

MINISTER ALEC ERWIN
STATEMENT ON THE OUTCOMES OF THE 5th MINISTERIAL MEETING OF THE WTO
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May I thank you for this time to address the House on a matter that is and should be of interest to all South Africans. Madam Speaker I will not take you through a blow-by-blow account of the meeting or through the finely honed detail of the contesting texts. I wish to take you through what we were fighting for in the hope and belief that all in the House can empathise with a just and good cause.

My written statement is longer than what I shall say, as I hope that the former helps the layperson to better understand some of the intricacies of this vast set of agreements that we loosely refer to as the World Trade Organisation (WTO).

The WTO and Cancun, Mexico, may seem institutions and places that are far removed from the ordinary South African. This is not the case. From time immemorial South Africa has been a trading nation. This is fundamental to our economy and indeed our society. It emanates from the wealth of our natural resources first mobilised by the trading empire we now refer to as Mapungubwe. As an economy and as a people we are linked to trade. For us it is not possible to extricate development and trade or trade from the well being of our people.

So it must be the case that we should all be interested in the structure and equity of the world trading system, which in turn has such an influence on investment. The agreements that fall under the WTO are now very extensive and may well be the largest integrated system of multilateral agreement in human history. Keeping pace is no mean feat.

This observation leads me to the first matter I should correctly report back to this House. It is a matter of pride that I can report that South Africa fully participated in the meeting and all aspects of the events in Cancun. What we did earned respect. What we achieved was the product of our own hard work - government, parliamentarians, business, unions and community representatives. As the Minister privileged to lead this delegation I wish to record my immense personal pride at the ability, passion and very hard work of our delegation. I believe this pride is worthy of your endorsement.

There has been much comment on the events in Cancun and gratuitous allocating of blame as to who was responsible for the failure. The former is welcome as it shows that this is truly a matter of global concern. The latter is in my view disingenuous as it takes away from the real issues. Both the process and the substance the events in Cancun raise sharply what is at stake if we are to truly and effectively address the fundamental challenge of development in the global economy.

As I have indicated the WTO is a complex system of agreements that encapsulate an attempt by nation-states to govern the commerce between them. This is not a new phenomenon. Students of history will know of the centrality of trade to the affairs of human governance. In truth the history of trade relations is largely one of inequality between peoples. In our own times - or at least in the times of some of us - this inequality was explained and measured by many great theorists. Rauol Prebisch is the person associated with the specific linking of trade and development and the formation of the United Nations Conference on Trade and Development (UNCTAD).

The agreements on trade and related matters built up in a series of 'Rounds' of negotiation within the General Agreement of Tariffs and Trade (GATT). It was the Uruguay Round that led to the formation of the WTO. The central logic of this 'Round' was that we had to systematise the rules of global trade and make them applicable to all. This needed a new and somewhat unusual institution that administered rules but where decisions had to be made by consensus. Reflect on this for a moment and you will realise this is indeed an interesting institution. It is

an easy institution to demonise but much more difficult to understand. In South Africa as we approached the new democracy we choose to understand and develop our capacity to engage. We were right to do so. We entered the very last stages of the Uruguay Round as the National Economic Forum, which included the old regime, the ANC and COSATU.

However, the outcome of the Uruguay Round was structurally imbalanced in three main dimensions of the relationship between the developed and developing. These were in the way in which agriculture was dealt with, the structure of industrial tariff liberalisation and the nature of the additional trade related matters that were added to the agreement system of the new WTO. The imbalance of the outcome was not for want of trying from those developing countries that participated more fully than the still to be born democracy of South Africa.

Let me give some brief elaboration of each of these, as it will provide the context to what the G20+ was trying to do in Cancun.

The industrial development and the agricultural production of the developed world were heavily subsidised. In the industrial product domain these subsidies became self-defeating as trade grew. The Uruguay Round established clear disciplines for industrial products (although the developed countries were able to exclude subsidies for research and development, environment and regional disparities - very convenient if you have the wealth for such support). In agriculture the process of disciplining subsidies was only set in motion. This is a complex matter but the subsidies were placed in three categories of 'box'.

The 'Amber Box' was acknowledged as being very trade distorting in the sense that it directly impacted on the ability of producers to trade. The 'Blue Box' distorted trade but did it indirectly through supporting the level of production, price or income in a way that made it easier to export surpluses or because it kept prices stable enabling exported surpluses. The 'Green Box' was some form of angel that protected rural areas and the environment. Its angelic nature meant that we should not question it. However, the truth must be that it impacts on rural income and capacity. So how it comes to be in the 'isolation ward' when it comes to trade requires some intellectual alchemy. Like all alchemy it can hide many sins.

That this was not a satisfactory outcome was evident to all but the commercially partisan. So it was agreed that the process of reform and discipline would have to be taken forward and that how this should be done should be dealt with by 1999. Regrettably 1999 has come and gone as has 2001, 2002 and 2003. So a fundamental imbalance remains where the agricultural potential of the developing world remains constrained by the massive wealth transfer by the rich into their agricultural sector. If some aspirant wealthy developing country tried to apply such mechanisms to their growing industrial capacity they would violate the rules - rightly so because it would be destabilising for everyone - but agriculture is sacrosanct only because of the political and economic power of the key subsidising countries.

However, the imbalance existed in the arena of liberalising i.e. reducing tariffs in industrial products. Here careful analysis showed that key areas of industrial production remained protected by the developed economies. This was done by complex agreements in critical products like clothing and textile. In effect these agreements tried to stem the hole in the dyke. Their existence served to massively distort production in these sectors as they were driven by intricate systems of preference, quota and country specific preference arrangements. It is interesting to note how the free market and good economic governance are abandoned behind the veil of agreements. In truth these were economic and commercial interest groups calling the shots in the world trade system. More complex means of protection were also left within the system. Selective very high and relatively high tariffs on specific items were left in place. These are referred to as tariff peaks. Subtler is the effective level of protection on a process - the tariff on raw cocoa is low and that on chocolate much higher. The chocolate producer of Europe has the advantage - in fact a double advantage since another big ingredient in the form of milk is also heavily subsidised. This tariff escalation is prevalent in agro and metal processing.

Despite this the proportion of trade from the developing world rose markedly after the Uruguay Round. What would have been the benefits if the restrictions had not been there and

what would have been the developmental effects? However, the harsh truth of the matter is that a minority of developing countries made this advance and not the majority.

The last area had to do with new burdens placed on the weaker institutional fabric of the developing world. New agreements were added requiring relatively sophisticated legal structures. This is costly and even politically difficult when the political systems are grappling with poverty and underdevelopment. Even here the choice of new issues is a product of commercial interest. It is not clear why the matter of intellectual property should be chosen ahead of a much more basic matter such as the basics of trade documentation - what is generically referred to as trade facilitation. Since the bulk of commercially traded intellectual property rights vests in the developed economies they choose to protect this position rather than generally facilitate trade. In fact they even invented new concepts of rights in the form of geographic indications - our port, sherry and grappa battle.

After the end of the Uruguay Round in 1994 the developing countries tried to redress this imbalance. They fought hard but did not make a lot of progress. In fact in Singapore in 1996 at the second Ministerial meeting further ground was lost in the imbalance when four new issues were added to the agenda - hence the 'New Issues' or 'Singapore Agenda' in WTO slang. These were to be some form of agreement on investment, competition, trade facilitation and the extension of a partial agreement from Uruguay on government procurement rules to all members. I do not have time to elaborate on all of these suffice to say that they are very different in nature and complex in conceptualisation. One needs sophisticated governance systems to effectively address all the intricacies and more so to implement them. In themselves they are not wrong issues and will certainly be addressed as the WTO matures and deals with more issues. However, weighed against the structural imbalance in the world trade system that I have outlined they are not a priority for the developmental challenge. The hot favourite of trade facilitation is in large measure being addressed by the World Customs Organisation (currently chaired by Pravin Gordhan of SARS).

The story unfolds. In the build up to Seattle the developing countries tried once again to achieve a redress in the imbalance. However, what we were faced with was a phalanx of new propositions. The EU not only insisted that the Singapore issues should be seen as a package but wanted to add the environmental and labour standard issues to any new Round. The USA ensured - by intent or by disingenuous conduct - that the talks were held in chaotic conditions and added to this an insistence on the labour standard issue.

The result was a fiasco. In response the developing countries tried to work more effectively. In Africa we worked hard to develop common positions. Major trading economies in the developing world spoke to each other and the very effective Cairns Group on agriculture worked to align their positions. Painstaking work led to the 4th Ministerial in Doha, Qatar. The situation was to say the least unusual so soon after the September 11 tragedy where negotiations took place in a security fortress in a Gulf State.

Hard hours of work led to an agreement that did point to the Doha Development Agenda. This was based on the agriculture text defining a clear process forward with the decisions on Singapore Issues being suspended. The suspension was subtle as it depended on the careful timetable of other milestones in the process - particularly the process on agriculture.

Regrettably the timetable of events to not materialise as was intended. We were held hostage to the EU agricultural reform process. The EU negotiators could not move without the internal process of EU reform being decided upon. What this shows quite clearly is that the WTO negotiations are political. The sad part about it is that the politics of the developed world retains an increasingly self-defeating privilege whilst that of the developing shows increasing frustration. But to try and sanctimoniously define power as the reality of negotiation and the bitter impotence of injustice as political rhetoric serves no purpose other than to fuel the irrationality of the frustration. Fortunately there has been a more powerful response to this impasse from within the developing world that I will recount shortly. However, to understand it we need to revert to the sad tale of agriculture.

Within the narrow perspective of EU politics the agriculture reform process announced in the middle of the year may seem to the protagonists within its coliseum as an achievement. However, for the global reform of agricultural trade and the prospects of agriculture's contribution to development it holds only the prospect of gradual and incremental change. As the burden of the developmental backlog becomes heavier a decade is a long time. For those wondering how to sort out the malaise of misallocated surplus time is of a different weight.

After little progress had been made in the intense negotiating environment in Geneva a final gasp informal meeting of Ministers from some 25 countries tried to find a way out in Montreal at the end of July. When we heard that the EU and the USA had been in detailed and protracted negotiations the other Ministers, after trying collectively to move the process forward, accepted that the two should try and move forward. To understand why such process was considered by other trading nations needs a short explication of how the agricultural agenda had unfolded.

Wisely the agriculture issue had been crystallised into three main matters with a fourth of great significance to many developed countries. These were the question of support for domestic agriculture that was of a trade distorting type - amber and blue 'boxes' in the main. However, export subsidies and credits were now treated as specific and separate issues after the wording agreed in Doha. Here I simplify a little to make matters clearer for the layperson. The third matter was market access, which relates to the formula used for a generalised reduction of agricultural tariffs. The fourth is a concept of the non-trade considerations. This was previously referred to as the multifunctionality of the agriculture sector - or in lay terms it performed any function within society, the economy or the galaxy that the ingenuity of political process could devise. This last cannot be dealt with in full here but somewhere in the plot the dreaded geographic indications come back onto the scene.

In Montreal the Ministers felt that the details of the first and second issues - domestic support and export support - could be effectively dealt with by the Geneva process. This did not mean that they could be resolved in Geneva but that we would have something to deal with by Cancun. However, on market access the position looked bleak in that it seemed as if the formula that the EU and Japan had managed to successfully lobby for was looming. I am afraid that I have to explain this seemingly obscure matter.

All countries have thousands of products with a tariff that applies. These products are grouped into sensible categories called the Harmonised System that are in turn linked to the commonly used Standard Industrial Classification. The HS and SIC have a limited number of Chapters - 9 or 11 - if I recall well. Within these Chapters there are hundreds of lines - a numbering system groups the products and goes to greater level of detail. So if two digits describe a product then it will be a large group of roughly industrially similar products. If 8 or 9 digits describe it is probably a very specific variant of a more common product. Now this means in practice that the average within a chapter could be low but within it there could be very high peaks protecting a specific product. So if the average is reduced the impact on key areas could be small. A 30% average reduction means little if the peak tariff on a key product is 1000%. The average reduction formula is loosely referred to as the Uruguay formula. However, an alternate called the Swiss formula reduces tariff peaks and the average - its effect is a more comprehensive reduction. In Montreal we argued this decisive nicety at length.

For reasons peculiar to their internal politics the USA were in favour of a Swiss Formula approach to market access in agriculture. The EU and many other countries sharing their views or beguiled by the preference system that I will make brief reference to shortly supported the Uruguay Formula. So on this issue Cairns Group and the USA were closer. It therefore made sense to let the two giants slug it out and see if a more sensible dispensation could be put on the table. This they did a matter of days before Cancun was due to start.

The result was perplexing and pointed to some form of accommodation between the USA and the EU that was looking for a quiet life in agriculture - lets not rock the boat. Some new formulation emerged which the experts realised opened new dimensions of the 'Blue Box' that had not been there before. The reasoning behind this was obscure. Shortly thereafter the

Chair of the Council in Geneva - the key permanent negotiating forum - tried to capture consensus and released a draft text. The section on agriculture was too close to the EU/USA attempt for the comfort of many.

At that stage long standing informal contacts between China, India, South Africa, Brazil, Argentina and other developing countries with a very real interest in agriculture came together and worked furiously to craft an alternate approach to this fulcrum of the world trading system. A text was worked on and 17 countries moved to support it. By Cancun's commencement this was 20 countries and by the end 22 (one small country succumbed to pressure and withdrew). The response was fast and unusual as by any measure the group was significant as it represented more than half of the world people and mixed highly competitive agricultural economies with the large rural giants.

What did the G22 position say? It addressed the four pillars but placed the emphasis on different matters. It did this on the basis of two critical building blocks. The first was the basic starting point that the burden of reform and adjustment lay in the wealthy developed economies where agriculture involved the minority of the population, was generally less competitive yet absorbed massive resources to the detriment of their consumers and overall cost structures - no politics or histrionics only facts agreed by all dispassionate analysts. So this needed more certain reductions in domestic support - experts knew that the EU offer meant no actual reduction in the payments that would be made by them - elimination of export subsidies at some agreed point and real market access through a defined blend of the Swiss and Uruguay formulae. The non-trade issues would need to be defined and negotiated.

For developing countries who were in a structurally different position by virtue of larger rural populations and the importance of agriculture in their GDPs and who would remain facing subsidised agriculture for years to come their process of adjustment needed to be slower with more safeguards. The degree to which they liberalised their agriculture was open to both negotiation and some possible differentiation since clearly a South Africa and an India were in different positions, although their developmental problems were less dissimilar.

An unusual situation developed where the G22, the USA and the EU entered a trilateral negotiating process that set the parameters for the many other groups that were there. After protracted negotiations there was real movement and the prospect of an agreement became a possibility that could be contemplated.

However, the baggage added since the end of the Uruguay Round then entered the stage in a manner that could not be ignored. To understand this we need to understand a perverse but perfectly understandable situation. After the good work of unifying African positions during the Doha meeting the complexities of agriculture began to worm into this fragile structure. The worm wound its way into the whole African, Caribbean and Pacific (ACP) group of countries and the Least Developed Countries (LDC). The worm was the dependence on preferences. The agricultural economies of these countries were either tied into historic monoculture or into the ability to sell products at the artificially high prices established by EU Common Agricultural Policy (CAP). The dismantling of this system of preferences - a perverse new dimension to the imperial relationship - posed real threats that no sensible government with a weak economic base could take lightly. The agricultural protectionists lost no time in mobilising this vulnerability.

Africa was chaired by Mauritius - a more preference dependent economy is hard to find - and the result was rather chaotic. In the sad hurly-burly of the meeting Mauritius ended up actually joining a hardy band of agricultural protectionists led by Switzerland, Norway and Japan. Strange partners hold hands in a fog of nervousness.

The G22 absorbed so much of their resources in the battle with the big two - USA and Europe - that they could not divert sufficient resources to speaking to the Africa, ACP and LDC group. However, Nigeria was an important addition when it joined along with Egypt and Indonesia at various points.

This meant that when the Singapore Agenda had to be addressed the close working links of

the G20 had to contend with many forces. The vast majority of developing countries were either opposed to the addition of these matters to the agenda or not particularly concerned to add them - the latter being South Africa's position. Large developing economies like India, Philippines, Indonesia and Malaysia were strongly opposed to these issues and they found receptive hearings in the ACP, LDC and Africa groups. At this point you may wonder why was South Africa in Africa and the G20 and Cairns. This is common as the specific interest of countries on issues don't always meld and so they can occupy different positions but it is understandable that South Africa would find a high degree of commonality with other emerging industrial economies as well as with major agriculture economies in the developing world.

Ironically the final moments of Cancun were a bonfire of that was not ignited by the expected. Agriculture had moved thanks to a more equal negotiating status of the EU, USA and the G22. The G22 was well capable of manoeuvring through the waters of Singapore issues and on industrial products a workable framework was on the table. However, in the end the preference vulnerable economies that had been so insidiously wooed by the EU, USA and Japan troika when faced by a last minute compromise proposal from the EU and Japan on the Singapore issues just said we are 'gatvol'. Time escaped us and the Chair wisely saw that fatigue was not a replacement for good sense and called it a day in an orderly way.

Far from being political and polemic the developing countries - be they in the G22 formation or the numerically large Africa, ACP and LDC group - were right. The balance of the agenda that the developed had engineered was wrong and at the EU/Japan compromise at five minutes to midnight was too late to address the perception of overload and the large finalisation of text process that needed some 12 hours more of talking and consultation.

A new dynamic in the negotiation did emerge and that was the immense capacity and expertise that resided in the G22. The key developing countries came of age and will never look back. To attack Brazil, who should be congratulated for their wonderful capacity, patience and hard work, as some kind of naïve ringleader of dreamers is merely to be looking for the sunset when a new dawn begins to touch the cattle horns.

That we failed is not something to celebrate - it is a set back and a painful one since we made progress. The costs of the setback are high and should not be underestimated. But the problem does not lie in the developing world it resides in the political systems of the developed world that cannot see the costs of what they are paying for in such large amounts. In the setback new forces realised that we have capacity and need never ask questions as to the validity of our cause.

In South Africa we have learnt never to be intoxicated by the fervour of resistance but to pursue the cause that is right and we have learnt to know a cul-de-sac when we see it. The G22 is of the same fabric. Now we must work to ensure that the developed world understands that its policies are wrong for all people when it comes to agriculture. These are political processes and as the system of colonialism was wrong so is the imbalance in the world trade system. The global economy must progress so that all humanity should progress.

It is hard time but we are right. Aluta continua is not something we have to be reticent about in world affairs no matter what Time Magazine or those who know no just cause may say.