

January 2006

# A bad deal

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WDM's analysis of the outcome of the  
WTO's Hong Kong ministerial meeting



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### 1. Introduction

**From 13 to 18 December 2005 the World Trade Organisation (WTO) held its 6<sup>th</sup> ministerial meeting in Hong Kong. The result was exactly the bad deal that WDM warned against.**

Developing countries were backed into a corner and in return for an end date (2013) for export subsidies - a marginal gain ten years overdue – they have been further locked into the aggressive liberalisation agenda of the EU and US in services and industrial products.

In 2004, EU export subsidies amounted to €3 billion, out of a total European agricultural subsidy budget of €58 billion. Setting a date for the end of export subsidies is a largely symbolic gesture which has been promised since the WTO came into existence a decade ago. The gains pale into insignificance compared to the damage that will be done to developing countries by radical cuts in industrial tariffs (used to protect infant industries) and the liberalisation of trade in services which will open crucial service sectors (including basic services such as water) to multinational companies and strip developing countries of a whole raft of policies used to regulate their economies for social and environmental objectives.

Trading-off short term gains in agriculture in exchange for the long term loss of development policy options is a bad deal. No country has successfully developed by exporting low value agricultural commodities. Most have developed using industrial policy to encourage the development of manufacturing.

The declaration, finally adopted at 10.45 pm on 18 December, sets out a structure and breakneck timetable for ongoing negotiations which according to the WTO will put countries under “intense pressure”.

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### 2. Development issues

Dozens of proposals that developing countries have put forward to correct the problems and imbalances in existing WTO agreements (known as ‘Special and Differential Treatment’ and ‘Implementation issues’), many left over from the previous round of trade negotiations almost a decade ago, have been pushed to one side with fading hope of agreement in this current round of talks.

For example, on Special and Differential Treatment, negotiators have simply been asked to work harder and report back to the WTO General Council “with the objective of ensuring that clear recommendations for a decision are made no later than December 2006”. In WTO-speak this is as good as saying the issue is not a serious part of the talks.

### **3. Services**

Unlike previous WTO ministerial meetings, negotiations on freeing up trade in services took centre stage. For much of the year the EU has been aggressively pushing for the existing agreement to be rewritten to give rich countries a number of levers to force developing countries to offer up more service sectors to deeper liberalisation through mandatory targets and group negotiations.

In the run up to Hong Kong controversy surrounded services talks. Despite being highly contentious and opposed by large numbers of developing countries, the EU's proposals were included as an annex to the pre-Hong Kong draft of the ministerial declaration discussed at the WTO HQ in Geneva. After a barrage of complaints from furious developing countries the now infamous 'Annex C' was qualified by the WTO practice of putting the disputed annex 'in brackets' to signal that it had not yet been agreed but the content was unchanged.

This untransparent and undemocratic stitch-up meant that 'Annex C' of the Ministerial Declaration survived opening the way for increased pressure to be applied to countries to make deeper liberalisation commitments.

The Annex on services includes the setting of 'qualitative targets'. These set out the level and type of liberalisation that can be demanded and explicitly mention: reducing or eliminating economic needs tests (such as ensuring that local employment is generated); increasing foreign ownership of service companies; and, reducing limitations on types of legal entity (eg, requiring joint ventures with local companies).

The declaration requires countries to increase engagement in the talks to establish rules on government procurement of services and "put greater emphasis on the proposals by Members". The proposals currently on the table are largely from industrialized countries demanding rules that force countries to treat domestic and foreign corporations the same. This text will therefore be used to increase pressure for new rules to stop developing countries using government contracts to support and develop domestic companies, or discriminate against foreign multinationals when awarding government contracts. The whole basis of a new agreement has been challenged by developing countries.

The section on plurilateral [WTO code for 'group'] negotiations was the most heavily opposed by developing countries. It provides greater leverage for groups of developed countries who share an interest in opening up a particular market to force other countries to engage in negotiations to open up that sector. There is nothing currently stopping those countries that wish to engage in plurilateral negotiations from doing so, but that is not enough for the European Union and other industrialized countries, who want to force countries to negotiate even against their wishes.

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### 4. Industrial tariffs (Non Agricultural Market Access - NAMA)

Developing countries tend to have higher tariffs on industrial and manufactured goods than developed countries. Many countries who have successfully reduced poverty (such as Korea and Malaysia) have used these tariffs to protect infant industries. Many countries in Africa saw rises in poverty and unemployment after the IMF and World Bank forced them to slash industrial tariffs in the 1980's and 90's. In Hong Kong developed countries succeeded in forcing through a radical tariff cutting formula for industrial tariffs, known as the 'Swiss Formula'. This is the mathematical formula that countries will use to calculate how much they will cut their industrial tariffs by. The formula cuts the highest tariffs by proportionately more than lower tariffs therefore leveling them out across all countries, wiping out the ability of developing countries to protect their economies and facing them with the prospect of deindustrialization.

Negotiations for specific sectors were formalized, which will add further pressure for even more significant tariff reductions, or total elimination, in sensitive areas such as fisheries and forest products.

In contrast, promised flexibility and exemptions for developing countries in the NAMA negotiations have still not been tied down. Developing countries have 'given' on the Swiss formula but 'received' nothing in terms of more specific flexibility within the NAMA talks.

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### 5. Agriculture

The most publicised outcome of the whole ministerial meeting was the agreement to eliminate export subsidies by the end of 2013. However this will not be formally tied down until the rest of the agriculture talks on subsidies and market access (which are also linked to industrial tariff negotiations) have been agreed. This means the end date for export subsidies will continue to be a negotiating chip in these talks.

There is little of significance in the declaration on the wider issue of domestic subsidies. Subsidies are divided into categories according to how trade distorting they are. The most trade distorting will be subject to the largest cuts. However, the EU and USA are increasingly redefining their subsidies to allow them to shift them into categories that avoid cuts. Attempts to review the system to avoid abuse received little help in Hong Kong.

One of the reported gains for developing countries was the agreement in principle of the existence of a category of 'Special Products' for developing countries which are especially vital for development because they support the livelihoods of a large proportion of the population or are important to vulnerable farmers. These will be treated differently from other products and be exempt from full liberalisation. However, rather than being

free to choose which products these are, developing countries will have to apply incredibly complicated and yet to be negotiated criteria. Also unresolved is how these 'special products' will be treated once identified; in other words exactly the extent of tariff reduction exemption they will receive.

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## **6. Cotton**

The 'C4' – the cotton producing countries Benin, Burkina Faso, Chad and Mali - have suffered yet another injustice.

The final Hong Kong ministerial declaration says cotton export subsidies will be eliminated in 2006 but the EU does not have cotton export subsidies and the US must eliminate them anyway in order to comply with a recent WTO panel ruling.

The declaration calls for developed countries to provide duty and quota free market access for cotton exports from Least Developed Countries. However, this will be pretty meaningless if cotton subsidies in the USA are maintained.

On 'trade distorting' cotton subsidies, there is a vague promise on their accelerated reduction or elimination but it does not constitute a firm commitment.

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## **7. The 'development package'**

Scattered around the declaration are elements of the so-called 'development package' which was much trumpeted by the European Union in the first few days of the ministerial meeting as a gain for developing countries. While a solution to some of these issues would be a modest but useful step forward, these measures are limited and collectively do nothing to mitigate the disastrous consequences of the final declaration on agriculture, services and industrial tariffs.

The amendment to the WTO's TRIPS (Trade Related Intellectual Property) Agreement, aimed at providing flexibility for poor countries to import cheap generic medicines from other developing countries, has enshrined in WTO rules a system that has not yet proven to be workable.

The agreement to provide duty and quota free market access for products from Least Developed Countries (LDC) includes a caveat that allows the USA to exempt 3 per cent of its imports from these countries. While this does not sound like a lot it is significant because it will, for example, permit the USA to protect its textiles sector.

The flexibility given to LDCs to implement measures that are not consistent with the WTO TRIMS (Trade Related Investment Measures) Agreement is too limited and may prove difficult to implement. In practice, it will be hard for LDCs to make use of these flexibilities

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as they will likely run counter to IMF and World Bank loan conditions. The Declaration requires LDCs to cease using all measures inconsistent with TRIMS by 2020 (regardless of whether or not they are still LDCs).

On the 'aid for trade' package, the Declaration calls on the Director General (Pascal Lamy) to set up a 'task force' to look into the issue and consult the World Bank, IMF and others and come up with proposals on using grants and concessional loans.

Not in the Ministerial Declaration but announced earlier in the week is the offer by the EU. The European Member States have offered an increase in spending on 'Trade Related Technical Assistance' of €600 million by 2010. This is not new money. It is simply a commitment on how existing aid pledges will be spent and it is unclear exactly what this money will be spent on.

In addition, the European Commission has offered an increase in spending on 'Trade Related Technical Assistance' from the EU aid budget of €250 million by 2007. But again, this is not new money so it will involve reshuffling the aid budget and taking away from existing programmes.



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