



House of Commons
International Development
Committee

**Government Response
to the Committee's
Seventh Report: Trade
and Development at
the WTO: Issues for
Cancún**

Fifth Special Report of Session 2002–03

*Ordered by The House of Commons
to be printed 16 September 2003*

HC 1093 [incorporating HC1092]
Published on 18 September 2003
by authority of the House of Commons
London: The Stationery Office Limited
£0.00

The International Development Committee

The International Development Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of the Department for International Development and its associated public bodies.

Current membership

Tony Baldry MP (*Conservative, Banbury*) (Chairman)
John Barrett MP (*Liberal Democrat, Edinburgh West*)
Mr John Battle MP (*Labour, Leeds West*)
Hugh Bayley MP (*Labour, City of York*)
Alistair Burt MP (*Conservative, North East Bedfordshire*)
Ann Clwyd MP (*Labour, Cynon Valley*)
Mr Tony Colman MP (*Labour, Putney*)
Mr Piara S Khabra MP (*Labour, Ealing Southall*)
Chris McCafferty MP (*Labour, Calder Valley*)
Mr Robert Walter MP (*Conservative, North Dorset*)
Tony Worthington MP (*Labour, Clydebank and Milngavie*)

Powers

The Committee is one of the departmental select committees, the powers of which are set out in House of Commons Standing Orders, principally in SO No 152. These are available on the Internet via www.parliament.uk

Publications

The Reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including press notices) are on the Internet at www.parliament.uk/parliamentary_committees/international_development.cfm

Committee staff

The current staff of the Committee are Alistair Doherty (Clerk), Sarah Hartwell (Second Clerk), Alan Hudson (Committee Specialist), Katie Phelan (Committee Assistant) and Wanda Wilson (Secretary).

Contacts

All correspondence should be addressed to the Clerk of the International Development Committee, House of Commons, 7 Millbank, London SW1P 3JA. The telephone number for general enquiries is 020 7219 1223; the Committee's email address is indcom@parliament.uk

Fifth Special Report

The International Development Committee reported to the House on Trade and Development at the WTO: Issues for Cancún in its Seventh Report of Session 2002–03, published on 14 July 2003 as HC 400. The Government Response to that Report was received on 7 September 2003 in the form of a memorandum to the Committee. It is reproduced as an Appendix to this Special Report.

Appendix

A “Development Round”?

Paragraph 34 ‘We urge the Government in consultation with developing countries, NGOs and others, to establish clear benchmarks by which it will assess the success or failure of Cancún and the Round as a whole.’

The Government is committed to making sure that the Doha round produces real benefits for the poor. Critical to delivering that commitment will be an assessment of whether the agreements made in Cancún and beyond are development friendly. Therefore, DFID will commission an independent assessment of the Doha round agreements, and their likely impact on development, once the round, scheduled to end on 1 January 2005, is completed.

In addition and more immediately, the Government will be taking regular stock of progress against the targets set out in DFID, DTI and FCO’s joint Public Service Agreement on trade.

Paragraph 36 ‘The deadlines for resolving issues which were supposed to be resolved at an early stage—TRIPS and public health, SDT, implementation—have been missed. Early resolution of these issues was part of the mandate delivered at Doha, and was supposed to be a key component of a development round. [...] The resolution of Implementation issues should not, as paragraph 47 of the Doha Ministerial Declaration insisted, be a bargaining chip in this so-called “Development Round.” Regrettably, it is.’

We welcome the recent agreement on TRIPS and public health which shows that the WTO can respond to developing countries’ needs. Nevertheless, the slow pace of progress on other issues of importance to developing countries is regrettable.

On implementation in particular, the Government recognises that some WTO members’ positions have been used as a negotiating tactic. We believe, however, that there are legitimate issues to be addressed and we are working hard to meet developing countries’ concerns. This will mean, that as far as possible, the tactics of the negotiations should be kept separate from the substance of discussions.

Agriculture

Paragraph 50 ‘... the USA and the EU must set binding deadlines to reduce and in time eliminate the trade-distorting support they provide to their farmers, and to eliminate all forms of export subsidies.’

At Doha, all WTO members committed themselves to “comprehensive negotiations aimed at: substantial improvements in market access; reductions of, with a view to phasing out, all forms of export subsidies; and substantial reductions in trade-distorting domestic support.” We fully agree that this commitment now needs to be translated into reality through the Doha round of negotiations.

Paragraph 52 ‘... the Commission has paid insufficient attention to the developmental impacts of CAP and CAP reform proposals, and [we] trust that the Government has been doing its utmost to encourage its European partners to take seriously the external impacts of domestic policies.’

The Government is indeed doing its utmost to encourage others to take seriously the external impacts of domestic policies. These issues were raised repeatedly by Ministers in the debate on the reforms set out in the Long-Term Perspective on Sustainable Agriculture. Throughout the CAP reform discussions, DEFRA worked in careful and close co-ordination with DFID, DTI, HMT and FCO to ensure maximum impact.

Paragraph 57 ‘... the technicalities of whether support to agriculture might be provided in a manner which is defined as “minimally trade-distorting” is a distraction from the requirement to reduce the overall level of support which the EU and other developed countries provide to their agricultural sectors.’ Paragraph 58 ‘... Green Box subsidies, although classified as “minimally trade-distorting”, will continue to distort production and trade.’ Paragraph 59 ‘The UK and the EU should ...be pressing for discussions on capping the Green Box ...’

The Government agrees on the need for reductions in the overall level of trade distorting subsidies over time, not just in the EU but in all countries and particularly those in the developed world. This needs to be done in a managed way so as to avoid unnecessary disruption and hardship.

The form that a subsidy takes does genuinely matter. The decoupling of most EU subsidies from production is expected to have real impacts on the volume of EU production, over time on export subsidies and dumping, as well as on EU exports to markets of importance to developing countries. For example, DEFRA estimated that full decoupling would have reduced EU beef production by 5-10%.

Decoupled subsidies based on a historic and unchanging reference year will have very little impact on current production decisions. They do provide farmers with a safety-net that could enable them to produce at a loss if they chose to do so, but unlike existing direct payments, they will encourage farmers to adjust their production to market prices and not to the level of subsidies. Thus, we do not expect decoupled payments to result in significant distortions compared to a purely market-based outcome. We therefore support the focus of the Doha mandate on reducing trade-distorting domestic support and export subsidies and believe that discussions on capping the Green Box would be counter-productive.

Paragraph 59 ‘... the UK must insist, when the EU finally does reduce the amount of trade-distorting support it provides to agriculture, that the reductions include products of export interest to developing countries.’

The Commission has already proposed that all WTO Members should eliminate all forms of export subsidies for certain key products of interest to developing countries. The EU regimes for sugar, cotton, olive oil, tobacco and fruit and vegetables, all of which are of export interest to developing countries, are due to be reviewed over the next six months. The Government will in all cases be pressing for reductions in trade-distorting support.

Paragraph 64 ‘As a result of intensive lobbying ... and powerful alliances ... the EU’s sugar regime is not included in current CAP reform proposals, despite its disastrous developmental consequences.’

Sugar was not part of the recent CAP reform process because it was the subject of a separate Council decision in 2001 which modified the existing sugar regime and extended it to June 2006. That decision did include a commitment to a further review (of the sugar regime itself, not of the EU-ACP Sugar Protocol) in 2003. It is clear that change is essential to anticipate future duty-free access already decided under the Everything But Arms agreement and we look forward to the proposals for reforming the sugar regime from the Commission later this year. DFID has also, for example, written a paper on the development aspects of sugar reform which has been shared with the Commission and all EU Member States.

Paragraph 67 ‘... rapid liberalisation poses its own problems.’ Paragraph 47 ‘... attention must also be paid to the spin-off effects of rapid agricultural liberalisation.’

We agree that developing countries need to build the capacity to take advantage of more liberal world agricultural markets. This is a long-term process, which means that rapid agricultural liberalisation could disadvantage poorer and less-prepared developing countries. Because of this, DFID is pressing, for example, for a managed liberalisation of the sugar sector.

Agricultural liberalisation agreed through the Doha Round will not begin until the Round is concluded and will take place over a number of years. For example, Harbinson proposes that tariff reductions in developing countries should take place over a period of ten years. This means that, so long as developing countries start preparing themselves now, there is time for countries to adapt so as to take advantage of the opportunities that the Doha Round is expected to create. DFID is committed to supporting developing countries to do this where they themselves identify help on trade related issues as a priority for poverty reduction. Through the Integrated Framework, DFID also supports Least Developed Countries in integrating trade-related issues into their poverty reduction strategies.

Paragraph 68 ‘... the WTO should require that the EU consults adequately and compensates appropriately those countries whose preferences are eroded. In the case of sugar, preference losers should also be provided with assistance ...’ Paragraph 47 ‘... attention must also be paid to the fate of those developing countries which benefit from the existing system ...’

WTO agreements are reciprocal and binding. Preferences, on the other hand, are non-reciprocal and non-binding. We therefore do not support the principle of mandatory compensation for preference erosion. Evidence also suggests that instead of helping beneficiary countries to diversify their economies, preferences often encourage them to maintain production of a few specific products in often uncompetitive sectors thus further hampering their efforts to promote economic growth and development.

We do, however, believe that it is important that countries who may suffer from preference erosion should be given assistance to help them through the transition. To this end, DFID is pressing the World Bank and the IMF to establish a multilateral impact assessment facility to identify the cases where preference erosion is likely to cause real problems, and to help developing countries to design appropriate mitigation strategies. These strategies would be supported through the normal country assistance planning process. DFID is also pressing the Commission to address the issue of special assistance in the forthcoming sugar regime reforms.

Paragraph 69 ‘The case of sugar illustrates a point which we believe should be adopted as a general principle of trade liberalisation; the poor should not pay for the poorest ... Poor and vulnerable countries should not bear the burden of agricultural reform in the North.’

In the Everything But Arms negotiations the UK tried, unsuccessfully, to prevent all the burden of the initial LDC sugar imports from reducing market access to the EU for ACP suppliers of Special Preferential Sugar. In general, the Government has consistently insisted that all developing country interests are taken into account in any reform scenario.

Paragraph 70 ‘... WTO members must honour the commitments made in the Marrakesh Decision, and restated at Doha, to help the NFIDCs as well as the LDCs to maintain their food security whilst world agricultural markets adjust.’

The UK is firmly committed to implementing the Marrakesh Decision. DFID commissioned an independent report on this which was shared with the Commission and presented in the WTO in April 2003. The report offered some new ideas on how the Decision might be implemented, such as improved IMF financing facilities to help deal with price shocks and World Bank examination of commodity price risk management. These ideas were taken up by the WTO's Committee on Agriculture and have been included in the Committee's work programme. But the UK will continue to encourage WTO members, particularly donors, to implement other areas of the Marrakesh Decision, such as giving food aid in fully-grant form and ensuring that aid programmes include technical and financial assistance to improve developing countries' agricultural productivity and infrastructure.

Paragraph 71 ‘... urge the Government to continue in its efforts both to promote rules and instruments such as strategic or Special Products and the Special Safeguard Mechanism, and to provide aid and other assistance, to enable developing countries to safeguard their food security needs, and ... to protect themselves from dumping.’

The UK has been active in promoting Special and Differential Treatment provisions for developing countries such as “strategic” or Special Products and the Special Safeguard

Mechanism. DFID most recently commissioned an independent report on Special Products which was shared with the Commission and presented in the WTO in July 2003. However, the Government is concerned that developing countries should not be able to use Special and Differential Treatment provisions to insulate themselves completely from liberalisation. This would be extremely damaging to trade between developing countries, which accounts for an average of 40% of developing country exports.

Paragraph 75 ‘There should be a complete ban on the use of export subsidies, and the abusive use of export credits and food aid, from day one of an Agreement on Agriculture.’

Export subsidies are used to export surpluses that have been produced at above world market prices with the help of coupled domestic support and border protection. It is not possible to eliminate export subsidies without reforms to domestic support and tariff barriers. Reforms to all three areas therefore need to take place on similar timescales. The reforms that have been made to the CAP mean that the EU is now able to reduce its export subsidies to about 25% of the level that was paid 10 years ago. This demonstrates real progress and provides a good platform for the negotiations at Cancún.

Paragraph 76 ‘... urge the UK Government ... to ensure that developing countries are not forced to open up their markets until developed countries eliminate the practices which lead to dumping. There may be value in considering a “balancing mechanism” which would allow developing countries to protect their domestic markets in the event that distortions caused by domestic and export subsidies are not eliminated.’

Developing countries will only open their markets to the extent that they agree to do so as part of a new Agreement on Agriculture which they accept in their capacity as full members of the WTO. The Government recognises that some poorer developing countries have a weaker voice in WTO negotiations, however, we believe that they are within their right to not agree to measures they see as prejudicial to domestic producers or food security. Moreover, Harbinson proposes that Least Developed Countries should be exempt from market access commitments, while other developing countries should have less stringent reduction commitments than those applied to developed countries.

The Committee’s proposed ‘balancing mechanism’ is similar to a proposal for a ‘Special and Differential Countervailing Measure’ (SDCM) made in 2001 by Argentina, Bolivia, Paraguay, Philippines and Thailand. The UK believes that Special and Differential Treatment provisions for developing countries should be aimed at protecting the poor. The impact of uncharacteristically cheap imports for poor farmers will be the same whether or not they come from a country that subsidises production and exports. Rather than supporting the SDCM, the UK has therefore favoured a Special Safeguard Mechanism that would protect poor farmers from damage to their livelihoods resulting from temporary surges in the quantity, or falls in the price, of imports.

Paragraph 76 ‘... the implementation schedule for reducing tariffs should be based not on politically negotiated and somewhat arbitrary time-frames but on clear developmental indicators.’

It is important that WTO agreements are clear and transparent so that their implementation can be monitored. It is difficult to see how this could be squared with a system that tailored time-frames to countries' individual circumstances. However, it is clearly important that developing countries should have adequate time to prepare for tariff reductions. Harbinson therefore proposes that developing countries should implement tariff reductions over a period of ten years, while developed countries should do so over a period of five years. The European Commission's proposal for modalities in the WTO agriculture negotiations also argues that a longer implementation period (as well as lower reduction rates) should be agreed for developing countries. The UK Government fully supports this approach.

Paragraph 77 'Any agreement on agriculture must ... pass two developmental tests; will it stop dumping, and will it allow developing countries to protect themselves from any continuation of dumping? ... [and] must not make the poor pay for the poorest, and must:

- a) **Reduce tariffs and tackle tariff peaks and escalation.**
- b) **Extend duty-free and quota-free access to all LDC exports into all developed countries.**
- c) **Ensure that tariff barriers are not replaced by other protectionist barriers.**
- d) **Include binding timetables to reduce and in time eliminate domestic support and export subsidies of all types.**
- e) **Compensate and assist current preference holders and ensure the food security of the NFIDCs and LDCs.'**

The Government agrees that it is important to reduce dumping, but does not believe that it will be possible to stop it immediately. As stated above, to prevent dumping, reforms are needed to all three areas of support (market access, domestic support and export subsidies) and on similar timescales. Sudden adjustment, for instance the elimination of export subsidies for sugar, would require rapid and radical reform, which in the case of the EU sugar regime, some developing countries, especially ACP exporters, would oppose.

The Government fully supports the Special Safeguard Mechanism, but not the idea of a Special and Differential Countervailing Mechanism. This is discussed in the response to 76 of the Committee's report. Many developing countries already have considerable flexibility to raise tariffs to protect against dumping because their applied tariffs are well below their WTO bound tariffs.

The Government fully agrees that a new Agreement on Agriculture must reduce tariffs, including tariff peaks, and tackle tariff escalation. It also agrees that tariff barriers must not be replaced by other protectionist barriers. It consistently highlights the development impact of any new EU proposals on standards and other non-tariff barriers, and works to ensure this is minimised as far as possible. The Government also strongly agrees that all developed countries should extend duty-free and quota-free access to all LDC exports.

The Government agrees that a new Agreement on Agriculture must include binding timetables to reduce domestic support and export subsidies of all types.

The Government's responses to the other points raised above are covered in the responses to paragraphs 68-71 of the Committee's report.

Paragraph 78 '... the Government should make a commitment to transfer a proportion of any savings from CAP reform to its development budget so that the losers from agricultural liberalisation can be helped to move into other activities.'

The Government fully agrees with the objective of reducing the CAP budget and has consistently argued in the EU for reforms that reduce trade-distorting support and offer savings to both EU consumers and taxpayers.

However, the Government is not in favour of explicitly linking any revenues raised from CAP reform to the United Kingdom's development budget. The Government has made a strong financial commitment to development which will see the UK's aid budget almost double in real terms in 2005/06 compared to 1997. This includes a commitment to spend 90 per cent of aid in the poorest countries and a significant programme of trade related capacity building.

Beyond agriculture: other issues for Cancún

Paragraph 84 '... a development-friendly outcome would make substantial progress on reducing tariffs, tackle tariff peaks and escalation, address the issue of preference erosion, and acknowledge the developmental value of less than full reciprocity.'
[Similar points made in 88]

The Government fully agrees with the importance of reducing tariffs and tackling tariff peaks and escalation. We also believe that it is important that countries which may suffer from preference erosion should be given assistance to help them through the transition, as explained in the response to 68. The Government fully agrees with the importance of less than full reciprocity. This is particularly important in the context of the concerns of some developing countries over the potential impact of tariff reductions, for example on revenue collection.

Paragraph 86 '... the "appropriate studies and capacity-building measures to assist least-developed countries to participate effectively in the negotiations" which were mandated in Doha, seem to have slipped off the agenda.'

The WTO's commitment to help the least developed countries to participate in negotiations has not slipped off the agenda. The UK, and many other developed countries, see increased developing country participation as critical to achieving democratic decision making in the WTO. A programme of work is ongoing (see 92 for more details).

Paragraph 86 '... tariff reduction calculations must also take account and give credit for liberalisation which developing countries have undertaken of their own accord ...'

The Government recognises that this is a factor which must be taken into careful consideration in the framing of the modalities for conducting market access negotiations for non-agricultural products.

The Negotiating Group on Market Access is currently discussing cuts to bound rather than applied tariff rates. Cuts to bound rates will, in most cases, have less impact on developing countries that have undertaken market liberalisation above and beyond their Uruguay commitments (for instance as a result of an IMF structural adjustment programme) as there will be a wide gap between bound and applied tariffs rates.

Paragraph 86 ‘... tariff barriers must not simply be replaced by strict rules of origin, Sanitary and Phyto-sanitary Standards ... and other non-tariff and technical barriers to trade.’

The Government strongly agrees. Non-tariff barriers are an integral part of the Doha mandate on non-agricultural market access. The EU Council Conclusions in preparation for Cancún reiterate that the European Community “seeks an ambitious outcome both on tariffs and non-tariff barriers, whose potential to impede trade remains very high”. The UK Government fully supports this aim. We will continue to work to ensure that rules of origin, Sanitary and Phyto-sanitary and other standards are properly focused and do not constitute unfair barriers to trade, particularly for developing countries. In addition, all G8 members, including the EU, are committed to ensuring that rules (particularly rules of origin provisions and documentation requirements) do not inadvertently preclude eligible developing countries from taking advantage of preference programmes.

Paragraph 87 ‘... we urge developed countries ... to respond positively to the calls from LDCs for “binding commitments on duty-free and quota-free market access for all products from LDCs on a secure, long-term and predictable basis with realistic, flexible and simplified rules of origin ...’

The UK Government will continue to press for all developed and advanced developing countries to provide duty-free and quota-free access to their markets for all imports from the Least-Developed Countries, as the EU has already done under its Everything But Arms initiative. The UK is also working actively, both within the EU and in the G8 context, to improve and simplify rules of origin.

Paragraph 92 ‘We ask the Government to provide aid for increased technical assistance [for the WTO competition discussions] to enable their [developing countries] effective participation.’

Substantial technical assistance has and will continue to be provided to developing countries to build up their exposure to, and experience with, competition law as well as transparency in government procurement, trade facilitation and investment policies.

The UK Government’s technical assistance programme for competition law stems from the specific commitments on competition policy contained in the 2000 White Paper on International Development as well as the WTO Doha Ministerial Declaration. The latter called for more analysis so that developing countries can assess the potential development impact of a WTO agreement on competition. The UK’s support has included backing an UNCTAD multi-year programme of technical assistance (including a series of regional

workshops), work by Consumers International to develop a practical handbook and toolkit to build consumer awareness. In the future we will provide additional support to build more human and institutional capacity in developing countries' fledgling competition authorities.

More generally, the UK has allocated £110 million to trade related capacity building activities since 1998. This is more than double the £45 million we pledged in the 2000 White Paper. A more detailed briefing sheet explaining our commitments is available on DFID's website (<http://www.dfid.gov.uk>). A detailed description of technical assistance programmes and projects provided by the EC and its member states has recently been updated and can be found in the following WTO document available on their website: (WT/WGTCP/W/223/Rev.1 and G/C/W/442/Rev.1, 5 August 2003).

Paragraph 96 'We are not persuaded that an agreement on investment would be driver for development, or that the WTO is the right place [for it]...we were pleased to hear Baroness Amos acknowledge that the Singapore Issues are not a priority. We trust this means that the government no longer supports the launch of WTO negotiations on investment in this round.'

The UK Government accepts that a basic transparent, legal and regulatory framework for investment will not, in itself, substantially increase foreign direct investment flows to developing countries. Contrary to paragraph 95 of the Committee's report we do, however, believe in principle that, depending on the detail, a framework WTO agreement on investment could have potential benefits to developing countries. That is why we continue to support the launch of WTO negotiations on investment in this round. All Government Departments share a common position on the new issues. Both the Secretary of State for Trade and Industry as well the International Development Secretary have stated that the Singapore Issues are not a development priority for the UK compared to agriculture, TRIPS and public health, and special and differential treatment.

As the Committee knows, there are at present a variety of options under discussion and no decision has yet been taken on the scope of negotiations. Both the Trade and Industry Secretary and the International Development Secretary have made an explicit commitment not to sign up to anything which we believe would not be in the interests of developing countries as a whole. On investment in particular, our support for commencing negotiations does not extend to specific proposals that prevent developing countries from pursuing their national development priorities.

Any WTO investment agreement should recognise the right for developing countries to follow national development priorities. The UK Government supports the application of joint ventures, technology transfers, and employment generation requirements to foreign investors. Members would need to list these requirements in its schedules as exceptions to the non-discrimination principle.

The EC has commented both in its submission to the WTO (WT/WGTI/W/140) and during consultations in the WTO that it believes the development provisions in a multilateral investment agreement would not only be compatible with development objectives and policies but also support them. In that paper, the EC acknowledges that the right of WTO members to regulate in order to meet national policy objectives should be

explicitly recognised. The EC also stressed that the development dimension should be incorporated in the overall structure of such an agreement. The UK government continues to subscribe fully to these stated aims. It will be for developing countries themselves to decide whether or not the development case is strong enough to persuade them to support the launch of negotiations in Cancún.

Paragraph 100/101 ‘...inclusion of the Singapore Issues on the post-Cancún agenda is excessively hard bargaining. We trust that the Government’s move to disassociate itself from supporting the Singapore Issues signals that the views of developing countries have been heard and acted upon.’

The Government, together with the EC, has been engaged with a range of developing countries in a variety of fora to discuss the Singapore Issues. The evolution of the proposals clearly demonstrates that the voices of developing countries are being heard in WTO discussions. For example on competition, the proposals recognised that significant flexibilities must be built in to any agreement to allow developing countries to “progressively” adopt competition policies which suit their level of development. There is also clear recognition that extensive technical assistance programmes are needed to help them develop competition laws and appropriate institutions. This is crucial if countries are to maintain their social, economic and development objectives. Equally, on trade facilitation the Commission is committed to integrating capacity building, technical assistance and SDT into any framework agreement. The EC realises that additional negotiations increase demands on developing country delegations and hence have agreed to move forwards “each at his own pace and according to his own abilities”.

The Singapore Issues offer potential benefits to developing countries, depending on the details of the proposed framework agreements. These are yet to be fleshed out. For example, trade facilitation helps development, and important for access to markets in the modern commercial world. Trade facilitation measures have demonstrably improved the flow of goods, and might increase customs revenue, and result in higher levels of confiscation of smuggled goods. On transparency in government procurement, developing countries could potentially benefit with possible savings of 10-15%. Similarly, a competition agreement would help foster co-operation and dialogue among a diverse range of countries providing them with a more coherent approach to competition problems, especially tackling international hard-core cartels. The evidence shows that such cartels are becoming more global in nature and are having particularly damaging effects on developing countries, who may not have competition laws, and hence are more open to such abuses. For example, a research paper for the World Bank, which looked at 16 ‘cartelised’ products during the 1990’s, estimated that the total value of cartel-affected imports to developing countries in 1997 was \$81.1 billion. This made up 6.7% of all imports and was equal to 1.2% of their combined GDP. Estimates of price increases resulting from these cartels were as high as 50%. Overcharges from these were estimated as being in the region of \$18-32 billion.

As the Committee knows there are differing degrees of support amongst developing countries for each of the four Singapore Issues. Developing countries are not all unanimous that the issues should be dropped from the Doha agenda. A substantial

number see the potential benefits of framework agreements but remain concerned that the detailed design should reflect their development priorities.

Paragraph 106 ‘...US opposition to agreement on TRIPS and public health put Cancún and the whole “development agenda” at risk. Now the US has moved on agriculture, the USA should move on TRIPS and public health’ Paragraph 151 ‘...Given the UK’s support of the USA in Iraq, the Prime Minister must have accumulated plenty of political capital with the USA. Now is the time to spend it, persuading the USA on TRIPS and public health...’

The Government welcomes the recently agreed solution to the negotiations on TRIPS and public health. We are particularly pleased that WTO Members managed to agree to the 16 December 2002 compromise text. This is an important step in helping developing countries tackle public health crises such as HIV/AIDS. It should also build momentum in other areas of the Doha talks and help to restore developing countries’ trust in the WTO’s commitment to a true ‘development’ round.

Paragraph 107 ‘...A satisfactory resolution on TRIPS and public health prior to Cancún, not as part of a new exchange of concessions, is hugely important...agreement would go some way to restoring their [developing countries] faith in the WTO process and the ability of developed countries to keep their promises.’

The UK Government does not regard resolution of the TRIPS and public health issue as part of a new exchange of concessions. All WTO members, including the US, agreed that this needed to be resolved quickly because of its importance in helping developing countries access essential medicines. We do not view the solution as a “down payment” for developing countries’ concessions in other areas of the negotiations.

Paragraph 108 ‘Oxfam’s proposals to establish a mechanism for determining and extending transition periods for individual developing countries on the basis of achievement of agreed development milestones makes good sense.’

The UK Government believes that the WTO needs a more sophisticated and effective system of special and differential treatment that prioritises poorer countries most in the need for longer transition periods. Trade reforms need to be suited to the needs of individual countries if they are to be effective in reducing poverty. This will require WTO members to reach a consensus on a new framework for SDT. In the meantime, we continue to support the principle of considering individual requests to extend implementation periods where there is a genuine commitment to reform and poverty reduction.

Specifically regarding Oxfam’s proposals, the Government’s view is that trade reforms are part of a country’s strategy to reduce poverty. Sequencing of reforms and longer transition periods against achievement of agreed development milestones could mean that many countries would be unable to take advantage of new trading opportunities, leaving them excluded and marginalized in the world trading system. Thus Oxfam’s proposal may not be the most effective approach to assisting countries to achieve the Millennium Development Goals.

Paragraph 110 ‘Restrictions which apply to foreign but not domestic firms must be first listed, and then progressively removed as liberalisation proceeds’

The Government disagrees with the Committee’s analysis which gives the false impression that countries are being locked into a “conveyor belt” of ever more liberalisation. In fact, many countries are signatories of the GATS and have in practice committed themselves to relatively minimal levels of liberalisation. There is nothing which will force them to revise this status quo as negotiations proceed. It is up to individual WTO members to decide which sectors they wish to liberalise.

Paragraph 119 ‘The Government is also supporting an assessment of GATS by UNCTAD.’

This is inaccurate. The Government is working with both the World Bank and UNCTAD to oversee work by a group of independent experts, which aims to inform developing countries’ assessments of various GATS proposals. This should help them negotiate more effectively through being better informed.

This approach is different from undertaking an overall assessment of GATS. As each developing country has different needs and economies, its position in the GATS negotiations will be unique. Thus assessments are only useful if they look at the specifics of the country concerned. An overall assessment would be broad brush and less meaningful. Furthermore, developing countries clearly require support in the area of impact assessment, but the assessments must be undertaken by individual countries themselves and not on their behalf by the WTO, donor countries or other international organisations.

Paragraph 120 ‘We urge the Government and the EU to consider seriously developing country requests on Mode 4.’

The UK Government fully recognises the potential benefits of a liberalising agreement on Mode 4 for both developed and developing country economies. The current EU offer does go some way towards meeting the requests of some of the major developing country suppliers of Mode 4 related services, such as India.

Significantly more work needs to be done before we can confidently claim to have adequate mechanisms for managing freer trade in other areas of Mode-4 requested by developing countries, such as free movement of lower-skilled workers. While the net potential benefit for developed and developing country economies of freer labour movement is widely accepted to be large and positive, there are still likely to be a few unwelcome effects on a number of developed country domestic interest groups. These must be understood if they are to be properly mitigated.

Paragraph 121 ‘...the UK and the EU must ensure that the right to regulate includes the right to regulate for development as well as to provide a welcoming business environment. They must ensure that this right is supported by the IFIs. They must not put undue pressure on developing countries to make liberalisation commitments.’

The Government’s view is that it is critical for all developing country offers to open sectors be made together with the introduction or strengthening of appropriate regulatory

measures covering development as well as the business environment. The two should be considered as opposite sides of the same coin, and not as separate issues.

Regarding the Committee's views on "undue pressure" and the proposal that developing countries should receive credit for so called "autonomous liberalisation" undertaken at the behest of the IFIs (para 114), the Government agrees. It is important to make an explicit distinction between a country undertaking trade liberalisation policies as part of a Poverty Reduction Strategy, whether in services or goods, as opposed to choosing to bind those liberalising measures within the WTO rules-system. The only way that an autonomous or IFI-linked liberalisation measure can be "locked in" via GATS is if the member concerned chooses to offer it up as a GATS commitment. There is no way that GATS can automatically lock in any liberalisation measure, whether IFI-linked or not.

Paragraph 127 'Donors should commit themselves to assisting commodity-dependent countries and farmers to increase their productivity, to add more value and to diversify their activities. And, to increase coherence further, serious consideration should be given to linking the debt service schedules of commodity-dependent LDCs to changes in commodity prices which are beyond their control'

We agree that commodity dependent countries need to increase productivity and diversify their economies. This requires countries themselves to create a more favourable domestic environment for pro poor investment and economic growth.

The Government also agrees that commodity prices have an important impact on debt sustainability. This is why we successfully pushed for a revision to the Heavily Indebted Poor Countries (HIPC) Initiative so that a country's debt position is reviewed again as countries exit the Initiative. This means that additional relief is provided where external factors, such as falls in commodity prices, have pushed a country's debts back over the HIPC thresholds. The Government believes that, as countries complete the HIPC process, debt relief should be provided on an irrevocable basis, rather than being agreed annually. Reviewing annual debt service levels would mean that the relief would no longer be irrevocable.

Prioritising development

Paragraph 130 'The Government must ensure that developing countries are fully involved in designing and carrying out such assessments [of particular agreements and the round as a whole].'

The Government commissions and designs studies to assess the impact of different proposals on poverty reduction and developing countries. Due to time and capacity constraints, we generally have not involved developing countries in the design. They are, however, involved in the assessments and we do actively share the findings of the studies. Furthermore, it is worth noting that developing countries are a diverse grouping. We aim to have good links with the key representative groups in Geneva: the Chairs of the WTO's LDC, Africa and ACP groups as well as individual developing countries to understand their views and concerns.

Paragraph 131 ‘We urge the Government to press for regular assessment of the current round in terms of its likely contribution to meeting the MDGs...such monitoring [should] include assessment of development impact as well as progress with implementation.’

DFID has commissioned a study of the overall poverty impact of the Doha Development Agenda and its likely effects on the Millennium Development Goals. This should be available in early 2004. We envisage that the study will be periodically updated as the Doha round of negotiations proceeds.

In addition DFID has commissioned numerous studies on the impact of particular trade policies and agreements on poverty. The following are the main sectors and policies that have been covered or are in the process of being looked at: agriculture, the dairy trade, tariff peaks, special products in agriculture, the EU’s sugar regime, fiscal implications of trade liberalisation, implementation of the Marrakesh decision for net food importing developing countries, trade liberalisation and livelihood security, effects of EU domestic and export subsidies on developing countries’ agricultural sectors, impact on developing countries from lowering their own tariff barriers, impact of G8 preferential access schemes on least developed countries, GATS and the temporary movement of people.

Paragraph 134 ‘... Patricia Hewitt...stated... “[the Government] will not accept any proposal we believe will damage the prospects of developing countries...”. This is good...but it doesn’t go far enough. The UK will have its own views on what makes for development-friendly trade rules, but the Government cannot determine developing countries’ interests. It must listen to the views of developing countries.’

The Government agrees that it cannot determine developing countries’ interests. Only developing countries themselves can judge what they deem to be fair and development friendly trade rules. That is why it is critically important that developing countries participate fully and effectively in the WTO negotiations, and the Government is funding a variety of initiatives to that end.

We also agree that developing countries’ views must be listened to. The views of developing countries are taken very seriously and help to shape UK trade policies and our input to European Commission positions in the WTO. We have ongoing dialogues with a variety of developing countries and are engaged in active debate with their negotiators in Geneva and Brussels, as well as with embassies in London and especially in the run up to Cancun with trade ministries in capitals.

Paragraph 142 ‘Aid decisions do and will take account of how well policy space is used, but the right to pursue nationally-determined policies is not something to be granted to developing countries on the condition that they use it in a certain way...The Government...needs to consider carefully the limits of effective and legitimate conditionality.’

We do not support so called “cross conditionality” whereby donors provide development assistance to countries on the basis that they implement their WTO agreements. The UK provides development assistance to support a country’s efforts to implement a nationally owned poverty reduction strategy. Most donor governments and multilateral agencies take

a similar view. When working with others we do try to ensure that this position is maintained and particularly in our collaborative work with the European Commission and other EU member states.

With regard to policy space, the Government agrees that developing countries need to be given sufficient flexibilities within WTO agreements to ensure that they have the ability to set their own policies and sequence reforms appropriately. It is vital that the WTO works more closely with the development agencies to provide for a coherent approach between a country's nationally owned development strategy and the commitments it makes in multilateral trade negotiations. To make sure that trade reforms are suitably customised for each country requires flexible global trade rules at the multilateral level, and therefore an effective framework for SDT.

Paragraph 145a-e ‘... We are not in a position to endorse one or other of the [SDT] options, but we can state some general principles which ought to be followed [see a-e]...’

We agree. The current system of differentiation can accord many more powerful and rapidly developing economies undue protection, while weaker members actually require greater flexibilities. It is obvious there are substantial differences in development needs between countries such as Singapore, as opposed to Ghana. The Government believes that the WTO systems must be made more flexible and sophisticated to respond to widely differing needs.

To that end we would like to see WTO members begin a constructive debate aimed at proposing a more effective delivery mechanism for applying trade rules for development. An initial step might be to consider the merits of establishing an expert working group which would look at some of the issues identified by the Committee, and report to the General Council.

Paragraph 149 ‘Greater transparency about how various interests are balanced in the practice of joined-up Government would be very welcome, to us and to the public whose interests we represent and balance’

As the Committee has acknowledged trade policy is generally speaking an area in which there is meeting of minds between Government Departments. Officials and Ministers meet regularly to engage in substantive discussions of policies and to reach agreement on any difference of opinions they may have. Serious disagreement is, however, genuinely very rare as the Government wholeheartedly believes in the Doha Development Agenda, and the urgent need to make trade work for the poor.

**Jointly prepared by the
Department for International Development
Department for Trade and Industry, Department for Environment
Food and Rural Affairs
Foreign and Commonwealth Office
HM Treasury**

5 September 2003