Doha Round

The challenge beyond Hong Kong

Are the decisions that were taken at Hong Kong being implemented? The developing countries need to be extremely careful and guard against pressure being mounted again. They will have to work much harder in order to be able to create a level playing field in international trade. **Uttam Gupta** *outlines the rules of engagement that developing countries must adopt during the next few months.*

IN THE aftermath of the Hong Kong Ministerial, there is an urgent need for developing countries to prepare for the next few months of hard negotiations on the modalities and precise numbers.

Under the World Trade Agreement (WTA), subsidy reduction commitments by the developed countries were "miniscule" — for instance, a 20 per cent cut in the Aggregate Measure of Support (AMS) for agriculture over five years. Even these "miniscule" reductions have not taken place over the extended time frame of 10 years.

Against this backdrop, the developing countries have been pleading with the developed nations to slash the trade distorting domestic support and export subsidies under the Doha Round. Are the decisions taken at Hong Kong being implemented?

Eliminating export subsidies

The developed countries have agreed to eliminate export subsidies by 2013. However, a substantial portion of these will be withdrawn only towards the end of the transition. This is reminiscent of the textile quotas under the MFA (Multi-Fibre Arrangement), the bulk of which were dismantled only at the end of 2004.

Learning from the MFA experience, developing countries must guard against any back-loading of the bulk of export subsidy reduction. In fact, keeping in mind the dismal performance of the last 10 years, there is a strong case for insisting on "front loading" the subsidy reduction commitment now. Before the Hong Kong Ministerial, even as the developed countries had almost made up their mind on export subsidy elimination by 2010, it is puzzling why the developing nations eventually reconciled to postponing this deadline by three years.

Export subsidies constitute only a small portion of the total subsidy support. The lion's share is accounted for by domestic support (for the OECD, about $400 billion of which nearly 75 per cent goes to the producers). So, what is the decision in this regard?

While, the modalities of reduction commitments will be worked out in early 2006, at Hong Kong, the European Union and US talked of reductions in the 50-75 per cent range. These highly misleading. To get an idea, let us look at the following scenario.

Out of the total subsidy of $400 billion, if $300 billion is put in the "Green Box" (subsidy under this head is not subject to reduction commitment) and a 75 per cent cut is applied only on the balance $100 billion, the total support post-reduction will be $325 billion. This is a meagre 19 per cent less than the existing level. Under the Uruguay Round, the "Green Box" was created primarily to circumvent reduction commitments. Over the years the developed countries indulged in box shifting (from "Amber" to "Green"), such attempts will persist in the years ahead unless developing countries force a change in the rules of the game.

Ensuring the *de minimus* level

Under the Marrakesh Agreement, developing countries were not required to undertake any reduction if existing level of domestic support was less than 10 per cent of the value of agricultural production (the *de minimus* level for developed countries was 5 per cent). However, the support to resource poor and low-income farmers was totally exempt from reduction commitments.

For India, the AMS being substantially lower than 10 per cent, no reduction was required. However, under the July 2004 Framework Agreement, the developing countries agreed to undertake reduction in the domestic support even if this was lower than the *de minimus* level (reasons for this offer are inexplicable).

Going forward on the Framework Agreement could have resulted in a major setback for developing countries whose support to farmers is meagre *vis-a-vis* that in developed nations. The move was aborted at Hong Kong; the developing countries need not undertake reduction if the existing support is less than 10 per cent.

The livelihood and food security concerns of the farmers of the developing countries are sought to have been addressed by permitting them to designate certain items as "Special Products" (SP); the countries will have the flexibility to fix import tariffs on such goods. Likewise, they have been guard Mechanisms" (SSM) to raise tariff on products whose imports surge.

In the area of NAMA (Non-agricultural Market Access) too, the developing countries have been given the flexibility to keep certain products outside the ambit of the reduction commitments as mandated by the agreed formula.The modalities, however, are yet to be worked out.

Given the high degree of vulnerability that Indian farmers face, there will be no dearth for candidates seeking the SP designation. Likewise, the situations requiring action under SSM will be far too many. Will the WTO permit flexibility to address all requirements?

Clearly, we cannot make such dispensation work to our advantage all the time and for all possible scenarios. Even so, too much reliance on flexibilities and their indiscriminate use by all or most of the developing countries is not good for orderly growth of world trade.

Formula-based adjustment in tariff

The best way of addressing our concerns without jeopardising world trade is to go in for a formula-based adjustment in tariff. In the NAMA, the developing countries presented a "modified" Swiss formula that allows for lower reduction in tariff by them when compared to the reduction by developed countries.

The proposal mooted by Argentina, Brazil and India (also known as the ABI formula) caught the imagination of many at the Ministerial. However, negotiators from the developing countries eventually got reconciled to the adoption of the simple Swiss formula that uses a "uniform" co-efficient!

Was this a *quid pro quo* for grant of flexibilities for certain products where the agreed formula won't apply? While this may sound appealing to the domestic political constituency, the results of this approach will be highly uncertain.

Reference to bound rates

The negotiations on tariff reduction were marked by bitter acrimony over the reference point, *viz.*, the "bound" or the "applied" rate to be taken for discussing reductions commitments. While developing countries prefer use of "bound" rates, developed countries argued for use of "applied" rates.

At Hong Kong, both India and Brazil successfully resisted attempts by the developed countries to force a change in the reference point. However, the road ahead is arduous. The developing countries need to be extremely careful and guard against pressure being mounted again.

Already, for several items, India has kept the applied duty at level substantially lower than the bound rate. Depending on our policy objectives, we have the flexibility to increase the former to the level of the latter. This leverage will be completely lost if, we accept the proposal mooted by developed countries.

During the current round, it has been proposed to put a bound rate of duty on certain items that were left unbound under the Uruguay Round. As regards the method of arriving at the bound rate, a proposal doing the round is to double the applied rate in such cases and then, apply the formula based reductions on the resulting figure.

Adoption of this method could have dangerous implications especially in cases where the applied rate is very low. For instance, in the case of urea, the current applied rate is only 5 per cent. With doubling, the resulting figure will still be low at 10 per cent and the bound rate (after the proposed reduction) will be somewhere between 5 per cent and 10 per cent. While members should endeavour to keep unbound items to the bare minimum, the criteria/method of determining the bound rates for items hitherto unbound should be decided independent of the current applied rates. The bottomline is that the process of binding must not result in leaving certain sectors virtually unprotected.

At Hong Kong, developed countries have managed to draw a wedge between least developed countries (LDC) and developing countries. This is best illustrated by the agreement to allow the LDC "quota free" and "duty free" access of their exports to both developed and the developing countries.

As a consequence, while the developed countries do not have to offer any thing in addition to what they were already giving to LDC, now, even developing countries will be forced to give the same treatment. This will seriously affect millions of our poor dependent on agriculture and small industries for their livelihood.

One cannot escape the impression that developing countries will have to work much harder in order to be able to create a level playing field for them in international trade. The specifics will have to be steered along the following lines:

- Elimination of export subsidies by developed countries by 2010 with "front loading" of reduction commitments.
- Reduction of domestic support to agriculture by developed countries to the *de minimus* level of 5 per cent by 2010 with "front loading" of reductions (support currently given under different Boxes needs to be lumped together and reductions applied to the aggregate).
- All forms of subsidy support should be covered by reduction commitments except the support given to the "resource poor" and "low income" farmers.
- Reduction in tariffs in both agriculture and NAMA should be based on a formula approach involving lower reduction commitment by developing countries. Members should leave little scope, if any, for use of flexibilities/discretions.
- Tariff reductions should be agreed upon only with reference to the "bound rates" (applied rate is strictly a prerogative of the member and must not be brought on the WTO table). Likewise, for determining the bound rate on items hitherto unbound, reference to applied rates should be avoided.

Finally, why should developing countries bear the burden of helping LDC by allowing "duty free" and "quota free" access to their exports?

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