a workable Special Safeguard Mechanism to food and livelihood security and rural development
- Elimination of all US cotton subsidies, as ruled by the WTO dispute settlement body
- A cap on Green Box subsidies and a full review of the current Green Box to ensure that subsidies in it do not distort trade
- Further disciplines on the Blue Box
- New rules to prevent the abusive use of food aid to dump surplus commodities
- Action to address preference erosion and the impact of higher food prices on Net Food-Importing Countries

NAMA

- At minimum, a formula with coefficients that ensure Less Than Full Reciprocity, but preferably no formula for developing countries, which should have to make average cuts instead
- Disciplines on use of Non-Tariff Barriers, including anti-dumping actions (Rules negotiations)
- Elimination of tariff peaks and tariff escalation in rich countries
- Countries that have not already bound their tariffs at the WTO must not be asked to cut and bind in this round. Binding should be considered a concession in itself
- Action to address preference erosion

Services

- Sufficient time for poor countries to carry out impact assessments and to consult with civil society

- Affirmation of the right to regulate in the public interest before further commitments are made
- Adoption of emergency safeguard measures and special and differential treatment provisions
- Response to developing-country demands for access to Northern labour markets (Mode 4)
- Exclusion of essential public services and government procurement from liberalisation commitments

Development package

- *Full* duty-free quota-free (DFQF) market access for the poorest countries implemented immediately, with simplified rules of origin
- Adequate aid for trade should be provided, but it should not be conditional on market opening

1. Introduction

As yet another deadline approaches in the Doha Round of trade negotiations, the chances of a deal being done this year that helps developing countries are looking increasingly slim. All the fine rhetoric about development and putting poor countries' needs first has been repeatedly belied by selfishness, deception and hypocrisy at the WTO. Developed countries are trying to make minimal concessions in agriculture while demanding that poor countries open their industrial and services markets to foreign competition. Far from being able to pursue reforms that will deliver equitable and sustainable economic growth that lifts people out of poverty, poor countries are having to engage in damage limitation.

In June 2007 the US administration will lose its mandate to negotiate a new trade deal without the involvement of Congress. Once the US Trade Promotion Authority (TPA) expires, Congress will be able to block any part of a deal, rather than simply saying yes or no to an overall package – a change that would make agreement much harder to achieve. As a result of this, WTO members and commentators have taken TPA expiration as a final deadline for the WTO talks to end.[1] Many public pronouncements have been made about the importance of meeting the deadline. This means having at least some definite proposals in place by the end of this month (April 2006), and the rest by July, in order to have a final deal signed, sealed, and delivered by June 2007.

Unfortunately, the combination of disappointing offers on agriculture, coupled with aggressive demands on industry and services, means that the Doha Round in its current form would be very unlikely to boost development as originally promised. On the contrary, the deal that is emerging at the moment would harm rather than help most developing countries.

Tariff cuts in agriculture and industry could cause economic development to go into reverse and exacerbate existing poverty and inequality. The absence of sufficient exceptions and protective measures would expose subsistence farmers and their families to severe shocks. One recent study suggests that the poorest countries would lose the most, with sub-Saharan Africa facing losses of over $300m in all the most likely outcomes.[2] This is in contrast to the dramatic gains predicted by the World Bank,[3] and would be a bitterly ironic end to the so-called 'development round'.[4]

The very poorest countries at the WTO – the Least Developed Countries (LDCs) - are exempt from many of the demands. They will not have to make tariff cuts in Non-Agricultural Market Access (NAMA) or agriculture, and are excluded from plurilateral requests on services. However, they feel the impact of unfair trade rules equally, if not more than other countries. Without adequate action to address the pernicious effects of agricultural dumping or to increase opportunities to trade, LDCs will continue to lose out. The offer of duty-free quota-free (DFQF) market access for LDCs has significant limitations, and the other elements of the 'development package' are also flawed (see section 4). A lot more is needed than simply exempting LDCs from commitments to make this a development round.

In this context, Oxfam believes that developing countries would be better off missing the current deadline and waiting longer for a new set of rules. A slow round, though not without its disadvantages, would offer developing countries the chance to hold out for the reforms that they were promised, and avoid signing away the flexibilities that they need in order to use trade policy to fight poverty. Although a slow round would prolong some imbalances and delay long-promised improvements, it could prevent things getting worse.

The constructive assertiveness and teamwork pioneered by the Group of 20 developing countries (G20) at the WTO Ministerial in Cancun in 2003 has become much stronger, despite scepticism from the North. The Hong Kong meeting saw the formation of the loose alliance of all 110 developing countries, united in opposition to the status quo. The result of this stance is that there was more on offer for developing countries at the Ministerial in Hong Kong in 2005 than in Cancun. But there is still a long way to go.

As Dipak Patel, the Zambian trade minister and Chair of the LDCs, said in Hong Kong, until there is a deal on offer that promises to help poor countries, they will be perfectly right to keep saying: 'What part of "No" do you not understand?'[5]

Meanwhile, the WTO dispute-settlement body offers developing countries a forum in which to attack the worst excesses of EU and US policy. Successful rulings like those against EU sugar subsidies and US cotton subsidies boost developing countries' influence in the negotiations, and show rich countries that there are limits to what they can get away with. Oxfam research shows that there are a large number of potential cases that developing countries could take and win against Europe and America.[6]

Multilateral trade negotiations are effectively irreversible, and they dictate policy for years at a time. They cannot be taken lightly. Although unfair trade rules are hurting developing countries every day, this is far from a good reason to sign up to a deal that makes things even worse. No deadline is hard enough to justify signing a new trade deal that is going to undermine development.

2. Agriculture

Agriculture has always been at the centre of the Doha negotiations. The vast majority of the world's poor depends on farming to make a living, and most people agree that a trade round focused on development must treat agricultural reform as a priority. Despite this, there has been little progress in the last four years.

Lack of progress on agriculture can be blamed on the reluctance of rich countries to reduce the trade-distorting support that they give to their (mostly big) farmers and agribusinesses, or to lessen the tariff protection that they provide for the agricultural community.

This is despite the well-documented damage that the dumping of surplus subsidised Northern agricultural produce on world markets causes to poor countries' export revenues (losses of $305m for cotton farmers in sub-Saharan Africa in 2001);[7] or the harm done to poor countries that cannot sell their produce to the North as a result of restrictive tariffs (losses of $38m for Mozambique in potential earnings from sugar sales to the EU in 2004).[8] This is also despite the promises made at the beginning of the negotiations to deal with these issues as a priority.

Obviously not all subsidies are bad, and it is the prerogative of Northern governments to support their agricultural producers if they want to, but much more must be done to make sure that subsidies in the North do not harm farmers in the South. Government money for agriculture should be directed towards promoting rural jobs, supporting small producers, rewarding environmental stewardship, and ensuring high-quality food. It should not be used to encourage overproduction and dumping.

Subsidy offers so far: more spin than substance

In October last year, the USA and EU made proposals on tariff and subsidy cuts. The offers were heralded as unprecedented but Oxfam analysis at the time revealed that, thanks to creative accounting and loopholes in WTO law, at the most the USA would only have to cut actual spending by 19 per cent ($4bn), and the EU would not have to

make any cuts at all.[9] This is despite the fact that the USA announced headline cuts of 54 per cent, and the EU 70 per cent (see explanation in Annexe 1).

Within the WTO system, cuts are made to the maximum payment ceiling instead of actual payments, so both blocs were able to make the proposals sound much more dramatic than they really were. The EU had also already made some of the cuts it announced, so even after a 70 per cent reduction in the ceiling they would have room to increase spending by $13bn.[10] For the USA, the system of classifying subsidies into different categories offered them a way of moving controversial payments around, rather than cutting them.

Put as simply as possible, the WTO sorts agricultural payments into different boxes – blue, green, and amber (AMS) – according to how much they distort trade. Amber box subsidies are the most distorting, and are subject to the biggest cuts. Blue box subsidies are less trade distorting. Green box subsidies allegedly distort trade only minimally or not at all, and therefore no limit is set for them. In their proposals, the EU and USA largely moved payments between boxes, rather than cutting them (see table in Annexe 1).

Importantly, neither bloc is currently offering large enough cuts to trade-distorting subsidies, nor proposing sufficiently different ways of classifying and disciplining payments to guarantee an end to export dumping.

Market access offers: each bad in their own way

The market access proposal made by the USA in October 2005 was received as more 'ambitious' than the EU's proposal, and it certainly provides greater opportunities for developing countries to sell their food to the North, but it is unacceptably aggressive in terms of what it demands in return. The reciprocity expected from developing countries in the US proposal would have serious implications for food security and livelihoods because it would deny developing countries the chance to defend basic products or sectors against subsidised exports.

On the other hand, the EU offer is disappointingly protectionist. The EU is proposing to exempt 8 per cent of its products from significant tariff cuts. These are likely to be products of the greatest importance to developing countries, for example sugar, rice, and beef. The good news is that the EU is not asking for so much from developing countries in return.

Since October the EU has come under a lot of pressure to 'improve its offer', but it says it has nothing else to give.

Despite the inadequacy of the EU and US agriculture offers, they have not changed since October 2005. On the contrary, they have been heralded as progress, and repeatedly used as an excuse to place much more pressure on developing countries to make concessions on NAMA and Services - areas where rich countries have a lot more to gain.

This pressure has grown since the Ministerial in Hong Kong, where negotiators agreed to end agricultural export subsidies in 2013, reiterated their commitment to deal with cotton subsidies and dumping, and reaffirmed their promise to allow developing countries to shield products essential for food security and rural development. While these advances are not negligible, they certainly do not warrant the disproportionate demands being made in the other areas.

Export subsidies

Export subsidies explicitly promote the dumping of rich countries' agricultural surpluses on developing countries' markets at below the cost of production, thereby undermining poor farmers' ability to earn a living and pushing down world prices. Their elimination is politically significant and a victory for developing countries.

However, export subsidies only represent 3.6 per cent of overall EU farm support, and will be even less by 2013 thanks to reforms agreed in 2003.[11] Developing countries were hoping for an end date to export subsidies of 2010. Furthermore, the EU promise to get rid of its export subsidies is conditional on the USA regulating comparable payments – specifically export credits and food aid – but they have not yet indicated how they will do this.

Most importantly, in both the EU and USA billions of dollars of other subsidies that distort trade and cause dumping will remain. Without meaningful cuts to these other trade-distorting subsidies, and additional measures to define and discipline allowable payments, dumping will carry on and farmers in poor countries will continue to suffer.

Cotton

In Hong Kong, the USA promised to eliminate export subsidies for cotton by 2006 and to treat domestic subsidies for cotton as a priority, above other agricultural payments. Cynics may recall the promise at the General Council in July 2004, to treat cotton 'expeditiously,

ambitiously, and specifically', which was followed by no such emphatic action.

Cotton has become a flagship issue in the talks, and is a strong example of just how badly developing countries are being treated. The 'cotton four' – Benin, Burkina Faso, Mali, and Chad - have pushed for recognition and early action to end the damaging US payments that undermine millions of African farmers and were ruled illegal in 2004 in a landmark WTO case bought by Brazil against the USA.

The statistics are compelling: the USA spent over $4.2bn in 2005 on its 25,000 cotton farmers, encouraging them to overproduce. In the same year, the USA sold 3.3m tonnes of surplus cotton on world markets with the help of specially designed payments that facilitate exports.[12] Even the World Bank now recognises that reduced US cotton subsidies, rather than tariff cuts, would make the biggest difference for African farmers. In fact, the World Bank estimates that removing US cotton subsidies alone would raise the price of cotton on international markets by an average of 12.9 per cent, and could generate $72m across sub-Saharan Africa.[13]

And yet, despite repeatedly acknowledging cotton as an issue, the USA has missed every deadline for implementing the WTO panel's recommendations, and has taken only minimal steps towards eliminating the payments that were ruled illegal in 2004. Only one-tenth of US cotton subsidies will be eliminated by 2006. No plans have been announced concerning the rest, even though they have been found to be illegal under WTO rules.

Furthermore, the USA is making reform of its domestic support programmes conditional on the conclusion of an ambitious agreement on agricultural market access in the Doha Round. This is despite the fact that the WTO panel ruled against the USA on the basis of their Uruguay Round obligations, so reform should be implemented regardless of the Doha outcome. The cotton four – and the other affected African countries – are understandably concerned. Unless the USA turns more of its rhetoric into action, cotton could still be the thread by which the Doha Round unravels.

Special Products and Special Safeguard Mechanism

If anything, the most significant advances in agriculture so far for developing countries have been defensive. In Hong Kong, WTO members reaffirmed the decision to allow developing countries to designate a number of 'Special Products' of importance for food

security and livelihoods, which would be either exempt from tariff cuts, or subject to smaller tariff cuts than other products. They were also granted the right to use a 'Special Safeguard Mechanism' in the case of import surges, something that rich countries currently enjoy but most poor countries do not.

Unfortunately, even these small victories are under attack. A letter recently sent to a number of developing countries at the WTO by a developed-country member with agro-exporting interests, attacked as excessive the request that up to 20 per cent of tariff lines should be designated as Special Products. The letter dismissed the Special Safeguard Mechanism as an: 'unnecessary double layer of protection', and said, 'Special Products should be provided only in exceptional cases for a very narrow range of products'.[14]

However, new research suggests that without *additional* special measures to those currently on offer, Bangladesh, Indonesia, and many countries in sub-Saharan Africa, will actually be worse off as a result of a Doha deal. And there is no good reason why these exceptions should not be granted, since such special treatment would at most cause *minor* reductions to other countries' gains from the Doha round, even if those countries are major agricultural exporters.[15]

Beyond Special Products and a Special Safeguard Mechanism, action to address preference erosion and the impact of higher food prices on Net Food-Importing Countries is essential in order to mitigate the likely losses to some of the poorest countries. But wealthy countries have done little more than acknowledge the problem.

It is profoundly disappointing that, as the round that was meant to boost development seemingly draws to a close, developing countries in the agricultural negotiations are having to focus on protecting minimum flexibilities rather than pursuing the promised reforms that would allow them to use trade to promote development.

Senegal: Hurt by dumping, in need of protection

Senegal is one of the poorest countries in the world: rated 157 out of 177 in the UN's Human Development Index in 2005.[16] Average life expectancy is 52 years[17] and 75 per cent of the population is undernourished.[18]

Senegal is a net food-importing country whose agricultural terms of trade have been declining since it began to cut its tariffs in the mid-1980s. The agricultural trade deficit, measured by the difference between exports and imports, rose by 86 per cent between 1990 and 2000. Over the entire period of 1985-2000, net food imports continually increased.

Liberalisation and other reforms, including the restructuring of selected industries, have had a negative effect on Senegal's agricultural producers and on the country's fiscal revenue. The country bound 100 per cent of its

agricultural tariff lines during the Uruguay Round. It also made liberalisation commitments under Regional Trade Agreements and as part of World Bank supported Structural Adjustment Programmes. Perhaps most significantly, Senegal adopted a Common External Tariff in 2000, as part of the West Africa Economic and Monetary Union, which reduced the maximum tariffs rate to just over 20 per cent, well below the WTO bound levels. Senegal has no safeguard provisions, anti-dumping, or countervailing duty legislation. Its economy is one of the most open in the world.

Cotton is the country's second most important agricultural export item, after groundnuts. It accounts for around 25 per cent of total agricultural exports and supports nearly 45,000 small cotton farmers. US subsidies and dumping, and the subsequent suppression of world prices, has caused hardship for Senegal's cotton farmers, many of whom are suffering severe financial distress. Studies suggest that Senegal's cotton sector would experience economic growth of nearly 15 per cent if US export and domestic support were removed.[19]

In 1994, the government eliminated import licensing for onions, bananas, and potatoes. The resulting import surges from EU producers in the potatoes and onions sector caused many small farms to close down.

The cereals sector has also suffered from liberalisation and competition with subsidised produce from the EU (wheat flour) and the USA (rice). Although rice is a staple food, domestic production covers only a third of consumption requirements. There has been progressive liberalisation of the sector since the mid-1980s, but this has not resulted in any increased accessibility to food. Daily income has fallen too low to cover the most fundamental food needs of the average family.

Don't get fooled again

In the last round of trade negotiations – the Uruguay Round – the big promise was that agricultural subsidies would be dealt with. This was a major reason why developing countries signed on in 1994, even though they had to accept an intellectual property agreement that largely benefits rich countries as a trade off. However, the promises of the Uruguay Round did not materialise. Although rich countries got the stringent new agreement on intellectual property rights that they wanted, loopholes in the final deal meant that agricultural subsidies were hardly touched at all. Developing countries are still trying to come to terms with the implications of the flawed Uruguay deal.

Before signing up to a final Doha declaration, poor countries should remember the lessons of Uruguay and make sure that they do not make significant concessions on NAMA and Services in exchange for largely illusory gains on agriculture.

3. NAMA: signing away the future

The historical case for tariffs

Developing countries at the WTO are being asked to sign up to a deal on NAMA that defies the lessons of history. In return for minimal progress on agriculture, they are under pressure to dramatically and permanently open their industrial markets to foreign competition. The most recent EU and US proposals would lead to some developing countries cutting their tariff ceilings (or 'bound' tariffs) by as much as 70 per cent. Although in some cases this would not affect their actual 'applied' tariffs, it would still remove the flexibility needed to raise and lower tariffs in the future.[20] This is despite the fact that almost every developed country used tariffs as a way of building up fledgling industries and promoting growth.

There are two arguments commonly used by rich countries at the WTO as to why developing countries should agree to lower their industrial tariffs on an unprecedented scale. The first is that they need to give something back in return for agricultural reform or, as a rich-country negotiator said last year, there must be 'blood on the floor' from all parties if a deal is to be acceptable to the domestic constituency.[21]

This claim is worryingly prevalent across the negotiations and is often directed at so-called 'advanced developing countries'. The false differentiation, and the pressure being placed on developing countries to concede on NAMA, has no place in a development round. Agricultural reform has long been promised, and is long overdue: it is not something poor countries should have to pay for with harsh industrial tariff cuts. Furthermore, many of the countries targeted – including Brazil and India – have already unilaterally lowered their industrial tariffs, and they face considerable poverty and development-related challenges. Developing countries quite reasonably want to retain the right to raise tariffs selectively as part of their development strategy, especially as other tools such as subsidies or State Trading Enterprises become illegal or more difficult to use.

The second argument that rich countries use is that lowering their tariffs will be good for developing countries – they just don't know it. In a perfect neo-classical world of full employment and fully transferable resources, free trade is directly equated with growth. Today's rich countries, so the argument goes, have low tariffs – they are rich – therefore low tariffs must be the best approach to growth. And yet, history contradicts this attractively simple argument. In fact,

history shows that tariffs typically fall *after* growth has taken off, as countries open up in sectors where they have become competitive.

The vast weight of historical evidence suggests that it is absolutely necessary for countries to be able to raise and lower tariffs according to changing circumstances if they are to successfully promote growth and industrialisation. Yet the current negotiations at the WTO aim to eliminate the necessary flexibility.[22]

The EU and the USA used protection in the past

Many rich countries that now champion rapid industrial liberalisation used tariffs and other economic policy tools in order to promote growth. The UK, for example, had very high tariffs on manufacturing products even as late as the 1820s, two generations after the start of the industrial revolution. It established its technological lead that then enabled a shift to free trade behind high and long-lasting trade barriers. Even after it eliminated tariffs, the UK reintroduced them in 1932 because of competition from the USA and Germany.

The USA also used tariffs to promote industrial development. Throughout most of the period between 1820 and 1945, the USA maintained average industrial tariffs of 40 per cent, and they almost never fell below 25 per cent - far higher than it is now asking for from developing countries.[23]

Asian tigers: tariffs were part of their development strategy too

More recent examples also challenge the argument that lower tariffs and less flexibility will promote growth and development. In China and Viet Nam, successful examples of trade-driven development, high tariffs and state intervention have been widely used. As late as 1992, China's average tariff was over 40 per cent, and Viet Nam, a country with an impressive rate of GDP growth of more than 8 per cent a year since the mid 1980s, still has tariffs of between 30 and 50 per cent.

The Republic of Korea and Taiwan also both achieved their phenomenal growth rates in the second half of the 20th century through state-led development and the use of tariffs and other policy measures. Average tariffs in these countries were in the region of 30-40 per cent until the 1970s. Each used high tariffs strategically to promote new or main industries. They had government regulation to actively discourage imports of goods that competed with domestic products.[24]

Rapid liberalisation caused losses in Africa and Latin America

In contrast with countries that retained state autonomy and that chose to use tariffs as part of a development strategy, countries that have liberalised too fast or too early, often as a condition of IMF or World Bank loans, have not fared so well.

In Senegal, following trade liberalisation starting in 1985, one third of all manufacturing jobs were eliminated.

In Côte d'Ivoire, following tariff cuts of 40 per cent in 1986, the chemical, textile, shoe, and automobile industries virtually collapsed.

In Zimbabwe, following trade liberalisation in 1990, the unemployment rate jumped from 10 per cent to 20 per cent.

Manufacturing as a share of GDP fell from about 18.5 per cent in 1980 to 10 per cent in 2002 following liberalisation in Zambia, and poverty rose after the reforms.[25]

In Brazil, which unilaterally liberalised in the 1990s, 600,000 jobs were lost and almost every industry shrunk after liberalisation.

Even in Mexico, a country well placed to benefit from trade liberalisation because of its relatively decent infrastructure and its proximity to the USA, the results have been mixed. Recent figures show poor GDP growth (negative from 2001 to 2003, and only reversed to 2.9 per cent in 2004) and record unemployment.[26]

None of this evidence is enough to decisively dictate what path developing countries should follow, and of course there are counter examples that show how using tariffs badly can lead to inefficiency or slow development. However, these are not reason enough to deprive developing countries of a useful policy tool, especially as the range available to them is diminishing. What the case studies above demonstrate is the importance for a country to be able to use tariffs to promote development, and to manage the pace and scale of liberalisation. None of these things will be possible if the current NAMA proposals are accepted.

An unacceptable basis for negotiation

In previous trade rounds, countries were asked to apply average tariff cuts. As long as tariffs were cut by an agreed amount overall, governments had flexibility and could continue to protect strategic industries. In contrast, developing countries are now under pressure to agree to a formula that would cut each tariff individually, or 'line-by-line'. This would preclude protection of individual industries and would almost certainly lead to developing countries having to make the biggest cuts, since their tariffs are higher than those in rich countries. Although there is some flexibility built in to the formula approach, it does not guarantee the necessary space to use rolling tariff protection as a development tool.

Simple Swiss or ABI?

Despite repeated objections from developing countries to the NAMA text (as long ago as the 2003 Ministerial in Cancun) negotiations at the WTO in recent months have focused on the type of formula that will be used. There are two main possibilities. The USA, supported by the EU and Canada, is pushing a so-called Simple Swiss formula, which would result in all countries having a similar tariff structure, irrespective of their level of development. This formula would have a disproportionate impact on developing countries, which tend to have higher industrial tariffs because they are at different stages of development.

Argentina, Brazil, and India have proposed an alternative (the ABI), which is more flexible because it moderates the tariff cuts for countries with higher bound tariffs. The formula does this by taking into account the average tariff in a country. This formula would tend to hit hardest the countries that have low bound rates, including most developed countries. However, the ABI can still be very harsh on developing countries, for instance if a very low coefficient is used (see next section).

The formulae

Simple Swiss:

$$\text{Final Tariff} = \frac{\text{Coefficient} \times \text{Initial Tariff}}{\text{Coefficient} + \text{Initial Tariff}}$$

ABI:

$$\text{Final Tariff} = \frac{(\text{Coefficient} \times \text{National Average of Bound Rates}) \times \text{Initial Tariff}}{(\text{Coefficient} \times \text{National Average of Bound Rates}) + \text{Initial Tariff}}$$

It all depends on the coefficient

In the case of both the ABI and the Simple Swiss formulae the coefficient or coefficients chosen are crucial in determining the outcomes. In a Simple Swiss formula, no tariff will emerge as higher than the coefficient. So, if a coefficient of 10 is applied, no tariff will remain above 10 per cent. In the ABI, it is more complicated but the result is similar (see box above). For this reason, it will be important for developing countries to ensure that they have a different coefficient from the rich countries (this is not guaranteed) and that there is sufficient difference between the numbers to ensure that the principle of Less Than Full Reciprocity (LTFR) is fulfilled (this means that developing countries have to cut their tariffs less than rich

countries). This was a principle agreed upon by all parties in July 2004.

To give an indication of just how anti-development the NAMA negotiations have become, it is worth considering the coefficients necessary in a Simple Swiss formula to achieve even minimal LTFR. They are 85 for developing countries and 5 for rich countries, according to Oxfam's calculations.[27] Rich countries have sought to focus negotiations in Geneva on coefficients that are too close together and too low to achieve this objective. For example, the most recent EU proposal is a Simple Swiss formula with a coefficient of 10 for developed countries and 15 for developing countries. This would result in a 28 per cent cut for the EU, but around a 70 per cent cut for developing countries. This is 'more than full reciprocity' not less.

The tables below show the resulting tariffs in selected developed and developing countries when a Simple Swiss formula is run with coefficients of 5 and 10 for developed countries, and 15, 30, and 85 for developing countries. These demonstrate how far from guaranteeing LTFR the current talks have strayed. For example, with coefficients of 5 and 30 respectively, *all* the developing countries sampled would have to make *bigger* cuts to their tariffs than the EU or the USA. With coefficients of 5 and 15 respectively, Indonesia would have to cut its tariffs by *more than twice as much* as Japan. Only when you have coefficients of 5 and 85 do you achieve LTFR for all the developing countries sampled.

Tables: NAMA tariff reductions for selected countries, according to a Simple Swiss Formula with proposed coefficients

(a) Developed countries

Developed country	Initial tariff *	Formula result with a coefficient of 5		Formula result with a coefficient of 10	
		Final tariff	Percentage reduction	Final tariff	Percentage reduction
Australia	11	3.4	68.8	5.2	52.4
Canada	5.3	2.5	51.5	3.5	34.6
EU	3.9	2.2	43.8	2.8	28.1
Norway	3.1	1.9	38.3	2.3	23.7
USA	3.2	1.9	39.0	2.4	24.2
Japan	2.3	1.5	31.5	1.9	18.7

(b) Developing countries

Developing country	Initial tariff *	Formula result with a coefficient of 15		Formula result with a coefficient of 30		Formula result with a coefficient of 85	
		Final tariff	Percentage reduction	Final tariff	Percentage reduction	Final tariff	Percentage reduction
Brazil	30.8	10.1	67.3	15.2	50.7	22.6	26.6
India	34.3	10.4	69.6	16.0	53.3	24.4	28.8
Indonesia	36	10.6	70.6	16.4	54.5	25.3	29.8
Paraguay	33.6	10.4	69.2	15.8	52.8	24.1	28.3
Pakistan	35.3	10.53	70.2	16.2	54.1	24.9	29.3

* National Simple Bound Average
Source: Oxfam calculations based on WTO data.[28]

Even the best-case scenarios on offer would not be okay

To discuss the relative merits of different formulae is in a way to sanction a negotiation process that is fundamentally anti-development. Any formula applied line by line will cause disproportionate pain for developing countries and provoke conflict between different groups. Even with the best possible coefficients – far apart, and high for developing countries – efforts to promote employment, industrialisation, and poverty reduction could be adversely affected, and developing countries' capacity to use trade policy to fight poverty would be overly constrained.

The NAMA negotiations have lost sight of any development objectives and have been hijacked by rich countries desperate to have something to show for concessions on agriculture. Negotiating the percentage by which countries are prepared to cut their tariffs, and then working backwards to obtain a formula to make that operational, would be more pro-development and preferable to the current process.

While negotiators mistakenly concentrate on the formulae, no attention is being paid to the areas where developing countries stand to gain. Discussion of how to regulate the use of non-tariff barriers, and eliminate tariff peaks and tariff escalation in developed countries, has been wrongly sidelined but is essential to ensure a pro-development outcome. Furthermore, just as in agriculture, action is needed to mitigate the damage to some of the poorest countries as a result of preference erosion.

‘Low ambition’ = high pain

The consensus in Geneva and other capitals at the time of writing seems to be that if any deal is done in 2006 it will necessarily be one of ‘low ambition’. But this little phrase is misleading in its suggestion of harmlessness. The current proposals on NAMA may not deliver the dramatic, sweeping cuts to applied tariffs that some rich countries would like, but they will sufficiently reduce the flexibility necessary for developing countries to promote, or at least maintain, industrial development. In other words, they have the potential to deny developing countries a future.

4. Services

The services negotiations at the WTO cover a range of sectors including banking, insurance, construction, water, sanitation, tourism, health, and education. Clearly, many of these sectors are vital for the welfare of a country’s inhabitants and for the promotion of development and a functional state. Sometimes, the introduction of competition can increase the availability and efficiency of much needed services and have a beneficial effect. It can also work the other way.

There are many documented cases where opening up a service sector has had a negative impact on developing countries, including disrupted services, failure to supply the poorest people in rural areas, hiked prices, and corruption. For services liberalisation to work well, a number of factors need to be in place, including sufficient infrastructure for enforcing national regulation and pre-laid plans to ensure that services reach the poor.

So far, the negotiations at the WTO have failed adequately to consider the implications for poor people of liberalising services, and instead have focused on the gains available for multinational companies and Northern governments. For many trade negotiators, national regulations are seen as unnecessary obstacles to trade, even if they are serving public aims. Much of the General Agreement on Trade in Services (GATS) is focused on removing those obstacles.

Promises to agree rules in *advance* of liberalisation commitments have been broken, and enormous pressure has been placed on developing countries to sign up to commitments before they can measure their likely impact. This is of particular concern because commitments made under GATS are effectively irreversible, and so mistakes can be extremely costly.

Not enough time to make the right decisions

The Hong Kong Ministerial text agreed to a very tight schedule for the conclusion of the negotiations on services: countries had to present new demands in February, for responses by July, and a final deal in October. This programme does not allow for evaluation of national needs, impact assessments, or civil society consultation.

History shows that it is difficult to predict the reach of a commitment under GATS. Both developed and developing countries have made mistakes. For example, the USA accidentally committed itself to liberalising access to its domestic market for gambling, simply by forgetting to mention gambling in its schedule of commitments on recreational services. The result was a WTO ruling against the USA on remote (internet) gambling, which led the USA to complain that the GATS, 'greatly constrains the right of Members to regulate services.' This is ironic considering that the USA had made getting a services agreement a condition of its participation in the round of negotiations that established the WTO.[29]

A recent Organisation for Economic Co-operation and Development (OECD) paper states the challenges facing developing countries very clearly: 'The complexity of liberalising services trade under the GATS should not be underestimated, particularly in the light of the limited administrative and negotiating capacity of many developing countries. A country needs to gather significant knowledge before it can submit sensible market opening requests and offers [including] assessing the likely social impact of liberalisation.'[30]

A flawed negotiation process

When negotiations on GATS were launched in 1994, it was with the promise that developing countries would be allowed the flexibility to take into account their levels of development and national policy objectives. Talks would be carried out on a 'request-offer basis', and countries would only have to participate when they felt ready. Yet, over the last year, this principle has been eroded, and increasing pressure has been placed on developing countries to engage in the negotiations and to agree to open their markets. In the run up to the Hong Kong Ministerial conference in December 2005, attempts were even made to make participation compulsory. These were only defeated by concerted resistance from developing countries, with the support of civil society.

Informally, the pressure is still on: some countries see responding favourably to requests on services as a necessary prerequisite for getting promised agricultural reform. Plurilateral negotiations also

now play a much stronger role. This is when a group of countries with shared interests in particular sectors makes a joint request to developing countries, increasing the pressure on them to respond.

Current plurilateral requests include telecommunications, energy, construction, engineering, education and maritime, financial, and environmental services. The main demandeurs are Australia, Canada, the EU, Korea, Japan, Norway, Taiwan, and the USA. Among the countries targeted are Indonesia, Malaysia, the Philippines, Thailand, Argentina, Brazil, India, Singapore, Nigeria, Peru, Colombia, El Salvador, Guatemala, Nicaragua, Pakistan, and Bolivia.[31]

Although there are risks inherent in liberalising all sectors, it is particularly striking to see education included in the current list. Many commentators agree that essential services like health, education, water, sanitation, and electricity should primarily be provided by the state, which also needs to retain sufficient power to regulate non-state service providers, in order to guarantee universal free or affordable access. Opening up under GATS could undermine state capacity to provide and/or regulate essential public services or to ensure their quality.

Privatisation and the GATS

Privatisation is when services formerly provided by the public sector are transferred to the private sector. Privatisation is not the same as making a commitment under the GATS, but the two can go together. Under GATS, countries agree to remove regulation that limits the entrance and behaviour of foreign companies. Once that regulation is removed, foreign providers can enter and compete with both government services and national companies. Decisions by governments to privatise essential services, like water, transport, or the postal service are often controversial, partly because results have been mixed. The latest World Bank World Development Report concludes that 'the process of privatisation may be captured by narrow interests' and that privatisation may 'reduce the scope for cross-regional subsidies'.[32] The study also acknowledges the potential for prices to rise under privatisation. All of these factors would have a disproportionate effect on poor people and their access to basic services, especially if they were living in rural areas.

Affordable provision of public services is part of a government's responsibility to its citizens. One of the criticisms of GATS is that it undermines the social contract that exists between government and taxpayers by limiting government's ability to intervene to ensure universal coverage. Similarly, GATS would make it very hard for developing-country governments to develop their own nascent service industries in the face of foreign competition. This is despite the fact that almost all developed countries have protected their services industries in the past.[33]

Universal service or lip service?

Although some efforts are made in the language of the WTO texts to allay concerns regarding developing countries' rights to regulate and provide universal service, in practice the system can be inflexible. The stated aim in GATS that regulation and restrictions will be 'no more burdensome than necessary' is one that carries serious implications for poor people in developing countries. The telecommunications sector offers a good example.

Telecommunications: universal service on paper but not in practice

The plurilateral request on telecommunications at the WTO says, 'telecoms are […] important economic drivers […] with the potential to improve quality of life for developed and developing countries alike'; they are 'a vital infrastructural service'.[34]

The request uses the importance of telecoms as the justification for demanding 'strong and commercially meaningful commitments for all telecommunications services' with no 'substantial market access limitations', no 'geographical restrictions' and no 'anti-competitive practices' including 'cross–subsidization'.[35]

All of this might be enough to make a country wary of signing up to the request to liberalise, especially considering the acknowledged importance of the sector. But there is a paragraph in the request (taken from an earlier reference paper from GATS in 1994) that seeks to assure developing countries of their right to ensure universal service, even once they've opened their markets to foreign competition:

> 'Any Member has the right to define the kind of universal service obligation it wishes to maintain. Such obligations will not be regarded as anti-competitive, per se, provided they are administered in a transparent, non-discriminatory and competitively neutral manner and are not more burdensome than necessary for the kind of universal service defined by the Member.'[36]

This paragraph seems to provide the necessary protection for developing countries that want to make sure that everyone in their country, including those in rural, non-profitable areas, has affordable

access to telecommunications – an irrefutable necessity for development. However, the case brought to the WTO in 2004 by the USA against Mexico provides a cautionary tale (see box below).

Mexico calling

In April 2004, the USA successfully claimed that Mexico was violating GATS in the way that it regulated the country's major telecoms supplier, Telmex. The legal panel dismissed Mexico's claim that US companies operating in Mexico ought to contribute to the development of the country's infrastructure in order to facilitate universal provision. The grounds for Mexico's dismissal are found in the GATS reference paper, to which it had signed up, which says that no cross-subsidisation is allowed, and that companies should only have to pay for the parts of the network that they use.

Despite the existence of the paragraph quoted above, along with other clauses and provisions in the GATS apparently designed to promote development, the panel ruled that Mexico could not regulate for universal service, particularly because it had not indicated its intention to do so in advance. The USA successfully argued that the Telecommunications Reference Paper 'is best understood as providing limited exceptions' for universal service.[37]

The lesson here is clearly that although GATS may include language that indicates flexibility, the trend will often be towards meeting the 'no more burdensome than necessary' aim. It is difficult for a country to know before it signs up what specific flexibilities it may wish to use, and yet if it doesn't indicate in advance then the opportunities to do so may evaporate.

The irony in the Mexico case is that the USA had exempted itself from the GATS 'pro-competition' conditions in the telecoms reference paper. Under WTO rules this is legal, as long as it is done before any commitment under GATS is made. This means that the USA was able to force Mexico to observe conditions that it did not have to follow itself. This shows the vital importance of being well informed before commitments are made – something which developing countries are not being given time for at the WTO.

A fallacious argument

In the past, GATS has been justified on the grounds that it promotes foreign investment. Developing countries have been told that by signing up to GATS they are sending a positive signal to investors that they are committed to openness and to encouraging foreign competition. The irreversible nature of GATS is allegedly what gives this impression. However, a study by UNCTAD suggests that this argument has little grounding in fact: 'there is no empirical evidence to link any significant increase in FDI flows to developing countries with the conclusion of GATS.'[38]

What do we want?

Developing countries involved in services negotiations at the WTO are being asked to close their eyes, hold their noses, and then jump into the water, which, for all they know, may be full of sharks.

This is despite the fact that all the evidence points to the need for caution and careful preparation. Before deciding on their negotiating position regarding the GATS, countries need to assess the strengths and weaknesses in the relevant services sectors, including regulation, as well as the potential costs and benefits of liberalising those services.[39]

Developing countries should be making commitments under GATS because they have identified reasons why it would be a good idea, not because they have not had time to identify reasons against it.

Greater attention should be paid to the areas where developing countries stand to gain, specifically the right for individual service providers (people) to move more easily across borders (this is known as 'Mode 4'). Developing countries, with large labour resources, stand to gain a lot from liberalisation in this area, and yet negotiations on Mode 4 are stuck because of the unwillingness of developed countries to open their labour markets.

The right to regulate in the public interest must be clearly established before any further commitments are made, and areas of essential public services such as education, water, health, and electricity should be excluded from liberalisation commitments. The application of GATS to government procurement should be resisted on the grounds that the ability to channel government spending to national firms is of crucial importance to economic development.

5. Development package or consolation prize?

There is a range of issues at the WTO that comes under the catch-all title of 'development issues'. Some of them were dealt with in Hong Kong as part of the much-vaunted development package. Chief among them were DFQF market access for the poorest countries, aid for trade, and the public health exceptions to trade-related aspects of intellectual property rights (TRIPS).

Ministers in Hong Kong agreed that DFQF would be granted on a minimum of 97 per cent of tariff lines by all rich countries and those developing countries in a position to do so. This is welcome, but an exclusion of 3 per cent of tariff lines would enable the USA, Japan,

and others to exempt most products of strategic importance to developing countries, such as textiles. Furthermore, unless simplified rules of origin are agreed, DFQF would lose much of its value to the poorest countries.

Promises of aid for trade made in Hong Kong were equally flawed. Most of it was not new money, but recycled pledges from the G8 meeting in Gleneagles. Perhaps more worryingly, the USA stated that more money for poor countries must go 'hand in hand' with market opening.[40] This is yet another example of developing countries being asked to make unfair and potentially damaging trade-offs.

An agreement on TRIPS finalised just before Hong Kong was the third important element of the so-called development package. This was a decision to make permanent a waiver to the TRIPS agreement that enables developing countries to import generic copies of patented medicines if they lack the capacity to manufacture them.

While this may sound good in theory, in practice it has proven very hard to use. The process is so bureaucratic that since the waiver was introduced in 2004, not one country has used it to get access to generic drugs.

In summary, while these development issues are certainly important and efforts to provide trade-related assistance to poor countries are welcome, what has been agreed so far does not constitute a sufficiently attractive package to balance out the damage being done in other areas. This was meant to be a development round, with development issues incorporated into all areas of the negotiations, not corralled in a separate corner.

6. Conclusion

There is an urgent need for fairer trade rules that more evenly benefit developing countries. It is for this reason that the Doha Development Round was launched in 2001. Since then, the high hopes and noble ideals of the Doha declaration have dwindled into little more than rhetoric, because rich countries have failed to look beyond narrow, short-term gains for their farmers and companies.

Poor countries are not being given enough time or space to negotiate a deal that will help them to develop. Many of them are being excluded from the process, as small groups of influential countries meet in an effort to make progress (for example the G6 group of Australia, Japan, the EU, USA, Brazil, and India). The role of Director General has emerged as a pivotal one, with Pascal Lamy involving himself heavily in the negotiations and contributing to the pressure

for a deal in 2006. There is a general rush towards the mid-2006 deadline for an outline deal, but this threatens to undermine the very reasons for launching the round in the first place.

The combination of current offers, and the dwindling chances of improvements, particularly in agriculture, mean that the Doha deal is shaping up to be anything but development friendly. Aggressive demands from rich countries on NAMA and services threaten to more than cancel out the minimal gains in other areas. The most likely result of a deal done in 2006 is that poor countries will be worse off.

Even a 'minimal deal' that keeps the multilateral system on course and justifies the investment of lots of political capital and time could have very harsh effects on developing countries. Concessions on all areas would be fixed, and potentially damaging precedents would be established – such as the line-by-line cuts in agriculture and NAMA, and the plurilateral approach in services.

As Nobel Prize winning economist Joseph Stiglitz writes in his new book, *Fair Trade for All*, 'an agreement based on principles of economic analysis and social justice […] would look markedly different from that which has been at the center of discussions [...]. Fears of the developing countries that the Doha round of negotiations would disadvantage them […] were indeed justified.'[41]

It seems unlikely that there is enough time or political will for the situation to be improved. Unless rich countries fundamentally alter their approach to the talks and withdraw many of the demands they are making on the poorer members, there can be no deal this year that helps to reduce poverty. Therefore, an extended round that gives members a chance to reassert the primacy of development, and saves poor countries from signing away their future, seems increasingly like the best option. Developing countries that choose this option must not be blamed, but applauded for their commitment to getting a deal that helps the poorest.

Recommendations for a pro-development outcome

Agriculture

- Deeper cuts to rich countries' trade-distorting agricultural subsidies
- Better market access offers, with no unreasonable demands for reciprocation

- Elimination of tariff peaks and tariff escalation in rich countries
- Disciplines on the use of Non-Tariff Barriers
- Adequate Special and Differential Treatment, including Special Products and a workable Special Safeguard Mechanism to food and livelihood security and rural development
- Elimination of all US cotton subsidies, as ruled by the WTO dispute settlement body
- A cap on Green Box subsidies and a full review of the current Green Box to ensure that subsidies in it do not distort trade
- Further disciplines on the Blue Box
- New rules to prevent the abusive use of food aid to dump surplus commodities
- Action to address preference erosion and the impact of higher food prices on Net Food-Importing Countries

NAMA

- At minimum, a formula with coefficients that ensure Less Than Full Reciprocity, but preferably no formula for developing countries, which should have to make average cuts instead
- Disciplines on use of Non-Tariff Barriers, including anti-dumping actions (Rules negotiations)
- Elimination of tariff peaks and tariff escalation in rich countries
- Countries that have not already bound their tariffs at the WTO must not be asked to cut and bind in this round. Binding should be considered a concession in itself
- Action to address preference erosion

Services

- Sufficient time for poor countries to carry out impact assessments and to consult with civil society
- Affirmation of the right to regulate in the public interest before further commitments are made
- Adoption of emergency safeguard measures and special and differential treatment provisions
- Response to developing-country demands for access to Northern labour markets (Mode 4)
- Exclusion of essential public services and government procurement from liberalisation commitments

Development package

- *Full* duty-free quota-free (DFQF) market access for the poorest countries implemented immediately, with simplified rules of origin
- Adequate aid for trade should be provided, but it should not be conditional on market opening

Annexe 1

Oxfam analysis of EU and USA subsidy offers

The table on the next page shows that the real results of the EU and US agricultural subsidy proposals are very different to what they claim. Despite announcing cuts of 70% to trade-distorting payments, the EU would actually be able to *increase* spending by $13bn. The USA, which anncounced cuts of 54%, could also increase its trade-distorting payments, by $0.7bn, if it took advantage of all the possible flexibilities.

US officials say that they currently could not take full advantage of the so-called product-specific *de minimis* allowance (column two in the chart), since the main subsidised crops in the USA are getting payments well over 2.5 per cent of the value of production.

When this happens, all payments have to be notified as amber box, so they are either under one box or the other. In other words, you can't put 2.5% of the value under *de minimus* and keep the rest under amber. It has to be one or the other. This means that the USA would not be able to increase spending as set out in the table without fundamentally restructuring its farm payments system.

However, this fact should not be overstated. In the best scenario, the maximum overall cut to trade-distorting subsidies would be around $4bn. This is 4 per cent of the overall spending or 19 per cent of trade-distorting support, considerably less than the 54 per cent cut they announced.

Table: USA and EU agricultural subsidies

Oxfam estimates of payments following implementation of current Doha Round proposals								
		AMS (Amber Box)	***De minimis***	**Blue Box**	**Green Box**	**TOTAL**	**TDS(*)**	**Overall cut**
USA ($bn)	Uruguay Round ceiling	19.1	19.3[1] [2]	9.7[3]	No ceiling		48.1	
	US suggested parameters	60% cut	50% cut (so 2.5% + 2.5% of the value of production)[2]	2.5% of the value of production[2]	No ceiling			
	Doha Round ceiling	7.6	9.7	4.8	50.7[4]	72.8	22.1	54%
	Most recent notification (2001/02)	14.4	7.0	0.0	50.7	72.1	21.4	
	Real required change	-6.8	2.7	4.8	0.0	**0.7**	0.7	
EU ($bn) (1€=$1.2)	Uruguay Round ceiling	80.6	26.8[1]	28.4[3]	No ceiling		135.8	
	EU's suggested parameters	70% cut	80% cut (so 1% + 1% of p.v.)[2]	2.5% of p.v.[2] [5]	No ceiling			
	Doha Round ceiling	24.2	5.4	6.7	59.9[4]	96.1	36.3	70%
	Oxfam estimation of post-2003 EU payments[6]	19.6	1.1	2.3	59.9[4]	82.8	22.9	
	Real required change (Doha ceiling minus post-CAP reform applied levels)[6]	4.6	4.3	4.4	0.0	**13.3**	13.3	

Notes

(*) AMS + *de minimus* + Blue

(1) This figure includes the current *de minimus* exception for both product-specific and non-product specific distorting support (5 per cent + 5 per cent of the value of production)

(2) We have used for this calculation the 1995-2000 average notified value of production ($193bn in the USA and €223bn ([$268bn] in the EU)

(3) No ceilings were established for the Blue Box in the Uruguay Round. This refers to 5 per cent of the value of production (USA) or any higher applied level (EU)

(4) No ceilings are likely to be applied to the Green Box in the current round. We have used the latest notification levels as reference. For the EU, the reduction starting point would be €49.4bn. This is our estimated applied level after the implementation of CAP reform

(5) No proposal has been made here from the EU, so we are using the ceiling proposed by the USA

(6) Calculations on Oxfam estimates are available in Annexe D of Oxfam Briefing Paper 'A Round For Free'. *De minimus* figure corresponds to EU's most recent notification to the WTO

Source: Oxfam's calculations based on WTO notifications, USDA, European Commission, and US/EU proposals at Zurich Mini-Ministerial (10 October, 2005)

Notes

[1] In early April, the then United States Trade Representative, Robert Portman, said that he will ask Congress to renew TPA. However, it is unlikely that TPA will be renewed before 2009, at the earliest. In 2008 a new US President will be elected and Congress may then be willing to provide TPA.

[2] Polaski, Sandra (2006) *Winners and Losers: the Impact of the Doha Round on Developing Countries*; table, p 34; Carnegie Endowment for International Peace; www.carnegieendowment.org/trade.

[3] In 2003 the World Bank predicted global gains of $832bn from trade liberalisation, with the majority - $532bn – going to the developing world. More recently, they have downgraded expectations, predicting global gains of $287bn, with only $90bn going to developing countries. See Wise, Timothy and Gallagher, Kevin P (2005) *Doha Round's Development Impacts: Shrinking Gains and Real Costs*; RIS Policy Brief No. 19.

[4] The results of economic modelling can vary widely, depending on the factors included and the assumptions made. All models make a number of simplifying assumptions and tend to miss out dynamic effects. For this reason, any figures generated by such models should be treated with caution. This is recognised by almost all serious economists. However, at the very least, the Carnegie study shows that the gains predicted by the World Bank, and often cited by developed country negotiators, are far from guaranteed.

[5] Hon Dipak Patel, MP; LDC, G90, G20, G33, and ACP Press Conference; Hong Kong WTO Ministerial, December 2005.

[6] Oxfam International (2005) *Truth or Consequences*, Oxford.

[7] Oxfam calculations based on International Cotton Advisory Council (ICAC) figures in *Cotton: World Statistics*, September 2003.

[8] Oxfam calculations using data from Mozambique's National Institute of Sugar, *Balance for the Sugar Sector*, 2003. The sugar regime has now been reformed, but poor countries will still lose out because of a failure to implement the reforms gradually or to provide adequate compensation. For more detail see Oxfam and WWF (2005) *Critique of the EC's Action Plan for ACP countries affected by EU sugar reform.*

[9] See Oxfam International Media Brief (2005) *Analysis of Recent Proposals in WTO Agricultural Negotiations*.

[10] *Ibid*.

[11] Most recent notifications to the WTO put overall EU spending on agriculture at €69bn. Export subsidies are around €2.5bn. See www.wto.org/english/tratop_e/agric_e/agric_e.htm.

[12] USDA figures. Upland cotton subsidies totalled US$4.245bn in 2005. See Hwww.ers.usda.gov/publications/agoutlook/aotables/2006/02feb/Haotab35.x

ls. Cotton exports totalled 3.3m metric tonnes in calendar year 2005. See www.ers.usda.gov/publications/agoutlook/aotables/2006/02feb/aotab27.xls.

[13] Anderson, Kym, and Ernesto Valenzuela (2005) *WTO's Cotton Doha Initiative: Who Would Gain from Subsidy and Tariff Cuts?* Washington DC: World Bank.

[14] Letter from Australia to the G33, 'Special Products: Australian Comments on G33 paper', Feb 2006.

[15] The Carnegie Endowment report models such an outcome (see Polaski, 2006). As stated earlier, the results of economic modelling can vary and should be treated with caution.

[16] UNDP (2005) *Human Development Report*.

[17] World Bank (2003) *World Development Indicators.*

[18] Unless otherwise noted, figures are from Food and Agriculture Organisation (FAO) (2003) *WTO Agreement on Agriculture: The Implementation Experience - Developing Country Case Studies*; Rome: FAO.

[19] Faivre Dupaigre, Benoît, Vanessa Flores, and Ibrahima Hathie (2005) *Un peuple, un but, une foi: Etude d'impact de l'élimination des subventions à l'exportation et des soutiens à l'agriculture sur les filières agro-alimentaires au Sénégal*; IRAM.

[20] At the WTO, countries agree to bind their tariffs. This means that they set a legal ceiling above which they cannot raise their tariffs. This is called their 'bound' tariff. The 'applied' tariff is the actual tariff that the country is using at any one time. These applied tariffs are often lower than the bound levels. WTO negotiations require countries to cut their bound tariffs and to bind lines that remain unbound. Cuts to bound tariffs will not always lead to cuts in applied tariffs – it will depend on the coefficient chosen. However, cuts to bound rates will always reduce the amount of flexibility that countries have to raise and lower their tariffs according to their economic policies and development needs. Developed countries want to see cuts in applied tariffs, not just bound rates.

[21] The US negotiator said this during negotiations on Special and Differential Treatment at the WTO in April 2005; see SUNS #5784, 20 April 2005.

[22] Yilmaz Akyüz (2005) *The WTO Negotiations on Industrial Tariffs: What is at Stake for Developing Countries*, TWN; Ha Joon Chang (2005) *Why Developing Countries Need Tariffs*, South Centre; Paul Bairoch (1993) *Economics of World History: Myths and Paradoxes*, University of Chicago Press; Kevin O'Rourke and Jeffrey Williamson (1999) *Globalization and History: The Evolution of a Nineteenth Century Atlantic Economy*, MIT Press.

[23] Ha Joon Chang (2005) *Why Developing Countries Need Tariffs.*

[24] *Ibid.*

[25] Africa examples taken from Khor, Martin and Goh Chien Yen (2004) *The WTO Negotiations on Non Agricultural Market Access: A Development*

Perspective, TWN; UNCTAD (2005) *Coping with Trade Reforms: Implications of the WTO Industrial Tariff Negotiations for Developing Countries.*

[26] Latin American examples from Chang, 2005 and UNCTAD, 2005.

[27] Oxfam calculations based on WTO data.

[28] Because cuts would be line by line, final average tariffs may vary.

[29] Gould, Ellen (Nov 2005) *Lessons from the US Gambling Case: How GATS undermines the right to regulate*, Canadian Centre for Policy Alternatives.

[30] OECD policy brief (Sept 2005) *Opening Up Trade in Services*.

[31] Draft and final plurilateral requests seen by Oxfam.

[32] World Bank (2006) *World Development Report*, p 171.

[33] Hunter Wade, Robert (June 2003) Working Paper no. 31, *What Strategies are Viable for Developing Countries Today? The WTO and the Shrinking of 'Development Space';* LSE.

[34] Collective Request for Telecommunications Services, WTO (drafted 17 February 2006, 11.30am).

[35] Cross-subsidisation is where a profitable part of a business or service supports an unprofitable one. It can be used to make possible the provision of services that would otherwise be loss making.

[36] Reference paper developed in the negotiating group on basic telecoms.

[37] From Telmex panel, quoted in Canadian Centre for Policy Alternatives (CCPA) Briefing Paper by Ellen Gould, Trade and Investment series, Volume 5, Number 2, July 2004.

[38] UNCTAD (2000) *A Positive Agenda for Developing Countries: Issues for Future Trade Negotiations*, p 172 New York and Geneva.

[39] See ODI (Oct 2005) *Water and the GATS: Mapping the Trade-Development Interface*.

[40] "I must underscore that these funds, and the additional money I announced today, must go hand-in-hand with market access expansion and the elimination of trade-distorting subsidies", Robert Portman, USTR, reported by AFX Asia (2005) *US seeks new WTO meeting early next year if no Hong Kong accord*, 14 December 2005.

[41] Stiglitz, Joseph (2005) *Fair Trade For All, How Trade Can Promote Development*, Oxford: OUP.

This paper was written by Amy Barry. Oxfam acknowledges the assistance of Romain Benicchio, Jennifer Brant, Mark Fried, Matt Grainger, Duncan Green, Marita Hutjes, Shuna Lennon, and Liz Stuart in its production. It is part of a series of papers written to inform public debate on development and humanitarian policy issues.

For further information on the issues raised in this paper or the Make Trade Fair campaign, please e-mail advocacy@oxfaminternational.org or visit www.maketradefair.com.

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