



## Hong Kong – breakthrough or breakdown?

### - Opinions and suggestions to the Sixth WTO Ministerial Conference from the Danish 92 Group – Forum for Sustainable Development

The Doha Development Round negotiations have exceeded the original deadline, 1 January 2005, and there is no sight of an end to the round. If the meeting in Hong Kong is to contribute to ending the round within the next couple of years, new proposals and initiatives are needed.

**We consider it to be the role of the EU in particular to take the lead and come up with new proposals.** Since the Ministerial Conference in Geneva in 1998 the EU has had a key role in the WTO-negotiations, but unfortunately without contributing constructively in a number of areas. In short, the EU has pushed to promote liberalisation of trade for products of interest to the EU export market without concurrently showing appreciable will to reduce its own tariff protection or agricultural subsidies. – And that in spite of the fact that a liberalisation of agricultural goods would be beneficial for the citizens and businesses within the EU itself.

**We urge Denmark to give high priority to and tighten up its trade policy and, thereby, the EU line.** The essential basis for the negotiations in the Doha Development Round is the decision from the Ministerial Conference in Doha in 2001 to place the “needs and interests of the developing countries in the heart of” the negotiations. Furthermore, the obligation to show consideration for sustainable development and the environment was confirmed in Doha.<sup>1</sup>

The Danish Parliament has endorsed the ambition of making the Doha Development Round a development round, just as the consideration for the environment has always been important in relation to the Danish WTO policy.<sup>2</sup> If these ambitions are to be met, it is necessary that the EU changes priorities and adopts new positions on the issue.

***We have the following 5 concrete suggestions for key actions essential for promoting the considerations for environment and development in the negotiations.***

<sup>1</sup> WTO: Ministerial Declaration. Adopted on 14 November 2001. Article 2 and 6.

<sup>2</sup> See, e.g., the Danish Parliament resolutions V12 of 6 November 2003 and V4 of 25 October 2001, as well as the Danish Parliament’s Agenda of 24.1.1995 concerning Trade Policy.

## 1. The least developed countries should not pay for a new free trade agreement

Analyses show that there is a real risk that Sub-Saharan African countries could loose from a new WTO-agreement. A model calculation based on the proposal presented by the EU during the launch of agriculture negotiations in the Doha Development Round showed, for instance, that the Sub-Saharan African countries would loose \$ 280 million in total.<sup>3</sup>

The Danish Food and Resource Economics Institute has conducted similar calculations which reveal that the compromise proposal presented in the agriculture negotiations will lead to a loss of up to \$ 200 million for a group of African countries in the short term. However, the analysis also shows that the global welfare benefits, of which the EU will harvest a significant part, are of the order of \$ 100 billion. Hence, as the institute points out, there is plenty of room for compensating the countries losing from the agreement.<sup>4</sup>

The problems for the African countries are due to the prospect that a new WTO agreement will bring about an increase in prices on imported food products. At the same time it may become more difficult for the African countries to export their goods. Today, a particularly low tariff or no tariff at all is applied to a part of the export to the EU but the benefits from these tariff preferences will be eroded, when a new WTO-agreement reduces the overall tariff level.

There hardly exist a miraculous cure for the problems of the African countries, but it is completely untenable and unfair if the poor African countries must pay the price for a new WTO-agreement, which will benefit a wide range of other countries. However, this difficulty must not hinder that a new agreement is reached. Therefore, **Denmark** should:

- Initiate and support the preparation of analyses on the effects for Africa from the various proposals presented in the negotiations
- Attach special importance during the negotiations to reducing the rich countries' subsidies on production of agricultural goods, such as cotton and sugar, since these subsidies in particular make the conditions difficult for many African farmers.
- Attach special importance during the negotiations to achieving binding agreements concerning the African and the least developed countries' access to Western markets, such as the US and other countries
- Support that - as a part of the Doha Development Round - binding agreements for increased aid for development of African agriculture and food industry are reached, such that these countries to a higher degree become self-reliant and capable of escaping the role as suppliers of cheap raw materials for the rich countries.

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<sup>3</sup> United Nations Economic Commission for Africa: Economic Report on Africa 2004- Unlocking Africa's Trade Potential.

<sup>4</sup> Danish Research Institute of Food Economics: Note on the Harbinson Draft on Modalities in the WTO Agriculture Negotiations. March 2003. Further: Danish Research Institute of Food Economics: Policy Note on the Harbinson Draft in an African Perspective. May 2003

## 2. Dumping of agricultural goods must come to an end

For many developing countries agriculture constitutes the basis for life for the majority of the population; often the poorest part. In the rich countries only a few percent of the population make a living by agriculture.

Nevertheless, the present WTO trade regulations benefit the few on behalf of the many. Only when it comes to agricultural goods, it is still permitted to subsidise export, just as a number of other trade distorting subsidies are allowed. The rich countries make efficient use of these possibilities. Overall, the direct and indirect support to the agricultural sector reaches 37 % of the sector's income in EU in 2003. According to OECD, the corresponding numbers for the US and Japan were 18 % and 58 %, respectively.<sup>5</sup>

This support creates unfair competition against the farmers in the developing countries – in Africa often women – who depend on the income from agriculture. Unfortunately, the EU works actively in the WTO-negotiations towards keeping as great a part of the trade distorting agricultural subsidies as possible.

**Denmark** should actively and openly support ambitious targets for reduction of the trade distorting agricultural subsidies. Such action will encourage more fair conditions for trade and at the same time promote a reorganisation of the European agriculture towards a more extensive production and thereby reduce the environmental impact from it. **Denmark** must recognise that the recent EU agricultural policy reform does not significantly contribute to this. **Denmark** should work concretely towards:

- A rapid reduction of the export subsidies in the rich countries, such that this kind of support is non-existing by 2010. In the framework agreement on the WTO negotiations, known as the "July Package", which was negotiated in July 2004 and agreed upon on August 1<sup>st</sup> 2004, it was decided that all types of export subsidies should be abolished. However, the speed and the end date for this process were not settled.<sup>6</sup>
- Halving the trade distorting part of the remaining agricultural subsidies in the rich countries by 2012. Hence, the so-called "green box", which provides the opportunity for unlimited support, must be refined, such that it solely allows for support to nature- and environment conservation and regional development. In the framework agreement it was actually agreed that the domestic agricultural subsidy must be reduced substantially, just as it was agreed that the green box criteria should be reassessed.
- That the developing countries are given the opportunity to react effectively against dumping of agricultural goods via special tariffs or other measures. In the framework agreement it was agreed that a special security mechanism for the developing countries must be established. The content of such a mechanism was, however, not determined.

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<sup>5</sup> OECD: OECD Agricultural Policies 2004 - At a Glance.

<sup>6</sup> WTO: Doha Work Programme. Decision Adopted by the General Council on 1 August 2004. WT/L/579.

The above suggestions are completely in line with the spirit and wording of the framework agreement from July 2004. The current negotiation position of the EU, unfortunately, does not point in this direction.

### 3. The developing countries must have better market access

In addition to the dumping of agricultural goods by the rich countries, the development in the developing countries is hampered by the rich countries' tariff barriers. While the overall tariff level in the rich countries is relatively low, high tariffs are put on the products, which the developing countries can actually produce, that is, agricultural goods.

In the framework agreement from July 2004 it was decided that a formula for the reduction of tariffs on agricultural goods, which will lead to largest reductions for the highest tariffs, must be found. At the same time it was agreed that it must be possible to exclude (to a non-specified extent) sensitive products from this formula-based reduction.

In July 2004, the EU tried to exclude more than 80 different products, which today are associated with high tariffs. **Denmark** should make an effort to ensure that the rich countries are not provided the possibility of having sensitive products excluded.

At the same time **Denmark** must support that developing countries are given the possibility to exclude special products from the formula-based reduction. It is stated in the framework agreement that it must be possible to exclude products of importance to the countries' self-sufficiency of food products, the conditions of life, and the development of agriculture.

These exceptions for the developing countries must be real. If not, it can have serious consequences for large parts of the poor rural population. A recent report from the organisation Oxfam reveals for instance that a number of countries, including India and China, must reduce their tariffs on rice unless this crop can be excluded from the formula-based reductions.<sup>7</sup>

The position should be that it is the decision of the developing countries themselves whether they want to reduce tariffs on such basic food products – at least as long as comprehensive agricultural subsidies and thus dumping of food products from the rich countries continue to exist. According to Oxfam's calculations the rice producing American farmers for instance received subsidies equivalent to 72 % of production costs in 2003.

For the developing countries the export of pre-processed agricultural goods has a tremendous potential, and it is thus crucial that the market access also include these products. **Denmark** should therefore make an effort to ensure that the Doha Development Round puts a complete end to tariff escalation (i.e. when the tariff is increased according to the degree of processing), just as **Denmark** should make an effort to ensure that binding agreements are made about support to capacity building, so the developing countries can match the health standards etc. in rich countries.

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<sup>7</sup> Oxfam International: Kicking down the door – How upcoming WTO talks threaten farmers in poor countries. Oxfam Briefing Paper # 72, April 2005.

#### 4. The pressure for liberalisation on the developing countries must be eased

The approach of the EU for negotiations in the Doha Development Round is fundamentally unfair. The EU considers a liberalisation of trade with agricultural goods as a concession and demands compensation in other parts of the WTO negotiations. The logic is missing. A liberalisation of trade with agricultural goods will to a large extent be in the own interest of EU. Taxpayers can avoid paying subsidies to agriculture and the consumers will get less expensive food products.

However, as pointed out above, the EU demands compensation. To the EU a necessary condition for a new agricultural agreement is that the EU is given better market access for industrial goods and services. Among other things the EU demands that some very poor countries must liberalise the trade with basic services, such as water supply.

It could very well turn out to be in the interest of many countries to create a freer trade with industrial goods and services, but the demands from the EU should be balanced with possible benefits in other countries. In connection with this one should bear in mind that an old principle in international trade negotiations tells that the rich countries cannot demand as far reaching liberalisations in the developing countries as those they commit to themselves.<sup>8</sup>

In concrete terms this means that **Denmark** should make an effort to ensure that:

- The EU gives up all demands for increased market access to services in the least developed countries as well as other developing countries, which do not seem to benefit significantly from a new agreement on services.
- The EU accepts that the formula, which should be used to reduce the tariffs on industrial goods, is designed so as to ensure that the formula-based reductions for the developing countries become lower.
- The EU makes an effort to ensure that so called "sector initiatives", which embrace more far reaching harmonisation of tariffs on groups of industrial goods, do not involve other developing countries than those who want to join themselves.

#### 5. Considerations for the environment must be supported – not fought against

There is a risk that the Doha Development Round negotiations in a number of ways will put a limit to environmental protection instead of supporting it. A number of countries seek to change the environmental regulations by having them incorporated in the negotiations regarding abandoning the non-tariff related trade barriers.

According to a compilation by Friends of the Earth there are so far registered 72 environment- and health regulations possibly to be included in the negotiations. The chemicals regulation (including the forthcoming EU REACH-system), environmental declaration systems, and demands for energy

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<sup>8</sup> The principle on "less than full reciprocity" can be found in the GATT-agreement and is confirmed in WTO: Ministerial Declaration. Adopted on 14 November 2001. Article 16.

use declarations are some examples of environmental regulations, which in this way are put under pressure.<sup>9</sup>

**Denmark** should defend the right to execute any well-founded environmental regulation – also a regulation based upon the precautionary principle as well as life cycle assessments – if at least the same requirements are imposed on own products and services as on the imported products.

**Denmark** should also make an effort to ensure that the international environmental conventions are not subordinate to WTO regulations.

A number of environmentally related issues are at present explicitly included in the negotiations in the Doha Development Round. In particular, these include the negotiations about reduction of agricultural subsidies, which today support the intensive and environmentally damaging agriculture in the rich countries. Furthermore, stricter regulations for fishery subsidies are negotiated, which can contribute to limit the comprehensive over-fishing that takes place in the world's fish banks. In addition, a negotiation about special reductions of trade barriers for environmental goods and services is in progress.

The EU is among the most ambitious countries only as far as the latter issues are concerned.

**Denmark** should work towards an EU that endorses the most far reaching proposals also when it comes to termination of subsidies, while at the same time it must still be possible to support initiatives for agriculture and fishery that improve the environmental state, just as the developing countries should have the possibility to use subsidy systems to develop sustainable agriculture and fishery.

The agreement from Doha regarding the initiation of the negotiations in the present round opens for incorporation of additional environmental issues in the negotiations. It is clear that it may be relevant to launch negotiations regarding the consequences from environmental regulations to the developing countries' market access, environmental declaration and parts of the TRIP's-agreement.<sup>10</sup>

**Denmark** should use this as a first step to make an attempt to initiate negotiations within WTO as regards a binding agreement on transfer of cleaner technology to developing countries. Stricter environmental regulations in the rich countries *can* make it more difficult for developing countries, which often are not at the cutting edge in development of environmental technology, to export goods to the rich countries. As a result, the developing countries will tend to oppose new environmental regulation unless the rich countries take the concerns of the developing countries seriously. The correct way to do it is to establish an effective system for transfer of cleaner technology to developing countries.

At the UN Conference on Environment and Development in 1992 it was thus decided that the rich countries should transfer new technology to the developing countries on favourable conditions.<sup>11</sup>

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<sup>9</sup> Friends of the Earth international: Summary of analysis of notifications of non-tariff barriers in Non-agricultural Market Access (NAMA) negotiations of the World Trade Organization, April 2005.

<sup>10</sup> WTO: Ministerial Declaration. Adopted on 14 November 2001. Article 32.

<sup>11</sup> United Nations: Agenda 21: Programme of Action for Sustainable Development. United Nations Conference on Environment and Development (UNCED), 3-14 June 1992. Chapter 34.

Similar decisions have been made on a number of other occasions, most recently at the UN World Summit for Sustainable Development in 2002.<sup>12</sup> Unfortunately there are until now no signs that the rich countries will keep their promises.

**Denmark** should furthermore work for an initiation of negotiations that ensure that the TRIP's-agreement supports the resolutions in the Biodiversity Convention regarding developing countries' and indigenous people's rights to own resources. Patent applicators must be obligated to account for the origin of genetic material and be able to document approval and agreement regarding sharing of profit with the country/people, from which or whom the material originates from. Presently the TRIP's-agreement contributes to the existence of "bio piracy", in which genetic resources are sent abroad and exploited commercially without consent from the country of origin.

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This document is published in May 2005. The following organisations that cooperate in and with the Danish 92 Group – Forum for Sustainable Development are behind the expressed views and suggestions without each organisation necessarily being capable of agreeing in every single detail. The organisations differ from each other, and not all have an opinion about every aspect touched upon in the document. Likewise some organisations may have additions and further suggestions, which they themselves will seek to strengthen.

BirdLife Denmark  
Care Denmark  
DanChurchAid  
Danish Association for International Co-operation  
Danish International Human Settlement Service  
Danish Organization for Renewable Energy  
Danish Society for Nature Conservation  
Danish United Nations Association  
IBIS  
KULU - Women and Development  
Nature and Youth  
Nepenthes  
Network for Ecological Education and Practice/ECO-net  
Southern Africa Contact  
The Danish Association for Sustainable Communities  
The Ecological Council  
The Labour Movement's International Forum  
The Swallows in Denmark – Association for International Social Development  
WWF Denmark

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<sup>12</sup> United Nations: Plan of Implementation of the World Summit on sustainable Development 26 August – 4 September 2002. Article 105, 106, etc.