The Dangers to Doha:
The risks of failure in the trade round

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Today I want to talk to you about an urgent issue: the dangers to the Doha Trade Round and the imperative of acting now to secure a successful outcome of the Round. I want to spell out why this matters so much to developing countries.

Some of the details of trade negotiations can be daunting. But I hope you will bear with me. We need a stronger sway of public opinion pushing OECD countries to use the round to create fairer trading opportunities for poor countries. I hope this speech will help provide ammunition for those who understand that the greatest challenge to the future safety and sustainability of our planet is current levels of abject poverty amidst so much plenty.

This leads to a sense of frustration and injustice that feeds bitterness, division and conflict. On the grounds of both morality and self interest, we must make international trade rules fairer so that the poor of the world have the chance to improve their lives and get access to the modern technology that we take for granted and could so easily be shared more widely.

Four years ago, I made a speech calling for the international community to launch a development round of multilateral trade talks aimed at making trade work better for all countries and especially the poorest. As you all know, in November 2001 at the 4th Ministerial Conference of the World Trade Organisation in Doha, we launched exactly that, a development agenda.

The agenda we agreed was ambitious and put development at the heart of the negotiations.

Amongst other things, we promised to ensure that the TRIPS (Trade Related aspects of Intellectual Property Rights) agreement would give developing countries enough flexibility to cope with public health crises. We promised real progress on agricultural market access and action on export subsidies. We promised service negotiations which offer real benefits for developing countries. We promised to tackle tariff peaks and tariff escalation as well as non-tariff barriers. And we promised a review of Special and Differential Treatment - across all WTO business areas to make them more effective.

In essence, we committed ourselves to improving the global trading system to bring benefits to the poor. We should be in no doubt that the current system does not work for the poor. Africa s share of world trade halved between 1980 and 1999, and economic and income growth has been stagnating. Rich countries protectionist policies are stopping developing countries growing their economies and therefore improving the life of the poor.

The challenge facing us today is to turn the words of the Doha declaration into a reality and deliver a true development Round.

Why the Doha round matters

Today, over a billion people live in abject poverty. Few of their countries have the opportunities they need to grow their economies and trade their way out of poverty. We all pay dearly for protectionism. The World Bank has estimated that the annual welfare gains from eliminating barriers to merchandised trade range from US$250 billion to $620 billion. Up to half of these gains would accrue to developing countries. In terms of poverty reduction, this could lift over 300 million people out of poverty by 2015.

Strikingly, the gains to be had for developing countries from agricultural liberalisation form the lion s share of the overall benefits. The World Bank and IMF estimate that liberalisation of agriculture trade would boost developing country exports by at least US$30 billion a year and possibly by as much as US$100 billion. In Africa this could mean an increase of a nearly 1% growth in GDP annually across the continent. This would make an important contribution towards raising growth to the 7% per annum needed for the continent to reach the goal of halving poverty by 2015. Increased investment and access to enhanced technologies would magnify these benefits.

Multilateral trade liberalisation is an indispensable part of development. Its essence is about providing countries with increased opportunities to trade and therefore provide the jobs and opportunities that allow poor people to improve their lives. More exports mean higher economic growth, greater stimulus to domestic reforms, and therefore, faster poverty reduction.

We must be careful, however, not to overstate the case. Trade alone is not the answer. It is one key driver of economic growth. But without effective states with effective institutions that pursue pro-poor policies including investment in infrastructure, health and education, the poor will see little benefit from trade liberalisation. This is why we are so heavily engaged in Africa in helping countries to strengthen their institutions and improve health and education services for all.

We should not forget that a successful Doha Round would also provide huge benefits for the world economy. The international economic climate is very uncertain. Global economic growth has slowed and stock market performance is weak. Annual growth in world trade was barely 2% in 2002, a significant decline from the 7% annual average in the 1990s. Meaningful progress in the Doha Round is vital to restoring international economic confidence and growth.

So, Doha is not only about helping the world s poor but it is also in our own self-interest. It is wrong to assume that these are always in conflict. I firmly believe that a successful outcome to Doha would be a win win for all concerned. Developing and developed countries alike stand to gain from a rules-based multilateral trading system.

Failure in the Doha Round would mean a tragic missed opportunity to tackle the distortions and unfairness in trade rules that disadvantage the poorest producers and the poorest countries. Failure would mean a missed opportunity for higher global economic growth and fast progress towards the Millennium Development Goals. And it would mean that we fall back into a proliferation of regional and bilateral trade agreements through which the poorest and most vulnerable countries are in danger of becoming increasingly marginalized from the world economy.

Slow progress in the negotiations

With these very important gains at stake, it is very disappointing that progress in negotiations has been painfully slow. There are now less than six months until the 5th WTO Ministerial Conference in Cancun. At the end of 2002, we missed two key development milestones on Trade Related Aspects of Intellectual Property Rights (TRIPS) and public health as well as special and differential treatment. And unless we find the political conviction to deliver on our promises we are in danger of missing other deadlines too. The March 31 deadlines for agreement on modalities for the agriculture negotiations is fast approaching and looks certain to be missed. This seriously endangers the Doha agenda.

Discussions in Geneva are stalling across a range of issues destroying trust between WTO members and dissipating their willingness to negotiate. We need to come to the table soon with increased political resolve and stronger efforts from the EU and the US to work closely with developing countries and other WTO members to find solutions to these issues. Because if we leave too many major decisions to Cancun we will overload the agenda and run the risk of failure. We must remember the lessons of Seattle. A successful Cancun meeting is essential to keeping the Doha Development Agenda on track.

Most worryingly, progress has been slowest on the issues that matter most to developing countries. This risks developing countries becoming increasingly disaffected and turning their backs on the negotiations. I want to suggest today that there are six key areas in these negotiations which are of particular importance to developing countries: firstly, TRIPS and public health; secondly, agriculture; thirdly, textiles and clothing; fourth ensuring WTO rules make sense from a development perspective; fifth services, and finally the new issues of investment and competition. On each of these issues we must make significant and rapid progress prior to Cancun. Let me take each one in turn.

TRIPS and public health

First, we must rapidly find a solution to the current impasse on Trade Related Aspects of Intellectual Property Rights (TRIPS) and public health. In Doha we showed that the WTO membership could respond to concerns about the effects of TRIPS on access to affordable medicines by the world s poor. The Declaration clarified the existing flexibilities in the TRIPS Agreement that can help countries access the medicines they need. For example, countries are allowed to override a patent to meet public health needs.

But, we also recognised that a significant number of countries were unable to use this important flexibility because they cannot produce the medicines themselves. We therefore promised to find a way for all countries to be able to resort to compulsory licensing. We must honour this promise for the millions of people affected by public health crises such as HIV/AIDS, TB and malaria.

In December 2002, we were on the verge of a workable compromise but the US, responding to industry concerns, blocked the deal. They feared that the solution put forward would be used by developing countries to override patents on non-essential medicines and that generic medicines would be diverted from the poorest countries to western markets. These fears are reasonable but not insurmountable. I believe the December 2002 proposals adequately addressed these concerns while giving developing countries the flexibility they need.

Finding a solution before Cancun is critical if we want to maintain developing countries trust in the rules-based multilateral system.

Agriculture and CAP reform

Secondly, agriculture. This is of key importance. Three-quarters of the world s poor live in rural areas. Agriculture accounts for about 27% of GDP and export earnings in developing countries and 50% of employment. The dependency on agriculture is most pronounced in LDCs and in sub-Saharan Africa, where production tends to be concentrated on a small number of commodities.

The Doha Declaration commits developed and developing countries to negotiations aimed at significant improvements in market access, substantial reductions in domestic support, and all forms of export subsidies. These negotiations are critically important for developing countries. But they are currently stalled, mainly because of developed countries who wish to continue protecting their domestic agricultural markets.

Agricultural markets are among the most heavily protected. For OECD countries, the average bound tariff for agriculture is 60% 12 times the rate for industrial products.

Tariffs on sensitive products such as beef, sugar and rice which could be important exports for developing countries are even higher over 1,000% in some cases. And tariff escalation where tariffs rise as goods are processed thus depriving developing countries of the opportunity to process their agricultural products and get the increased jobs and income this would lead to.

For example, the European Union s preferential arrangements for rice and sugar exports from Africa, Caribbean and Pacific countries only cover the unprocessed product; refined sugar and milled rice face extremely high tariff barriers. This makes it much more difficult for developing countries to take their first steps up the technology ladder, to diversify and trade their way out of poverty. For example, analysis of UNCTAD figures shows that developing countries have 90% of the world market in cocoa beans, 44% of the world market in cocoa liquor, 38% of cocoa butter, 29% of cocoa powder and just 4% of global chocolate production. This is just one example of how little of the final value is captured by developing countries.

Developed countries also protect their agriculture sector through subsidies. OECD farmers are given £300 billion of taxpayer s money every year to produce food. Then when they produce more than we can consume the taxpayer has to pay once again to subsidise its export whilst the consumer has to pay more for the food they buy. OECD countries support for their farmers is equivalent to the whole of Africa's GDP. EU taxpayers and consumers support to farmers totals nearly 100 billion. One figure really brings home the iniquities of this situation: every dairy farmer in the EU receives $2 a day for each cow they own, while nearly half of humanity live on less.

These subsidies, and the high tariffs which protect rich countries markets, make it extremely difficult for farmers in poor countries to compete with OECD country farmers. This applies equally to their home markets and to export markets. For example, India, home to one third of the world s poor, is also the world s largest dairy producer with 10 million farmers working in the industry.

But competition from heavily subsidised and protected OECD dairy exports is keeping them out of new markets in South-East Asia and the Middle East. Liberalisation of OECD dairy regimes would enable these farmers to increase production and exports.

Agriculture markets have been distorted for so long that developing countries economies have become distorted too. Many of the poorest particularly in Africa are dependent on the production of a few commodities. Others need cheap food imports because their own farmers have been out-competed by our heavily subsidised exports and do not produce sufficient food themselves.

Some will say don t liberalise because liberalisation will create losers as well as winners. This is true. But if a small number benefit and the poor do not this argument, which has been defended by many NGOs, is creating a barrier to improved livelihoods for the poor. The solution is to adopt policies that benefit the poor and put in place complementary policies to protect the losers in the transition and ensure continued support for reform. Development institutions and the trade community must work together to ensure careful sequencing of reforms, support for restructuring and proper regard for food security concerns.

Agriculture protectionism in the rich countries reduces developing countries prospects for sustainable growth and it damages our prospects too. As I have said, it is estimated that the gains to all developing countries from agriculture liberalisation in developed countries could reach between $30bn and $100bn by 2015. These gains nearly quadruple to between $140bn and $390bn if developing countries also liberalise their agriculture markets. The potential benefits of agriculture liberalisation are huge but we could be about to throw all this away.

While developing countries would benefit from liberalising their own markets, the responsibility for progress clearly lies with the developed countries, who are the main perpetrators of global agriculture distortions.

And all European governments must face the reality that CAP reform is absolutely essential to this process. Without it the European Union will have little or no basis to reach a meaningful agreement in the trade negotiations. Commissioner Fischler s proposals on the CAP A Long Term Policy Perspective for Sustainable Agriculture are a good first step on the long road to reform, although they would ideally have gone further. The proposed shift to less trade-distorting support is particularly important. However, while the UK Government firmly supports the Commission s proposals, some other Member States find even these modest proposals too ambitious. If their view prevails, the prospects of success in the Doha Round will become very small indeed and the EU will be the guilty party in throwing away the prospect of a development round.

But of course EU members are not the only developed countries to protect their agriculture sector. The US provides its export subsidies in the guise of export credits and food aid, and uses loopholes in the existing agreement to hide its own high levels of domestic support. The impact of these US measures can be extremely damaging for developing countries. For example, the International Cotton Advisory Committee estimates that the withdrawal of US cotton subsidies would raise the price of cotton an important developing country export by 26%. So, the US needs to open its markets too.

The negotiations on agriculture are at a critical stage. A second draft framework agreement has just been produced for consideration by WTO members and is being debated as I speak. The aim is to reach agreement by the end of this week. But the main protagonists are still taking up opposite positions. If they do not shift and the responsibility lies with the US and Japan as well as the EU the Doha Development Round will be dead.

Franco-Africa Initiative

Let me turn briefly to the initiative recently launched by France to try to and ease the agricultural trade distortions facing sub-Saharan Africa. This consists of three elements: a temporary halt to export subsidies affecting Africa, an enhancement of trade preference for Africa and possible subsidies to make up for changes in commodity prices. It is welcome news that the French are willing to acknowledge the damaging effects of export subsidies. But a temporary moratorium on the EU s export subsidies covering only sub-Saharan Africa is an inadequate response. If export subsidies are damaging them, they must be phased out, not just temporarily suspended for part of the world.

The first problem with this set of proposals is that they apply only to Africa, but two-thirds of the world s poor live in Asia. If the Trade Round is designed to improve the life opportunities of the poor of the world, action cannot be confined to Africa, needy as that continent is. The French proposals are not compatible with World Trade Organisation rules which require rules-based equality of treatment for all countries with similar needs. A temporary phase out for Africa alone would in fact make the pressure from subsidised exports even worse elsewhere. This would clearly not be right.

Let us remember that Africa has a potentially huge comparative advantage in the heavily distorted agriculture sector, but is held back by existing trade regimes. For instance when EU beef export subsidies to sub-Saharan Africa were reduced by 25 to 40% between 1993 and 1995, both Mali and Burkina Faso increased their production and exports. As a result, Burkina Faso increased its regional cattle exports by 70%. This provides an indication of the potential that exists for regional trade in the agriculture sector if subsidies were to be ended.

In addition, the evidence is clear; preferences are fundamentally a poor way of integrating developing countries into the world economy. Indeed, they tend to fossilise primary production patterns in developing countries, preventing diversification and a response to changing demands in the world economy. The EU s Everything But Arms initiative and the US Africa Growth and Opportunity Act have enhanced access for African countries to their markets. But despite this apparent generosity, the evidence suggests that the uptake of these preferences is very low. In 1999 UNCTAD calculated that although 99% of all EU imports from all least developed countries were eligible for EU preferences, only 34% actually received them.

The lack of take up is invariably because the access that preferences grant is highly conditional and insecure. In the EU the more sensitive the product the less generous we are. Similarly, developing countries are required to comply with tough product standards which act as further barriers to entering the EU market. Likewise, complex rules of origin restrict the sourcing of inputs from neighbouring countries which are not eligible for preferential access, thus discouraging regional trade and integration.

The French are right to say that although many regions of the world have benefited from the opening up of the global economy, few African countries have gained. The statistics show that Africa s share of world trade declined from nearly 5% in 1990 to only 2% in 2000. It is true that many of Africa s trading difficulties are on the supply side, including productivity and infrastructure. But it is also clear that preferences cannot be a substitute for full liberalisation which will be most beneficial to Africa and other developing countries.

In terms of Doha Development Agenda, discussion to bind preferences could serve to undermine the multilateral liberalisation that would hold the greatest gains for poverty reduction globally. It would also counter efforts to stimulate trade between developing countries, locking them into traditional trading partnerships.

Textiles and Clothing

The third area of critical importance in the Doha Round to developing countries is textiles and clothing. The remaining barriers impose a substantial burden on developing countries. It is estimated that as many as 27 million jobs in the South are foregone due to the combined effect of quotas and tariffs. On average, each job saved in developed countries by tariffs and quotas is estimated to cost 35 jobs in developing countries. And in the textiles and clothing industries in developing countries, these are overwhelmingly low-skilled workers and are often poor migrants from rural areas.

The Agreement on Textiles and Clothing that came out of the Uruguay Round gave WTO members 10 years to abolish quotas by the end of 2004. The deepest were, however, saved for the end and thus the potential gains have yet to be realised. But despite this step forwards and some preferential access developing countries still face high tariffs on textiles, clothing, and footwear both from each other and from OECD countries. For example, the EU imposes a tariff of 17% on footwear from China, whilst the US has a peak tariff of up to 35% on clothing. A WTO agreement to cut these tariffs would be a big boost to developing countries economies and life prospects for poor people.

WTO rules that make sense from a development prospective

Fourthly, I think I can safely say that we will not truly be able to call this a development Round without trade rules that make sense from a development perspective.

Not all developing countries have the same capacity to implement WTO agreements. Nor, given that they are at different stages of development, do they all have an equal ability to take advantage of the opportunities trade liberalisation can bring.

The Doha declaration is clear about Special and Differential Treatment (the term used for the way in which WTO rules are made more flexible for developing countries). We made a commitment to consider both changes to existing provisions as well as the wider question of how to make WTO rules flexible to the needs of developing countries. Developing countries have submitted over eighty proposals for suggested amendments and improvements to existing S&DT provisions. A modest proposal of 22 elements was put forward by the Chair of the Committee on Trade and Development, of which over half were specifically aimed at assisting the least developed countries. Only four were agreed by the end-December deadline. This is deeply disappointing.

I believe that we need to move this debate forwards and agree a package of improved S&DT provisions in advance of Cancun. This is not only because Special and Differential Treatment is a key issue for developing countries. But also because if we don t show developing countries that we agree the WTO needs effective mechanisms to account for developing country issues, then countries will be unwilling to negotiate in additional areas, such as agriculture, investment and competition, for fear that their development-related priorities will be ignored. And they would be right to believe so.

Services

The fifth area which I want to cover today is trade in services. We need to do much more to make sure that the interests of developing countries are properly met.

Key among developing country concerns is greater flexibility by the rich nations on the movement of temporary workers, or Mode-4 in the language of the GATS (General Agreement on Trade in Services) agreement. Too often this issue is dominated by fears over immigration. Current research suggests that if developed countries increased the proportion of temporary labourers to the equivalent of just 3% of their labour forces it would yield an increase in world economic welfare one and a half times greater than the gains we could expect from the liberalisation of all remaining trade restrictions. Furthermore, most of these benefits would come from freer movement of lower-skilled workers, not the high-skilled professionals who are the subject of most OECD country thinking on GATS.

That is why it is so important for the developed countries to give serious thought to enabling both skilled and less skilled people from developing countries to come and work in developed countries legally on a temporary basis.

New Issues

Finally, new issues. This is a full agenda with many priority concerns for developing countries. Some argue it's too full for developing countries to cope with any new issues. It's true that many developing countries' are finding that all these negotiations are overstretching their capacity. This is why DFID is supporting a range of capacity building and technical assistance initiatives to strengthen developing countries ability to participate effectively in the negotiations. But framework agreements on the so-called new issues investment, competition, transparency over government procurement and trade facilitation could bring considerable benefits to developing countries.

Foreign direct investment is critically important to developing countries. A multilateral rules framework - creating a level playing field for all WTO members - could facilitate greater investment flows. It would particularly benefit smaller developing countries who don't have the resources to develop an investment regime or to negotiate numerous individual bilateral treaties, where they would come under pressure to agree higher levels of investor protection. Similarly, a multilateral framework agreement on competition could help developing countries tackle abuses by international cartels as well as domestic restrictive business practices.

Conclusion

So in conclusion, the situation is clear. For now international political attention is inevitably focused on Iraq. But uncertainty and the slow down in the global economy makes it even more of an imperative to make a success of the Doha Trade Round.

The UK Government fully backs the need to inject new momentum into the round and is strongly committed to it creating concrete benefits for poor people in the developing world. We need renewed and stronger political leadership from the EU, the US, and other developed countries, if we re to realise the bold Development Agenda set out in Doha. And above all if we are to live up to the challenge of meeting the Millennium Development Goals by 2015.

We need early agreement on TRIPS and public health, and real movement in the all-important agricultural negotiations. Putting back the difficult decisions could sink Cancun.

Just as the aftermath of September 11 helped focus minds at Doha on why trade and development matter, we need to deepen our commitment to a just world order if we are to emerge from the current levels of bitterness and division in the world. We urgently need stronger resolve to make the Development Round succeed.