Doha Round and the Hong Kong Ministerial

The Sixth Ministerial of the World Trade Organization (WTO), held in Hong Kong during 13-18 December 2005, reached agreement on a deadline for phasing out agricultural export subsidies, eliminating cotton subsidies and providing duty-free and quota-free (DFQF) market access for 97 percent of least developed country (LDC) products. The Ministerial also introduced an ‘aid for trade’ package for developing and least developed Members. However, the main agenda of agricultural, industrial and services liberalisation remains in limbo, reflecting the divergence between developed and developing Members. The Hong Kong Ministerial set a deadline of 30 April 2006 for the finalisation of the formula for tariff reduction on agricultural and industrial goods and cuts in domestic subsidy in the agricultural sector. Besides bilateral ‘request-offers’, Members can adopt the plurilateral approach to submit offers on services and have been given a deadline of 31 July 2006 for submitting final offers.

Since the Doha Round of multilateral trade negotiations is scheduled to be completed by 31 December 2006, this briefing paper reviews the outcomes of the Hong Kong Ministerial from the perspective of developing Members. The briefing paper also examines the prospects for a successful conclusion of the Doha Round of multilateral trade negotiations.

BACKGROUND

At the Doha Ministerial in 2001, WTO Members launched a ‘broad and balanced’ work programme through the Doha Development Agenda (DDA) and undertook a series of negotiations under the Doha Round, which aims to liberalise international trade in agricultural, industrial and services sectors. It provided developing Members a sigh of relief as DDA placed their needs and interests at the heart of the Doha Work Programme and brought the issue of ‘development’ at the centre of multilateral trade negotiations (see Box 1). However, divergence between developed and developing Members obstructed Members to come to consensus on the negotiating issues under DDA. Members made a breakthrough on 1 August 2004 by agreeing on the July Package (JP), which revitalised negotiations on five important issues – agriculture, industrial goods, services, trade facilitation and ‘development dimension’, the underlying principle of DDA.

The Hong Kong Ministerial was expected to reach consensus on these issues but it did not happen due to continuing differences on the negotiating issues between developing and developed Members. In this context, further progress or breakthrough will now depend upon concessions that Members are prepared to make, mainly the developed Members. However, the current trend of negotiations indicates that the developed Members are unwilling to make concessions they committed under DDA. Their persistence in the principle of reciprocity is not only inimical to addressing distortions in global trade but also undermines the goal of attaining a free and fair multilateral trading regime. If stalemate persists, there is no denying that DDA will remain elusive, making the successful completion of the Doha Round of trade negotiations by 31 December 2006 virtually impossible.

The Hong Kong Ministerial Declaration reflects the areas of convergence and divergence in trade negotiations undertaken since the adoption of JP. Progress or lack thereof, made during negotiations on the core issues at the Ministerial, are discussed in the following sections.

AGRICULTURE

Agriculture is the ‘central’ issue of the Doha Round. The largest structural distortion in international trade occurs in agriculture through the combination of high tariffs, trade-distorting domestic support and export subsidies that protect inefficient farmers in developed countries, principally, the European Union (EU) and the United States (US). Taken together, these measures frustrate the development prospects of many developing countries. Removing these anti-development measures is a core objective of DDA as it will lead to the expansion of developing country exports and their meaningful integration into the global economy.
The major objectives of agricultural trade liberalisation are: substantial improvement in market access; reduction of all forms of export subsidies; and substantial reductions in trade-distorting domestic support. These three sub-issues, widely interpreted as imposing obligations on protected markets in Organisation for Economic Co-operation and Development (OECD) countries, shape the expectations of developing Members from the Doha Round. However, the perceived lack of compromise from the former has become a threat to play.


The major objectives of agricultural trade liberalisation are:

- **Substantial Market Access**
- **Effective Elimination of Distortions**
- **Respect for the Needs of Developing Countries**

**Market Access**

DDA calls for substantial market access through the gradual reduction of tariff barriers and non-tariff barriers (NTBs) for agricultural products. Developed Members use tariffs to shield agriculture from competition while permitting unfair competition through high levels of subsidies. Prior to the Hong Kong Ministerial, i.e., on 21 September 2005, the EU and the US had outlined their proposals to cut farm tariffs but developing Members rejected them on grounds of being insufficient. Nevertheless, Members agreed to convert non ad valorem tariffs into equivalent ad valorem equivalents for tariff reduction as per the modalities that will be agreed upon.

At Hong Kong, Members agreed that tariff reductions will be structured in four bands while thresholds for the bands remain undecided, including those applicable to developing Members. There has been convergence on adopting a linear-based approach for reductions within those bands. Table 1 lists the range of proposed thresholds and cuts.

Members also recognised the need to agree on the treatment of Sensitive Products but there are differences regarding the number of products and the treatment. Proposals on such products extend from as low as 1 percent to as much as 15 percent of tariff lines. The EU and the US are proposing 8 percent and 1 percent of tariff lines as being sensitive, where tariff reduction will be at a much lower rate. Developing Members will have the flexibility to self-designate an appropriate number of tariff lines as Special Products and also recourse to a Special Safeguard Mechanism based on import quantity caps can prevent or limit this effect. Steps should be taken to limit the application of specific duties, reduce tariff escalation, and address NTBs.

- **All countries have to contribute.** While agricultural protection is highest among developed Members, many developing Members also have high protection. It is in the interest of all to reduce protection everywhere.

- **Deep cuts in bound levels of support are required to discipline actual levels.** As with tariffs, the bindings in the Uruguay Round were exceedingly generous, and applied levels of support have usually fluctuated well below the ceilings. Therefore, cuts in excess of 70 percent are required to have positive effects and to protect against the temptation to raise applied levels of support. At the same time, loopholes that allow relaxation of disciplines on trade-distorting subsidies have to be closed.

and price triggers, with precise arrangements to be further defined.\(^5\)

As the bound levels of tariffs are much higher than the applied levels in the EU and the US, less than 70 percent tariff reduction will not force them to reduce their applied tariffs. Similarly, developed Members can also restrict imports from developing Members if their Sensitive List is bigger than 1 percent of tariff lines as most developing Members have a narrow export base. These issues need to be resolved in favour of developing Members while finalising modalities in agriculture.

**Export Subsidies**

Curtailing agricultural export subsidies in developed Members is a key demand of developing Members. At Hong Kong, G-20 – a group of developing Members – suggested 2010 for ending export subsidies but the EU resisted. Finally, there was an agreement to establish detailed modalities ensuring the parallel elimination of all forms of export subsidies and disciplines on export measures with equivalent effect by 2013. This can be hardly called an ‘achievement’ as the EU had already decided to curtail export subsidies in its Common Agricultural Policy (CAP) by this date. In addition, export subsidies constitute a tiny fraction of the total domestic support being provided in the EU and the US and the elimination of the same will be meaningless if overall subsidy is not reduced substantially.

**Domestic Support**

DDA calls for substantial reductions in trade-distorting domestic support, following which, developing Members have made the reduction of domestic support — including Amber Box, Blue Box, Green Box and de minimis — in developed Members as one of their key demands.

At Hong Kong, Members agreed that there should be three bands for reduction of overall trade-distorting support. Accordingly, the EU would be in the top band while Japan and the US would be in the second band. All other developed and developing Members will be in the first band. Table 2 lists the thresholds and cuts proposed by Members.

Members have yet to decide on the thresholds of the bands. As in market access, cuts less than 70 percent will not affect the applied level of subsidy in the EU and the US. The Ministerial Declaration emphasises cuts in the overall trade-distorting support that would avoid reduction commitments to be met by reshuffling of subsidies among its various components. However, developing Members need to be careful to ensure that the proposed review of the Green Box does not create new opportunities for developed Members to shift subsidy from other boxes to the Green Box and restrict developing Members from pursuing their agricultural development policies.

**Cotton**

In agricultural negotiations, cotton has been recognised as a separate issue because of its commercial importance to many developing Members, mainly the African ones. The Ministerial Declaration calls for the elimination of all forms of cotton export subsidies by developed Members by 2006. It also states that developed Members will provide DFQF market access to LDC cotton exports from the commencement of the implementation period. It is, however, unclear whether cotton producers from the LDC Members would stand to gain because the agreement does not include other forms of domestic support in developed Members.\(^6\) In this respect, it has been emphasised that domestic subsidy on cotton has to be removed if the cotton producers from the developing and least developed Members are to benefit from market access to developed Members.

### Table 1: Proposed Reductions in Agricultural Tariffs

<table>
<thead>
<tr>
<th>Bands</th>
<th>Thresholds (%)</th>
<th>Cuts (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>0 – 20/30</td>
<td>20 – 66</td>
</tr>
<tr>
<td>2</td>
<td>20/30 – 40/60</td>
<td>30 – 75</td>
</tr>
<tr>
<td>3</td>
<td>40/60 – 60/90</td>
<td>35 – 85</td>
</tr>
<tr>
<td>4</td>
<td>&gt;60/90</td>
<td>42 – 90</td>
</tr>
</tbody>
</table>

Source: WTO, 2005. Doha Work Programme: Ministerial Declaration, WT/MIN(05)/DEC. Adopted on December 18 at the Sixth Ministerial in Hong Kong.

### Table 2: Proposed Reductions in Agricultural Subsidies

<table>
<thead>
<tr>
<th>Bands</th>
<th>Thresholds (US$ billion)</th>
<th>Cuts (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>0 – 10</td>
<td>31 – 70</td>
</tr>
<tr>
<td>2</td>
<td>10 – 60</td>
<td>53 – 75</td>
</tr>
<tr>
<td>3</td>
<td>&gt;60</td>
<td>70 – 80</td>
</tr>
</tbody>
</table>

Source: WTO, 2005. Doha Work Programme: Ministerial Declaration, WT/MIN(05)/DEC. Adopted on December 18 at the Sixth Ministerial in Hong Kong.

### INDUSTRIAL MARKET ACCESS

With regard to industrial goods liberalisation under the non-agricultural market access framework (NAMA), the Doha Declaration states that “negotiations shall aim at reducing or as appropriate eliminating tariffs, including the reduction or elimination of tariff peaks, high tariffs, and tariff escalation, in particular on products of export interest to developing countries”. Ever since the adoption of the Doha Declaration, Members have been exploring an industrial market access formula to meet the above objectives.

Developed Members have, on average, an industrial tariff of around 4 percent but have erected tariff peaks on most developing Member exports. The latter have high overall tariffs on industrial products both from developed Members and among themselves. Developed Members resorted to high tariffs in the past to industrialise their economies. Hence, developing Members have been arguing that they should be provided the same policy flexibility. An agreed formula must allow developing Members the flexibility they need for industrialisation and there should not be any hindrances, such as comprehensive lowering of tariffs.\(^7\) As in agriculture, 30 April 2006 is the deadline for arriving at modalities in NAMA.

The Hong Kong Ministerial Declaration states that there is an agreement on adopting the ‘Swiss formula’ with a limited number of coefficients for reducing industrial tariff with the final tariff linked with the initial tariff through a single coeffi-
cient. However, this will result in higher cuts to higher tariffs, implying greater reductions on the part of developing Members. While developed Members will be required to cut their tariffs marginally, developing Members would have to cut them by larger margins.

Regarding different coefficients for developed and developing Members, there has not been any agreement, considering the differential in their tariff structure. The latter have proposed that each country’s coefficient should be based essentially on the tariff average of bound rates of that Member, resulting in multiple coefficients. This formula would essentially give developing Members greater flexibility in terms of tariff reduction through lower tariff cuts.

Developing Members, however, view that the proposed tariff reduction formula will affect a key principle of DDA, which allows them flexibilities as laid down in paragraph 8 of the NAMA framework. The Doha Declaration emphasises the “special needs and interests of the developing countries, including through less than full reciprocity in reduction commitments, and provision of leeway to insist on only linear cuts for certain tariffs lines and perhaps none for others”. The developed Members opine that flexibilities should be explored through other means; a proposal rejected by developing Members. However, there is a consensus to convert non ad valorem duties to ad valorem equivalents.

Developing Members with a substantial portion of their industrial tariffs unbound are expected to bind a substantial portion of their tariff lines. There is some consensus that unbound tariff lines should be subject to formula cuts provided there is a pragmatic solution for those lines with low applied rates. Some Members opine that their unbound tariff lines with high applied rates are also sensitive and should be given due consideration.

NTBs constitute a significant barrier to goods liberalisation but the Ministerial Declaration has not given the attention the issue deserves. Thus, developing Members need to intensify the discussion on NTBs, given the reluctance of developed Members to initiate negotiation on this issue.

As it is important to preserve the ‘less than full reciprocity’ principle envisaged by DDA, it is also essential that the final modalities agreed for the reduction of industrial tariffs are agreed upon in a way that provides developing Members a policy space for industrial development.

In summary, the state of negotiations on NAMA hinges on convergence on market access formula, flexibilities in paragraph 8 and unbound tariffs.

SERVICES

The modality for services negotiations under the General Agreement on Trade in Services (GATS) agreed by Members was on bilateral ‘request-offers’. Since there had not been any significant development towards submitting the offers, JP set May 2005 as the deadline to submit revised offers. However, this deadline passed without any satisfactory proposals being tabled.

Despite the existing and well-recognised lower level of development of services industries, the Hong Kong Ministerial Declaration does little to address and consider development concerns involving weak regulatory capacity and services capacity; lack of access to technology, distribution channels and information networks; and barriers in Mode 4. At the negotiating level, issues of interest to developing Members, Article IV implementation, review of progress of negotiations and assessment based on the Guidelines and Procedures for Negotiations remain missing.

Source: South Centre. 2006. South Centre Analysis of the Hong Kong Ministerial Declaration. Geneva: The South Centre.

While reiterating the purpose of achieving a progressively higher level of liberalisation of trade in services with regard to all modes and with appropriate flexibility for individual developing Members, the Hong Kong Ministerial Declaration stipulates that the bilateral ‘request-offers’ approach can be complemented by a plurilateral approach.

The Ministerial Declaration demands Members to make such approach in accordance with the principle of GATS and the Guidelines and Procedures for the Negotiations on Trade in Services, the results of which it suggests should be extended on a most favored nation (MFN) basis. The Declaration also recommends that such plurilateral talks should be organised to facilitate the participation of all Members and calls for due consideration to be given to proposals on trade related concerns of smaller economies.

Developing Members, especially the LDC Members, have been promised targeted technical assistance to be provided through the WTO Secretariat. However, there is an apprehension that the new approach on services negotiations will put them in a disadvantageous position and can even erode the flexibility that they have been promised during the Doha Round to selectively liberalise their services sectors. Developing Members view that the Hong Kong Ministerial did little to address many of their concerns relating to services, including that related to temporary movement of natural persons under Mode 4 (see Box 3).

Members agreed to set 31 July 2006 as the deadline for reaching modalities in this sector. The interests of developed Members mainly lie in Mode 3, related to commercial presence. Developing Members have called for flexibility on Mode 4, dealing with the temporary movement of natural persons. However, the former have been reluctant to make any significant commitments on Mode 4, citing both economic and security reasons. It is estimated that an increase in developed countries’ quotas on the inward movement of temporary workers equivalent to just 3 percent of their workforce would increase global welfare by over US$ 150 billion per annum.

---

**BOX 3: CONCERNS OF DEVELOPING MEMBERS IN SERVICES NEGOTIATIONS**

Despite the existing and well-recognised lower level of development of services industries, the Hong Kong Ministerial Declaration does little to address and consider development concerns involving weak regulatory capacity and services capacity; lack of access to technology, distribution channels and information networks; and barriers in Mode 4. At the negotiating level, issues of interest to developing Members, Article IV implementation, review of progress of negotiations and assessment based on the Guidelines and Procedures for Negotiations remain missing.

Source: South Centre. 2006. South Centre Analysis of the Hong Kong Ministerial Declaration. Geneva: The South Centre.
TRADE FACILITATION

JP stated that trade facilitation negotiations “shall aim to clarify and improve relevant aspects of Articles V (Freedom of Transit), VII (Fees and Formalities connected with Importation and Exportation) and X (Publication and Administration of Trade Regulations) of GATT 1994 with a view to further expediting the movement, release and clearance of goods, including goods in transit.” Substantive negotiations started with several submissions by WTO Members. Until the Hong Kong Ministerial, the debate focused on the scope of transparency requirements, the scope for special and differential treatment (S&DT), the costs of trade facilitation and the required technical assistance in the case of the developing and least developed Members. The debate on these aspects still continues.

Building on the progress made in the negotiations so far, and with a view to developing a set of multilateral commitments on all elements of the mandate, the Hong Kong Ministerial has called upon the Negotiating Group on Trade Facilitation to intensify its negotiations on the basis of Members’ proposals.

The Negotiating Group, recognising the importance of technical assistance and capacity building for developing and least developed Members, has called upon developed Members to intensify their support in a comprehensive manner and on a long term and sustainable basis, backed by secure funding. It is encouraging to note that developing Members have been provided policy flexibility of not complying with trade facilitation rules in the absence of external support. However, not complying with trade facilitation measures raises transactions costs in a globalised economy.

LEAST DEVELOPED COUNTRIES

The LDCs are the most vulnerable WTO Members. Recognising that they require a host of concessions vis-à-vis WTO rules and obligations, market access and aid assistance for their meaningful integration into the multilateral trading system, special measures have been introduced. Various agreements of the WTO contain provisions for S&DT as they are crucial for enabling the LDC Members (including developing Members) to capitalise on the opportunities offered by the multilateral trading system. In other words, S&DT conceptualises the spirit of ‘development dimension’ in the WTO. However, the LDC Members have not been able to benefit from the provisions of S&DT.

Developing and least developed Members regard S&DT provisions as vague, legally unbinding and a ploy to deny them concessions as envisaged. The Hong Kong Ministerial Declaration also admits that substantial work remains to be done to strengthen S&DT and make them “more precise, effective and operational”.

The Declaration lists the S&DT proposals into three main categories: Understanding in Respect of Waivers of Obligations under the GATT 1994; Decisions on Measures in Favour of LDCs; and Agreement on Trade Related Investment Measures (TRIMS).

It is indeed discouraging that the ongoing negotiations do not suggest that developed Members are concerned about ‘development dimension’ and helping the LDC Members to benefit from international trade.

Paragraph 47 of the Ministerial Declaration calls upon developed Members and developing Members (which are in a position to do so) to provide DFQF market access for products originating from the LDCs. Under this provision, the LDC Members shall be provided DFQF market access for at least 97 percent of their products, defined at the tariff line level, by 2008 or no later than the start of the implementation period. However, this essentially means that up to 3 percent of the LDC tariff lines can be barred from such preferential access. As most LDC Members depend on a narrow range of products for their exports, this provision has the potential to deny them such preferential market access on all their exportable products. DFQF market access to 100 percent of LDC products is required if the Doha Round is to help the LDCs benefit from international trade.

The Declaration also recognises an ‘aid for trade’ mechanism to help developing and least developed Members build the supply side capacity and trade related infrastructure that they need to implement and benefit from WTO agreements and, more broadly, to expand their trade. It has been realised that such aid is not a substitute for the development benefits that will accrue as a result of market access. However, it has yet to be seen if utilisation of such aid would be left entirely to developing and least developed Members or if it would be ‘tied’.

Recognising the financial and trade needs and the administrative and institutional capabilities of the LDC Members, the Hong Kong Ministerial has also given them certain flexibilities in terms of complying with specific obligations and commitments. The LDC Members have the right to maintain, on a temporary basis, existing measures and introduce new measures that deviate from their obligations under the Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS). These measures will be initially for a period of five years and shall be phased out by 2020.

OTHER ISSUES

The Hong Kong Ministerial Declaration also addresses other issues of the Doha Round. These pertain to Rules; Environment; Dispute Settlement Understanding; Implementation; Small Economies; Trade, Debt and Finance; Trade and Transfer of Technology; E-commerce; Integrated Framework; Technical Cooperation; Commodity Issues and Accession.

On all these issues, further negotiations will proceed among Members at different levels. Members have reaffirmed commitments to adhere to the spirit of the Doha Declaration, negotiations and reports by the General Council to expedite actions in these areas.
CONCLUSION

At Hong Kong, WTO Members postponed the major decisions on the modalities for agriculture, industrial market access and services. Eliminating agricultural export subsidies and cotton subsidies, ensuring DFQF market access for 97 percent of LDC products, and provision of ‘aid for trade’ are meager achievements and were agreed upon to prevent the Hong Kong Ministerial from becoming an outright failure.

Despite the underlying principle of a ‘development round’, negotiations under the Doha Round reinforce the view that the ambitious trade liberalisation agenda will not yield results unless developed Members show greater flexibility during negotiations. If developed Members are serious about helping developing and least developed Members to benefit from international trade and meet their development goals, they must fulfill their commitments under the Doha Round of multilateral trade negotiations.

Since the Hong Kong Ministerial has set 31 December 2006 as the deadline to complete the Doha Round of multilateral trade negotiations, it is crucial for developed Members to set aside their narrow domestic interests and help developing and least developed Members to realise the potential gains of multilateral trade.

In agriculture, subsidy and tariff cuts must be deep to have effect while exclusions for Sensitive Products have to be extremely limited. Above all, it is in the interest of all Members—developed and developing—to reduce protectionism. Farmers of developing Members have been facing welfare losses in exports because subsidies in developed Members keep international prices of major agricultural commodities at artificially low levels. Such adverse terms of trade can be addressed by restructuring the agricultural sectors in highly distorted markets like the EU. High tariffs disable effective market access. In NAMA, ‘less than full reciprocity’ principle should be applied for developing Members with regard to tariff reduction commitments. Otherwise, their prospects for successful industrialisation would be severely compromised. In services, progress on temporary movement of natural persons is vital for developing Members, especially the LDC Members, to realise large welfare gains.

Similarly, it is important that DFQF market access be extended to 100 percent of tariff lines if the Round has to offer benefits to the LDC Members from WTO membership. While operationalising ‘aid for trade’, the LDC Members should have greater say on how aid is utilised for enhancing their capacity to trade.

ENDNOTES

1 Trade ministers of Australia, Brazil, the EU, India, Japan and the US met in London on 10-11 March 2006 to break the deadlock but “no one moved an inch”.
2 In the Hong Kong Declaration, the sectoral issues are put in Annexes A – F, dealing with agriculture, NAMA, services, rules, trade facilitation, and S&DT respectively.
3 This is stated in a submission titled Reclaiming Development in the WTO Doha Development Round by major developing Members to the WTO’s Committee on Trade and Development on 28 November 2005.
8 The Swiss formula is given by $t_1 = a \cdot t_0 + t_0$, where $t_0$ is the initial tariff, $t_1$ is the final tariff and ‘a’ is a coefficient. A simple transformation makes it $t_1 = 1/t_0 + 1/a$. If an initial tariff is $a$, $2a$, $3a$ or $4a$, the final tariff are respectively $1/2a$, $2/3a$, $3/4a$ and $4/5a$. For details, see Das, B.L. 2005. ‘Doha Round—II: Steadfast towards Hong Kong’ in Economic and Political Weekly, 26 November. Mumbai: A Sameeksha Trust Publication.
9 The Hong Kong Declaration set 28 February 2006 as the deadline to present plurilateral requests to all Members, 31 July 2006 to submit a second round of revised offers, and 31 October 2006 to submit the final draft schedules of commitments.
11 As mandated by the Hong Kong Ministerial, WTO Director General Pascal Lamy formed an Aid for Trade Task Force on 8 February 2006. The Task Force will provide recommendations to the General Council by 31 July 2006 on how to operationalise ‘aid for trade’.

Launched in December 1994 at Nagarkot, Nepal by a consortium of South Asian non-governmental organisations (NGOs), South Asia Watch on Trade, Economics & Environment (SAWTEE) is a regional network that operates through its secretariat in Kathmandu and 11 member institutions from five South Asian countries, namely Bangladesh, India, Nepal, Pakistan and Sri Lanka. Registered in Kathmandu in 1999, the overall objective of SAWTEE is to build the capacity of concerned stakeholders in South Asia in the context of liberalisation and globalisation.

This Briefing Paper has been published under the Progressive Regional Action and Cooperation on Trade (PROACT) Phase III Project with the support from Oxfam Novib, The Netherlands. The project seeks to strengthen cooperation among South Asian Association for Regional Cooperation (SAARC) Members during multilateral trade negotiations.

© SAWTEE, 2006. Researched and written by Mr Navin Dahal, Executive Director and Mr Shyamal Krishna Shrestha, Programme Officer, SAWTEE. Printed at Modern Printing Press, Kathmandu.