

Year 10 No.3 May 2006

In this issue

- 3 Completing the Doha Round: Now or Never?
- 4 Setting the Record Straight: Why Oxfam Is Calling for a Slow Round
- 5 Special Products in Agriculture: Some Empirical Evidence
- 8 WTO News: Can the Impasse Be Overcome on Agriculture Modalities?
- 10 WTO News: Members Shift Attention to Core NAMA Modalities
- 13 WTO News: Emerging Consensus on Some Aid for Trade Elements
- 15 Regional Integration
- 16 The Impacts of ASEAN-Chinese Integration on the Indonesian Economy
- 18 Venezuela: A New Approach to Economic Integration
- 21 Missing the Market: EU Regulation of Traditional Exotic Foods
- 23 ICTSD and Partner News
- 24 Meeting Calendar and Resources

Published by the International Centre for Trade and Sustainable Development

Facts and Figures

- The African economy is expected to grow by 5.8 percent this year and another 5.5 percent next year, with oil-exporting countries outpacing others by a substantial margin.
- Trade balances have improved for African countries that export oil and metal ores, but oil-importing countries have been adversely affected by higher import bills and lower prices for agricultural products such as cocoa and cotton.
- Despite a record 2004/2005 cotton harvest in Burkina Faso, low average world prices caused the country's three main cotton firms to run a 30 billion CFA franc deficit. In 2005/06, the harvest is likely to be even more abundant, while the price to farmers is expected to be lower. Cotton firms are counting on better world prices to restore the balance.

Source: *African Economic Outlook*. OECD and the African Development Bank, May 2006

Timeframe Set for Doha Home Stretch

Despite few indications of concrete progress in Geneva, WTO Members agreed in late May that the Chairs of the negotiating groups on agriculture and industrial market access should aim at releasing draft negotiating texts on their issue areas by 19 June.

In light of the meagre harvest of the continuous negotiations undertaken in recent weeks, agreement on such a tight deadline took many by surprise. Nevertheless, WTO Members seem to have concurred with Director-General Pascal Lamy's assessment that consensus on the parameters or 'modalities' for finalising negotiations in agriculture and non-agricultural market access (NAMA) must be reached by late June/early July in order to leave enough time for concluding a broader package by the end of July that would cover other elements of the single undertaking launched in Doha nearly five years ago.

The Chairs of the two negotiating groups have said that unless Members show a greater willingness to seek common ground, they will not be in a position to deliver modalities drafts that will differ markedly from the rather bleak assessments they have made so far. Some delegates have, however, indicated that they would like the Chairs' drafts to 'push the envelope' in order to provide ministers with negotiating texts that will require political decisions on only a limited number of key issues, such as the depth of tariff and subsidy cuts.

Ministerial involvement is expected as of the last week of June. EU Trade Commissioner Peter Mandelson, who recently confirmed that he had the flexibility to improve the EU's much criticised October 2005 offer on agricultural tariff cuts (see page 8), 'strongly welcomed' the decision to call a ministerial meeting. "If negotiators don't engage properly with each other at ministerial level then we will simply sleepwalk into disaster in this round," he said. Australian Trade Minister Mark Vaile has also called for the major players engage now "so they can scope up the sorts of levels of commitment and compromise that are going to be needed to see this deal done." The trade ministers of Chile, Colombia, Mexico and Peru issued a joint communiqué in April calling on all parties "to make the significant concessions necessary to conclude a deal that will open markets, particularly for the world's poor."

Taking a more combative stance, India's Trade Ministers Kamal Nath has warned that "if the round means destabilisation or deindustrialisation in industrial developing countries, forget it. If 650 million farmers are sought to be put on a suicide track, then forget it. If 300 million people living with one dollar a day are to be pushed to 50 cents a day, forget it. Issues of subsistence and development are not up for negotiation." In contrast, China has opted for a low profile with regard to the outcome it is seeking.

What Are the Odds?

Political rhetoric aside, a surprising number of trade delegates seem inclined to think that a deal can still be struck, although they acknowledge that the compromise is likely to be a far cry from the Doha Round's original ambition, both in terms of market opening and in terms of correcting imbalances in the multilateral trading system so that it better reflects the needs and priorities of developing countries, which now form the great majority of WTO Members.

One cause for this 'optimism' appears to be a lack of conviction that a better result could be achieved through prolonging the round beyond its current end-2006 deadline. Many see

Continued on page 2

Bridges

Between Trade and Sustainable Development

Published by the International Centre for Trade and Sustainable Development.

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Material from *BRIDGES* can be used in other publications with full academic citation.

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ISSN 1562-9996

Annual subscription:

US\$225 for OECD country addresses
US\$75 for other countries

Courtesy subscriptions are possible thanks to the support of ICTSD's funders.

The *BRIDGES* series of publications is possible in 2005–2006 through the generous support of the Swiss Agency for Development and Co-operation (SDC), the UK Department for International Development (DfID) and the Rockefeller Foundation.

It also benefits from contributions from ICTSD's core funders: the Development Co-operation Agencies of Denmark, the Netherlands and Sweden; the Foreign Ministry of Finland, Christian Aid (UK), NOVIB (NL), Oxfam (UK) and the Swiss Coalition of Development Organisations (Switzerland).

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the likely expiry of President Bush's trade promotion authority in July 2007 as the last chance to push even a mediocre WTO trade liberalisation package through the US Congress. Some agricultural exporters speculate that the EU and certain Members of the G-20 coalition of developing countries have reached a tacit agreement on a modest outcome on agricultural market access. Although deploring the diminished level of ambition this would inevitably entail for all other issues in agriculture, as well as other sectors, a number these countries doubt that further negotiations would result in a notably different outcome.

However, a large number of negotiators are sceptical about the chances of the agriculture and NAMA modalities concluding on schedule. They point to the lack of progress in the intense cycle of negotiations underway since the end-April deadline was missed, and the vast array of issues that remain unsolved in other negotiating areas, including special and differential treatment for developing countries, and services liberalisation, on which talks remain in a limbo due to the absence of progress in agriculture and NAMA.

Sustainable Development Concerns

Both negotiators and civil society observers are divided on what the best approach would be for achieving optimal development benefits.

Despite the lowered expectations in this respect, many still believe that developing countries would lose the most if the Doha Round failed to conclude as planned (see related article on page 3). Among their arguments is that lack of multilateral progress would further increase the pace of bilateral trade arrangements, where the smaller economies would be at a disadvantage. They also point to the loss of the potential gains now on the table: the Hong Kong agreement to eliminate export subsidies by the year 2013; the withdrawal of the hard-fought commitment that all developed countries must (eventually) grant duty- and quota free access to all products originating in least-developed countries (see page 14); the binding of domestic agricultural subsidies at roughly their present applied levels; the possibility of substantially reducing such subsidies for cotton; the potential for improvements in unfair anti-dumping practices; and the establishment of WTO disciplines on fisheries subsidies to help reduce fleet over-capacity, which contributes to depleting a vital source of food and livelihoods.

Others argue the opposite. They see the gains currently on the table as uncertain and vastly insufficient to offset the burden of new commitments that developing countries would need to undertake in return. The time is not ripe, they maintain, to reap substantial benefits. It would thus be better to focus on fostering a more development-oriented negotiating framework over the next few years (see page 4).

Four Possible Scenarios for the Future

A slight majority seems to consider the current plan A – a rapid if unambitious conclusion to the Doha Round – the best and most likely bet. The advocates of this view also tend to think that the WTO may have reached the limit of its role as the engine of trade liberalisation worldwide, and that if this attempt fails no other will take its place.

Plan B would consist of prolonging the round, perhaps even letting it hibernate for a few years, in hopes that the conditions for a better deal would eventually emerge.

'Non-plan' C, which still remains a possibility, would see the Doha Round fizzle out without a negotiated conclusion. That would mean perpetuating the status quo, which so many find unsatisfactory, accompanied by a possible loss of confidence in multilateralism as the bedrock of international trade relations.

As a last resort, some have evoked a plan D: requesting the WTO Director-General to produce a comprehensive draft agreement upon his own authority, including all negotiating elements and making clear the potential 'grand bargain' tradeoffs. While Arthur Dunkel set a precedent for such an approach during the Uruguay Round, the odds that the much more diverse membership of today's WTO would ask Mr Lamy to follow his example appear remote.

Completing the Doha Round: Now or Never?

Antoine Bouët and Kimberly Elliott

The odds of completing the Doha round of trade negotiations this year diminish by the day and a key question for developing countries is whether that matters. We believe that it does and that a worthwhile agreement is within reach if negotiators have the political will to grasp it. Further delays, in our view, carry significant risks for developing countries, especially the smallest and poorest.

Would the Bargain Taking Shape at the WTO Hurt Developing Countries?

A new study by the International Food Policy Research Institute (IFPRI) concludes that a modest trade agreement, similar to what is currently on the table in Geneva, could produce US\$55 billion in global real income gains. This result is in the same range as other studies that model similar modest reform scenarios. Also like others, the IFPRI study finds that trade reform is progressive, because developing countries gain more as a share of national income than rich ones (see table below for an illustration).

The gains to developing countries would also be higher, and the estimated losses to some countries smaller, to the extent that the effects of preference erosion are exaggerated. For simplicity, the study assumes that countries eligible for trade preferences fully utilise them, but restrictive rules of origin and administrative barriers often prevent that. The IFPRI study also excludes the potentially large dynamic gains that would arise if trade stimulated productivity growth because these gains are difficult to measure. Some countries would still lose from preference erosion and higher prices for imported food. But these losses are generally small and can be addressed in ways that do not sacrifice the gains for other developing countries.

Moreover, the IFPRI results highlight several ways to improve the offers on the table to the benefit of developing countries. Under IFPRI's modest reform scenario, the average tariff level falls less for farm products than for manufacturing (19 percent vs 26 percent), even though agricultural protection is far higher. The IFPRI study shows that a more ambitious scenario, with larger tariff cuts, fewer exemptions for sensitive agricultural products, and more liberalisation by developing countries themselves, nearly doubles the potential gain.

In addition, IFPRI models the commitment from rich countries at the Hong Kong Ministerial to extend duty- and quota-free treatment to least-developed countries on 97 percent of tariff lines. An extension of the analysis suggests that extending the coverage of the proposal to all least-developed country exports would raise global benefits in the modest scenario by 26 percent, to US\$69 billion, with half of the additional gain going to least-developed countries.

Clearly, the current offers to cut agricultural subsidies and tariffs can and should be improved. But what is on the table now would result in the elimination of all export subsidies and at least modest cuts in and disciplines on American domestic subsidies. It would lock in European Union reforms that have reduced internal price supports by 30 to 50 percent for most cereals, meats and sugar. It would also cut the highest tariffs the most and provide at least some additional access under tariff-rate quotas for even the most sensitive products. These results are more than was obtained in the Uruguay Round and should not be dismissed lightly.

Finally, current proposals also leave substantial 'policy space' for poor countries to promote development, perhaps too much. Least-developed countries are not being asked to undertake

any liberalisation commitments and other developing countries will make lesser cuts in tariffs and subsidies than what the rich countries agree to do. Under plausible scenarios, these cuts would have little effect on levels of protection because the rates that developing countries agreed to legally bind in past negotiations are generally well above applied rates. Moreover, in agriculture, developing countries will be able to designate special, as well as sensitive, products and will also have access to a special safeguards mechanism that will allow them to raise tariffs in the face of import surges.

The Risks in Holding Out

Completing the Doha Round is not a now or never proposition, but further delay is risky. Upcoming elections and legislative deadlines could result in an atmosphere that is even less friendly to developing country interests. Elections in France (April 2007) and the United States (November 2006) could bring to office more protectionist governments when it comes to agricultural reform. And, if there is little progress in the talks by early 2007, the US trade promotion authority (TPA), which is essential to American negotiating credibility, may not be renewed. That means the negotiations would likely languish until at least 2009, after the US presidential election.

If the round falters, what will fill the gap? The US Congress has to pass a new farm bill in 2007 and it could extend the existing legislation with its high levels of trade-distorting subsidies. An opportunity to further reform European farm policies in 2008 could also be lost. And the negotiation of bilateral and regional deals is likely to accelerate, which would hurt smaller, poorer countries that are excluded the most. While litigation at the WTO might result in successful rulings against US and EU farm programmes, it also carries the risk of triggering a political backlash that could imperil

Distribution of Welfare Gains and the Rate of Change in Welfare under Full Liberalisation

	Share of Total Welfare Gain	Increase in Welfare
Rich countries	73.8%	+0.3%
Middle income countries	24.1%	+0.5%
LDCs	2.2%	+0.8%

Source: Calculation by Antoine Bouët

Continued on page 4

the American farm sector's support for TPA renewal.

If the round stalls – and especially if developing countries are blamed for the impasse – rich countries might decide to revoke offers to expand 'aid for trade' and duty- and

quota-free access for least-developed countries. The biggest risk from a Doha Round failure is that it would undermine the credibility of the rules-based trading system. Rich countries and large emerging markets would do fine, but most developing countries would not. These potential losses must be weighed against the uncertain gains from waiting.

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Setting the Record Straight: Why Oxfam Is Calling for a Slow WTO Round

Jeremy Hobbs

Extremely concerned about the sidelining of development concerns in the Doha Round, Oxfam International believes that developing countries should consider postponing the conclusion of the round if the deal on the table does not significantly improve between now and the July deadline.

In a report entitled *A Recipe for Disaster*, released on 29 April, we warned that the chances of a pro-development trade deal being done this year were looking increasingly slim. Developed countries' minimal offers on agriculture coupled with their aggressive demands on NAMA and services mean that what is on offer would hurt rather than help poor countries.

As a result, we argued that in the absence of substantial improvement in the offers from the EU and US, it would be better for developing countries to miss the 'deadline' imposed by the end of US fast track authority, which expires in mid-2007. They should resist being threatened or cajoled into signing up to a bad deal, which they would subsequently repent at leisure (as happened, for example, with the TRIPS and TRIMS agreements in the Uruguay Round).

It is extremely disappointing to arrive at this conclusion. Oxfam has long campaigned for reform of trade rules, and when the Doha Development Agenda was launched in 2001 we welcomed its stated intention to put the needs of poor countries first. We did not celebrate the collapse of the Cancun Ministerial, but criticised the developed countries for their brinkmanship and intransigence. We want a new trade deal to be agreed that helps reduce poverty.

No such deal is currently on offer. However, we are not calling for an end to the negotiations. Contrary to some misleading headlines in newspapers, Oxfam has not turned

its back on the WTO. We still believe a new set of multilateral trade rules is badly needed and we still think the WTO is the best place for them to be negotiated. Indeed, we are calling for a renewed commitment from all countries to the Doha Development Round and to the promise to "place [developing countries'] needs and interests at the heart of the Work Programme".

We understand that missing near-term political deadlines could mean that the Doha Round stretches on for three or four more years, perhaps longer. A slow round is far from ideal. It will delay much needed reforms and poor farmers will continue to suffer from dumping and other effects of unfair trade rules. It may also mean that the EU and US turn their attention to the aggressive pursuit of regional and bilateral trade deals as an alternative way to get access to developing countries' markets. None of this is desirable from a development perspective.

Some argue that the WTO as an institution would be terminally damaged by further delay, but in an increasingly multipolar world, both developed and developing countries need rules of the game, and an institution such as the WTO. Moreover, independently of the Doha Round, the Uruguay Round agreements will remain in force, offering developing countries ample room to challenge illegal northern agricultural subsidies through dispute settlement.

For all its risks, a slow round would be preferable to a bad deal for several reasons. First, it would allow all WTO Members to go back to the drawing board and improve the development content of their offers.

Second, studies of a number of international negotiating processes show that developing countries tend to get stronger as the talks drag on – an example of 'learning by doing' in the art of negotiation. Already, during the course of the Doha Round the formation of groups such as the G-20, G-90 and G-33 has greatly strengthened the developing country voice.

Third, the broader rethink of the nature of development, increasingly evident in university faculties, governments and multilateral institutions alike, is starting to have an impact on the trade debate. The growing prominence of emerging issues such as policy space (see page 22) and special products in agriculture are in part a response to research findings on the nature of agricultural development, the role of industrial policy in economic take-offs in East Asia and elsewhere, or increased attention to issues of sustainability. At the same time, there is increasing scepticism over the usefulness of the 'computable general equilibrium' trade modelling that underpins many of the cruder arguments of those arguing for liberalisation in all countries, irrespective of their developmental stage. As the debate on development swings back from the simplistic free market nostrum of the 1980s, time appears to be on the side of those arguing for a more empirical and nuanced approach to trade policy.

Any new trade deal must include deeper cuts to rich countries' trade-distorting agricultural subsidies and better market access offers, with no unreasonable demands for reciprocity. Developing countries must have the right to regulate, to preserve policy space, and to sequence liberalisation in a way that serves development objectives.

Unreasonable demands on NAMA and services must be removed and the principles of special and differential treatment and less than full reciprocity must be observed throughout the talks. Poor countries also need adequate aid for trade that is not contingent on market opening; patent laws that ensure access to affordable medicines; and action to address preference erosion.

Without all of the above, the Doha Development Agenda will not be worthy of its name.

Ultimately the primary obstacle is political will. If rich countries were serious about delivering a development round they could easily make it happen. If the EU and US stopped pointing fingers at each other and at the so-called advanced developing countries, they could rescue the development agenda and unlock the round. But as long as they continue to play a game of

brinkmanship and tit-for-tat, a pro-development outcome will remain elusive.

Oxfam will continue to follow the process and to campaign for a better result that puts the needs of developing countries first. More than 18 million people have already signed our 'Big Noise' petition to make trade fair. Because of them and the many others affected, we will continue to fight for fairer trade rules. Calling the bluff of those who claim that what is currently on offer will boost development is just part of that fight.

Jeremy Hobbs is Executive Director of Oxfam International, Oxford.

Special Products in Agriculture: Some Empirical Evidence

Christophe Bellmann with Constantine Bartel and Jonathan Hepburn

WTO Members agreed at the 2005 Hong Kong Ministerial meeting that developing countries would have the flexibility to self-designate 'an appropriate number' of tariff lines as Special Products, doing so "guided by indicators based on the criteria of food security, livelihood security and rural development". These products would be eligible for 'more flexible' treatment.

Since the missed April 30 deadline for agreement on modalities, negotiations on Special Products (SPs) have intensified. Four submissions of varying detail are now on the table, commanding different degrees of support from country groupings (see page 9 for details). The G-33 – a group of more than 40 countries seeking greater flexibilities for SPs – presented a detailed proposal in November 2005. Malaysia circulated an informal discussion paper in March 2006, which was followed by Thai and US proposals. Finally, a 4 May 'reference paper' by the Chair of the agriculture negotiations, Ambassador Crawford Falconer, provoked an impassioned response from several developing country groupings (see page 9).

Discussions are now focusing on three main areas: (i) how the proposed flexibilities might affect developing country exports; (ii) the number of tariff lines, and; (iii) the related issue of the number and kind of indicators used to guide SP selection. The article below tries to shed some light on this complex area, by reviewing some of the empirical evidence available.

Will SPs Affect South-South Trade?

Several agriculture-exporting developing countries have argued that the selection and treatment of SPs should not undermine the food- and livelihood security or rural development of their

many poor and vulnerable farmers, whose welfare depends on improved market access for a few export products. For example, Thailand has proposed that when developing countries account for more than half of all exports of a given agricultural product, that product shall not be designated as an SP. Malaysia has made similar proposals.

Under current market access conditions, developing country agricultural exports rose by 77 percent between 1990 and 2003, from US\$83 billion to US\$ 147 billion. According to the WTO, South-South trade as a share of developing countries' total agricultural trade increased from 32 to 46 percent during the same period. To illustrate this trend, Table 1 opposite shows export growth of agricultural products within and between developing country negotiating groups between 1999 and 2003. During this period, G-20 exports grew by an average 35.8 percent, and the highest growth rates were recorded in its trade with other G-20 members (53.7 percent), G-33 countries (64.2 percent), and the G-90 (78.3 percent). The G-33 also experienced higher export growth rates through South-South trade than with developed countries

Table 1: Percentage of Changes in Agricultural Exports 1999 – 2003¹

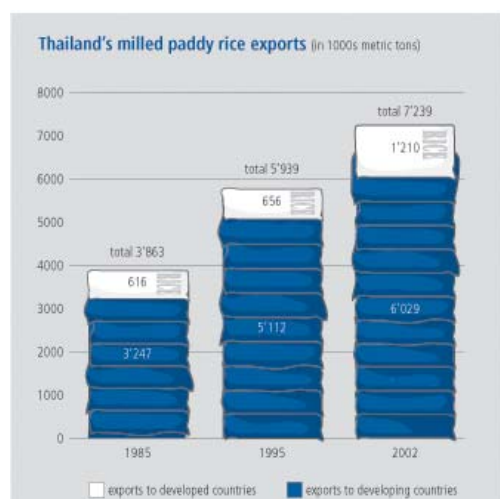
Exporter	Destination						
	US	EU	G-10	G-20	G-33	G-90	Total
US	–	–9.2	–3.8	+70.0	+20.8	+9.9	+16.7
EU	+38.3	+27.5	+24.5	+15.5	+24.3	+27.7	+27.4
G-10	+27.6	+19.1	–18.8	+28.5	+27.0	+72.3	+16.6
G-20	+22.1	+17.6	+34.8	+53.7	+64.2	+78.3	+35.8
G-33	+8.0	+7.9	–13.7	+47.7	+28.6	+43.4	+17.8
G-90	+44.8	+22.9	–3.4	+30.8	+29.9	+44.9	+27.7

¹ The statistics reflect the fact some countries belong to multiple groups. China and India are included in the G-20. Countries that have not reported export data between 1999–2003 – as is the case for several G-90 members – are excluded.

Source: Comtrade. Elaboration J. Kasteng, ICTSD

Continued on page 6

Figure 1: Thai Rice Exports



(nearly 48 percent with G-20 and only around 8 percent with the US or the EU).

Strategic products of export interest to developing countries show similar trends. As illustrated in Figure 1 above, Thailand's exports of milled paddy rice have increased much faster in developing countries than they have in developed countries over the last 20 years. In some instances these exports have contributed to displacing domestic production in importing countries, particularly in Africa.

Developing country imports of palm oil – another major export product of countries like Malaysia or Indonesia – also show continuous high growth rates. Although Malaysia's palm oil exports have recently faced increased competition from Indonesia, they have continued to expand despite export duties imposed by Malaysia on selected palm oil products, accounting for around two percent of total tax revenues.¹

These figures show that, in spite of existing trade barriers, South-South trade has expanded tremendously and is likely to continue to do so even in the absence of further liberalisation. So far, no country has proposed raising MFN rates through SPs. At most, developing country Members will be allowed to maintain current rates on selected tariff lines identified as SPs. In this context, and in the light of past export performances, fears that SP flexibilities would reverse the current trend towards increased South-South trade or affect the food- and livelihood security of developing country exporters seem unfounded.

The question is rather whether such flexibilities will affect the overall balance of gains and losses resulting from the round for developing country exporters. Comparing the welfare impact of different liberalisation scenarios is a complex exercise. The evidence provided by recent models of global trade impact assessment tend to show that, overall, SP and SSM flexibilities would have only minimal implications for welfare in both developed and developing country exporters,² partly due to the fact that South-South trade in subsistence and staple products represents a small share of exports in most developing regions.

In contrast, the SP flexibilities might play a critical role in addressing the food and livelihood security needs of importing countries and attenuate possible negative impacts resulting from further liberalisation. That said, some products are clearly more controversial than others and developing countries relying on exports of those products might have a hard time justifying domestically an absence of any new market access opportunities. Instead of completely excluding such products from SP flexibilities, it might be easier to find *ad hoc* solutions for specific cases. For example, Malaysia is primarily concerned about access to the Indian market. An indication from India that it would not designate palm oil as an SP could alleviate many of those misgivings. The case of Thailand is more complex as most countries are likely to designate rice as a special product. But here again, instead of completely excluding rice, a compromise could be found if the three or four countries where Thailand has specific export interests agreed to provide a minimum level of market access improvements.

An Appropriate Number of Tariff Lines ...

As Falconer's reference paper notes, Members may be converging on the need to limit self-designation of SPs to a specific number or proportion of tariff lines, possibly combined with indicators of food security, livelihood security and rural development. Existing proposals range from five individual tariff lines to 20 percent of all agricultural tariff lines. Under the harmonised system (HS), however, the five tariff lines proposed by the US would not even allow countries to designate one product. Take milk, for example. Many countries are likely to designate milk and other dairy products as SPs, given the importance of these products as a source of livelihood for households. At the 6-digit HS level, most countries have eight tariff lines for milk and cream alone, and nearly 20 if dairy products such as butter, cheese and yogurt are also included. If the selection is made at the 8-digit level, as some WTO Members suggest, the number for milk and dairy products can go up to 37 tariff lines.

Is 20 percent of agricultural tariff lines, as proposed by the G-33, more reasonable? A series of independent country studies carried out by the International Centre for Trade and Sustainable Development (ICTSD) in collaboration with local researchers in eleven developing countries suggest that an 'appropriate' number of products would probably range from six to twenty. These studies used a set of food security, livelihood security and rural development indicators similar to those proposed by the G-33.³ The studies also took into account variables such as current levels of protection, including the difference between bound and applied rates, as well as import vulnerability. The main findings are summarised in Table 2 opposite. On average, the products identified as SPs represent 10 percent of agricultural tariff lines. The most common products are rice, beef, corn, chicken, milk and dairy products, onions, potatoes, pork, tomatoes and some vegetable oils – often the same products that receive the most domestic support in OECD countries.

The Share of Total Value of Agricultural Imports

The share of trade represented by SPs has also been a controversial issue. At Falconer's request, the WTO Secretariat calculated that designating 20 percent of tariff lines as SPs could allow two unnamed developing countries to shield as much as 98.4 and 94 percent of the total value of their respective farm imports from Doha Round tariff cuts. G-33 countries reacted strongly, accusing Falconer of seeking to introduce market access considerations into the basis for selecting SPs, even though this was not part of the negotiating mandate. In practice, if the selection of SPs is genuinely based on food security, livelihood security and rural development indicators,

the percentage of market share represented by SPs would certainly be lower than the Secretariat figure. While applying these three criteria would not completely exclude products that are in competition with imports, the selection of SPs is most likely to focus on goods that are domestically produced, and in which the country is relatively self-sufficient – as opposed to products for which it relies heavily on imports to meet domestic needs.⁴

This is confirmed by the ICTSD studies, which found that, on average, the SPs selected only accounted for less than one-fifth of the value of total agricultural imports. Therefore, while some countries have expressed concern that SP flexibilities will exempt a large percentage of agricultural trade from reform, available empirical evidence suggests these fears are unfounded. The area of ‘sensitive’ products may be a greater cause for concern, as, in the absence of any objective selection criteria, the only way for Members to avoid abuse of this mechanism will be by reducing the number of eligible products, or by agreeing that such products will be treated in a way that will result in effective market access improvements.

... Guided by Indicators of Food Security, Livelihood Security and Rural Development

It is therefore essential that countries use relevant indicators to guide the self-designation process. This will also ensure that SP flexibilities are not captured by vested interests, or influenced by short-term mercantilist considerations. WTO Members are still discussing how this might be done. One option would be to select SPs on the basis of a fixed number of multilaterally agreed indicators with specific thresholds. Thailand, for example, proposes that a product can qualify as an SP if more than [x%] of domestic consumption is met through domestic production or if the product contributes at least [y%] of the total nutritional value (dietary and calorific requirement) of the population. Another option, proposed by the G-33, would be to establish a non-exhaustive and non-cumulative list of indicators of the three criteria. While these indicators would not automatically determine which product qualifies as an SP, they would guide developing countries in the self-designation process.

From a sustainable development perspective, a ‘one-size-fits-all’ approach based on a small and fixed number of indicators with uniform thresholds is unlikely to deal adequately with food and livelihood security and rural development, given the diversity of situations both among and within WTO members. For example, although in Sri Lanka potatoes are not a critical source of livelihood at a national level, in the Uva province they represent the primary source of agricultural employment. In this region, 86 percent of the population works in smallholder agriculture, and immediate alternative employment opportunities are scarce. The domestic production might

not survive increased competition resulting from further trade liberalisation. However, if uniform thresholds are established – such as the requirement that a product must account for at least x percent of agricultural employment to qualify as an SP – potatoes are likely to be excluded because this product does not represent a major source of employment at the national level.

In this context, an illustrative list of indicators – combined with the numerical limit discussed above – establishes a reasonable middle ground between flexibility and predictability. After the modality stage, once Members have agreed on the maximum number of products that can be designated as SPs and the treatment that will be applied to them, developing countries will present their national lists of SPs for acceptance as part of their individual schedules of commitments. At this stage of the negotiations, such indicators will play an important role in guiding and facilitating the inevitable discussions that will arise around the different lists. Developing countries will be able to justify the inclusion of particular products in their individual SP lists by showing that they comply with one or more of the indicators provided on the illustrative list. It will also reassure their trading partners that the selection process is not an arbitrary one, but rather that it genuinely builds on the concept of food security, livelihood security and rural development.

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Table 2: ICTSD Country Studies, Summary of Main Findings

Countries	Barbados, Ecuador, Fiji, Honduras, Kenya, Pakistan, Papua New Guinea, Peru, the Philippines, Sri Lanka and Vietnam
Most common products	Rice, beef, corn, chicken, milk and dairy products, onions, potatoes, pork, tomatoes and some vegetable oils
Average no. of products identified as SPs	13
Study with the highest no. of Special Products	20
Study with the lowest no. of Special Products	6
Average no. of SP tariff lines (at 6 digit level)*	71.5
Study with the highest no. of SP tariff lines	147
Study with the lowest no. of SP tariff lines	29
Average percentage of agricultural tariff lines identified as SPs (at 6 digit level)*	10%
Study with the highest % of SP tariff lines	25%
Study with the lowest % of SP tariff lines	2.9%
Average percentage of total value of agricultural imports represented by SPs**	19.5%
Study with the highest % value of SP imports	40.7%
Study with the lowest % value of SP imports	6.3%

* Excluding Fiji and Papua New Guinea, for which data is only available at the 4-digit level.

** Excluding Fiji, Kenya and Pakistan, for which data is not yet available. Based on averages of a three- to six-year period depending on the study.

ENDNOTES

¹ Malaysia Trade Policy Review, available at <http://www.wto.org/>

² See Sandra Polaski, *Winners and Losers, Impact of the Doha Round on Developing Countries*, Carnegie Endowment for International Peace, Washington, 2006.

³ The methodology used for the 11 country studies is available at <http://www.ictsd.org>

⁴ If an imported product can be a direct substitute for a domestically produced good, such as wheat flour replacing cassava in West Africa, or maize in Central America, countries might want to designate the direct substitute as an SP.

Can the Impasse Be Overcome on Agriculture Modalities?

Only a political decision can unblock the standoff on agricultural tariff and domestic subsidy cuts, two key elements of the 'core modalities' that Members hope would at long last allow the agriculture negotiations to move forward.

The Chair of the talks, Australia's Ambassador Crawford Falconer, has already released 'reference papers' on most subjects under negotiation. These papers will form the backbone of the draft modalities that will be circulated to Members in the week on 19 June. Ministers will base their subsequent deliberations on that text, and Chair Falconer has already warned Members of the amount of work they must accomplish if he is to produce a draft that leaves a manageable number of political questions for ministers to answer.

Domestic Subsidies

At the time of writing, Chair Falconer had issued reference papers on all elements of the domestic support pillar of the negotiations: the Green Box (permissible subsidies), the Blue Box (subsidies subject to disciplines), the Amber Box (the most trade-distorting subsidies) and 'overall trade-distorting support' (OTDS), which includes the Amber and Blue Boxes, as well as *de minimis* support.

The OTDS papers shows, *inter alia*, that Members have not moved any closer on cutting Amber Box support since Hong Kong, where they agreed that the EU would take on the largest reduction commitment (70-80 percent); the US and Japan would be in the middle tier (proposed cuts range from 53 to 75 percent); and all other Members – except the least-developed countries – would be in the lowest tier. The widest differences in the proposed depth of cuts (31-70 percent) concern the lowest of the three tiers. The base period for cutting *de minimis* and Blue Box support is also still undecided, as are the new spending ceilings for these categories of domestic subsidies.

The US in particular is under pressure to go beyond its October 2005 offer on domestic subsidy cuts, but so far there are few indications of any major improvements on its offer to cut OTDS by 60 percent. A simulation conducted by Canada in May 2006 revealed that only the proposal put

forward by the G-20 group of developing countries would require the US to make cuts to its current level of overall trade-distorting subsidies. The G-20 has called for the EU to cut its OTDS spending limit by 80 percent, and the US and Japan to do so by 75 percent.

Another exercise, conducted by Australia, showed that the four major proposals on the table (from the G-10, the EU, the G-20 and the US) would leave Australia's, Brazil's and India's average bound tariff levels higher than their current average applied rates.

Market Access

Tariff reductions, exemptions and flexibilities for developing countries have been the most divisive cluster of issues in the agriculture negotiations since last October when key Members finally tabled their market access offers. At the time of writing, the Chair's reference papers had addressed most issues under the market access cluster, except the very key question: the formula that will be used to cut import duties.

The US has proposed reducing the average developed country tariff by at least 60 percent, while the G-20 has suggested a 54 percent cut. A degree of confusion attaches to the EU's offer, which the proponent says would cut tariffs by 46 percent on average, although the US and others maintain that it would only result in an average cut of 39 percent. The G-20 and the EU agree that developing countries' reduction commitments should be two-thirds of those undertaken by developed countries, but the US has said that developing country cuts should be just 'slightly smaller' and determined after parameters are agreed for developed countries.

The EU is under the most pressure to improve its market access offer, and Trade Commissioner Peter Mandelson has in recent weeks confirmed that he has the latitude to do so, provided that other trading partners make concessions elsewhere, i.e. the US consents to greater domestic subsidy cuts and advanced developing countries agree to more significant reductions on import tariffs for industrial goods.

While the EU has not officially confirmed the extent of this flexibility, a potential average cut of 47 percent has been frequently cited by press sources (it is currently unclear whether this percentage means a one-percent improvement from the 46 percent that the EU says would result from its October offer, or an eight-percent improvement from the 39 percent average cut that other WTO Members say the EU's existing offer would provide). So far, Commissioner Peter Mandelson has only said that the EU was considering "moving towards but certainly not as far" as the 54 percent target sought by the G-20. For its part, the US has let it be known that the new developed country average tariff should fall between the 54 percent proposed by the G-20 and the 66 percent sought by the US.

Sensitive Products

All WTO Members have the flexibility to designate certain tariff lines as 'sensitive'. They have already agreed that tariffs on such products need be cut less than whatever general formula is agreed. Nevertheless, market access must be improved for sensitive products through a combination of tariff-rate quota expansion and tariff reductions. The number/percentage of sensitive products and the precise manner in which market access must be improved are a contentious part of the core modalities for agriculture.

According to some sources, the EU might be willing to reduce from eight to three or four percent the percentage of individual tariff lines that it would designate as 'sensitive' (for the sake of comparison, the US has proposed a one-percent cap and the G-10 group of net food-importers seeks a higher than eight-percent limit for sensitive tariff lines).

Special Products

In addition to sensitive products, developing countries may designate an ‘appropriate number’ of tariff lines as ‘special’ products (SPs) “based on criteria of food security, livelihood security and rural development needs.” The agriculture modalities must ‘further specify’ both the criteria for SP selection and what exactly ‘more flexible treatment’ for such products would consist of (see table below on the main proposals currently on the table). Although WTO Members agreed in Hong Kong that developing countries could self-designate the SPs they need, the criteria and treatment of these products remain controversial, even between developing countries. Countries with strong export interests – often in just one or two products – have sought to impose some criteria on SP selection in order to ensure that such products do not become barriers to South-South trade (see page 5).

On the other hand, the G-33 developing country coalition – the driving force behind the quest for extensive SP flexibilities – reacted angrily to the Chair’s 4 May reference paper, which quoted WTO Secretariat calculations showing that designating 20 percent of tariff lines as SPs (as requested by the G-33) could allow two unnamed developing countries to shield up to 98.4 and 94 percent of the total value of their respective farm imports from formula tariff cuts. If similar numbers applied to other countries, Chair Falconer said the SP provision could amount to simply exempting developing countries from the obligation to cut tariffs. The G-33 reminded the Chair that SP selection should be guided by food security, livelihood security and rural development needs rather than a market opening rationale. The G-33, the African Group, the African, Caribbean and Pacific (ACP) Group of States and the least-developed WTO Members circulated a joint communication defending the G-33’s vision of SPs. Chile, Costa Rica, Malaysia and Thailand countered that the Chair’s reference paper reflected their concerns about the G-33 proposal undermining market access.

There is also a huge gap between the US position that developing countries should be allowed to designate a maximum of five tariff lines as ‘special’ and the G-33’s proposed ceiling of 20 percent of all tariff lines. In most countries, different types of milk and cream alone require eight tariff lines at the 6-digit level of the Harmonised System (see related article on page 5).

Chair Falconer was expected to issue a revised reference paper on market access issues, compiled into a single document, in the second week of June. WTO Members were scheduled to discuss the document on 9 June.

Special Safeguard Mechanism

Another flexibility that is an integral part of the agricultural market modalities concerns the Special Safeguard Mechanism (SSM) that will be established for the use of developing countries.

The Chair’s reference paper shows that large gaps still remain between G-33 members, which continue to see easy access to the SSM as an essential development tool, and strong agriculture-exporting developing nations, which stress that *their* development needs include being able to export to other developing countries. The latter view is shared by exporting developed countries such as Australia, Canada, New Zealand and the US.

Tropical Products

According to the July 2004 Framework Agreement, “full implementation of the long-standing commitment to achieve the fullest liberalisation of trade in tropical agricultural products [...] will be addressed effectively in the market access negotiations.” In April, Bolivia, Colombia, Costa Rica, Ecuador, Guatemala, Nicaragua, Panama and Peru circulated a new proposal, which interpreted the mandate of ‘fullest liberalisation’ to mean a complete elimination of tariffs, with no tropical product being eligible for designation as ‘sensitive’. The proposal specifically mentioned such tariff lines as sugar and bananas. Several African, Caribbean and Pacific (ACP) countries, whose bananas and sugar have preferential access to the EU, strongly opposed both the interpretation of ‘fullest’ and the proposed list of products to be fully liberalised.

Informal recent talks between the Latin American group and the ACP have indicated that both sides are willing to discuss shared market access problems rather than focus solely on divisive issues.

Main Negotiating Proposals on SP Selection and Treatment

Element		G-33	Malaysia	Thailand	US
SP Selection	No. of tariff lines	At least 20% of ag. tariff lines	Limited number	Limited number	Max. 5 tariff lines
	Level of detail	Self-designate	8-digit HS level [or max. level of the Member's tariff schedules]	8-digit HS level	Detailed duty level, i.e. level applied in Member's schedule
	Indicators	Illustrative, non-exhaustive, non-prescriptive, non-cumulative list	Requirements on S-S trade; domestic consumption/production; % of ag GDP and employment; nutrition	Requirements on S-S trade; domestic consumption/production; % of ag GDP; nutrition	Requirements on domestic production, exported products
SP Treatment	Recourse to the SSM?	Yes	–	–	No
	Tariff cuts	50% of SP tariff lines: no cuts 25% of SP tariff lines: 5% cut 25% of SP tariff lines: 10% cut	Shallower tariff cuts & longer implementation periods; SPs with bound tariffs lower than [20%] should be exempted from cuts	All SPs: min. [%] tariff cut; shallower than overall developing country formula	SP tariff lines: [x%] of the general tariff cut, but cut should be less demanding than that required for 'sensitive' products
	Tariff rate quotas (TRQs)	No new TRQ commitments	Quota expansion – smaller than required by the overall formula – for SPs with TRQ commitments	Quota expansion for SPs with TRQ commitments; no total exemption from tariff cuts for SPs under TRQs	Quota expansion for SPs with TRQ commitments; but expansion should be less demanding than that required for 'sensitive' products
	Tariff caps	No tariff capping	Yes, but higher than general developing country cap	Yes, but higher than general developing country cap by [%]	–
	Transitional?	–	Yes	Yes, until the end of the implementation period	–

Members Shift Attention to Core NAMA Modalities

Faced with a seemingly intractable stalemate, the Chair of the Doha Round negotiations on industrial tariffs may issue a draft text under his own responsibility around 19 June to assist ministers in making decisions.

WTO Members have embarked on a three-week final quest for consensus on the ‘core modalities’ in non-agricultural market access (NAMA): (i) the formula to be used to cut industrial tariffs, (ii) the flexibilities to be granted to developing countries, and (iii) the treatment of unbound tariff lines.

Regarding the formula, the task is to determine new ceilings for developed and developing countries’ industrial tariffs. The US and the EU are pushing for a formula that would cap developing countries’ bound industrial tariffs at 15 percent, and those of developed countries at 10 percent. Many developing countries, spearheaded by Argentina and India, are holding out for a ceiling of 30 percent for developing countries.

The flexibilities relate to paragraph 8 of the NAMA mandate in Annex B of the July 2004 Framework Agreement, which gives developing countries the option to either

- apply less than (but at least 50 percent of) the formula cuts to up to [10] percent of tariff lines; or to
- keep an unspecified number of tariff lines unbound, or not apply formula cuts to up to [5] percent of tariff lines.

The controversy here centres on whether developing countries should have access to these flexibilities *in addition* to a less demanding tariff reduction formula, or whether the paragraph 8 provisions are an *alternative* to less demanding formula cuts. The former position is strongly defended by developing countries such as Argentina, Brazil, China and India, while most developed and even some developing country Members argue that at least some of the flexibilities should be given up in exchange for a less demanding tariff cut formula.

A number of developing countries have not bound all their tariffs at the WTO. The question is at how much above their 2001 applied levels these tariff lines should be bound in the Doha Round. Members also disagree on whether the newly-bound level should be reduced – and if so, by how much – in the negotiations.

Ties to Agriculture, Proportionality Underlie Differences

Different interpretations of two key elements underlie the current deadlock on the core modalities: the Hong Kong Declaration’s injunction that there should be a ‘comparably high level of ambition in market access for agriculture and NAMA’, and the Doha affirmation that the negotiations “shall take fully into account the special needs and interests of developing and least-developed country participants, *including through less than full reciprocity in reduction commitments*” (editor’s italics).

Both bound and applied industrial tariffs tend to be much higher in developing than in developed countries. In addition, developing countries’ bound and applied rates are often much further apart than is the case for developed countries. Many of them argue that ‘less than full reciprocity’ refers to the effort required rather than the end-result of tariff cuts (Bridges Year 10, No.2, page 13). They also maintain that for ambition to be ‘comparably high’ in agriculture and NAMA market access, bound levels must be used as the baseline for cutting industrial tariffs, as they will be for agricultural tariff and subsidy reductions.

In contrast, the EU and other developed countries insist that advanced developing countries must provide ‘real’ improvements in market access for industrial goods through a reduction formula that bites into applied rates rather than just bringing down high bound tariffs.

It is a sign of the depth of the impasse that Ambassador Don Stephenson, who chairs the NAMA negotiations, could have used the same document – with none of the blanks filled in – to brief WTO Members on 19 May as he did on 19 April.

Minimal Progress on Non-core Issues

Prior to 19 May, negotiators spent three intense but ultimately fruitless weeks trying to clear up a host of ‘minor’ issues before tackling the three core questions of the NAMA talks (the tariff cutting formula, flexibilities for developing countries and the treatment of unbound tariff lines).

The ‘non-core’ negotiations resolved only one issue: countries that have bound less than 35 percent of their industrial tariff lines at the WTO will be exempt from formula reductions, although they will be expected to bind most (or possibly all) of them “at an average level that does not exceed the overall average of bound tariffs for all developing countries.” The countries concerned by this decision are Cameroon, Congo, Côte d’Ivoire, Cuba, Ghana, Kenya, Macao, Mauritius, Nigeria, Sri Lanka, Suriname and Zimbabwe. Discussions on other exceptions fared less well.

SVEs: For instance, several developed and developing countries – including Canada, Chile, Colombia, Costa Rica, Korea, Norway, Pakistan, Peru and Singapore – criticised a proposal seeking flexibilities for small and vulnerable economies’ (SVEs). The paper proposed defining SVEs as countries accounting for less than 0.10 percent of world NAMA trade, 0.40 percent of world farm trade, and 0.16 percent of overall world merchandise trade (agricultural and industrial goods together). It suggested that SVEs should be exempted from the overall tariff reduction formula, as long as they agreed to bind a to-be-determined percentage of their tariff lines at an average level that would depend on each country’s current tariff structure. The proposal was submitted to the NAMA group by 18 small island or landlocked countries¹ in the context of the WTO work programme on SVEs, underway in the Committee on Trade and Development (CTD) since 2002. The principal goal of these countries is to win recognition for their special trade difficulties arising from such factors as small size that limits economies of scale, dependence on a handful of export products and few avenues for diversification, remote location and thus very high transport costs, as well as vulnerability to natural disasters, such as hurricanes or droughts.

In the Trade and Development Committee, SVEs' attempts to define criteria that would distinguish them from other Members have repeatedly run into opposition from other developing countries either on the grounds that some of the proposed indicators are shared by other Members as well, or because the criteria would *de facto* create a new category of Members, which the Doha Declaration explicitly forbids.

LDCs: Least-developed countries (LDCs) have pushed for the NAMA modalities to require Members to indicate in the draft schedules of concessions:

- the means they intend to adopt to provide duty- and quota-free market access on industrial goods originating from LDCs by 2008;
- the time frame within which they intend to complete those steps; and
- the steps they intend to take to ensure that preferential rules of origin are applied to LDC exports in a transparent and simple manner.

However, the starting point – and even the realisation – of duty- and quota-free access for LDC exports is currently much less clear than it seemed in Hong Kong (see page 14).

LDCs have also proposed that the NAMA modalities commit Members “as part of these negotiations to developing and enhancing effective delivery mechanisms to build trade capacity to assist LDCs in addressing challenges that may arise from increased competition as a result of MFN tariff reduction and inherent supply-side capacity constraints.”

NTBs: In the context of NAMA talks on non-tariff barriers (NTBs), the EU and Japan have both proposed text for a new WTO agreement that would severely limit governments' scope to impose export taxes (Bridges Year 10 No.2, page 14). The US supports export tax disciplines, but several developing countries oppose them, including Argentina, Brazil, Indonesia, Malaysia, Thailand and Venezuela.

The EU and the NAMA-11 group of developing countries² have also tabled proposals on the establishment of a new WTO mechanism to rapidly mediate bilateral conflicts over NTBs. Instead of formal dispute settlement, parties could turn to expert ‘facilitators’ to broker a compromise, without going into whether or not the NTB in question is illegal. At a 15 May informal NAMA meeting, Canada, Japan and the US questioned the need for such a mechanism, and wondered whether it might undermine the Dispute Settlement Understanding.

Sectoral Initiatives: Members have tabled specific negotiating text on sectoral market opening initiatives with regard to automobiles and related parts; chemicals; electronic products; fish and fish products; forest products; pharmaceutical and medical devices; gems and jewellery; raw materials and sports equipment. Some developing countries have emphasised that it must be made clear that participation in sectoral liberalisation initiatives is entirely voluntary, while the US has suggested that such initiatives should be pursued when a ‘critical mass’ of Members trading in the product are willing to join. Many key details are still open in the draft texts, including the end-rates, the percentage of world trade that would constitute a ‘critical mass’ and special and differential treatment for developing countries.

Environmental Goods: Canada, the EU, New Zealand, Norway, Singapore, Switzerland and the US have submitted a proposal to the NAMA group calling for developed countries – and developing countries “declaring themselves in a position to do so” – to eliminate tariffs on environmental goods by 2008 (TN/MA/W/70 and TN/TE/W/65). Argentina and Cuba said the proposal was premature, since Members were still grappling with the best way to approach the negotiations – and the goods to be covered – in the WTO Committee on Trade and Environment (Bridges Year 10 No.2, page 11). Furthermore, they argued that it amounted to a mandatory sectoral liberalisation initiative. The proponents countered that their approach could not be called ‘sectoral’, since it dealt with a diverse basket of goods rather than a specific HS chapter, as well as responded to the explicit Doha mandate that Members negotiate “the reduction or, as appropriate, elimination of tariff and non-tariff barriers to environmental goods and services.”

Textiles: Despite considerable pressure from domestic textiles manufacturers, the US in April signalled that it would not back Turkey's effort to launch a ‘reverse’ sectoral initiative aimed at cutting textiles and clothing tariffs less than those on other industrial goods (Bridges Year 10 No.2, page 14). Without explicitly rejecting the Turkish submission, the US said it was ‘extremely supportive’ of Singapore's proposal that sectoral initiatives should go further than general formula cuts in reducing tariffs, tariff peaks and tariff escalation.

Moving on a second front, Turkey proposed at a 9 May meeting of the WTO's Goods Council the establishment of a WTO work programme that would: (i) review global textiles and clothing production, trade and markets; (ii) examine options for developing countries to improve their competitiveness; (iii) make recommendations on measures to assist developing countries experiencing challenges; and (iv) explore collaboration – including financial assistance – with such international organisations as the International Monetary Fund or the World Bank with a view to diversifying economies heavily reliant on the textiles and clothing sector.

Major textiles producers such as China, Brazil, Indonesia and Pakistan expressed serious concern about singling out a particular sector of industrial goods for special treatment. Several smaller textiles exporters, including the Dominican Republic, Egypt, Honduras, Jordan, Mexico, Morocco, Sri Lanka and Tunisia, supported the proposal. The US said it was ready to collaborate with Turkey in drafting a work programme for Members' consideration. Japan, which continues to oppose Turkey's sectoral initiative, seemed sympathetic to the idea of a work programme. The Goods Council Chair has undertaken consultations to determine how to proceed.

ENDNOTES

¹ Antigua and Barbuda, Barbados, Bolivia, Dominica, the Dominican Republic, El Salvador, Fiji, Grenada, Guatemala, Honduras, Jamaica, Mongolia, Nicaragua, Papua New Guinea, St Kitts and Nevis, St Lucia, St Vincent and the Grenadines, and Trinidad and Tobago.

² Argentina, Brazil, Egypt, India, Indonesia, Namibia, the Philippines, South Africa, Tunisia and Venezuela.

Cotton Update

The proposal from the Cotton Four (C-4, i.e. Benin, Burkina Faso, Chad and Mali) aimed at achieving a rapid elimination of domestic subsidies for cotton production and marketing gleaned some further support when it was discussed for the second time on 28 April. At issue is the C-4's March submission, which suggested setting a definite date for ending trade-distorting domestic subsidies, as well as a formula that would ensure that cotton support would be reduced 'more ambitiously' and at a faster pace than that for other agricultural products (Bridges Year 10 No.2, page 6).

The African Group, as well as several individual countries from the continent, reiterated their support for the proposal (Brazil, China, the EU and New Zealand had expressed theirs in March), and Egypt called for technical discussions on the issue. The Chair of the agriculture negotiations, Ambassador Crawford Falconer, said he was open to the idea, but noted that there was a need to avoid duplicating ongoing discussions on the base periods for product-specific cuts in the broader agricultural negotiations.

The US, which is the primary target of the C-4 initiative, repeated its view that deeper cuts in cotton support could only be achieved once ambitious results had been achieved in agriculture as a whole.

The Geneva-based civil society organisation IDEAS Centre has called on the EU to table a concrete proposal to jumpstart the process, and urged Chair Falconer to convene technical consultations that would enable him to prepare a reference paper on cotton and force the US to enter into discussions.

The next formal meeting of the Subcommittee on Cotton is tentatively scheduled for 8 June 2006.

Fisheries Talks Get More Specific

WTO negotiations on fisheries subsidies have moved to detailed consideration of language for eventual disciplines. Three new proposals were discussed in May.

Many WTO Members expressed appreciation for Brazil's efforts to incorporate their concerns and comments into the third revision of its draft negotiating text (TN/RL/GEN/79/Rev.3). Previous drafts of the proposal had given rise to a host of questions regarding Brazil's attempt to link developing countries' right to grant capacity-enhancing subsidies to membership in a regional fisheries management organisation (RFMO; Bridges Year 10, No. 2, page 10). The revised text drops virtually all references to RFMOs. Instead, it simply stipulates that, as a special & differential treatment (SDT) flexibility, developing countries would be allowed to provide capacity-enhancing subsidies, but only if the fishery was not 'patently at risk' as established by the UN Food and Agriculture Organisation.

In addition, the text specifies that subsidies to 'artisanal' fishing – i.e. those related to the subsistence of fishermen and their families – would be permitted for both developed and developing countries without sustainability requirements. On the other hand, developed country subsidies to 'small-scale' fishing carried out on a commercial basis would be presumed to cause adverse effects by leading to capacity increases, and would therefore be actionable. This provision would effectively shift the burden of proving that the subsidy is not harmful to the Member providing it. Barbados and New Zealand contended that exemptions for both artisanal and small-scale fishing should only apply to developing countries. In their submission, Japan, Korea and Taiwan proposed that subsidies for artisanal and small-scale fisheries – defined solely on the basis of boat length – should be allowed for all Members.

Clarifying a point of major concern to several small-island and coastal developing countries, the revised Brazilian paper specified that government-to-government payments for accessing a developing country's national waters or fishing quotas under an RFMO would neither be considered an actionable subsidy nor be subject to sustainability criteria. Despite these amendments, the EU, as well as some developing countries, felt that the proposal might be too complicated and impractical. Brazil stressed that it was open to further discussions.

Concerns Raised Over EU, Japanese Proposals

The EU's own first proposal in negotiating text format prompted many requests for clarifications (TN/RL/GEN/134). Members were particularly critical of the proposal's broadly-defined SDT, which would exempt developing countries from disciplines as long as they did not increase their fishing capacity "to an extent that it is an impediment to the sustainable exploitation of fishery resources worldwide." Some delegates pointed to seeming inconsistencies between the proposed subsidy categories, which would prohibit grants for vessel 'renovation' while permitting them for vessel 'modernisation'. Concerns were also voiced over the role the EU proposed for the Permanent Group of Experts (PGE), consisting of five 'highly qualified' independent persons who would be charged with reporting on Members' subsidisation practices. Under the proposal's SDT provisions, any Member would be able to refer to the experts whenever it felt that "impediments to sustainable exploitation" were either taking place or imminent. Some Members said that the proposal would effectively move some negotiations and disputes to a body which was not qualified to deal with these issues.

Similarly, several Members took issue with the SDT provisions included in the first draft negotiating text submitted by Japan, Korea and Taiwan (TN/RL/GEN/114). Their proposal would accord SDT treatment only to developing countries listed in a still-to-be-elaborated annex, as well as to countries whose catches of marine species are either below a to-be-defined percentage of the world total, or below a certain weight threshold. Some Members felt that this provision was too simplistic for the complex issue it sought to address. China and Mexico, which would probably not qualify for SDT under the proposal, strongly objected to the differentiation among developing countries inherent in the three-country submission. The next meeting of the Rules Group is scheduled for the third week of June.

Emerging Consensus on Some Aid for Trade Elements

While WTO discussions on aid for trade are progressing, the institution itself is likely to have a relatively limited role in carrying out the initiative.

According to the Hong Kong Ministerial Declaration, aid for trade should aim to help developing countries, and least-developed countries (LDCs) in particular, to “build the supply-side capacity and trade-related infrastructure that they need to assist them to implement and benefit from WTO agreements and more broadly to expand their trade.” A 13-country task force has been appointed to develop recommendations, by July 2006, on how aid for trade (A4T) might most effectively contribute to the development dimension of the Doha Round. At the time of writing the task force had held three substantive meetings. The first two focused on (i) the issues and countries that aid for trade should be used for and (ii) what would be the appropriate mechanism(s) for delivering A4T. Both meetings were described as ‘constructive’ albeit inconclusive, partly due to uncertainty about the financial resources likely to be available for the implementation of the task force’s eventual recommendations.

The third meeting, held on 29 May, brought measure of clarity to this issue. Briefing the task force on his consultations with other international organisations on “appropriate mechanisms to secure additional financial mechanisms for aid for trade,” WTO Director-General Pascal Lamy told Members that international organisations and donor governments were willing to participate in the initiative provided that any new A4T funds were delivered through existing mechanisms. He also stressed that the A4T package should run parallel to the Doha Round talks and go into effect when the negotiations were completed. Some Member countries, however, have strongly suggested that the A4T initiative and the outcome of the Doha Round negotiations should not be linked.

Task Force Chair Ambassador Mia Horn af Rantzen (Sweden) presented a preliminary outline of issues to be addressed in the draft report the task force is scheduled to present to WTO Members in July. Members agreed that a consensus seemed to be emerging on a general framework for the mechanism, as well as the view that the process should be demand-driven, and that conditionalities should be either inexistent or extremely limited.

It also seems fairly likely that ‘aid for trade’ financial flows will be administered by existing international financial institutions rather than a new ‘global fund’ as some have suggested. There is general agreement on the need for a strong monitoring and evaluation mechanism, and some Members are pushing for the WTO to play a part in this. Others point out that the WTO does not have the capacity or the expertise to undertake such functions.

Although one of the agreed functions of A4T is to address trade-related problems arising from liberalisation, the emphasis is on assisting affected countries to adjust to a more competitive environment rather than on financially ‘compensating’ them for the loss of tariff revenue, trade preferences and the like. Some feel that measures should be taken to ensure that A4T is *not* used for compensation. Most task force members also think that least-developed countries (LDCs) should receive the greatest share of aid, although some have warned that prioritisation and equity of distribution could cause divisions among developing countries. Many WTO Members have strongly emphasised that A4T should be seen as a complement – rather than a substitute – for the development benefits that would result from a successful conclusion to the Doha Round, particularly on market access, as specified in the Hong Kong Ministerial Declaration.

A task force meeting open to all WTO Members is scheduled for 12 June; another gathering, limited to its 13 Members, is set to take place four days later. Sources report that a first draft of recommendations should be ready by 3 July.

Developing Countries Spell Out Priorities

The African, Caribbean and Pacific (ACP) Group of States, as well as the African and LDC Groups have submitted specific proposals to the task force.

A key point made by the African and ACP groups was that A4T should be additional to existing development aid, predictable, sustainable, demand-driven and provided primarily in grant form. Both coalitions also strongly stressed the urgency of adjustment assistance to address restructuring needs arising from preference erosion, the end of textiles and clothing quotas, the loss of tariff revenue, rising food prices following agricultural subsidy reform, export earning shortfalls, as well as job/livelihood losses arising from these factors.

The ACP Group noted there was an immediate need to assist low-income and vulnerable developing countries, particularly those already dependent on international trade, “to avoid or cope with potential economic losses, associated with their limited supply-side capacities to adjust rapidly and beneficially to policy-induced changes arising from WTO agreements.” Supply-side support would need to cover, *inter alia*, incentives for investments in new activities (through finance, credit subsidies, reduction of input costs in start-up phases, and the like), extension services and technology facilitation to boost productivity, export marketing facilitation, and the formation of producer associations for information-sharing, input procurement and marketing.

The group also said A4T should cover trade-related infrastructure such as roads, ports, telecommunications, energy and electricity, transport systems, water supply and sanitation, as well trade-related institutions such as customs, trade finance, and marketing and distribution facilities.

The ACP called for at least US\$3 billion of A4T resources to be made available for the first three years, to be allocated to LDCs and small and vulnerable economies as a priority. The money could be channelled through existing multilateral technical co-operation and capacity-building trust funds, and administered by number of international financial and development institutions. The WTO’s role would be that

Continued on page 12

of monitoring the flow of aid for trade and ensuring its coherence with agreed objectives. The group also said that it would be “desirable to secure agreement on clear multi-year commitments, for example, through pledges to be made prior to the conclusion of the negotiations and that would be referred to in the final WTO ministerial declaration on the DDA.” In addition, it would be desirable to ‘front-load’ a substantial share of the overall pledged aid-for-trade resources.

The African Group emphasised the importance of African ownership of the aid for trade initiative. Among the needs that A4T should address the group identified assistance to meet sanitary and technical standards; improving African countries’ capacity to accede to the WTO; acceleration of technology transfer; assistance for moving up the value chain; enhancement of entrepreneurship and improving competitiveness; as well as meeting the cost of implementing WTO agreements. The group called for broad-based stakeholder consultations to be held at both national and regional levels, and specified that A4T should also be used to strengthen African countries’ trade policy and negotiating capacities.

The LDC proposal suggested that value chain analysis could be a useful tool for the identification of support needs. Among the main aims of the exercise would be to increase the private sector’s competitiveness and to expand exports; to improve productivity and value-added; and to identify new market opportunities and ways of ensuring sustainability (WT/AFT/W/1).

Financial Commitments

Developing countries have emphasised that aid for trade must not become a bargaining chip in the Doha Round negotiations, and most WTO Members seem to agree that even under a *status quo* many developing countries will need more trade-related assistance than is currently available. The question remains, however, whether the political will to vastly increase A4T funding will endure if the round results in insignificant liberalisation and thus few benefits for donor countries and limited new adjustment costs for developing countries. In Hong Kong, USTR Rob Portman warned that an agreement on aid “could be lost” if Members did not reach a successful outcome to the Doha Round.

LDC Market Access May Be in Jeopardy

The US has unequivocally said that an overall Doha Round agreement will be necessary for exports from least-developed countries to be granted duty- and quota-free access.

In Hong Kong, trade ministers agreed that developed countries should provide duty- and quota-free (DFQF) market access for “all products originating from all LDCs by 2008 or no later than the start of the implementation period.” The same commitment applies to developing countries that declare themselves in a position to grant such access.

At the time, many took the Ministerial Declaration language to mean that developed countries would give LDC goods DFQF treatment by 2008 at the latest. The US, however, made clear in May that it regarded the ‘start of the implementation period’ as the operative commitment. That is, DFQF access will not be granted by 2008 if the implementation period – which can only be set once the Doha negotiations are finished – has not started yet.

This was spelled out in a 15 May submission to the WTO Committee on Trade and Development (CTD), where the US stated that it was fully committed to implementing the DFQF “on the terms agreed by Ministers in Hong Kong, together with the results of the overall negotiations under the Doha Development Agenda (DDA). Successful completion of the DDA is therefore a prerequisite for US implementation of the DFQF initiative.” On 16 May, the new US Trade Representative Susan Schwab reconfirmed to the Senate Finance Committee that there would be no duty- and quota-free access for LDCs without a Doha agreement.

The Ministerial Declaration also provides that countries “facing difficulties” in granting full DFQF access – whether by 2008 or at the start of the implementation period – can exclude up to three percent of LDC tariff lines from the commitment, with only a vague exhortation to “take steps to progressively achieve” full coverage by an unspecified date. This exemption, a number of LDCs contend, is broad enough to shut out most of their competitive exports.

LDCs have thus sought to initiate WTO negotiations on making the Hong Kong commitment work in practice. In particular, they have called for:

- an agreement on products that could not be included in the three-percent ‘exclusion list’;
- a timetable for reaching full DFQF product coverage;
- a better understanding of the ‘flexibilities’ available to developing countries that agree to provide duty- and quota-free access to LDC exports; and
- an agreement on what would constitute preferential rules of origin that are “transparent and simple, and contribute to facilitating market access.”

At the time of this writing, LDCs seemed inclined to negotiate individual DFQF lists with their major export markets.¹ In Bangladesh, for instance, a special committee set up for the purpose has identified more than a thousand products for which the country would seek duty- and quota-free access, as well as 279 products that importers could choose from to establish their three-percent ‘exclusion lists’.

In contrast, the US considers that DFQR access is not open to further negotiation. It is now up to individual WTO Members to decide how to implement the Hong Kong decision according to their national priorities and legal processes. In its 15 May CTD submission, the US stressed that the development of the implementing legislation would “require careful evaluation of its impact on and relationship to current tariff preference programmes, such as the African Growth and Opportunity Act and the Caribbean Basin Initiative” and that internal deliberations were underway to analyse the DFQF initiative’s effect on these programmes.

ENDNOTE

¹ The US and Japan are the primary targets of the initiative, since most other developed countries already provide near universal DFQF access to LDC exports.

Asia, the Jewel in the Trade Crown?

As if admitting their low expectations for the Doha Round, both the EU and the US have stepped up efforts in recent weeks to reinforce their trade ties with Asia through either bilateral or regional deals. Trade integration is also accelerating within the continent.

In May 2006, Trade Commissioner Peter Mandelson announced that he would seek a mandate from EU member countries to launch bi-regional negotiations with the ten-nation Association of Southeast Asian Nations (ASEAN)¹ after a preliminary study made a 'strong case' for a free trade area between the two blocs. Mr Mandelson acknowledged that the human rights situation in Myanmar, ruled by a military junta since 1962, was likely to prove a hurdle, but added that he did not want to "see the people in Southeast Asia on the whole held back" on account of one country. ASEAN accounts for roughly 12 percent of the global population, but only six percent of world exports. Bilateral trade between the EU and ASEAN countries currently amounts to around US\$110 billion a year.

In related news, the European Commission has invited public comments on how the EU should manage its relationship with China in the decade to come. The consultation is part a major strategic review of the EU's trade and economic relations with China, due to be published in the last quarter of 2006. The EU also plans to start FTA talks with Central American countries before the end of the year (see page 19).

US Looks Eastwards

Announcing the launch of the negotiations in February, US Trade Representative Rob Portman called KORUS, the South Korea – US free trade agreement, "the most commercially significant free trade negotiation" the US had embarked on in 15 years. Korea is the 11th largest economy in the world and already the seventh largest trading partner of the US. According to the US International Trade Commission, the FTA could increase Korea's imports from the US by US\$19 billion, while its exports could grow by more by US\$10 billion.

To reach a deal of those proportions, negotiators will need to overcome serious resistance on both sides. In Korea, the heavily protected farming sector is particularly worried about competition. Many are also concerned about potential price increases for medicines as a consequence of taking on stricter intellectual property rights. In the US, serious opposition to opening the textiles market is expected from domestic producers, and the automotive industry has already called for the current 25 percent tariff on light trucks to be maintained. At the same time, one of the US objectives is to increase its own vehicle exports (close to 690,000 Korean cars entered the US in 2004, while the US exported fewer than 5,500 vehicles to Korea).

Non-tariff Barriers Important Target of Negotiations

In their position paper on the proposed FTA, the US-Korea Business Council and the American Chamber of Commerce in Korea identified the "lack of transparency in, and lack of equal access to, the regulatory process [as] probably the most significant market access barriers impacting US companies in Korea." Among problems, they noted "fluctuating, oral interpretations of regulations" and "concerns that Korean regulatory agencies may target outside investors disproportionately more than Korean companies." Assistant US Trade Representative Wendy Cutler said in June that US negotiators had already presented ideas to their Korean counterparts on ways strengthen transparency, and hoped that "in this area we'll have very strong provisions in the FTA." Shortly before the negotiations were announced, Korea made an important regulatory concession by halving the number of days that the country's movie theatres are required to project domestically produced films.

Korea Seeks to Reassure Farmers

Although Korea has agreed that no agricultural goods will be *a priori* excluded from the FTA negotiations, Seoul will fight hard to limit imports of US rice. The government has already promised to spend US\$125 billion to help Korea's 3.5 million farmers increase competitiveness over the next 10 years. After thousands of farmers demonstrated against the planned

FTA, Trade Minister Kim Hyun Chong announced on 17 April that the Ministry of Agriculture was also "drawing up ideas for pension funds for farmers, an educational support system for their children, as well as public housing for their families."

Process Mapped Out

Seventeen negotiating groups have been established for the individual chapters of the future agreement. Initial negotiating texts were exchanged in May, and the first KORUS negotiating session took place from 5-9 June in Washington. March 2007 has been set as a tentative deadline for concluding the talks.

Malaysia FTA

In March 2006, USTR Portman informed Congress of his intention to begin FTA negotiations with Malaysia. The two countries currently enjoy two-way trade worth some US\$44 billion. The US is Malaysia's largest export market, while Malaysia ranks tenth among US trading partners. Mr Portman said that along with ongoing talks with Thailand and the upcoming negotiations with South Korea, the US – Malaysia FTA would advance the Enterprise for ASEAN Initiative, which aims to deepen commercial ties between the US and the "economically vibrant and strategically important Southeast Asia region." Among the key goals of the US is to prise open the Malaysian car market and to strengthen the country's intellectual property regime so as to reduce piracy and counterfeiting. Malaysia is hoping to increase manufactures exports and to capture a larger share of US direct investment. However, a civil society movement is forming against the pact in Malaysia, with some objecting to the lack of transparency of the negotiating process, and arguing that the country's dependence on the US will affect its ability to negotiate a balanced deal. Among often cited concerns are potential negative impacts on jobs, food security and access to affordable medicines. The first negotiating round is expected to take place the week of 12 June.

Continued on page 16

Intra-Asian Integration

Meeting in Manila in mid-May, ASEAN trade ministers pledged to accelerate progress towards the establishment of an ASEAN Economic Community (AEC), a European-style single market with a free flow of goods, services and people among the ten member countries. However, they rejected the proposal made by some ASEAN members that the conclusion of the AEC negotiations be advanced from 2020 to 2015.

South Korea's negotiations with ASEAN, started just 15 months ago, are nearing con-

clusion. The two sides – with the exception of ASEAN member Thailand – reached agreement in May on industrial and agricultural tariff cuts, 90 percent of which are slated for elimination by 2010. According to Bae Jong-ha, the head of Korea's International Agriculture Bureau, tariffs on 160 agricultural products designated as 'sensitive' will be capped at five percent by 2016. Forty 'super sensitive' agricultural products – including rice, chilli peppers, garlic, beef, chicken and most fruit – will either be exempt from tariff cuts, or subject to smaller reductions phased in over a longer term. The parties expect to sign a full FTA, including chapters on trade in services and investment, at the next ASEAN summit in December 2006. China already has an FTA with ASEAN (see below), and India is negotiating one.

ENDNOTES

¹ The six original ASEAN states are Brunei, Indonesia, Malaysia, the Philippines, Singapore and Thailand. The newer and poorer members include Cambodia, Laos, Myanmar and Vietnam.

The Impacts of ASEAN-Chinese Integration on the Indonesian Economy

Daniel Pambudi and Alexander C. Chandra

While most of the available literature tends to view the ASEAN-China Free Trade Agreement favourably, a new study from the Institute for Global Justice argues that the treaty does have detrimental impacts on the Indonesian economy.

The agreement's 'early harvest' tariff reductions started in January 2004. They are to be followed by complete liberalisation of agricultural and industrial goods by 2010 for the six original members of the Association of Southeast Asian Nations (ASEAN) and 2015 for the four countries that joined the organisation later (see footnote above). However, only limited information on the agreement has been made available to the public in Indonesia, if not all of Southeast Asia. Even prior to the signing of the treaty, little consultation took place within ASEAN or between the government of Indonesia and the Indonesian people.

Why an ASEAN – China Agreement?

The relationship between ASEAN and China is not limited to economic issues; there are important political, strategic and security implications as well. China's ambition to become one of the major forces in the global political and economic arena pulls Southeast Asian countries towards maintaining close partnerships with it. This is due partly to the inclination of ASEAN countries to react to, instead of initiating, global political and economic changes.

Nevertheless, ASEAN has responded quickly to China's progression towards be-

coming a global power. A bilateral free trade agreement with China was seen as an effective tool to combat the fear that Jakarta (the location of the ASEAN Secretariat) might lose its competitiveness vis-à-vis Beijing, as well as acting as a mechanism for ASEAN leaders to influence Chinese policy. The strategic geographical location of Southeast Asia and its natural resources also induce China to maintain a close relationship with ASEAN.

General Concerns

Several criticisms can be levelled at the ASEAN-China Free Trade Agreement (ACFTA). First, both sides are seeking long-term economic benefits without any consideration of potential short-term problems that might emerge from ACFTA and its early harvest programme (EHP). For example, China could turn out to be a fierce competitor for ASEAN, with Southeast Asian industries in such sectors as textiles, toys and motorcycles suffering as a consequence.

Second, China's main motive in offering unilateral liberalisation under the EHP was to counter scepticism in the region about its possible expansion into the Southeast Asian market. Although China has its own long-term political objectives in forging closer economic co-operation with ASEAN, Chinese leaders know only too well that Southeast Asian markets will soon be flooded by Chinese goods. Some Southeast Asian developing countries continue to be squeezed in the middle of industrial ladders, as most of them are incapable of generating the skills and technology necessary to compete with other Asian newly industrialised economies.

Third, even if they choose the mainstream neo-liberal approach, Indonesia and ASEAN should pay attention to the formidable challenge of China in the area of foreign investment. Indeed, most ASEAN countries have already been left behind in the race. In the early 1990s, China received only 18 percent of total FDI coming into all developing Asian countries, whilst ASEAN obtained the considerable share of 61 percent. The situation was reversed a decade later, with China securing 61 percent of the total and ASEAN receiving a mere 17 percent.

Fourth, with regard to Indonesia, it remains to be seen whether local economic players are capable of entering the Chinese market. Indeed, a closer examination reveals that most ASEAN investment in China comes from Singapore. Between 1999 until 2001, for example, Singapore was the source of around 75-80 percent of Southeast Asia's investment in China.

Fifth, inexact statistics and economic figures make it difficult to form an accurate picture of the Chinese economy, a constraint that may mislead Indonesian and other ASEAN policy-makers when making ACFTA-related decisions. In fact, not only China's trade figures, but those from ASEAN as well, are often misleading. In January 2006, for example, the China Customs Administration and the Information Office of the Ministry of Commerce issued a report, which stated that China's trade with the rest of the world had tripled in 2005 to a record US\$102 billion. Economists, however, doubt the accuracy of that and other figures, not least because, official data from both sides often ignores illegal economic activities, such as wide-spread smuggling. In reality, Chinese exports to Southeast Asia might be significantly in excess of the trade data provided by either side. Sixth, ACFTA may jeopardise ASEAN's own regional integration process, particularly when it comes to forming the ASEAN Economic Community projected for 2020 (see page 16).

Indonesia Beware

Our analysis of the impact of the early harvest programme (EHP) on Indonesia's economy reveals that the trade agreement has not brought equal benefits to all sectors. The *quantitative* economic assessment shows that the EHP encourages growth in Chinese imports more than it promotes Indonesian exports. In addition, the policy increases overall production costs since it encourages growth in the sectors involved, which in turn raises the cost of both capital and of hired labour. The resulting domestic price hike causes imports to displace domestic goods, increasing Indonesian demand for cheaper agricultural products from China. Moreover, tariff reductions on Indonesian commodities entering China presumably increase Indonesian exports and thus the trade balance. However, our simulations show that due to input-output linkages this does not result in GDP growth.

The widening trade deficit caused by Chinese imports leads to a fall in Indonesia's national GDP in both the short and the long term. Although under a static simulation the level of employment grows in the agricultural sector, other non-EHP sectors show a tendency to lose workers to the agricultural sector. The static simulation also reveals that a number of provinces in Indonesia will experience significant losses as a result of the EHP, including Java, West Sumatra, Jambi, East Kalimantan and Bali. It is important to bear in mind that the simulated economic costs that Indonesia has to pay do not take into account the full implementation of ACFTA, when full trade liberalisation, including that of manufactured goods, will be underway. Indeed, if we include capital-intensive sectors, such as the manufacturing industries, which rely more on capital than labour, the overall outcome for the national economy is positive. In the production process, both capital and labour are used simultaneously. An increased demand for labour emerges when capital intensive sectors expand. In the meantime, those sectors already involved in the EHP are expected to grow because of increased demand from the manufacturing sector for intermediate inputs produced in the EHP sectors.

Meanwhile, our *qualitative* assessment on the impacts of ACFTA on the Indonesian economy highlights a number of key concerns of Indonesian state and non-state actors, particularly with regard to agriculture. The first is the increasing shift of government focus from the agricultural to the manufacturing sector. Land reform and access to capital or financing, which are common concerns in the agricultural sector, remain sidelined. This has made the sector increasingly unappealing to investors in recent years, although Indonesia continues to attract investment in other areas. The second concern is the lack of clear information for small farmers who want a share of the China trade. Indeed, their participation in the entire process has been minimal so far. This is not so just because ACFTA was negotiated at the regional level (i.e. ASEAN and China); the Indonesian government also has a tendency to include only significant economic actors, such as large farmers' associations, in its consultations.

The third concern is the agreement's decision-making process, which is neither democratic nor open or transparent. Although scholars have speculated that economic openness promotes democracy, in Indonesia further trade liberalisation under bilateral FTA initiatives is undermining the process of democratisation. The fourth concern is the lack of competitiveness of Indonesian agricultural products in the Chinese market. This is not only due to

insufficient financing and human resources in the agricultural sector, but also to a lack of promotion in China.

The fifth concern is policy uncertainty and the regulatory burden. A large part of both arise from rampant corruption, particularly on the Indonesian side. Corruption damages the competitiveness of an economy, and our study shows that many Indonesian government institutions and sectors, political parties, as well as business sectors, are extremely corrupt. Governmental institutions directly involved in trade-related matters, such as customs, and registry and permit services are among the worst culprits.

Recommendations

First, the Indonesian government should pay more attention to the agricultural sector. In light of increasing trade liberalisation and the government's growing tendency to favour the consumer, it is likely that the livelihood of Indonesian farmers will continue to be undermined. Second, attention must be paid to farmers' concerns at the micro-level, particularly with regard to access to capital and the lack of necessary infrastructure to support the Indonesian farming economy. Third, although the ACFTA negotiating process was closed and undemocratic, it is imperative that the Indonesian government demonstrates an open and transparent approach to introducing any policy adjustments related to the full implementation of ACFTA in the future. Moreover, considering that many of Indonesia's bilateral trade liberalisation strategies will fall under the ASEAN-wide framework, Indonesia, as one of the key players in this regional grouping, should play a greater role in promoting democratic transformation in the association. And finally, in relation to the early harvest programme and the full implementation of ACFTA in the future, the government must provide clear guidance for all economic actors in the country. More importantly, such information should be easily available to those feeling left out of the trade liberalisation process, and small farmers in particular.

Daniel Pambudi and Alexander C. Chandra are with the Institute for Global Justice (IGJ) in Jakarta. This article draws on their recent book entitled 'The Impacts of ASEAN-China Integration on the Indonesian Economy', available at www.globaljust.org/pub_list.php.

Venezuela: A New Approach to Economic Integration

Miguel Rodriguez Mendoza

The government of Augusto Pinochet took Chile out of the Andean Pact in 1976; thirty years later, Hugo Chavez has decided to withdraw Venezuela from the Andean Community. There is a certain parallelism in these two decisions.

In both cases, the decision was justified along ideological grounds, although on opposite sides. For the Chile of Pinochet, an interventionist Andean Pact was becoming increasingly incompatible with the market orientation of the then new military regime. For Mr Chavez, it was the market orientation of Venezuela's partners in the Andean Community (CAN) that became at odds with his increasingly interventionist regime. Chile isolated itself from the region, and had to wait many years to renew its historical links with its neighbours. Venezuela may also be in the process of isolating itself from the region, and this situation may be rapidly accelerating.

Shortly after denouncing the Cartagena Agreement – the founding text of the CAN – Mr Chavez announced Venezuela's withdrawal from the Group of Three (G-3), a co-operation and free trade agreement concluded with Colombia and Mexico in the early 1990s. No specific reasons were given for this decision other than the need to “look to the South, not to the North”, a veiled criticism of Mexico and, probably, of NAFTA, since Mr Chavez gave the free trade agreements negotiated by Colombia and Peru with the United States as the reason for Venezuela's leaving the CAN. By the same token, Venezuela may well denounce a free trade agreement it has concluded with Chile, notwithstanding the fact that Chile is ‘in the South’, as this country too has a trade agreement with the US. The Venezuelan leader's decisions are consistent with his long-standing criticism of the (currently stalled) negotiations for a hemisphere-wide Free Trade Area of the Americas (FTAA), which Mr Chavez sees as an instrument of US imperialism. Such decisions may, however, come to haunt his own plans to exercise a leadership role in the region.

Although it is too early to evaluate the full impact of Venezuela's decisions on Latin American economic integration efforts, it is safe to say that the conditions for promot-

ing closer relations at the regional level are fast deteriorating. Brazil has made publicly known its discomfort at what it sees as an undue influence of Mr Chavez on Bolivian President Evo Morales in the nationalisation of the gas industry announced on 1 May. Peru withdrew its ambassador from Caracas following Mr Chavez's declaration of support for Ollanta Humala, a former army officer and nationalist candidate in the Peruvian presidential elections. Mexico did the same late last year. Most recently, the governments of El Salvador and Nicaragua complained about the support given by Mr Chavez to some of their own cities run by left-leaning majors sympathetic to the Venezuelan leader. Hardly a government in the region has spared its criticism of what they see as a highly inappropriate approach to regional policy-making. The abundance of oil money, and the generosity with which Mr Chavez seems inclined to offer it, do not seem to be enough to win over a region that has become wary of interventionist policies.

As for the Andean Community, it may have been irremediably damaged by Venezuela's withdrawal. Venezuela's market absorbed about a third of its partners' exports towards the Andean region, and its bilateral trade with Colombia made up half of the total trade in the region. Thus, with Venezuela gone, the Andean Community would inevitably shrink to half its current economic size and Venezuelan bilateral relations with Colombia – dominated by an intractable border dispute and subject to periodical political tensions – could become more volatile in the absence of the multilateral framework provided by the Andean Community. No doubt the CAN faced numerous difficulties before Venezuela's decision, including its inability to put in place a fully operating customs union and periodic trade disputes that originated in the member countries disrespecting their Andean obligations. Most importantly, the Andean Community never succeeded in creating the economic dynamism that its founders envisaged. This led many of its members to seek trade agreements outside of the group, which eventually led to the negotiations with the US that Venezuela now questions.

Beyond its economic impact, the decision to leave the CAN would deprive Venezuela of an integration agreement with its natural partners and nearest neighbours at a time when its formal membership in Mercosur – approved in principle in December 2005 – is still subject to negotiating the terms in which it would become operational. As if anticipating difficulties to come, Mr Chavez has started to criticise Mercosur, which he now sees as embracing the free market policies that he questions from his Andean partners, as well as not paying enough attention to the needs and concerns of its smaller members Paraguay and Uruguay.

Out of the CAN, and yet to become a full member of Mercosur, Venezuela now seems inclined to promote its own version of Latin American integration and is proposing to its neighbours to join the so-called Bolivarian Alternative of the Americas (ALBA), a loose co-operation agreement that seems to follow the model of the long-abandoned COMECON, which the former Soviet Union used to strengthen its economic relations with its satellite countries in Eastern Europe. Like its predecessor, the ALBA encourages barter, rather than free trade, and is cemented by a combination of Venezuelan oil resources and Cuban medical services. So far, Bolivia is the only country in the region to have joined the ALBA, and others are highly unlikely to do so in the future. Never mind. As long as Venezuela is able to continue to finance these initiatives, they will go ahead. Mr Chavez can buy new friends, but alienating so many others can only lead to greater isolation. After neglecting it, it took Chile almost two decades to return to its Latin American family. This is a mirror in which Mr Chavez should start looking at himself.

Miguel Rodriguez Mendoza is ICTSD/GMF Senior Fellow. He wrote this article in his personal capacity.

EU–Central America Talks Start, Andean FTA More Uncertain

The European Union and six Central American countries launched free trade negotiations at the EU–Latin America Summit in May. However, due to tensions within and beyond the region further integration discussions were postponed with the Andean Community.

Talks between the EU and Costa Rica, Guatemala, Honduras, Nicaragua, Panama and El Salvador are to start before the end of the year with the aim of concluding an ‘association agreement’, which will include a free trade treaty. European association agreements usually cover development co-operation and political dialogue, as well as trade. The FTA is likely to include trade in goods, services and government procurement, as well as liberalisation of investment and capital flows, the protection of intellectual property rights, co-operation on competition and a binding dispute settlement mechanism. No timeframe has yet been agreed for concluding the negotiations. Of the six Central American countries involved in the talks with the EU, all but Panama have already signed an FTA with the United States.

EU – Andean Community Pact in Question

Negotiations with the Andean Community (CAN), originally due to be announced at the summit, were postponed due to uncertainties about the bloc’s future. The first blow to Andean unity was Venezuelan President Hugo Chavez’s 24 April decision to leave the CAN in protest to Colombia and Peru signing free trade agreements with the United States (see page 18). Then came President Evo Morales’s 1 May announcement that Bolivia’s oil and natural gas industry would be nationalised with unclear compensation to foreign owners.

These developments cast a long shadow over the EU – Latin America summit. Instead of launching free trade negotiations, the EU and the four remaining CAN members – Peru, Ecuador, Bolivia and Colombia – agreed to explore prospects for a treaty over the next few months. Among the determinants of the discussions will be further developments in Bolivia, which has hinted at the possibility of withdrawing from the Andean Community. On 29 April 2006, Bolivia signed a People’s Trade Treaty with Cuba and Venezuela, which aspires to provide an alternative to the market-oriented FTA model the US is pursuing in the region. The People’s Treaty is part of the Bolivarian Alternative for the America, initiated by Cuba and Venezuela last year (see page 18). The decision on whether to launch EU–CAN free trade negotiations is due to be made by 20 July.

US – CAN Negotiations Hit Snags

While the US initially set out to establish a framework agreement with all CAN members except Venezuela, individual deals have so far been concluded only with Colombia and Peru. Colombia has postponed ratification of the treaty over alleged discrepancies in its English and Spanish versions. The two sides disagree on Colombia’s market access commitments on US chicken leg exports. During the final verification phase of tariff schedules, the US has interpreted Colombia’s concessions narrowly enough to make several types of chicken leg exports eligible for immediate tariff elimination, while Colombia’s understanding is that the agreed 17-year phase-out covers a wider range of such exports. The root of the problem is US consumers’ preference for breast meat, which fetches high enough prices to make it possible for chicken producers to sell the legs at very low cost.

The US at least temporarily suspended further negotiations with Ecuador on 15 May, when the country’s Energy Minister Ivan Rodriguez announced that the operating contract of the US-based Occidental Petroleum Corporation would be cancelled and the company’s assets transferred to state control. The announcement followed a lengthy dispute as to whether Occidental breached its contract when it sold part of an oilfield to a Canadian company without consulting the Ecuadorian government. Occidental claims that Ecuador’s action amounts to an unlawful expropriation of its assets worth about US\$1.2 billion. Ecuadorian authorities called the US suspension of the FTA talks ‘blackmail’ and said there were no plans to nationalise other foreign operations. The FTA was already in trouble due to strong indignant opposition, which paralysed much of the country for nearly two weeks in March, as

well as a law passed by Ecuador’s Congress in April giving the government 50 percent of oil companies’ profits whenever the international crude market exceeds the prices established in existing contracts.

In Peru, opponents are calling for a national referendum rather than parliamentary ratification of the treaty. Bolivia has participated in the negotiations only as an observer.

Tensions within Mercosur

On 4 May 2006, Argentina took Uruguay to the International Court of Justice in the Hague over the latter’s plan to build two large paper mills close to the border on the river Uruguay. The mills’ combined value of US\$1.8 billion represents the largest investment in Uruguay’s history.

Claiming that Uruguay did not undertake a thorough environmental impact assessment of the plants, as required by international rules on shared water resources, Argentina has requested that construction work be suspended while one is carried out. Uruguayan officials counter that several studies have been completed and that state-of-the-art pollution controls in the Spanish- and Finnish-built plants will keep any contaminants within internationally accepted limits. Argentine protestors have repeatedly barricaded cross-border bridges vital to landlocked Uruguay, with consequent economic losses estimated at US\$400 million.

On the Uruguayan side, irritation is growing over Mercosur’s inability to deliver benefits to its weaker members. Indeed, the US has surpassed both Argentina and Brazil as Uruguay’s largest trading partner. On 4 May 2006, Presidents Bush and Tabaré Vázquez agreed to set up a technical commission to discuss trade issues, which could be a first step towards an eventual free trade agreement between the two countries. In any case, Uruguay has hinted at a possibility of withdrawing from Mercosur and becoming a mere associate member like Chile and Bolivia. Should such a move be made, said

Continued on page 20

President Vázquez, it would “represent a shift in Uruguay’s strategy for global integration, after feeling abandoned by its natural partners.”

As for Mercosur’s trade relationship with the EU, the declaration issued at the close of the EU – Latin America Summit instructs negotiators to intensify efforts to move the process forward, but sets no deadline for concluding an agreement. The two sides initiated free trade negotiations already in 1999, but suspended them over a disagreement on industrial and agricultural market access in 2004. EU Trade Commissioner Peter Mandelson said on the eve of the May Summit that a successful conclusion of the negotiations would be ‘a key post-Doha priority’ for him personally.

US – CAFTA Update

The six Central American signatories of the US-Central American Free Trade Agreement (CAFTA) may lose one of the few improvements over existing market access in apparel trade that they gained in the CAFTA negotiations, namely duty-free access to the US for socks knitted in the region. The US has threatened to impose a safeguard on Central American socks if its CAFTA partners do not agree to delay duty-free trade by ten years or accept a rules-of-origin change that would provide duty-free access only to socks knit in the US and merely sewn up in CAFTA countries. This is the second major change the US is seeking in the textiles and apparel concessions negotiated under CAFTA (the first concerned trouser pocketing and lining, Bridges Year 9 No.8, page 17). With CAFTA’s entry into force, a number of US and third country companies were planning to set up factories in Central America, and Honduras in particular, to take advantage of duty-free access for cotton socks manufactured entirely in the region.

CAFTA covers the US, El Salvador, Costa Rica, Guatemala, Honduras, Nicaragua and the Dominican Republic. The treaty has entered into force for El Salvador, Honduras and Nicaragua. Guatemala has enacted implementing legislation, and the agreement could take effect in July 2006. The main outstanding issues are US compensation for the pocketing change in textiles (see above) and Guatemala’s request that the US lower the negotiated tariff for beer. The Dominican Republic and Costa Rica are yet to adapt their national laws to CAFTA requirements.

Africa Update

The five countries of the Southern African Customs Union (SACU) and the US suspended their FTA negotiations indefinitely in April 2006.

The talks ran into trouble over a host of issues, including investment, intellectual property rights and services. Negotiators had not met since June 2004 (Bridges Year 8 No.10, page17).

According to Deputy US Trade Representative Karan Bhatia, the US and SACU – South Africa, Botswana, Lesotho, Namibia and Swaziland – will develop a joint work programme to address a “broad range of FTA and other trade- and investment-related issues and, potentially in the near-term, seek to conclude concrete trade and investment-enhancing agreements.” Mr Bhatia said the work programme would establish building blocks for pursuing a free trade agreement over the longer term.

Mr Bhatia told trade ministers of the African Union in April that most African countries were “probably not yet ready for the comprehensive set of commitments” included in the US free trade agreement model, but said that the US was “examining new mechanisms that would allow us to progressively build new trade-related commitments, short

of a free trade agreement, with selected African trading partners.” Morocco is the only African country with which the US has concluded an FTA.

According to the Harare-based civil society organisation Seatini, activists, trade unions and church groups applauded the abandonment of the FTA, which they saw as a potential obstacle to the region’s fight against AIDS and poverty. Brendan Vickers of the Institute for Global Dialogue in South Africa said that given the ‘plethora of socio-economic challenges’ facing SACU it was critical for the South African government to maintain “its right to policy space and the right to protect programmes like the Black Economic Empowerment.” How to reconcile that programme with standard US provisions on investment was one of the issues that the two sides were unable to solve in the FTA’s negotiations.

African Trade Ministers Set Doha Round Priorities

In related news, trade ministers of the 53-member African Union in April emphasised the importance of completing the Doha Round by end of this year, and committed themselves to working for the full realisation of “the development objectives of this round.” Those, the ministers said, included agricultural modalities that would take into account poverty reduction strategies, food security and livelihood concerns, as well as the “long-outstanding mandate on net food-importing developing countries (NFIDCs).”

The ministers called upon WTO Members to urgently develop “trade-related solutions [...] to address the problems of preference erosion,” adding that the issue must be “effectively and meaningfully addressed in any [agricultural] modalities to be agreed.” In addition, the ministers stressed the ‘vital importance’ of cotton and called for full modalities to be established as part of the core package, “including the substantial reduction of domestic support and the establishment of a mechanism to deal with price fluctuations of cotton.” They also urged the WTO Aid for Trade Task Force to ensure “the efficiency and effectiveness in the management and delivery of trade-related programmes for technical co-operation, including in amount of resources and coverage of African countries.”

Missing the Market: EU Regulation of Traditional Exotic Foods

Rik Kutsch Lojenga

Changes in the EU's Novel Food Regulation would help developing countries reap benefits from their rich biodiversity through exports of exotic fruit.

There are an estimated 13,000 known food plants in the world, but today just a handful provide the vast majority of the world's food. Just three – maize, wheat and rice – supply nearly half the world's food, while 20 account for about 80 per cent. This has come about partly through historical accident, and partly because these crops proved easy to grow and to adapt to different farming environments around the world. Many are now questioning the wisdom of this narrow food base, particularly in light of the growing recognition of the importance of preserving agro-biodiversity for future generations. Promoting foods that come from minor crops would be a step towards reversing this trend.

Colombia, Ecuador and Peru have an abundance of biodiversity-based food products likely to appeal to health-conscious developed country consumers. However, at the March 2006 meeting of the WTO Committee on Sanitary and Phytosanitary Measures (SPS), the three Andean countries complained that the EU's Novel Food Regulation – designed primarily to deal with new technologies, such as genetic modification – had become a barrier to their exports of 'small exotic traditional products'.

The Novel Food Regulation and Its Impact

The Novel Food Regulation entered into force on 15 May 1997. It requires pre-market assessment of foods that fall under its definition of 'novel', with the objective of protecting human health by ensuring that foods are safe before they reach the market. The NFR defines novel foods as foods and food ingredients that were not used for human consumption to a significant degree within the EU before 15 May 1997. Thus, safety assessments are not necessary for foods legally on the market in at least one Member State before that date. All others, however, require extensive scientific proof that they pose no risk to human health.

Although many traditional foods have a long history of safe use, and are far from being novel in their home countries, they fall under the 'novel' definition set by the NFR. As its safety assessment requirements are beyond the means of most of the small-scale producers and traders of these foods, the regulation acts as a non-tariff barrier for a variety of biodiversity-based products. Southern African baobab, Indian gooseberry, Peruvian lucuma and araza from Ecuador are concrete examples of traditional exotic products that currently face difficulties in entering the EU markets because of the NFR.

Exporters have pointed out that the cost and uncertain outcome of the complex and lengthy application process deters them from risking investment. They find the scientific requirements disproportionate to the potential risk associated with foods that have a history of safe use outside Europe. For example, safety assessments do not consider preparation methods and consumption patterns that have evolved to enable a given food to be eaten safely, nor do EU authorities generally recognise food safety assurances and data provided by the country of origin.

The NFR is also stifling the potential for small and medium-sized enterprises in Europe who want to trade in exotic, traditional foods and renovate their products. Like developing-country exporters, they cannot afford to invest the large sums needed to fulfil the requirements of the NFR, particularly in view of the high likelihood of a negative outcome. Large companies thus have an unfair advantage in capturing the niche market for exotic foods in Europe.

Concrete figures on economic impacts are difficult to obtain because the NFR hinders potential (and therefore unrealised) exports. However, the Peruvian Institute for Natural Products, a private-sector association, has estimated the country's economic losses at US\$10 million per

year, a figure that could increase to as much as US\$300–400 million annually by 2015. Translated into employment opportunities, the institute calculated that this figure meant work for between 50,000 and 200,000 families, often living in poverty-stricken, but biodiversity-rich areas.

Time Is of the Essence: Revising the NFR

The European Commission is currently undertaking a mandatory revision of the NFR. This presents an opportunity to reformulate the regulation so that it serves as an effective food safety instrument but at the same time does not prevent trade in safe traditional foods. Many affected developing countries have called for the NFR to be cancelled or at least for exotic foods to be promptly exempted from it. The Commission's Directorate-General for Health and Consumer Protection has already recognised that requirements for traditional foods might not always be proportional to the potential risks, and that different criteria or guidelines for such foods might be appropriate, without decreasing the safety level.

To facilitate the discussions, UNCTAD and the Dutch Centre for the Promotion of Imports from Developing Countries have prepared a discussion paper with several recommendations on how the NFR could be revised to take into account developing country concerns, including the following:

- The revised NFR should clearly identify traditional foods as a separate category.
- A streamlined procedure for food safety assessment should be developed for this category. This could be based on an initial notification to the Commission, complemented with a proportionate pre-market evaluation. The notification should start with an overall evaluation of the global history and customary knowledge of the product, its traditional preparation for food use and its global consumption patterns.

Continued on page 22

- The preliminary safety assessment should be clearly defined so that interpretation is unambiguous, and requirements are not excessive.
- The initial evaluation should identify what, if any, additional scientific evidence might be required to establish an acceptable safety level, or to justify any restrictions on the availability of the product. Further scientific assessment would be required only where there might be valid doubts about food safety. This detailed scientific evaluation would be performed by the European Food Safety Authority within a reasonable period of time.

What Next?

At the late June meeting of the SPS Committee, the European Commission is to provide clarifications to the Andean countries, while Colombia, Ecuador and Peru are expected to release results from studies they are conducting on the significance of the NFR's trade impacts. In the near future the Directorate-General for Health and Consumer Protection is likely present a draft proposal for a revised version of the regulation. Hopefully it will consult at early stages with the relevant countries and the private sector on the proposed changes. But most important of all is that the revision process is speeded up. While discussions continue in Brussels and Geneva, exporters knock in vain on closed doors, wanting to gain access to EU markets with healthy and delicious foods. In the meantime, local communities living in the highlands of the Andes or the drylands of Southern Africa are still awaiting the long-promised income opportunities to be generated by globalisation.

Rik Kutsch Lojenga is Manager of the BioTrade Facilitation Programme at UNCTAD, Geneva. Further details on the NFR and background materials are available at <http://www.biotrade.org>.

EU Urged to Amend Draft Chemical Regulations

On 8 June, ambassadors and senior representatives from thirteen countries issued a joint statement urging the EU to adopt a more risk-based authorisation process in its pending chemicals legislation.

At issue is the Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH) legislation, in the making since 2001. The European Parliament is due to consider it in a second reading in October and EU member states are expected to discuss, and possibly approve, it by the end of the year.

The proposed text, adopted by the European Commission in 2003, is explicitly based on the precautionary principle. It has undergone several modifications following comments from the European chemical industry, which environmental activists have blamed for significantly watering down the original.

Nevertheless, if adopted in its current form, REACH would usher in the strictest and most comprehensive chemicals regime anywhere in the world. It would cover some 30,000 substances, which would have to be registered within 11 years of the legislation's entry into force. Products containing more than 0.1 percent of substances considered to be 'of very high concern' would be subject to authorisation by the European Chemicals Agency. The authorisation would need to be regularly renewed, in order to encourage companies to seek safer alternatives.

The draft legislation has been repeatedly criticised in the WTO Committee on Technical Barriers to Trade (TBT) as unworkable, disproportionate and an 'unnecessary obstacle' to trade. The American Chamber of Commerce to the European Union (AMCHAM-EU), which convened the 8 June meeting, has been among the most active opponents to the text as it currently stands. The statement of the 13 country representatives¹ seeks "a more risk-based authorisation process that does not dampen the competitive environment in order to ensure a more cost-effective and workable document."

The statement warned that the creation of a 'candidate list' of substances of 'very high concern'² could "easily be misinterpreted by the wider public without providing additional value to regulators." In an April position paper, AMCHAM-EU had said that such a list could be "used by green NGOs and their governmental supporters to force companies to not use these substances before they have an opportunity to be authorised and while REACH allows for their lawful use." The joint statement also urged the EU to "consider the grave consequences on developing economies should REACH be adopted in its current form" since their lack of technological and human resource capacity to comply might render EU markets inaccessible to their exports.

The environmental NGO World Wide Fund for Nature called concerns about adverse effects on small- and medium-size enterprises (SMEs) or developing countries unfounded, citing a report by the European Parliament's Development Committee, which showed that the costs of REACH would "predominantly be borne by the large multinational chemical companies exporting a few bulk chemicals, not developing countries themselves or local SMEs." European Commission spokesperson Barbara Helfferich said that the Commission had consulted with the WTO and its own legal service about compliance with the TBT Agreement, and did not see how REACH could contravene WTO rules.

ENDNOTES

¹ Australia, Brazil, Chile, India, Israel, Japan, Korea, Malaysia, Mexico, Singapore, South Africa, Thailand and the US.

² While the final list is expected to contain 25-30 substances, AMCHAM-EU's position paper suggests that the 'candidate list' could include up to 1,500 chemicals.

Fish Subsidies and Sustainability

Discussions on how to address the negative trade, developmental and environmental impacts of fisheries subsidies are one of the few areas in the current Doha Round where countries appear to be making significant progress. These negotiations have real potential to put the WTO's sustainable development rhetoric into practice.

The environmental rationale of the talks was clearly articulated at the Hong Kong Ministerial meeting in December 2005 when governments agreed on the need to prohibit those subsidies that contribute to overcapacity of fishing fleets and overfishing. At the same time, Members – both in Hong Kong and throughout the negotiations – have repeatedly stressed the importance of taking into account legitimate public policy concerns of developing countries related to food security, livelihood development and poverty reduction.

How to reflect these development priorities in the fisheries subsidies disciplines while balancing them with sustainability objectives was the topic of a dialogue jointly organised by ICTSD, the United Nations Environment Programme (UNEP) and WWF on 11 May in Geneva. The meeting provided an opportunity for Geneva- and capital-based government representatives to debate their policy goals for the negotiations and assess how ongoing debates on special & differential treatment (SDT), artisanal fisheries and access arrangements could be shaped to support these objectives. Selected fisheries experts also joined the discussion to help assess the feasibility of the various proposals in specific fisheries contexts.

The need for SDT provisions that are truly effective in protecting the right to use certain subsidies to promote development in the fisheries sector was widely recognised at the meeting. Such flexibilities, however, should not provide a 'blank cheque' that might result in overfishing. In this context, workable sustainability conditionalities might be needed along with the necessary institutional mechanisms to help consider and implement such criteria. Differences emerged over how to provide flexibilities for supporting the development of artisanal and small-scale fisheries, and particularly over how to define 'artisanal' and whether that term should be considered distinct from 'small-scale'. Also discussed was the possible nature of the flexibilities and whether they should be universally available or only apply to developing countries.

Concerns over possible impacts of disciplines on government-to-government access arrangements between distant water fishing nations (DWFNs) and host countries met with a widespread recognition that new WTO rules should not impede or discourage the access payments on which many small and vulnerable economies depend. While there was no attempt to reach a common view on this point, there seemed some basis for agreement that any 'subsidy' that might be found within access arrangements could only arise between the DWFN and its own domestic fishing fleet, on whose behalf the DWFN secured access to foreign fishing grounds.

As an input into these discussions, ICTSD has recently published an analysis of access arrangements by Stephen Mbithi Mwikya, a Kenyan fisheries expert who assesses policy options for addressing access arrangements in the fisheries subsidies talks, negotiating fisheries access agreements, and setting domestic policies to enable developing countries to exploit their own fisheries resources (available www.ictsd.org/pubs/ictsd_series/nat_res).

The paper is the first in a series of studies on the fisheries-trade interface commissioned by ICTSD for its *Fisheries, International Trade and Sustainable Development* project. The findings of the studies will be drawn together in a policy paper that aims to assess policy implications and options to develop integrated national, regional and international policies in this area.

For further information on the project, contact Heike Baumüller, Programme Manager – Environment and Natural Resources at hbaumuller@ictsd.ch or visit www.trade-environment.org/.

The International Centre for Trade and Sustainable Development (ICTSD) is an independent non-profit organisation that upholds sustainable development as the goal of international trade and promotes participatory decision-making in the design of trade policy. ICTSD implements its information, dialogue and research programmes through partnerships with institutions around the globe.

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WTO Meetings

Ending 16 June	Continuous negotiations in different formats aimed at the establishment of full modalities in agriculture and non-agricultural market access
June 6-7	Negotiating Group on Trade Facilitation*
June 7-9	Committee on Technical Barriers to Trade
June 12-23	Negotiating Group on Rules*
June 12-15	Council for Trade-related Aspects of Intellectual Property Rights – Special Session* followed by regular TRIPS Council meeting (14-15 June)
June 16	Working Group on Trade and Transfer of Technology
June 19	Dispute Settlement Body
Week of June 26	Mini-ministerial on the Doha Round agricultural and NAMA modalities
June 26-27	Committee on Regional Trade Agreements
June 26-30	Services Week*
June 28-30	Committee on Sanitary and Phytosanitary Measures
June 30	Dispute Settlement Body – Special Session*
July 6	Committee on Trade and Development
July 18	Working Group on Trade, Debt and Finance
July 19	Dispute Settlement Body
July 19	Committee on Trade and Development – dedicated session on small and vulnerable economies
July 24-26	Negotiating Group on Trade Facilitation*
July 28-28	General Council

* Negotiating session under the Doha Round

Other Meetings

June 20-21 Paris	OECD Workshop on Subsidy Reform and Sustainable Development http://www.oecd.org/
June 26-30 Geneva	Provisional Committee on Proposals Related to a WIPO Development Agenda http://www.wipo.int/meetings/

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