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NEGOTIATION TECHNIQUES IN TURKISH FOREIGN POLICY:  
WTO DOHA ROUND NEGOTIATION PROCESS AND ITS  
IMPLICATIONS FOR TURKEY'S RELATIONS WITH ITS  
NEIGHBORS

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ROUND NEGOTIATION PROCESS AND ITS IMPLICATIONS FOR  
TURKEY'S RELATIONS WITH ITS NEIGHBORS

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Approval of the Graduate School of Social Sciences

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## **ABSTRACT**

### **NEGOTIATION TECHNIQUES IN TURKISH FOREIGN POLICY: WTO DOHA ROUND NEGOTIATION PROCESS AND ITS IMPLICATIONS FOR TURKEY’S RELATIONS WITH ITS NEIGHBORS**

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This thesis analyzes World Trade Organization Doha Round negotiation process and its implications for Turkey’s relations with its neighbors. The thesis mainly focuses on two pillars of negotiating package, namely agricultural and non-agricultural products (NAMA) negotiations. Both segments of negotiations have different dimensions due to Turkey’s regional and multilateral obligations. As a developing country, Turkey’s position in agriculture is more in line with other developing countries; in NAMA however it defends more liberal policies because of its Customs Union with the EU. Results of Doha Round will affect not only Turkey but also Turkey’s neighbors and these effects will be more dramatic in some of them. Chapter I is Introduction Chapter. Chapter II evaluates Doha Round in detail; Chapters III and IV examine agriculture and NAMA negotiations and their implications for Turkey. Chapter V evaluates other negotiation topics such as services, trade facilitation, environment and rules. Chapter VI analyzes Turkey’s Customs Union with the EU and its bilateral trade arrangements. The last Chapter is the Conclusion.

Keywords: Turkey, Doha Round, agriculture, NAMA, negotiation.

## ÖZ

### TÜRK DIŞ POLİTİKASINDA MÜZAKERE TEKNİKLERİ: DTÖ DOHA TURU MÜZAKERE SÜRECİ VE BUNUN TÜRKİYE’NİN KOMŞULARI İLE İLİŞKİLERİNE ETKİLERİ

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Bu Tez DTÖ Doha Turu müzakere sürecini ve bunun Türkiye’nin komşuları ile ilişkilerine etkilerini analiz etmektedir. Tez, ağırlıklı olarak müzakere paketinin iki önemli unsuru olan tarım ile tarım-dışı ürünlerde pazara giriş müzkereleri üzerinde yoğunlaşmaktadır. Her iki müzakere konusu da Türkiye’nin bölgesel ve çok taraflı yükümlülüklerinden kaynaklanan farklı boyutlara sahiptir. Gelişme yolunda bir ülke olarak Türkiye’nin tarım alanındaki müzakere pozisyonu diğer gelişme yolundaki ülkelerin pozisyonu ile paraleldir, halbuki tarım-dışı ürün müzakerelerinde ise Türkiye, AB ile Gümrük Birliği yükümlülüğü nedeniyle daha liberal politikaları savunmaktadır. Doha Turu sonuçları sadece Türkiye’yi değil Türkiye’nin komşularını da etkileyecek olup söz konusu etki bu ülkelere bazıları için daha dramatik olacaktır. Birinci Bölüm Giriş Bölümüdür. İkinci Bölüm Doha Turu’nu detaylı olarak değerlendirmektedir. Üçüncü ve Dördüncü Bölümler tarım ve tarım-dışı ürünlerdeki müzakereleri incelemekte ve bu müzakerelerin Türkiye’ye etkilerini detaylı olarak analiz etmektedir. Beşinci Bölüm hizmetler, ticaretin kolaylaştırılması, çevre ve kurallar gibi diğer müzakere başlıklarını ele almaktadır. Altıncı Bölüm Gümrük Birliği ve Türkiye’nin diğer ikili ticari ilişkilerini değerlendirmektedir. Son Bölüm, Sonuç Bölümüdür.

Anahtar kelimeler: Türkiye, Doha Turu, tarım, NAMA, müzakere.

To My Mother and Father

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## INTRODUCTION

The contemporary economic theory claims a close correlation between the trade liberalization and the economic growth.<sup>1</sup> Any reduction or elimination of customs tariffs and quantitative restrictions, *ceteris paribus*, generate more trade among countries. Also, the internal factors such as growth of Gross Domestic Product (GDP) or external factors like regional trade integrations result in trade expansion. The linkage between trade and economic development encourages countries to come together so as to establish a system that enhances a fair and balanced commercial environment.<sup>2</sup> The method that worked until now requires tireless efforts to conduct cumbersome rounds of negotiations to determine the concessions and to codify rules of global trade.

### 1. Trade openness and growth

The relationship between trade, liberalization and economic growth has been discussed between trade promoters and protectionists for along time. Many economists including Adam Smith, David Ricardo, John Maynard-Keynes, Singer-Prebisch, Jagdish Bhagwati and Paul Krugman from both groups have defend their theories. The proponents of free trade such as Adam Smith and others asserted that countries have to specialize in the production of goods in which they have comparative advantage and engage in trade to sell these products to other countries.<sup>3</sup>

Traditionally trade is explained as the engine of growth and is generally linked with the principles of comparative advantage. The theory of comparative advantage is associated with David Ricardo which was modified later by Hechsher –

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<sup>1</sup> Wacziarg, Romain and Karen Horn Welch. "Trade Liberalization and Growth: New Evidence." World Bank Economic Review 22, 2 (June 2008): 187-231.

<sup>2</sup> Understanding the WTO, WTO Publications, Geneva, December 2008. p.13.

<sup>3</sup> Mwaba, Andrew (2000): "Trade Liberalization and Growth: Policy Options for African Countries in a Global Economy" <http://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/00157654-EN-ERP-60.PDF>

Ohlin<sup>4</sup> and Stolper and Samuelson<sup>5</sup>. Comparative advantage affirms that when nations specialize, they become more productive in producing a product and if they can trade for their other needs, they and the world will benefit.<sup>6</sup>

According Ann Harrison, there is a positive relationship between market access measures and GDP growth. Hence, she argues that the more open the economy, the higher the growth rate, or the more protected the local economy, the slower the growth in income.<sup>7</sup> Several studies have demonstrated the negative relationship between tariffs and growth. A regression analysis of variables explaining growth in a cross section of countries by Barro and Xala-i-Martin<sup>8</sup> found the coefficient for tariff rates to be significantly negative.<sup>9</sup>

Protectionist scholars contended that trade liberalization is detrimental to growth and could lead to deterioration if adopted by developing economies. They offer to these countries to protect their infant industries by tariff and non-tariff barriers. Despite the concrete gains from free trade, the argument that trade restrictions and protectionism lead to higher growth rates welcomed in many developing countries and many of them implemented import-substitution and infant industry protection strategies in 1950s and 1960s. In these decades, some scholars maintained that trade liberalization was detrimental to economic growth and could lead to a deterioration in developing economies.<sup>10</sup> One of these is economist Lance Taylor, who contended that “there are no great benefits in following open trade and

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<sup>4</sup> Ohlin, Bertil (1933) *Interregional and International Trade*, Cambridge, Harvard University Press.

<sup>5</sup> Stolper, W. and Paul Samuelson (1941), “Protection and Real Wages” *Review of Economic Studies*, 9, pp. 58-73

<sup>6</sup> Mwaba, Andrew (2000)

<sup>7</sup> Harrison, Ann (1991) *Openness and Growth: A Time Series Cross-Country Analysis for Developing Countries*-World Bank Policy Research Papers No. 809, Washington, DC.

<sup>8</sup> Barro and Xala-i-Martin (1995), *Economic Growth*, Chapter 12, “Empirical Analysis of a Cross-section of Countries” New York, MacGraw Hill.

<sup>9</sup> Mwaba, Andrew (2000)

<sup>10</sup> Ibid.

capital markets strategies. Development strategies oriented internally may be a wise choice towards the centuries end”<sup>11</sup>

As a result of increasing trade liberalization initiatives, expansion of free trade areas, the successful completion of the Uruguay Round and start of Doha Round are confirmation that trade has been increasingly accepted as generating growth. Indeed, as pointed out by Bhagwati<sup>12</sup>, positive results have been registered as evidenced by unprecedented reductions in tariffs.

Furthermore, the choice of whether to maintain a protected economy or open up to the rest of the world is now rather limited with the establishment of the World Trade Organization (WTO). Multilateral rules are embodied within the institutional structure of this Organization. The WTO has 153 members as of 23 July 2008 and 31 observer countries are in the process of accession. Therefore, when the remaining countries successfully complete their accession, the number of the WTO membership will reach to 184. This would mean that almost all of countries will agree on the principle of free trade instead of protectionism.

## **2. Multilateral trade developments**

The latest multilateral trade negotiation which is called “Doha Development Round”, as it started in Doha/Qatar, has not been the first and most probably will not be the last one. The search for a new international trade order started with GATT (General Agreement on Tariffs and Trade), the predecessor of World Trade Organization (WTO).

The Doha Development Round (DDR) is the trade negotiation round of WTO which started in November 2001 as a result of fifth Ministerial Conference of

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<sup>11</sup> Taylor, Lance (1991) “Economic Openness: Problems to the Century’s End” in T. Banuri, ed., *Economic Liberalization: No Panacea*, Oxford University Press

<sup>12</sup> Bhagwati, J.N. (1991) *Protectionism*, MIT Press, Cambridge.

the WTO. Its objective is to eliminate if possible or to lower trade barriers around the world, which provides countries to increase trade globally.<sup>13</sup> As of 2009, talks have stalled over a divide on major issues, such as agriculture, industrial tariffs and non-tariff barriers, services, and trade remedies. The most significant differences are between developed nations led by the European Union (EU), the United States (USA), and the major developing countries represented mainly by India, Brazil and China. There is also considerable contention against the EU and the US for their agricultural trade distorting supports, which operate effectively as trade barriers.<sup>14</sup>

Subsequent ministerial meetings of Doha Round took place in Cancún, Mexico (2003), and Hong Kong (2005). Related negotiations took place in Geneva, Switzerland (2004, 2006, 2008); Paris, France (2005); and Potsdam, Germany (2007).<sup>15</sup>

The most recent round of negotiations, July 23-29 2008, broke down after failing to reach a compromise on agricultural import rules.<sup>16</sup> After the breakdown, major negotiations were not expected to resume until 2009. Nevertheless, intense negotiations, mostly between the US, China, and India, were held in 2008 and afterwards.

Doha Round requires Turkey to design different negotiation positions in various areas. Therefore, this Thesis argues that Turkey has a unique status in Doha Round negotiations and its negotiation skills entirely affected from this special situation.<sup>17</sup> For example, Turkey as a developing country has been applying a stiff

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<sup>13</sup> Doha Ministerial Declaration, WT/MIN(01)/DEC/1, paragraph 16.

[http://www.wto.org/english/thewto\\_e/minist\\_e/min01\\_e/mindecl\\_e.htm](http://www.wto.org/english/thewto_e/minist_e/min01_e/mindecl_e.htm)

<sup>14</sup> Hanrahan, Charles; Randy Schnepf (2007-01-22). WTO Doha Round: The Agricultural Negotiations, Congressional Research Service, Retrieved 2008-07-20.  
<http://www.nationalaglawcenter.org/assets/crs/RL33144.pdf>

<sup>15</sup> [http://www.wto.org/english/tratop\\_e/dda\\_e/negotiations\\_summary\\_e.htm](http://www.wto.org/english/tratop_e/dda_e/negotiations_summary_e.htm)

<sup>16</sup> Beattie, Alan (2008-07-31). "Hangovers but no anger on the morning after". Financial Times. Retrieved 2008-08-02. <http://www.ft.com/cms/s/0/fe2186c0-5e97-11dd-b354-000077b07658.html>

<sup>17</sup> Öniş, Z. and K. Mutlu (2007) "WTO at the end of its First Decade: The Political Economy of Asymmetric Interdependence", *Journal of International Trade and Development* 1 (1) Spring 2007, Ankara, pp.57-89



position in agriculture by defending more favorable treatment to developing countries. In Non-agricultural negotiations (NAMA), however, Turkey's position is totally different compared to agriculture. In NAMA, Turkey is very close to developed countries because of its national interest. As it is known, due to its Customs Union obligation Turkey has to apply Common External Tariff rates of the EU. This special situation has provided a remarkable experience and negotiation capacity for Turkey and enables Turkey at the same time to participate more actively in the discussions.

This Thesis also argues that the Turkish entrepreneurs with collaboration of their foreign partners in Middle East, Caucasus and Central Asia will definitely benefit from the new environment after Doha and this new climate will be able to boost the Turkish economy. On the other hand, new rules will create challenges at least in certain segments of Turkish economy.

Turkey is surrounded by many countries and most of them are WTO members. Therefore, the results of the Doha Round will provide further trade opportunities in near geography of Turkey.

Due to the solid nature of international trade, a concrete approach will be used in this study instead of entering theoretical framework discussions. In this vein, this study has a descriptive and analytical perspective rather than a theoretical one.

In this study, the intention is to portray the historic background of the Doha Round trade negotiations and reflect on the recent developments in the discussions and especially their prospective effects on Turkey and its neighbors. This thesis examines the time period between 1995 and 2008.

This study, however, does not intend to draw pure economic conclusions from the Doha Round negotiations. It will limit its focus on the Doha Round

negotiations and its implications on Turkey and its neighbors. Therefore, the concessions which are given by Turkey and its neighbors during negotiations and their possible effects on the trade regimes will be analyzed.

After describing the WTO, Chapter II of this Study briefly illustrates the process before and after the Doha Round. In this context, Singapore and Seattle Ministerial Conferences are explained in order to better understand the stimulus for a Millennium Round. Later, the post-Doha Ministerial era are being analyzed through Cancun and subsequent Ministerial Conferences and focused on the Geneva process to conceive the recent state of play in the negotiations.

Chapter III deals with agriculture negotiations which is the engine of the general Doha process. These negotiations are mainly based on three “pillars”<sup>18</sup>. i.e.: Domestic support, market access, and export competition. In this framework, reduction of tariffs and subsidies, as well as flexibilities to these formulas for particular countries or groups of countries is dealt with. In addition to this, Turkey’s positions on these subjects are explained and prospective implications of the latest version of the Negotiating Text for Turkey are being analyzed.

In Chapter IV, NAMA negotiations will be explained and their implications for Turkey will be analyzed. In NAMA, the negotiation subjects are generally classified as core and periphery issues. While the formula and flexibility issues generally constitute the core group, sectorals, preference erosion, Newly Acceded Members, Small and Vulnerable Countries subjects constitute the periphery.

Doha Development Agenda does not only cover agriculture and NAMA, there are other numerous topics in the basket. A brief picture of other negotiation

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<sup>18</sup> [http://www.wto.org/english/tratop\\_e/agric\\_e/negs\\_bkgnd14\\_devopcount\\_e.htm](http://www.wto.org/english/tratop_e/agric_e/negs_bkgnd14_devopcount_e.htm). Retrieved 22-6-2010.

topics will be depicted in Chapter V, such as services, trade facilitation, environment and rules.

Chapter VI scrutinizes on Customs Union and Turkey's bilateral trade arrangements. In this context, Turkey's relationships with the EU, BSEC, EFTA, ECO will be examined by concrete trade figures. In addition to this, Turkey's bilateral trade relations with several other neighbor countries and FTAs constitute second part of this Chapter.

Finally, the Conclusion Chapter tries to draw concrete results from the negotiations and elaborate further on the prospective implications of the latest versions of Agriculture and NAMA Negotiating Texts for Turkey.

## **CHAPTER II- GENERAL OUTLOOK ON DOHA ROUND**

The GATT/WTO structure generally represents the globalization trend in international trade system.<sup>19</sup> The ultimate aim of GATT/WTO mechanism is to lower or if possible eliminate all trade barriers in international trade.<sup>20</sup> GATT Article XXVIII constitutes general framework for this enduring negotiation process in the GATT/WTO system.<sup>21</sup> The latest multilateral trade negotiation which is called “Doha Development Round” is the ninth multilateral negotiations and most probably it will be the longest one because nine years have elapsed since its commencement. Other multilateral negotiation rounds have shorter-terms compared to Doha Round. For example the terms of previous rounds are like this, Uruguay Round 1986-1993, Tokyo Round 1973-79 and Kennedy Round 1964-67.<sup>22</sup>

### **1. The World Trade Organization (WTO)**

The World Trade Organization was established through the Marrakesh Agreement Establishing the WTO together with the Final Act of the Uruguay Round. Since then the WTO has been widely taken to be the embodiment of the multilateral trading system.<sup>23</sup> The mandate of the WTO also covers non-trade subjects such as intellectual property rights and the investment component of services. The parts of the international trade architecture that come under the WTO are covered by the Organization’s principles and legally binding rules, as well as a strong enforcement mechanism through its dispute settlement system.<sup>24</sup>

The preamble to the Marrakesh Agreement Establishing the WTO contains the objective that trade and economic endeavor should be conducted with a view to raising standards of living, ensuring full employment and a growing volume of real

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<sup>19</sup> <http://www.ifg.org/analysis/wto/aboutwto.htm>

<sup>20</sup> [http://www.wto.org/english/res\\_e/focus\\_e/focus30\\_e.pdf](http://www.wto.org/english/res_e/focus_e/focus30_e.pdf)

<sup>21</sup> [http://www.wto.org/english/docs\\_e/legal\\_e/gatt47\\_02\\_e.htm](http://www.wto.org/english/docs_e/legal_e/gatt47_02_e.htm)

<sup>22</sup> [http://www.wto.org/english/res\\_e/focus\\_e/focus30\\_e.pdf](http://www.wto.org/english/res_e/focus_e/focus30_e.pdf)

<sup>23</sup> Understanding the WTO, WTO Publications, Geneva, December 2008. pp.9-18.

<sup>24</sup> Understanding the WTO, WTO Publications, Geneva, December 2008. p.18.

income, in accordance with the objective of sustainable development.<sup>25</sup> It also recognizes the need for positive efforts to ensure developing countries secure a share in the growth of international trade commensurate with the needs of economic development. The preamble also states the desire of “contributing to these objectives by entering into reciprocal and mutually advantageous arrangements directed to the substantial reduction of tariffs and other barriers to trade and the elimination of discriminatory treatment in international trade relations.”<sup>26</sup> Other objectives of the WTO are reduction of tariffs and non-tariff barriers and elimination of discriminatory treatment.

The scope of the WTO covers three main areas: trade in goods, services, and intellectual property. Rules for these are established respectively in the General Agreement on Tariffs and Trade (GATT) 1994, the General Agreement on Trade in Services (GATS) and the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). The GATT and TRIPS agreements contain the two general principles of “non-discrimination”, i.e. most favored nation (MFN-equal treatment to all GATT members) and “national treatment” (imported goods must not be accorded treatment less favorable than that accorded to like domestic products), while GATS has the MFN as a general principle.<sup>27</sup>

Today WTO is the sole international body determining the international trade rules for a predictable, transparent and fair environment for all entrepreneurs. Turkey joined the GATT system in 1951 via Torquay Round and became the founder member of the WTO in 1995. By today, with the latest accessions of Togo, Ukraine and Cape Verde, the number of WTO members has reached to 153<sup>28</sup>. Russian Federation, Iraq, Iran, Azerbaijan, Algeria and other trade partners of Turkey are also expected to accede soon. The common target of all existing and

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<sup>25</sup> Marrakesh Declaration of 15 April 1994, [http://www.wto.org/english/docs\\_e/legal\\_e/legal\\_e.htm](http://www.wto.org/english/docs_e/legal_e/legal_e.htm)

<sup>26</sup> Understanding the WTO, WTO Publications, p.10.

<sup>27</sup> Ibid, pp.11-12.

<sup>28</sup> [http://www.wto.org/english/thewto\\_e/whatis\\_e/tif\\_e/org6\\_e.htm](http://www.wto.org/english/thewto_e/whatis_e/tif_e/org6_e.htm). Retrieved 21-6-2010.

potential members is obvious: to integrate into a non-discriminatory and rules based system.

## **2. Developments before Doha Round**

Before the Doha ministerial, as a result of “inbuilt agenda”<sup>29</sup>, negotiations had already been started on trade in agriculture and trade in services in 2000. These negotiations had been required by the Uruguay Round. It was argued later that the inclusion of agriculture and services in the Doha Package was demanded by developed countries (especially the US) allow further trade liberalization in other areas.<sup>30</sup>

The first WTO ministerial conference, which was held in Singapore in 1996, established permanent working groups on four issues: “Transparency in government procurement”, “trade facilitation”, “trade and investment”, and “trade and competition”. These were later called as the “Singapore issues”. These issues were put in the agenda of successive ministerial meetings by the European Union, Japan and Korea, and opposed by many developing countries. Since no agreement was reached, the developed countries planned to insert these topics into new round of trade negotiations.<sup>31</sup>

The multilateral negotiations were intended to start at the ministerial conference of 1999 in Seattle, USA, and be called the Millennium Round but, due to several factors including protest activity outside the conference and discrepancy among the positions of countries over the components of the package, the negotiations were never started. Due to the failure of the Millennium Round, it was

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<sup>29</sup> Many of the Uruguay Round agreements set timetables for future work. Part of this “built-in agenda” started almost immediately. In some areas, it included new or further negotiations. In other areas, it included assessments or reviews of the situation at specified times. There were over 30 items in the original built-in agenda.

[http://www.wto.org/english/thewto\\_e/minist\\_e/min99\\_e/english/about\\_e/04agen\\_e.htm](http://www.wto.org/english/thewto_e/minist_e/min99_e/english/about_e/04agen_e.htm)

<sup>30</sup> Fergusson, Ian F. (2008-01-18). "World Trade Organization Negotiations: The Doha Development Agenda" Congressional Research Service. Retrieved 2008-07-26.

<sup>31</sup> "Tequila sunset in Cancún". The Economist. 2003-09-17. Retrieved 2008-08-03.

decided that negotiations would not start again until the next ministerial conference in 2001 in Doha, Qatar.<sup>32</sup>

Just months before the Doha ministerial, the United States had been attacked by terrorists on September 11, 2001. Some government officials called for greater political cohesion and saw the trade negotiations as a means toward that end. It was thought that a new round of multilateral trade negotiations could help a world economy weakened by recession and terrorism-related uncertainty. According to the WTO, the year 2001 showed “...the lowest growth in output in more than two decades,”<sup>33</sup> and world trade contracted that year.

### **3. Doha Ministerial Conference, 2001**

WTO Ministerial Conference of 2001 began in November 2001, committing all countries to negotiations opening agricultural and industrial markets, as well as services (GATS) negotiations and expanded intellectual property regulation (TRIPS). The intent of the round was to make trade rules fairer for developing countries.<sup>34</sup> However, by 2008, the development nature of the round was begun to be criticized by many developing countries.

The round had been planned for conclusion in December 2005 but later this deadline was characterized as artificial. In fact this deadline was imposed by the WTO to slightly precede the expiration of the U.S. President’s Congressional “Fast Track” Trade Promotion Authority (TPA). TPA prevents Congress from amending the draft and this gives an important flexibility to American negotiators during discussions. On the other hand, the Fast Track Authority expired on June 30, 2007,

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<sup>32</sup> Elliott, Larry; John Vidal. "Week of division on and off streets". The Guardian. <http://www.guardian.co.uk/world/1999/dec/04/wto.johnvidal1>.

<sup>33</sup> Annual Report 2002. World Trade Organization. Chp 2. [http://www.wto.org/english/res\\_e/booksp\\_e/anrep\\_e/anrep02\\_e.pdf](http://www.wto.org/english/res_e/booksp_e/anrep_e/anrep02_e.pdf)

<sup>34</sup> Doha Ministerial Declaration. WT/MIN(01)/DEC/1. [http://www.wto.org/english/thewto\\_e/minist\\_e/min01\\_e/mindecl\\_e.htm](http://www.wto.org/english/thewto_e/minist_e/min01_e/mindecl_e.htm)

and the US congressional leaders decided not to renew this authority for President George W Bush.<sup>35</sup>

#### **4. Cancún Ministerial Conference, 2003**

The Cancún Ministerial Conference collapsed after four days as the members could not converge their positions on a framework to continue negotiations.<sup>36</sup> The reasons for the breakdown in Cancún were continuing differences over the Singapore issues<sup>37</sup>, in this context, several developing countries continued to refuse talking these issues at all, on the other hand, the EU resisted to keep these topics within the package.<sup>38</sup> Another reason was that a few countries showed flexibility in their positions and others only repeated their demands. As a result it was impossible to narrow down the differences among the positions.<sup>39</sup> The significant difference between developing and developed countries on most topics was another obstacle. On the special and differential treatment in agriculture, for example, the U.S.-EU and Group of 20 have prominently different approaches.

The collapse perceived like a victory for the developing countries.<sup>40</sup> The failure to advance the round resulted in a serious loss of momentum and brought into question whether the January 1, 2005 deadline would be met. The North-South divide was most prominent on issues of agriculture. Developed countries' farm subsidies (both the EU's Common Agricultural Policy and the U.S. government agricultural subsidies) became a major problem area. The developing countries finally reached to having the confidence to reject a deal that they viewed as

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<sup>35</sup> "Fast Track Is Dead Today" <http://blog.aflcio.org/2007/06/30/fast-track-is-dead-today/>. Retrieved 2008-07-20

<sup>36</sup> <http://www.countercurrents.org/glo-hernandez60903.htm>. Retrieved 21-6-2010.

<sup>37</sup> Government procurement, trade facilitation, investment and competition.

<sup>38</sup> <http://www.twinside.org.sg/title/twninfo76.htm>

<sup>39</sup> "The Cancún challenge". *The Economist*. 2003-09-04.

[http://www.economist.com/business/displaystory.cfm?story\\_id=E1\\_NDPVQJN](http://www.economist.com/business/displaystory.cfm?story_id=E1_NDPVQJN). Retrieved 2008-08-03.

<sup>40</sup> "Cancún's charming outcome". *The Economist*. 2003-09-18.

[http://www.economist.com/opinion/displaystory.cfm?story\\_id=E1\\_NDSTGNJ](http://www.economist.com/opinion/displaystory.cfm?story_id=E1_NDSTGNJ). Retrieved 2008-08-03.



unfavorable. This is reflected by the new trade bloc of developing and industrialized nations: the G20. Since its creation, the G20 has had fluctuating membership, but is led by the G4 (the People's Republic of China, India, Brazil, and South Africa).

## **5. Geneva Ministerial Meeting, 2004**

After Cancún the negotiations were suspended in 2003. By 2004, however, the U.S. insisted on the resumption of negotiations by offering a proposal that would focus on market access, including an elimination of agricultural export subsidies.<sup>41</sup> It also asserted that the "Singapore issues" could progress by negotiating on trade facilitation, considering further action on government procurement, and possibly excluding investment and competition.<sup>42</sup> This intervention was welcomed with reviving interest in the negotiations, and negotiations resumed in March 2004.

In the months after March 2004, the EU accepted the elimination of agricultural export subsidies "by date certain."<sup>43</sup> The Singapore issues were dropped from the Doha agenda.

After intense negotiations in late July 2004, WTO members reached an agreement on the "July Framework Agreement" (later it was called as the July Package),<sup>44</sup> which provides broad guidelines for completing the Doha round negotiations. The agreement contains a declaration, with four annexes (A-D) covering agriculture, non-agricultural market access, services, and trade facilitation. In addition, the agreement affirms the activities of other negotiating groups (such as those on rules<sup>45</sup>, dispute settlement, and intellectual property) and urges them to

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<sup>41</sup> Fergusson, Ian F. (2008-01-18). "World Trade Organization Negotiations: The Doha Development Agenda" Congressional Research Service. Retrieved 2008-07-26.

<sup>42</sup> Williams, Frances (2004-04-30). "Zoellick to host 'select' dinner in attempt to meet Doha round target". Financial Times. Retrieved 2008-08-04.

<sup>43</sup> <http://www.scribd.com/doc/28133296/WTO>.

<sup>44</sup> [http://www.wto.org/english/tratop\\_e/dda\\_e/draft\\_text\\_gc\\_dg\\_31july04\\_e.htm](http://www.wto.org/english/tratop_e/dda_e/draft_text_gc_dg_31july04_e.htm)

<sup>45</sup> Rules negotiations mainly cover anti-dumping, subsidies and regional trade agreements issues.

fulfill their Doha round negotiating objectives. The agreement also rescheduled the January 1, 2005 deadline for the negotiations as December 2005.<sup>46</sup>

## **6. Hong Kong Ministerial Conference, 2005**

The Sixth WTO Ministerial Conference took place in Hong Kong, December 13 to 18, 2005. Although a set of negotiations took place in the fall of 2005, WTO Director-General Pascal Lamy announced in November 2005 that a comprehensive agreement on modalities would not be forthcoming in Hong Kong, and that the talks would “take stock” of the negotiations and would try to reach agreements in negotiating sectors where convergence was reported.<sup>47</sup>

Trade ministers reached a deal that sets a deadline for eliminating subsidies of agricultural exports by 2013. The final declaration from the talks also requires industrialized countries to open their markets to goods from the world’s poorest nations, a goal of the United Nations for many years. The declaration gave fresh impetus for negotiators to try to finish a comprehensive set of global free trade rules by the end of 2006.<sup>48</sup> The conference reset the deadline of the round as the end of 2006.

## **7. Geneva Process, 2006-2008**

After Hong Kong Ministerial Conference, a new impetus was gained in negotiations. April 2006 was determined as a deadline for reaching a framework for the modalities in agriculture and non-agricultural products. In addition to this, Doha Work Program was accepted by members to finalize the negotiations. The topics included in that Program were: Very politicized and complex issues of the

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<sup>46</sup> Decision Adopted by the General Council on 1 August 2004, WT/L/579

<sup>47</sup> Fergusson, Ian F. (2008-08-18). "World Trade Organization Negotiations: The Doha Development Agenda" Congressional Research Service.

<sup>48</sup> The final Ministerial Declaration (WT/MIN(05)/DEC), December 18, 2005 is available at [[http://www.wto.org/english/thewto\\_e/minist\\_e/min05\\_e/final\\_text\\_e.pdf](http://www.wto.org/english/thewto_e/minist_e/min05_e/final_text_e.pdf)]. “*The World Trade Organization: The Hong Kong Ministerial*”, coordinated by Ian F. Fergusson. CRS Report RL33176.

agricultural sector, market access in non-agricultural products (NAMA), services, trade facilitation, some issues related to the environment, some intellectual property rights issues (Geographical Indications) and rules (fishery subsidies, revision of rules in anti-dumping and subsidies in general).<sup>49</sup>

Having an intense negotiation schedule during the first half of 2006, members of WTO tried to compromise in July 2006. The July 2006 talks in Geneva however failed to reach an agreement about reducing farming subsidies and lowering import taxes, and negotiations were suspended by Pascal Lamy.<sup>50</sup> It took months to resume the discussions, and the official negotiations could only be started as of January 2007. By this failure, a successful outcome of the Doha round became increasingly unlikely; because the trade authority granted under the Trade Act of 2002 to U.S. President George W. Bush was due to expire in 2007. Any trade pact would then have to be approved by the U.S. Congress with the possibility of amendments, which would hinder the U.S. negotiators and decrease the willingness of other countries to participate.<sup>51</sup>

Despite the discouraging effect of expiration of the US Trade Promotion Act, members tried to reach a deal before July 2007 (deadline of TPA). Therefore, by the resumption of negotiations in the early days of 2007, members accelerate the talks and in June 2007, unfortunately the negotiations within the Doha Round broke down at a conference in Potsdam, as a major stalemate occurred between the USA, the EU, India and Brazil. The main disagreement was over opening up agricultural and industrial markets in various countries and also how to cut rich nation farm subsidies.<sup>52</sup>

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<sup>49</sup> WT/MIN(05)/DEC, [http://www.wto.org/english/thewto\\_e/minist\\_e/min05\\_e/final\\_text\\_e.htm](http://www.wto.org/english/thewto_e/minist_e/min05_e/final_text_e.htm)

<sup>50</sup> Bridges Weekly Trade News Digest, Special Update, July 3, 2006. [<http://www.ictsd.org>].

<sup>51</sup> Hanrahan, Charles; Randy Schnepf (2007-01-22). "WTO Doha Round: The Agricultural Negotiations" (PDF). Congressional Research Service.

<http://www.nationalaglawcenter.org/assets/crs/RL33144.pdf>. Retrieved 2008-07-20.

<sup>52</sup> Palmer, Doug; Laura MacInnis (2007-06-21). "G4 talks collapse, throw trade round into doubt". Reuters. <http://www.reuters.com/article/topNews/idUSL2179513320070621>. Retrieved 2008-07-20.

After Potsdam failure, the negotiations in Geneva lost its momentum and technical discussions among selected members (plurilateral meetings) continued during the remaining period of 2007 and first half of 2008. On July 21, 2008, intense negotiations started again in Geneva on the Doha round but stalled after nine days of negotiations over the refusal to compromise over the special safeguard mechanism in agriculture. Developing country Members receive special and differential treatment with respect to other Members' safeguard measures, in the form of a *de minimis* import volume exemption. As users of safeguards, developing country Members receives special and differential treatment with respect to applying their own such measures, with regard to permitted duration of extensions, and with respect to re-application of measures.<sup>53</sup>

Director-general Pascal Lamy said before the start of the July Conference of 2008 that the chance of success was over 50%.<sup>54</sup> Around 40 ministers attended the negotiations. On the second day of the conference, U.S. Trade Representative Susan Schwab announced that the U.S. would cap its farm subsidies at \$15 billion a year<sup>55</sup>, from \$18.2 billion in 2006. The proposal was on the condition that countries such as Brazil and India drop their objections to various aspects of the round. The U.S. and the EU also offered an increase in the number of temporary work visas for professional workers.<sup>56</sup> After one week of negotiations, many considered agreement to be "within reach". However, there were disagreements on issues including special protection for Chinese and Indian farmers and African and Caribbean banana imports to the EU.<sup>57</sup> India and China's firm position regarding tariffs and subsidies

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<sup>53</sup> "Doha: Close But Not Enough," *Bridges Weekly Trade News Digest*, August 7, 2008; Washington Trade Daily, August 13, 2008.

<sup>54</sup> "Remember Doha?". The Economist. 2008-07-17. [http://www.economist.com/opinion/displaystory.cfm?story\\_id=11750413](http://www.economist.com/opinion/displaystory.cfm?story_id=11750413). Retrieved 2008-07-20.

<sup>55</sup> Palmer, Doug; William Schomberg (2008-07-22). "U.S. offers farm subsidy cut but is asked for more". Reuters. <http://ecodiario.eleconomista.es/noticias/noticias/668858/07/08/US-offers-farm-subsidy-cut-but-is-asked-for-more.html>. Retrieved 2008-07-22.

<sup>56</sup> Beattie, Alan (2008-08-27). "Visa offer adds to Doha momentum". Financial Times. <http://www.ft.com/cms/s/0/bf4102d8-5c0c-11dd-9e99-000077b07658.html>. Retrieved 2008-07-28.

<sup>57</sup> Beattie, Alan (2008-07-28). "US says China, India put trade talks in jeopardy". Financial Times. <http://www.ft.com/cms/s/0/069b8e60-5c8e-11dd-8d38-000077b07658.html>. Retrieved 2008-07-28.

was severely criticized by the United States.<sup>58</sup> In response, India's Commerce Minister Kamal Nath said "I'm not risking the livelihood of millions of farmers."<sup>59</sup>

The negotiations collapsed on July 29 over issues of agricultural trade between the United States, India, and China. In particular, there was a disagreement between India and the United States over the special safeguard mechanism (SSM), a measure designed to protect poor farmers by allowing countries to impose a special tariff on certain agricultural goods in the event of an import surge or price fall.<sup>60</sup>

Pascal Lamy said, "Members have simply not been able to bridge their differences."<sup>61</sup> He also said that out of 20 topics, 18 had seen positions converge but the gaps could not narrow on the 19<sup>th</sup> — the special safeguard mechanism for developing countries. The United States, China and India could not agree on the threshold that would allow the mechanism to be used, with the United States arguing that the threshold had been set too low. The European Union Trade Commissioner Peter Mandelson characterized the collapse as a "collective failure".<sup>62</sup> On a more optimistic note, India's Commerce Minister, Kamal Nath, said "I would only urge the director-general to treat this, failure of talks, as a pause, not a breakdown, to keep on the table what is there."<sup>63</sup>

Several countries blamed each other for the breakdown of the negotiations. The United States and some European Union members blamed India for the failure

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<sup>58</sup> "Schwab Says An SSM Breakthrough Alone May Not Have Saved Round," *Inside U.S. Trade*, August 1, 2008.

<sup>59</sup> "Bad tempers flare, threatening WTO deal". AFP. 2008-07-28.  
<http://afp.google.com/article/ALeqM5hBHmONMCfKXs6HNRGCc9uEv2TI1Q>. Retrieved 2008-07-28

<sup>60</sup> "Dismayed powers plea to salvage WTO talks". AFP. 2008-07-30.  
<http://news.theage.com.au/world/dismayed-powers-plea-to-salvage-wto-talks-20080730-3myb.html>. Retrieved 2008-07-30.

<sup>61</sup> "World trade talks end in collapse". *BBC News*. 2008-07-29.  
<http://news.bbc.co.uk/2/hi/business/7531099.stm>. Retrieved 2008-07-29.

<sup>62</sup> "Dismay at collapse of trade talks", *BBC News*, 30 July 2008

<sup>63</sup> "Dismayed powers plea to salvage WTO talks". AFP. 2008-07-30.  
<http://news.theage.com.au/world/dismayed-powers-plea-to-salvage-wto-talks-20080730-3myb.html>. Retrieved 2008-07-30.

of the talks. India claimed that its position was supported by over 100 countries. Brazil, one of the founding members of the G-20, broke away from the position held by India. Then-European Commissioner for Trade Peter Mandelson said that India and China should not be blamed for the failure of the Doha round. In his view, the agriculture talks had been harmed by the five-year program of agricultural subsidies recently passed by the U.S. Congress, which he said was “one of the most reactionary farm bills in the history of the U.S.”.<sup>64</sup>

The negotiations have been conducted in a low-profile mode since July 2008. The developed and developing countries tried to narrow the differences among their positions especially on SSM in agriculture and sectorals, preference erosion in NAMA.<sup>65</sup> In this climate, they have also tried to edit some technical details of scheduling and the issues of NTBs. Diminishing political interest on Doha evaporates the positive expectations for a successful conclusion Doha Round at the end of 2010.

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<sup>64</sup> Alan, Beattie; Frances William (2008-07-29). "Doha trade talks collapse". Financial Times. <http://www.ft.com/cms/s/0/0638a320-5d8a-11dd-8129-000077b07658.html>. Retrieved 2008-07-29.

<sup>65</sup> Report on Doha Negotiations. 22-23 July 2009. [http://www.acp-eu-trade.org/library/files/Egypt\\_EN\\_050809\\_Egypt\\_Report%20on%20Doha%20Negotiations.pdf](http://www.acp-eu-trade.org/library/files/Egypt_EN_050809_Egypt_Report%20on%20Doha%20Negotiations.pdf). Retrieved 22-6-2010.

### **CHAPTER III: AGRICULTURE NEGOTIATIONS**

Agriculture was integrated in the WTO framework by the Uruguay Round Agreement on Agriculture<sup>66</sup> (AoA). According to the preamble of this agreement, “to establish a fair and market-oriented agricultural trading system” through “progressive reductions in agricultural support and protection” having regards to “non-trade concerns” and taking into account “the particular needs and conditions of developing country Members”.<sup>67</sup> WTO Members’ commitments were intended to contribute to the elimination of trade distortions and to the stabilization of world prices. However, the implementation of the AoA has given mixed results. While tariffs and subsidies were bound<sup>68</sup> and subject to reduction commitments, some developed countries have preserved substantial border protections and subsidies. While some developing countries became important agricultural exporters, others were negatively affected from the competition of subsidized agricultures.

#### **1. General evaluation negotiations and state of play before 2008**

The Doha Round was deemed to be a “development round” and it was expected to solve the problems of developing countries stemming from the Uruguay Round AoA. According to developing countries, developed countries would have to make important concessions on agriculture and developing countries would only make concessions consistent with the necessity for them to implement policies in order to reaching their objectives of development, food security and poverty reduction. Furthermore, the principle of “single undertaking”<sup>69</sup> would be maintained.

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<sup>66</sup> [http://www.wto.org/english/docs\\_e/legal\\_e/14-ag\\_01\\_e.htm](http://www.wto.org/english/docs_e/legal_e/14-ag_01_e.htm). Retrieved 22-6-2010.

<sup>67</sup> Agreement on Agriculture, Preamble, p.1.

<sup>68</sup> Binding tariffs or subsidies means to set ceiling level in tariffs and subsidy amounts which prevents countries from implementing higher tariff rates or subsidy amounts over the ceiling binding commitments.

[http://www.wto.org/english/thewto\\_e/whatis\\_e/tif\\_e/agrm3\\_e.htm](http://www.wto.org/english/thewto_e/whatis_e/tif_e/agrm3_e.htm). Retrieved 21-6-2010.

<sup>69</sup> “Nothing is agreed until everything is agreed”.

[http://www.wto.org/english/tratop\\_e/dda\\_e/work\\_organ\\_e.htm](http://www.wto.org/english/tratop_e/dda_e/work_organ_e.htm). Retrieved 21-6-2010.

After the failure of the Cancun ministerial conference in 2003, it clearly appeared that the establishment of a detailed mandate was a necessary precondition before any deal could be envisaged, especially for the negotiations on agriculture and non-agricultural market access (NAMA). WTO Members agreed, in July 2004, on a “framework” for establishing modalities on agriculture.<sup>70</sup>

On these bases, discussions were held and progress continued to be made, especially in 2008, as reflected in the successive versions of the “draft modalities”<sup>71</sup>. However, no agreement could be reached on agriculture. The difficulties in the agricultural negotiations have several reasons: First of all, the agricultural negotiations compose groups of countries which have very different agricultural models. Agricultural exporting countries naturally advocate for an increased market access opportunities and reduced protections. Most of these countries are Members of the Cairns group.<sup>72</sup>

Other countries, which protect their agriculture and support “multifunctionality of agriculture”<sup>73</sup>, are not ready to accept liberalization concessions that would undermine their agricultural model and advocate for disciplines not taking into account non-trade concerns. These countries are mainly the G10<sup>74</sup> and the so-called “friends of multifunctionality”.<sup>75</sup>

In the same manner, numerous developing countries –including emerging countries such as India and China- request a specific protection that would allow

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<sup>70</sup> Decision of the General Council of 1st August 2004, WT/L/579

<sup>71</sup> Draft negotiaton texts prepared by the Chair of Agriculture Negotiating Group.

<sup>72</sup> The Cairns group is composed of: Argentina, Australia, Bolivia, Brazil, Canada, Chile, Colombia, Costa Rica, Guatemala, Indonesia, Malaysia, New Zealand, Paraguay, Peru, Philippines, South Africa, Thailand and Uruguay.

<sup>73</sup> [www.wto.org/english/thewto\\_e/glossary\\_e/multifunctionality\\_e.htm](http://www.wto.org/english/thewto_e/glossary_e/multifunctionality_e.htm). Retrieved 21-6-2010.

<sup>74</sup> The G10 gathers Bulgaria, South Korea, Iceland, Israel, Japan, Liechtenstein, Mauritius, Switzerland, Taiwan and Japan.

<sup>75</sup> The 'friends of multifunctionnality' include the EC, Switzerland, Norway, Japan, Korea and Mauritius.



them to develop or maintain their agricultural sector. WTO Members have recognized, in the “2004 Framework Agreement”<sup>76</sup> that agriculture was of crucial importance for economic development. A majority of participants is concerned with its ability to maintain an agricultural sector and to ensure the food security of their populations.

Two WTO Members have a critical position in the negotiations: the EU and the US. These countries have developed agricultural models, based on support programs and border protections, which stimulated their production and export.<sup>77</sup> By their size and high income level, they are also important import markets. The EU and the US are the two biggest importers and exporters of agricultural products. The EU and the US are under a strong pressure to open their markets and reduce their support regimes. The US favors an ambitious formula for reducing tariffs, which is a condition for it to accept an important cut in their subsidies. The EU is ready to eliminate its export subsidies if disciplines on other forms of export incentives are tabled, and it is ready to make general concessions in market access (tariff rates) and domestic support, provided that it has the possibility to maintain specific tariff protections and legitimate supports and obtain a better protection of geographical indications.<sup>78</sup>

The challenge of agricultural negotiations is thus to find a compromise between progressive liberalization and the maintenance of agricultural policies that respond to the needs and expectations of the populations. Another difficulty is the close link between agriculture and NAMA negotiations.<sup>79</sup> The conclusion of a Doha deal depends on a compromise between a small group of developed and emerging country Members, on an “exchange rate”<sup>80</sup> between market access in agriculture and

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<sup>76</sup> The so-called “July Package of 2004” which establishes initial modalities for negotiations.

<sup>77</sup> [http://www.wto.org/english/forums\\_e/ngo\\_e/posp52\\_ifatpc\\_e.pdf](http://www.wto.org/english/forums_e/ngo_e/posp52_ifatpc_e.pdf). Retrieved 21-6-2010.

<sup>78</sup> The WTO Agricultural Negotiations: Progress and Prospects  
<http://www.choicesmagazine.org/2005-2/wto/2005-2-08.htm>. Retrieved 21-6-2010.

<sup>79</sup> <http://www.twinside.org.sg/title2/par/mk007.pdf>. Retrieved 21-6-2010.

<sup>80</sup> The balance between the concessions given in agriculture and NAMA.

market access in NAMA. This group comprises in particular the EU, the US, Brazil, India, China, Japan and Australia (the so-called G7). Furthermore, the Doha Round has seen the active involvement of a growing number of countries, and in particular emerging countries which have become important import and export markets. By contrast with the Uruguay Round, a deal will be found by compromises between a bigger numbers of key negotiators. Finally, a number of other issues are also important in the balance of a deal, and especially the negotiations on services, which are not as advanced as those on agriculture and NAMA.

Despite the failure to reach an agreement in July 2008, the work undertaken in 2008 has been considerable, and some key Members, and especially the EU and the US, have made stocktake of the WTO agricultural negotiations after the failure of the 2008 talks notable concessions in order to reach a compromise.

## **2. Overview of agriculture negotiations in 2008**

2008 was a year of intense negotiations in the “history” of the Doha Round. The progress was reflected in the so-called “draft modalities”, a document prepared by the chair of the Special session of the Committee on Agriculture<sup>81</sup> and reflecting the state of play of discussions between WTO members on the various issues of the agricultural negotiations. The modalities are intended to serve as a basis for the adoption by WTO Members of their schedule of concessions, and for amending the AoA in order to determine the agreed disciplines. In 2008, these draft modalities were subject to four revisions, in February<sup>82</sup>, May<sup>83</sup>, July<sup>84</sup> and December<sup>85</sup>.

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<sup>81</sup> Formal title of Agriculture Negotiating Group.

<sup>82</sup> TN/AG/W/4/Rev.1, 8 February 2008.

[http://www.wto.org/english/tratop\\_e/agric\\_e/agchairtxt\\_feb08\\_e.pdf](http://www.wto.org/english/tratop_e/agric_e/agchairtxt_feb08_e.pdf)

<sup>83</sup> TN/AG/W/4/Rev.2, 19 May 2008.

[http://www.wto.org/english/tratop\\_e/agric\\_e/agchairtxt\\_may08\\_e.pdf](http://www.wto.org/english/tratop_e/agric_e/agchairtxt_may08_e.pdf)

<sup>84</sup> TN/AG/W/4/Rev.3 10 July 2008.

[http://www.wto.org/english/tratop\\_e/agric\\_e/agchairtxt\\_july08\\_e.doc](http://www.wto.org/english/tratop_e/agric_e/agchairtxt_july08_e.doc)

<sup>85</sup> TN/AG/W/4/Rev.4, 6 December 2008.

[http://www.wto.org/english/tratop\\_e/agric\\_e/agchairtxt\\_dec08\\_a\\_e.doc](http://www.wto.org/english/tratop_e/agric_e/agchairtxt_dec08_a_e.doc)

In July, discussions focused particularly on certain key issues in agriculture and NAMA, on which an agreement had to be found before any deal could be envisaged. Despite considerable progress, no agreement could be reached on this “package”, and a number of other important issues could not be solved. Intense discussions continued from September 2008. The July Text of 2008 (TN/AG/W/4/Rev.3) and subsequent work was then captured for the most part in a new version of the draft modalities released in December.

### **3. Framework of the agricultural negotiations**

The framework of the agricultural negotiations is reflected in the draft modalities. The four versions of the draft modalities issued in 2008 show the notable progress that was made in that year, since most of the brackets around controversial language or key numbers were cleaned.<sup>86</sup>

Like the preceding versions, the text<sup>87</sup> is articulated around the three “pillars” of the AoA: Domestic support, market access, and export competition. In brief:

- it presents formulas for reducing tariffs and subsidies, as well as flexibilities to these formulas for particular countries or groups of countries;<sup>88</sup>
- it envisages the elimination of export subsidies and presents reinforced disciplines for export credits, food aid and state-trading enterprises;<sup>89</sup>
- it contains special and differential provisions in order to impose less stringent disciplines on developing country Members, and differentiates between various sub-categories of developing countries.<sup>90</sup>

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<sup>86</sup> The brackets in the text were progressively removed.

<sup>87</sup> [http://www.wto.org/english/tratop\\_e/agric\\_e/agchairtxt\\_july08\\_e.doc](http://www.wto.org/english/tratop_e/agric_e/agchairtxt_july08_e.doc)

<sup>88</sup> Ibid.

<sup>89</sup> Ibid.

### 3.1. Domestic support

Numerous countries deem necessary to support their agriculture, in order to ensure protection against the instability of agricultural markets, to promote rural development and, more generally to promote an agricultural model.<sup>91</sup> However, WTO Members have recognized that trade-distorting domestic supports had to be reduced.<sup>92</sup> An underlying concern is also that WTO Members either developed or developing ones have very different capacities to support their agriculture. The current AoA establishes a framework of reduction of domestic support, distinguishing between different categories according to their trade distorting effects. The domestic support boxes;

- **Amber box**: Subsidies having a direct distorting effect on production and trade. They are subject to reduction commitments.<sup>93</sup>
- **De minimis**: Subsidies which do not exceed a certain share of the total value of production during the relevant year (for developed countries, 5% for products specific support and 5% for non-product specific support, i.e. 10% in total). They are not subject to reduction commitments.<sup>94</sup>
- **Green box**: Subsidies having no or at least minimal trade-distorting effects. They are not subject to reduction commitments.<sup>95</sup>
- **Blue box**: Direct payments subject to certain production limitations. They are not subject to reduction commitments.<sup>96</sup>

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<sup>90</sup> Ibid.

<sup>91</sup> <http://www.odi.org.uk/resources/download/7.pdf>. Retrieved 21-6-2010.

<sup>92</sup> Doha Ministerial Declaration, WT/MIN(01)/DEC/1, paragraph 13.

[http://www.wto.org/english/thewto\\_e/minist\\_e/min01\\_e/mindecl\\_e.htm](http://www.wto.org/english/thewto_e/minist_e/min01_e/mindecl_e.htm)

<sup>93</sup> Article 6 of AoA. [http://www.wto.org/english/docs\\_e/legal\\_e/14-ag\\_01\\_e.htm](http://www.wto.org/english/docs_e/legal_e/14-ag_01_e.htm)

<sup>94</sup> Paragraph 4 of Article 6 of AoA. [http://www.wto.org/english/docs\\_e/legal\\_e/14-ag\\_01\\_e.htm](http://www.wto.org/english/docs_e/legal_e/14-ag_01_e.htm)

<sup>95</sup> Described in Annex 2 of the current AoA. [http://www.wto.org/english/docs\\_e/legal\\_e/14-ag\\_01\\_e.htm](http://www.wto.org/english/docs_e/legal_e/14-ag_01_e.htm)

Under the AoA disciplines, several developed country Members have been able to maintain significant levels of domestic support. WTO Members agreed to make substantial additional reductions in trade-distorting domestic support. The draft modalities envisage cuts in all trade-distorting boxes, and new constraints on the overall reduction of trade-distorting boxes and product-specific limits. But they also contain certain flexibilities, as well as special provisions for developing countries in order to allow them supporting and developing their agricultural sector.

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### **3.2. Substantial reductions in trade-distorting domestic support**

In the revised text considerable reductions were proposed in trade distorting domestic support measures, namely amber box, de minimis, green box and blue box subsidies.

#### **3.2.1. Amber box**

Under the AoA<sup>96</sup>, WTO Members had to reduce their level of trade-distorting support (the so-called “total AMS”) by 20%. This “bound” permitted ceiling was not a strong constraint for the main subsidizing Members, which usually applied lower levels of support<sup>99</sup>. WTO Members agreed on an additional reduction of the levels of bound support, according to a tiered formula by which higher reduction rates would be applied to highly subsidizing Members. The July 2008 draft modalities foresee the following formula:<sup>100</sup>

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<sup>96</sup> Paragraph 5 of Article 6 of AoA [http://www.wto.org/english/docs\\_e/legal\\_e/14-ag\\_01\\_e.htm](http://www.wto.org/english/docs_e/legal_e/14-ag_01_e.htm)

<sup>97</sup> [http://www.uneca.org/eca\\_programmes/trade\\_and\\_regional\\_integration/final%20draft%20paper%20africa%20wto%20agreements%20agriculture.doc](http://www.uneca.org/eca_programmes/trade_and_regional_integration/final%20draft%20paper%20africa%20wto%20agreements%20agriculture.doc). Retrieved 21-6-2010.

<sup>98</sup> [http://www.wto.org/english/docs\\_e/legal\\_e/14-ag.doc](http://www.wto.org/english/docs_e/legal_e/14-ag.doc). Retrieved 21-6-2010.

<sup>99</sup> That means these countries usually apply lower rates below than their officially bound rates.

<sup>100</sup> See paragraph 13 of the July modalities. (TN/AG/W/4/Rev.3 10 July 2008) [http://www.wto.org/english/tratop\\_e/agric\\_e/agchairtxt\\_july08\\_e.doc](http://www.wto.org/english/tratop_e/agric_e/agchairtxt_july08_e.doc)

**Table 1:**

<b>Tier (billion US dollars)</b>	<b>Reduction</b>
More than 40	70%
15-40	60%
0-15	45%

**Source:** TN/AG/W/4/Rev.3

As a result of this formula, the EU would reduce in the highest tier, the US and Japan would reduce in the second tier and all the other Members in the last tier. Furthermore, the EU, the US and Japan would have to make a 25% cut from the beginning of implementation, and the remaining in equal annual steps over 5 years.<sup>101</sup>

Regarding product-specific AMS limits, there is no rule in AoA in order to limit the support level for an individual product, some Members, and in particular the US, could have increased their support to certain products while decreasing their total AMS. In order to prevent such a circumventing effect, it was agreed to cap product-specific AMS at their average level during the AoA implementation period (1995-2000).<sup>102</sup> However, the US requested a specific base period that would be less constraining for them.<sup>103</sup>

### **3.2.2. Reduction of the *de minimis* exemption**

The draft modalities provide for a significant reduction of the existing *de minimis* support exemption. For developed countries, a 50% cut was proposed<sup>104</sup>

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<sup>101</sup> [http://www.wto.org/english/tratop\\_e/agric\\_e/agchairtxt\\_july08\\_e.doc](http://www.wto.org/english/tratop_e/agric_e/agchairtxt_july08_e.doc). Retrieved 21-6-2010

<sup>102</sup> See paragraph 22 of the July modalities. (TN/AG/W/4/Rev.3 10 July 2008)

<sup>103</sup> For the US, product-specific AMS limits would be calculated on the basis of total product-specific AMS in the 1995-2000 period but shared according to the average level of each product-specific AMS in the 1995-2004 period (see paragraph 23 of the July modalities).

[http://www.wto.org/english/tratop\\_e/agric\\_e/agchairtxt\\_july08\\_e.doc](http://www.wto.org/english/tratop_e/agric_e/agchairtxt_july08_e.doc)

<sup>104</sup> See paragraph 30 of the July modalities.

(which means, for product-specific and non product-specific *de minimis*, a total of 5% instead of 10% currently).

### **3.2.3. Blue box: a new category and new caps**

Under the current AoA, the blue box, which was originally designed for certain EU and US payments with production limits or partial decoupling, allowed Members especially Japan to reform their agricultural subsidies and to shift support from the amber to the blue box.<sup>105</sup>

In the Doha negotiations, the US initially favored the limiting of the blue box, later it changed its position and envisaged to securing a shift of its counter-cyclical payments in the blue box, and for this reason, it requested the elimination of the condition to limit production.<sup>106</sup>

Eventually, the draft modalities envisage to extend the scope of the blue box but to introduce budgetary constraints. On the one hand, a new blue box would be created, for payments which would not require limitations of production but would be based on a fixed amount of production.<sup>107</sup> On the other hand, the blue box would also be subject, by contrast with the current AoA, to budgetary caps:

- it would be limited to 2,5% of the value of production during the 1995-2000 base period;<sup>108</sup>
- product-specific limits would be introduced in order to avoid increases in particular products. These limits would be the average spent during the

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<sup>105</sup> <http://ageconsearch.umn.edu/bitstream/14623/1/cp18.pdf>. Retrieved 22-6-2010.

<sup>106</sup> [http://www.unescap.org/tid/mtg/postcancun\\_rte\\_ho.pdf](http://www.unescap.org/tid/mtg/postcancun_rte_ho.pdf). Retrieved 21-6-2010

<sup>107</sup> See paragraph 35 of the July modalities

<sup>108</sup> For Members -such as Norway- which have placed more than 40% of domestic support in the blue box in 1995-2000, a lesser reduction would be allowed (the percentage applicable to their amber box would be applied). See paragraph 39 of the July modalities.

[http://www.wto.org/english/tratop\\_e/agric\\_e/agchairtxt\\_july08\\_e.doc](http://www.wto.org/english/tratop_e/agric_e/agchairtxt_july08_e.doc)

1995-2000 period. For the US, however, a different modality would apply.<sup>109</sup>

#### 3.2.4. Overall reduction of trade-distorting support (OTDS): a tiered formula

WTO Members agreed to introduce a new discipline, consisting of an overall reduction of all OTDS, including the amber box, *de minimis* and the blue box.<sup>110</sup> This discipline, and the figures of maximal level of support that would be allowed in the end, have been a key issue in the negotiations (especially for the US OTDS). Reductions would be made according to a tiered formula similar to the amber box. The July 2008 draft modalities present the following ranges for the cuts:

**Table 2:**

<b>Tier (billion US dollars)</b>	<b>Reduction</b>
More than 60	[75-85]%
10-60	[66-73]%
0-10	[50-60]%

**Source:** TN/AG/W/4/Rev.3

Again, the EU would reduce in the highest tier, the US and Japan in the second tier, and all the other Members in the lower tier. Moreover, the EU, the US and Japan would have to make a 33.3% cut from the first day (the other Members would have to make a 25% cut) and the remaining reductions would be implemented annually over 5 years.<sup>111</sup>

<sup>109</sup> The limits could be more than the maximums calculated on the basis of the 2002 Farm Bill (10 or 20%). See paragraphs 40-42 of the July modalities.

[http://www.wto.org/english/tratop\\_e/agric\\_e/agchairtxt\\_july08\\_e.doc](http://www.wto.org/english/tratop_e/agric_e/agchairtxt_july08_e.doc)

<sup>110</sup> See paragraph 1 of the July modalities

<sup>111</sup> See paragraph 5 of the July modalities.



### **3.3 Green box: more stringent but also more adjusted criteria**

Despite criticism by some countries which were arguing that green box measures have more than “minimal” effects on trade, the green box will remain exempt from reduction commitments. However, criteria for the various categories that are used by developed countries have been modified in order to be more stringent. In particular, the draft modalities propose that, for decoupled income support, structural adjustment and regional assistance programs, the period on which payments are based, which currently has to be ‘fixed’ under the AoA, be also “unchanging”, so that producers may not anticipate future changes in payments and modify their production decisions accordingly.<sup>112</sup> However, an exceptional update would be possible, “provided that producer expectations and production decisions are unaffected”, and that the updating shall not have the effect of circumventing the fundamental criteria of the green box.<sup>113</sup> A footnote to the text also foresees the possibility to determine or change the base period once, as long as the selected base period never changed again.

The draft modalities also envisage a reinforcement of the monitoring requirements: green box measures would be subject to an extended notification requirement, including a more detailed description of the measure and its budgetary outlay.<sup>114</sup>

### **3.4. Special and Differential Treatment for developing countries**

According to the July 2008 draft modalities, developing countries would benefit from flexibilities in all categories of domestic support. For trade-distorting

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<sup>112</sup>[http://cap2020.ieep.eu/assets/2009/9/3/EP\\_study\\_\\_2009\\_\\_Stocktake\\_of\\_the\\_WTO\\_Agricultural\\_Negotiations\\_after\\_the\\_Failure\\_of\\_the\\_2008\\_Talks.pdf](http://cap2020.ieep.eu/assets/2009/9/3/EP_study__2009__Stocktake_of_the_WTO_Agricultural_Negotiations_after_the_Failure_of_the_2008_Talks.pdf). Retrieved 21-6-2010.

<sup>113</sup> See annex B of the July modalities. (TN/AG/W/4/Rev.3 10 July 2008).  
[http://www.wto.org/english/tratop\\_e/agric\\_e/agchairtxt\\_july08\\_e.doc](http://www.wto.org/english/tratop_e/agric_e/agchairtxt_july08_e.doc)

<sup>114</sup> See Annex M of the July modalities.

support, the draft modalities foresee lesser reductions and longer implementation periods. For de minimis, developing countries are exempted from reduction, they keep the status quo. The green box, the draft modalities also foresee increased possibilities to allow development programs (for food security, farmers' livelihood and rural development) and flexibilities in the use of several categories. Least developed countries, net food importing countries, "small and vulnerable economies" (SVEs)<sup>115</sup> and recently acceded members (RAM) would be granted additional flexibilities. In addition, special provisions would apply for cotton, which has become the symbol of the damages that subsidies can cause to the agricultures of poor countries. WTO Members have agreed to cut subsidies to cotton "in a more ambitious manner" and over a shorter period of time. To this end, the draft modalities present specific reductions on AMS and blue box support of developed countries.<sup>116</sup>

#### **4. Market access**

Market access disciplines have impacts on agricultural policy in different aspects. First, tariff cuts make domestic producers more open to the competition from imports. Second, after tariff cuts the member would lose its power to adjust domestic prices, and it will incline to use other support policies. Last but not least, after tariff cuts some developing countries would suffer from decrease in tariff revenues, and this will affect their financial capacity to support agriculture negatively.<sup>117</sup>

An important change under the AoA has been the conversion of agricultural import barriers into tariffs. Maximum tariffs (so-called 'bound tariffs') were set and WTO Members had to reduce them by an average of 36% with a minimum cut of

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<sup>115</sup> See the list in Annex I of the 10 July 2008 revised draft agriculture modalities, and footnote 9 (paragraph 65) and paragraph 151.

<sup>116</sup> [http://www.wto.org/english/tratop\\_e/agric\\_e/agchairtxt\\_july08\\_e.doc](http://www.wto.org/english/tratop_e/agric_e/agchairtxt_july08_e.doc)

<sup>117</sup> [http://www.wto.org/english/tratop\\_e/agric\\_e/agric\\_e.htm](http://www.wto.org/english/tratop_e/agric_e/agric_e.htm). Retrieved 21-6-2010.

15% per product. However, Members were able to maintain important tariff protections, either by setting “generous” tariff equivalents which were much higher than the applied tariffs (thus giving them margins to raise tariffs if necessary) or by maintaining high tariffs on certain products.<sup>118</sup>

In the Doha Round, WTO Members agreed to impose a new reduction of bound tariffs in view of a “substantial amelioration” of market access. They also recognized that, in order to reach consensus on tariff reductions, it was necessary to allow Members to maintain some protections for “sensitive” products. Besides, a major element of the development Round was to allow developing countries to have special tariff instruments to protect their agriculture. Overall, the challenge in the market access pillar is to find a balance between these reductions and protections.

#### **4.1. General increase in market access**

In the Doha Round, Members agreed to establish a tariff reduction formula that would take account of the level of tariffs, as well as rules on various tariff practices that impede market access.

##### **4.1.1. The tiered formula**

There is a variety of methods for negotiating tariff reductions:

- The Uruguay Round approach was based on flat-rate percentages and required a 36% average reduction with a 15% minimum reduction per product. This allowed Members to maintain some high tariffs<sup>119</sup>;

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<sup>118</sup> [http://www.wto.org/english/docs\\_e/legal\\_e/14-ag.doc](http://www.wto.org/english/docs_e/legal_e/14-ag.doc). Retrieved 21-6-2010.

<sup>119</sup> WTO Agreement on Agriculture. [http://www.wto.org/english/docs\\_e/legal\\_e/14-ag.doc](http://www.wto.org/english/docs_e/legal_e/14-ag.doc).

- The approach chosen in the Doha Round for agricultural tariffs is a tiered formula with flat-rate percentages increasing at each tier. This is deemed to take account of the different tariff structures of WTO Members and to ensure that the highest tariffs are applied the highest reduction.
- The “Swiss formula” is a mathematical formula for reducing tariffs, which greatly narrows the gap between high and low tariffs (it harmonizes tariffs), with a maximum final rate no matter how high the original tariff was. A coefficient is set, which determines the extent of reductions and the maximum rates. The Swiss formula is used for the Doha negotiations concerning tariff cuts on industrial products;<sup>120</sup>

Members agreed on a tiered formula of reduction, where the percentage cuts would increase at each tier. Despite some discussions, they agreed that the tariff cuts would apply on bound tariffs, and not the tariffs that are actually applied by Members (that in some cases are much lower than the permitted ceiling). Technical difficulties also had to be solved concerning the conversion of specific tariffs in *ad valorem* equivalents (AVEs- i.e. tariffs expressed as a percentage of the value of the product)<sup>121</sup> for determining in which tier they would fall. Concerning the formula itself, Members broadly agreed on the tiers and corresponding reductions, but the cut in the highest tier (most protected products) remains contentious. The July 2008 draft modalities present the following formula for developed countries<sup>122</sup>:

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<sup>120</sup> [http://www.wto.org/english/tratop\\_e/agric\\_e/agnegs\\_swissformula\\_e.htm](http://www.wto.org/english/tratop_e/agric_e/agnegs_swissformula_e.htm).

<sup>121</sup> Ad valorem equivalent (AVE) can be calculated mathematically by converting absolute tariff per ton or liter into a percentage of the value of imported commodity. Thus, AVE is basically linked with the merchandise's value, and the higher the commodity's value is, the smaller the AVE is. The formula of AVE = (custom revenues/commodities' values) \* 100.

<http://ec.europa.eu/agriculture/publi/map/brief1.pdf>

<sup>122</sup> See para.61 of the July modalities. (TN/AG/W/4/Rev.3 10 July 2008)  
[http://www.wto.org/english/tratop\\_e/agric\\_e/agchairtxt\\_july08\\_e.doc](http://www.wto.org/english/tratop_e/agric_e/agchairtxt_july08_e.doc)

**Table 3:**

<b>Tier</b>	<b>Reduction</b>
Above 75%	[(66) (73)]%
50-75%	64%
20-50%	57%
Below 20%	50%

**Source:** TN/AG/W/4/Rev.3

Moreover, developed countries would have to make a minimum average cut of 54% (inclusive of all reduction disciplines including sensitive treatment).<sup>123</sup> Additional cuts would have to be made if this average was not reached. For developing countries, the reduction would be two-third of the reduction applicable to developed country and there would be a *maximum* average cut, of 36%.<sup>124</sup>

#### **4.1.2. Tariff escalation**

Several countries, and especially developing countries, complained about the practices of certain WTO Members imposing higher tariffs on processed products than on raw materials, in order to protect their processing industries. This is classified as tariff escalation.<sup>125</sup> The draft modalities present a formula that would apply to a list of primary products and their corresponding processed products. These products would be subject to an additional tariff cut. There would be some exceptions, in particular for sensitive products and also if the formula would reduce the tariff for the processed product below that applicable to the primary product.

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<sup>123</sup> See para.62 of the July modalities.

[http://www.wto.org/english/tratop\\_e/agric\\_e/agchairtxt\\_july08\\_e.doc](http://www.wto.org/english/tratop_e/agric_e/agchairtxt_july08_e.doc)

<sup>124</sup> See paras.63-64 of the July modalities.

<sup>125</sup> See paras. 81-87 of the July modalities.

#### 4.1.3. Tariff simplification

Some tariffs have complex forms and their simplification<sup>126</sup> is deemed to make them more predictable. Especially the EU, Switzerland and Japan have mixed tariff forms including both *ad valorem* and specific duties. Therefore, countries demanding simplification in the tariff forms have argued that those countries having mixed or compound duties have a capacity to protect their domestic industries. Tariffs forms are the following:

- An *ad valorem* tariff is a percentage of the value of the good that is being imported. When the international price of a good falls, so does the tariff and the protection is thus weakened. Conversely, when the price of a good rises, so does the tariff.
- A *specific* tariff is a tariff of a specific amount of money that does not vary with the price of the good.<sup>127</sup>
- *Compound* or *mixed* tariffs combine *ad valorem* and specific components.
- There can also be more complex tariffs, based on other variables (such as the seasons for fruits and vegetables).

The draft modalities provide that most of the bound tariffs would have to be expressed as *ad valorem* in Members' Schedules, but a share could remain in a specific form. In any case, the most complex tariffs would have to be converted into specific or *ad valorem* tariffs.<sup>128</sup>

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<sup>126</sup> See paras. 100-104 of the July modalities.

[http://www.wto.org/english/tratop\\_e/agric\\_e/agchairtxt\\_july08\\_e.doc](http://www.wto.org/english/tratop_e/agric_e/agchairtxt_july08_e.doc)

<sup>127</sup> The base rates for the products having specific duties must be *ad valorem* equivalents of specific duties.

<sup>128</sup> Tariff forms can be seen from this web page. <http://www.asycuda.org/cuglossa.asp?term=Tariff>

#### **4.1.4. Tariff quotas**

Under the current AoA, a “minimum market access” was granted and existing market access was secured through tariff quotas<sup>129</sup> (TRQs). In the draft modalities, it is foreseen to increase this market access by significantly reducing in-quota tariffs, and by setting up mechanisms to improve access when the quotas are under-filled.

#### **4.2. Specific protections to take account of ‘sensitivities’ and development concerns**

All WTO Members have recognized in principle the possibility, for developed and developing countries, to maintain specific tariff protections for their agriculture. However, many countries are concerned that these protections might “erode” the increase in market access deriving from the general disciplines, in particular the protections for developing countries.

##### **4.2.1. Protections available for all countries**

WTO Members, developed and developing, would be able to designate some products as “sensitive”<sup>130</sup>. These products would be subjected to smaller tariff cuts, but as compensation, TRQs for these products would be expanded (by a certain percentage of domestic consumption). The key elements of the proposal are as follows:

- WTO Members could designate a number of tariff lines as sensitive. The July 2008 draft proposes a package covering tariff lines between 4% and 6%

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<sup>129</sup> See paragraphs 105-116 of the July modalities.  
[http://www.wto.org/english/tratop\\_e/agric\\_e/agchairtxt\\_july08\\_e.doc](http://www.wto.org/english/tratop_e/agric_e/agchairtxt_july08_e.doc)

<sup>130</sup> See paras. 71-80 of the July modalities.

of total agriculture tariff schedule. On the other hand, some countries which have a large number of products with high tariffs, such as Iceland, Japan, Norway and Switzerland have requested an additional share. A bigger entitlement would entail a “payment”, e.g. an additional TRQ expansion;

- Any product could be designated as sensitive. The July draft contains however an option according to which no tropical products could be designated as sensitive;
- Members could choose to deviate from the general tariff cut by one-third, half or two thirds, but a bigger deviation would entail a bigger TRQ expansion;
- The issue of TRQ expansion has raised another difficulty: While sensitive products would be identified at the tariff line level (6 or 8-digit codes of the Harmonized System-HS), the domestic consumption data for the calculation of the TRQ expansion is, in a lot of cases, only available for the product category (which includes many tariff lines). For example, the product category “wheat” comprises 28 products at a 6-digit HS level (including basic grains, flour, and highly processed products like bread or pasta). The more detailed the products, the more difficult to calculate domestic consumption and the expanded TRQ.<sup>131</sup>

Some Members, such as the EU and the G10, advocated that the TRQ expansion should be based on the domestic consumption for individual tariff lines. In contrast, exporting Members argued for the calculation of TRQs for the whole product category in which the tariff line belongs (which would result in a more important expansion). To overcome this debate, a group of Members (including Australia, Brazil, Canada, Japan, the EU and the US) has proposed a complex “partial designation” methodology.<sup>132</sup> A list of

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<sup>131</sup> “Sensitive Products: The July Modalities Text Made Plain”, ICTSD, Vol. 11, No:6 October 2007, <http://ictsd.org/i/news/bridges/4092/>

<sup>132</sup> See attachment Ai of the July modalities, p.100.  
[http://www.wto.org/english/tratop\\_e/agric\\_e/agchairtxt\\_july08\\_e.doc](http://www.wto.org/english/tratop_e/agric_e/agchairtxt_july08_e.doc)



likely sensitive product categories has been established, indicating the “core” (especially raw or basic goods) and “non-core” (e.g. processed) products within the category. Domestic consumption would first be calculated for the whole category, and then consumption would be estimated at the more detailed level. This estimate would be based on the level of trade in that product within the category, but adjusted to ensure that “core products” (usually the most traded) would have the biggest share of domestic consumption.<sup>133</sup>

#### **b) Tariff peaks**

The question of “tariff peaks” (high tariffs on specific products) has been linked to the one of sensitive products. The draft modalities<sup>134</sup> propose that a Member may be able to retain tariffs that are still in excess of 100% after applying the general formula, only for the products designated as sensitive. The draft also proposes that certain Members (Iceland, Japan, Norway and Switzerland) could do so for a share of non-sensitive products, subject to a ‘payment’ (additional TRQ expansion for their sensitive products or a shorter implementation period, or additional tariff cuts).

#### **c) Special Agricultural Safeguard (SSG)**

The special safeguard clause<sup>135</sup> included in the AoA allows a Member to apply additional duties when the volume of imports for a product exceeds a certain level or the price falls under a certain level. By contrast with the general

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<sup>133</sup> It should be noted that a specific method would be used for fruits and vegetables and dairy products.

<sup>134</sup> See para. 76 of the July modalities.

[http://www.wto.org/english/tratop\\_e/agric\\_e/agchairtxt\\_july08\\_e.doc](http://www.wto.org/english/tratop_e/agric_e/agchairtxt_july08_e.doc)

<sup>135</sup> See paras 117-122 of the July modalities.

safeguard<sup>136</sup>, the Member does not have to prove a serious injury to the domestic industry concerned. Despite a limited scope<sup>137</sup>, the thresholds set in the AoA allowed certain Members to frequently impose additional duties, leading exporting Members to request a drastic revision of the SSG. Debates are on whether the SSG should be eliminated, phased out or sharply reduced.

#### **4.2.2. Special instruments only for developing countries**

Developing countries have a great diversity of tariff profiles. Some apply tariffs which are well below their bound tariffs, as a result of regional agreements or conditional loans by international institutions, or in order to provide access to affordable food for their population. Some maintain high tariffs on a number of products, and in particular commodities.

Developing countries would be required, under the market access disciplines, to cut their bound tariffs. The margin (termed “water”) between bound and applied tariffs would be reduced, and their ability to raise tariffs to protect their agriculture would be weakened. Hence, WTO Members have recognized, as reflected in the draft modalities, the necessity for developing countries to avail of protections for domestic productions that are important for their development. This is also recognition that agriculture plays a crucial role in the economic development of these countries. However, these protections, which would apply to all developing

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<sup>136</sup> The principles of general safeguard are stipulated by the WTO Agreement on Safeguard. [http://www.wto.org/english/docs\\_e/legal\\_e/25-safeg.doc](http://www.wto.org/english/docs_e/legal_e/25-safeg.doc)

<sup>137</sup> The special safeguard clause can be invoked solely for products for which there was a “tariffication”, and for which Members reserved in their Schedule the right to do so (the EC can use SSG for 539 tariff lines, the US for 189, Canada for 150 and Japan for 121). It cannot be used for imports with tariff quotas. Under the AoA, Members agreed to phase-out non-tariff barriers such as quotas, variable import levies, and others, and “convert” the effect of such measures to tariffs. This is called the “tariffication”. Tariffs are more transparent than other forms of protection. [http://www.wto.org/english/docs\\_e/legal\\_e/14-ag.doc](http://www.wto.org/english/docs_e/legal_e/14-ag.doc).

countries, have met with opposition from exporting countries, who fear that they would neutralize the market access disciplines.<sup>138</sup>

#### **a) Special products**

In addition to selecting sensitive products, developing countries would be able to designate “special products”<sup>139</sup> on the basis of criteria linked to food security, livelihood security and rural development<sup>140</sup>, and that these products would be subject to lower tariff cuts. Discussions focus on the number of tariff lines that could be designated as special products (the July 2008 draft text refers to 10-18% of total tariff lines), the share that could be totally exempted from tariff cuts (the July 2008 text refers to 6% of total tariff lines), and the average cut that should be achieved (the July text refers to 10-14% reduction in tariff rates).<sup>141</sup>

#### **b) Special Safeguard Mechanism (SSM)**

The proposal to establish a special safeguard for developing countries lies on the fact that many of them do not have effective access to existing commercial defense instruments (antidumping, anti-subsidies actions, general or special safeguards). The SSM<sup>142</sup> would be available for all developing countries and for self designated products. The triggers would be based on volumes or prices, and the application of additional duties would be subject to strict conditions in terms of duration and amount, according to tiered formulas based on the importance of the

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<sup>138</sup> [http://www.wto.org/english/tratop\\_e/agric\\_e/ag\\_intro02\\_access\\_e.htm](http://www.wto.org/english/tratop_e/agric_e/ag_intro02_access_e.htm)

<sup>139</sup> See paras. 129-131 of the July modalities

<sup>140</sup> The July modalities (TN/AG/W/4/Rev.3, 10 July 2008) contain an illustrative list of indicators for the designation of special products (Annex F). Among these are: staple foods, foods for which an important part of domestic consumption is met by domestic production, products that are produced by low-income and small farmers, or that are important for rural economies, foods which represent a large share of households' expenditure.

<sup>141</sup> [http://www.wto.org/english/tratop\\_e/agric\\_e/agchairtxt\\_july08\\_e.doc](http://www.wto.org/english/tratop_e/agric_e/agchairtxt_july08_e.doc)

<sup>142</sup> See paragraphs 132-146 of the July modalities.

volume or price variations. One of the major concerns about the SSM is whether it could result in tariffs above the ceilings agreed during the Uruguay Round.

#### **4.2.3. Special and differential treatment**

Special and differential treatment provisions are included in all the disciplines concerning market access. In addition to the special products and SSM provisions, they provide for flexibilities in the form of gentler cuts, longer implementation periods, or bigger entitlements to specific protections (e.g. more sensitive products with more flexibility in the choice of deviations/TRQ expansion). In addition, some sub-groups would have extra flexibilities: SVEs, recently-acceded Members and net food-importing countries. Least developed countries would be exempted from tariff cuts and would benefit from a duty-free quota-free market access for most of their products.<sup>143</sup>

The draft modalities also include provisions aimed at facilitating trade in products of important export interest for developing countries.

For commodities, on which many exporting developing countries are dependent, the draft modalities foresee a specific process in cases where the adverse effects of tariff escalation have not been eliminated<sup>144</sup>, and encourage joint actions, including through international commodity agreements.

Another issue is the market access for tropical and diversification products, which is linked to the one of products benefiting from long-standing tariff preferences (since many products are potentially covered by both disciplines). The draft modalities contain provisions to ensure the “fullest liberalization” of tropical

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<sup>143</sup> [http://www.wto.org/english/tratop\\_e/agric\\_e/agchairtxt\\_july08\\_e.doc](http://www.wto.org/english/tratop_e/agric_e/agchairtxt_july08_e.doc)

<sup>144</sup> Members 'shall' engage discussions with the developing country Members concerned in order to find a solution (including to “undertake” additional tariff cuts)

products on the one hand, and to prevent the “erosion of preferences”<sup>145</sup> on the other hand. However, these disciplines may overlap for several products (especially bananas), and strongly oppose developing countries which benefit from preference and developing countries which do not.

Finally, it should be mentioned that several initiatives have been launched during the Doha Round in order to allow developing countries to benefit from the opening of markets. The “Aid for trade”<sup>146</sup> programme was created in 2001, with the aim of assisting developing countries in the improvement of their supply capacity and trade-related infrastructure, in order for them to implement and benefit from WTO Agreements, and expand trade. The “Aid for trade” was subject to a new impulse during the 2005 Hong-Kong Ministerial conference. Members also agreed, in Hong-Kong<sup>147</sup>, to better support the “Integrated Framework for Trade-Related Technical Assistance to Least-Developed Countries” (an initiative which was launched in 1997 by six multilateral organizations<sup>148</sup>).

## **5. Export competition**

In addition to domestic support and market access, agricultural trade liberalization is also concerned with export competition, a sector which led to some important WTO disputes. The elimination of export subsidies, considered most trade-distorting, was a major request of developing countries. The EU, which is one of the main users of export subsidies, agreed to phase them out, provided that equivalent disciplines would be imposed on other forms of export incentives, and

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<sup>145</sup> Erosion of preferences will occur when the general tariff reductions reduce the margin between the tariff applied to all Members and the preferential -lower-tariff applied to certain developing countries- mainly the ACP countries.

<sup>146</sup> Doha Ministerial Declaration (WT/MIN(01)/DEC/1, 20 November 2001), paragraphs 38-43.  
[http://www.wto.org/english/thewto\\_e/minist\\_e/min01\\_e/mindecl\\_e.htm](http://www.wto.org/english/thewto_e/minist_e/min01_e/mindecl_e.htm)

<sup>147</sup> Hong Kong Ministerial Declaration (WT/MIN(05)/DEC, 22 December 2005), paragraph 57.  
[http://www.wto.org/english/thewto\\_e/minist\\_e/min05\\_e/final\\_text\\_e.pdf](http://www.wto.org/english/thewto_e/minist_e/min05_e/final_text_e.pdf)

<sup>148</sup> These institutions are: the IMF, the International Trade Centre, UNCTAD, the UNDP, the World Bank and the WTO.

especially export credits (used in particular by the US), agricultural state trading enterprises (used in particular by Australia, New-Zealand and Canada). WTO Members also agreed to regulate food aid, in order to avoid its use for commercial purposes and the resulting destabilization of markets in the beneficiary countries.<sup>149</sup>

### **5.1. Progressive elimination of export subsidies**

According to the draft modalities July 2008, developed countries would eliminate their export subsidies<sup>150</sup> by 2013 (and immediately for cotton). They would make a cut in budgetary outlays (the maximum permissible amount) of 50% by 2010. For the reduction of volumes, the July draft modalities still present two options: they would either be progressively reduced or maintained at a certain level. In addition, no export subsidies could be granted to new markets or new products.

### **5.2. Export credits, export credit guarantees and insurance programmes**

According to the draft modalities, only export financing programmes<sup>151</sup> with a repayment term of less than 180 days would be allowed. In addition, the programs would have to be self-financing (i.e. premiums would be charged).

### **5.3. Agricultural exporting state trading enterprises (STEs)**

The privileges granted to STEs<sup>152</sup> (such as financing facilities, government underwriting of losses) would be progressively eliminated. A contentious question is whether export monopoly powers would be eliminated or just disciplined.

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<sup>149</sup> [http://www.wto.org/english/tratop\\_e/agric\\_e/ag\\_intro04\\_export\\_e.htm](http://www.wto.org/english/tratop_e/agric_e/ag_intro04_export_e.htm)

<sup>150</sup> See paragraphs 152-154 of the July modalities.

[http://www.wto.org/english/tratop\\_e/agric\\_e/agchairtxt\\_july08\\_e.doc](http://www.wto.org/english/tratop_e/agric_e/agchairtxt_july08_e.doc)

<sup>151</sup> See Annex J of the July modalities.

[http://www.wto.org/english/tratop\\_e/agric\\_e/agchairtxt\\_july08\\_e.doc](http://www.wto.org/english/tratop_e/agric_e/agchairtxt_july08_e.doc)

<sup>152</sup> See Annex K of the July modalities.

#### **5.4. Special and differential treatment**

Developing countries would benefit from longer implementation periods, more flexible disciplines, and the possibility to maintain or use export monopoly powers for their STEs, especially for food security purposes.

#### **5.5. Export restrictions**

The AoA contains a provision allowing Members, under certain conditions, to impose export restrictions<sup>153</sup> to prevent or relieve critical food shortages.<sup>154</sup> This issue has become critical, as several countries have recently been using export restrictions after the increase of food prices, in order to secure the needs of their population. The draft modalities propose to reinforce the consultations and surveillance of these measures, and to introduce limits on their duration. The issue of differential export taxes (DETs) should also be mentioned. DETs impose a higher tax on raw products than on processed products in order to encourage exports of the latter and to balance tariff escalation in importing countries. While the initial version of the draft modalities was referring to their elimination (which is advocated by several Members in view of the fact that tariff escalation would be subject to disciplines), the July 2008 version only mentions it as an “issue of interest but not agreed”.

### **6. The outcome of the July Negotiations (21-29<sup>th</sup> July 2008)**

The Doha Round has seen an unprecedented level of involvement from WTO Members as compared to former Rounds. Negotiations were organized in various forms, since meetings of the full membership were too heavy. As in former rounds, informal meetings were held between 36-37 delegations, which were

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<sup>153</sup> See paras. 161-167 of the July modalities.

[http://www.wto.org/english/tratop\\_e/agric\\_e/agchairtxt\\_july08\\_e.doc](http://www.wto.org/english/tratop_e/agric_e/agchairtxt_july08_e.doc)

<sup>154</sup> See article 12 of the AoA. [http://www.wto.org/english/docs\\_e/legal\\_e/14-ag.doc](http://www.wto.org/english/docs_e/legal_e/14-ag.doc)

representing broader coalitions of Members (“green room”<sup>155</sup> or “room E”<sup>156</sup> meetings), in order to find agreements that would then be submitted to the full membership. During the July 2008 talks, the Director General of the WTO, Pascal Lamy, soon convened meetings among a smaller group of seven Members-Australia, Brazil, China, the EU, India, Japan and the US, being conscious that a deal had to be found among these key countries before any agreement within the full membership could be envisaged. The outcomes of these meetings were then reported to green room sessions and then to almost daily meetings of the full membership.<sup>157</sup>

## **7. The main groups involved in the agriculture negotiations**

The main groups of WTO Members involved in the Doha agricultural negotiations are the following:

- **The Cairns group**<sup>158</sup> gathers countries with exporting interests and seeking trade liberalization. It includes Argentina, Australia, Bolivia, Brazil, Canada, Chile, Colombia, Costa Rica, Guatemala, Indonesia, Malaysia, New Zealand, Paraguay, Peru, Philippines, South Africa, Thailand and Uruguay.
- **The G20**<sup>159</sup> is a coalition of developing countries pressing for ambitious reforms of agriculture in developed countries with some flexibility for developing countries (not to be confused with the G-20 group of finance ministers and central bank governors). It includes Argentina, Bolivia, Brazil,

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<sup>155</sup> A group of members covering nearly 30 members which performs as an executive committee of Doha Work Programme. Green Room meetings are convened by Pascal Lamy and members of the groups represent an important country or country groups.

<sup>156</sup> A small group meetings convened by chairmans of agriculture and NAMA. Turkey has been invited to all these Room E meetings.

<sup>157</sup> See WTO news, 'DDA July 2008 package- summary', 30 July, available on the WTO website.

<sup>158</sup> <http://www.cairnsgroup.org/map/index.html>.

<sup>159</sup> [www.g-20.mre.gov.br](http://www.g-20.mre.gov.br)



Chile, China, Cuba, Egypt, Guatemala, India, Indonesia, Mexico, Nigeria, Pakistan, Paraguay, Peru, Philippines, South Africa, Tanzania, Thailand, Uruguay, Venezuela and Zimbabwe.

- **The G33**<sup>160</sup> is also called “Friends of Special Products” in agriculture. Coalition of developing countries pressing for flexibility for developing countries to undertake limited market opening in agriculture. Turkey is also a member of G33.
- **The G10**<sup>161</sup> gathers countries which maintain protections to their agriculture. It includes Bulgaria, South Korea, Iceland, Israel, Japan, Liechtenstein, Mauritius, Switzerland, Taiwan and Japan.
- **The Cotton-4**<sup>162</sup> gathers 4 African cotton-producing countries advocating for a drastic reduction of developed countries’ subsidies to cotton. These countries are: Benin, Burkina Faso, Chad and Mali.

## **8. DG Pascal Lamy’s attempt to propose a package deal**

The first days of the July 2008 negotiations did not see any real progress towards a deal, as substantial differences persisted between key Members. The only meaningful move had come from the US, which offered on 22 July to lower its proposed OTDS limit to around \$15 billion. However, emerging countries, and especially India, were taking a tough position on special tariff protections for developing countries.<sup>163</sup>

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<sup>160</sup> [http://www.wto.org/english/tratop\\_e/dda\\_e/negotiating\\_groups\\_e.pdf](http://www.wto.org/english/tratop_e/dda_e/negotiating_groups_e.pdf)

<sup>161</sup> Ibid.

<sup>162</sup> Ibid

<sup>163</sup> Ferguson, Ian (2008). "World Trade Organization Negotiations: The Doha Development Agenda", 18.08.2008, CRS Report for Congress.

On 25 July 2008, Pascal Lamy, drawing upon the various positions and proposals discussed among the G7 (EC, the US, Brazil, India, China, Japan and Australia), proposed a set of modalities and figures on key unresolved issues in agriculture and NAMA, around which an agreement could be found. This package, which was distributed as a one-page sheet of WTO jargon and was not made available to the public, was however reported in detail.<sup>164</sup>

## **9. The rejection of Lamy's package and the failure of the July 2008 negotiations**

The first reactions to Lamy's package were mixed. The EU said that the reduction in barriers to manufactured goods in developing countries was too weak. China reacted negatively to any possibility of mandatory participation into sector-specific initiatives would oblige it to participate, while it had never taken such a commitment. China and Brazil complained that the cap for US farm subsidies was still too high. On the other hand, there was growing acceptance, and Celso Amorim, Brazil's representative, said that he could accept it as a package. The EU, the US, Japan, Australia and Brazil seemed to agree too. However, the Indian Minister of Commerce Kamal Nath expressed a clear opposition on the proposed conditions for the SSM. Although some elements of the package were close to its demands, such as the full exemption from tariff cuts for 5% tariff lines, he rejected the whole package.<sup>165</sup>

For India – and for China as well-, it was vital to ensure an effective protection to poor farmers in case of import surges, and the SSM as Lamy had proposed it, was not operational enough. Because of the difficulty of monitoring

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<sup>164</sup> See in particular: WTO news of 26 July 2008, available on the WTO website; ICTSD's analysis, "unpacking Lamy's July 2008 Farm trade package", available on the ICTSD website.

<sup>165</sup> "World trade talks end in collapse". BBC News. 2008-07-29.  
<http://news.bbc.co.uk/2/hi/business/7531099.stm>. Retrieved 2008-07-29.

imports, and exceeding the threshold level of import increase 40%, it was argued that it would be too late to take measures to compensate import surges. Therefore, they were proposing to set a much lower threshold. Kamal Nath summed up the political turn of the divide when declaring: “In areas which affect livelihood and security, which affect poverty, there is no agreement, there is no consensus. In areas that enhance prosperity, there is some consensus”.<sup>166</sup>

#### **10. The SSM problem: Political blockage by G-33**

Among several points of contention, the SSM appeared to be one of the main causes of the failure of the July 2008 talks. The disagreement was not about the existence of the SSM itself, since most Members recognized the legitimacy of protecting poor farmers from international competition. WTO Members had even more or less agreed on the triggers for the right to apply additional tariffs, and on the corresponding tariff increases.<sup>167</sup>

The blockage came from the situation where the SSM would lead to tariffs above the bound tariffs fixed at the Uruguay Round.

The discussions led to a political divide. For proponents of the SSM (in particular the G33 and among them, India and China), this instrument should afford an effective protection to poor and vulnerable farmers, and it should allow developing countries to raise tariffs above pre-Doha bound rates when necessary. They underline that the SSM should be as flexible as the current agricultural safeguard that developed countries have been enjoying so far, and that it remains necessary as long as they will face subsidized exports from developed countries.

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<sup>166</sup> Quote from ICTSD, 26 July 2008, "WTO mini-ministerial evades collapse, as Lamy finds way forward", available on the ICTSD website.

<sup>167</sup> Alan, Beattie; Frances William (2008-07-29). "Doha trade talks collapse". Financial Times. <http://www.ft.com/cms/s/0/0638a320-5d8a-11dd-8129-000077b07658.html>. Retrieved 2008-07-29.

While the SSM might not be necessary when the applied tariff is much lower than the bound tariff (countries can raise the tariff up to the ceiling), some countries apply tariffs which are very close to bound tariffs, and thus want to be able to exceed current bound rates to protect against import surges. This is why a country like India, which has a certain margin between applied and bound tariffs in general but no margin for a few very sensitive products like rice, expresses such serious concerns about the SSM.<sup>168</sup>

For Cairns group and the US, the SSM should be more restricted and should be limited to the period of implementation. The theory behind their position is that enhanced export opportunities will provide poor farmers to develop and escape poverty, and that the Uruguay Round commitments should not be touched. They fear that a low trigger would lead developing countries to use the SSM too often and that similarly to variable customs levies (which were banned during the Uruguay Round) they would deteriorate normal trade expansion.

Despite India's clear opposition on the particular SSM issue, the US declared that it could accept the package, provided China would agree to open up certain markets in industrial and agricultural goods. In particular, it seemed to imply that it would make cuts to its cotton subsidies conditional upon tariff cuts for cotton in China.<sup>169</sup>

However, China refused to make further concessions. In agriculture, it refused to keep certain crops off its list of special products – including cotton (for which China is the largest importer but also has 10 million poor farmers), wheat and corn. In industrial goods, it refused to commit participating in sector-specific

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<sup>168</sup> "WTO mini-ministerial evades collapse, as Lamy finds way forward", ICTSD, 26 July 2008, <http://ictsd.org/i/wto/englishupdates/14493/>

<sup>169</sup> See press conference of 22 July of the US Undersecretary for Agriculture Mark Keenum, reported in ICTSD, 7 August 2008, "Agricultural safeguard controversy triggers breakdown in Doha Round talks".

negotiations on chemicals and machinery, recalling that it had already made important tariff cuts when it joined the WTO.

On Tuesday 29 July 2008, Lamy announced that there would be no compromise. Many participants acknowledged that the talks had come very close to a deal. The SSM issue and India and China's opposition undoubtedly had the role in the failure, but it was not the only obstacle to an agreement. The US was not eager to such a deal and many observers aware that it was not unhappy about the opportunity came out through India's position on SSM. A number of other countries may also have been relieved that no conclusion had been possible.<sup>170</sup>

Despite the failure of the July talks, progresses were achieved some areas and technical discussions continued from September on the basis of the "July 2008 package". This work was "captured" for an important part in a new version of the draft modalities published on 6 December 2008.<sup>171</sup>

## **11. Areas where progress was achieved**

OTDS, tariffs, SSG (the December text provides for an immediate cut of the SSG to 1% of tariff lines and its elimination after 7 years), Special products, (although Lamy figures were generally accepted, the December text specifies that "a number of developing country Members have expressed reservations" concerning the numbers), Tropical and preference erosion products (there was convergence on the lists of products but the products which could potentially be on both lists still raise concerns), Export competition: convergence was achieved on the modalities

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<sup>170</sup> "Dismayed powers plea to salvage WTO talks". AFP. 2008-07-30.  
<http://news.theage.com.au/world/dismayed-powers-plea-to-salvage-wto-talks-20080730-3myb.html>.  
Retrieved 2008-07-30.

<sup>171</sup> [http://www.wto.org/english/tratop\\_e/agric\\_e/agchairtxt\\_dec08\\_a\\_e.doc](http://www.wto.org/english/tratop_e/agric_e/agchairtxt_dec08_a_e.doc)

for phasing out export subsidies (in particular for setting the permitted volumes at their average 2003-2005 level).<sup>172</sup>

## **12. Areas where disagreements persist**

Sensitive products: this issue remains contentious. The draft modalities include Lamy's proposal that 4% of tariff lines could be designated as sensitive, that Members which have a high number of tariff lines in the top tier could designate 2% more subject to certain conditions (e.g. additional TRQ expansion). SSM: The issue remains unsolved. A separate paper issued by the Chairperson proposes compromise disciplines (dealing with e.g. the degree to which the tariff could exceed pre-Doha bound levels, how many products would be allowed etc.), Cotton: cotton subsidies, one of the important issues –and potential 'deal-breaker'- that were left aside in July, remains to be solved.<sup>173</sup>

## **13. Agriculture Negotiations from Turkey's Perspective**

Much of the negotiating energy of Turkey had gone into agriculture in Doha negotiations. In addition to its strategic importance, agriculture negotiations are also comprehensive in terms of coverage. We can analyze Turkey's position in these negotiations under three pillars.

*Agriculture* constitutes almost 30% of the total amount of employment in Turkey, while its contribution to the GNP is highly limited as most of the production is realized by small sized agricultural enterprises.<sup>174</sup> As Turkish agricultural products are not competitive in the international market except for some certain

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<sup>172</sup> "WTO mini-ministerial evades collapse, as Lamy finds way forward", ICTSD, 26 July 2008, <http://ictsd.org/i/wto/englishupdates/14493/>

<sup>173</sup> Ibid.

<sup>174</sup> [http://www.ziraatcilerdernegi.org.tr/index.php?Itemid=143&id=26&option=com\\_content&task=vi](http://www.ziraatcilerdernegi.org.tr/index.php?Itemid=143&id=26&option=com_content&task=view)ew. Retrieved 24-6-2010.

products like fresh fruits and vegetables, agricultural exports constitute 8.2 % of total amount of exports.<sup>175</sup>

Agricultural lands are smaller in size per ownership, which also leads to inefficiencies in production patterns for most cases. As a result of these inefficiencies leading to low income production patterns, internal migration from rural areas to urban areas is a strong social trend which has been existing in Turkey for more than 3 three decades. Absorption of idle workforce by industrial sectors is the main adjustment challenge in this picture.<sup>176</sup>

Ministry of Agriculture and Rural Affairs has long been working on specific programs for enhancing the productivity and increasing the level of rural development. However, agricultural support programs in force are not rich in terms of financial resources. The main domestic support tool is the income support program to farmers, which is less trade distorting in nature. However, the effect of the all the support programs in force on competitiveness in foreign markets is highly weak.<sup>177</sup>

Further reforms and a longer period of time for adjustment and transition are needed to overcome these structural problems of the Turkish agricultural sector. Looking at this picture, Turkish agricultural policies are mostly targeted for economic and social development and elimination of social concerns at the first place.

Turkey has bound all of its tariffs for the agricultural products in line with the Agreement on Agriculture, with the establishment of the WTO. In the framework of the Schedule of Commitments List attached to this Agreement,

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<sup>175</sup>[http://ec.europa.eu/enlargement/pdf/turkey/screening\\_reports/screening\\_report\\_11\\_tr\\_internet\\_en.pdf](http://ec.europa.eu/enlargement/pdf/turkey/screening_reports/screening_report_11_tr_internet_en.pdf). Retrieved 21-6-2010.

<sup>176</sup><http://www.tema.org.tr/Sayfalar/CevreKutuphanesi/Pdf/Tarim/ToprakKaynaklarininYonetimiSorulari.pdf>

<sup>177</sup> <http://www.gidasanayii.com/modules.php?name=News&file=article&sid=1225>

Turkey has made a 10% minimum cut per product and 24% average cut for all agricultural products between the period 1995 and 2004. As a result, Turkey has reached its final bound rates in 2004. Current applied rates of agricultural products, especially the main agricultural commodities, are close or equal to our final bound levels; therefore Turkey does not have “water in tariff” or “tariff overhang” in her agricultural products. Turkey’s average bound tariff is 65.1% while her average applied level is 59.2%.<sup>178</sup>

Turkey provides just a limited amount of trade distorting domestic support (at the *de minimis* level less than 4 million USD) in comparison to the total amounts provided especially by the developed country members of the WTO. Export subsidies has also been provided only for 16 tariff lines out of the 44 tariff lines scheduled during the Uruguay Round, in amount much lesser than her bound levels with the aim of boosting her exports by making the limited exports competitive against the highly subsidized products in the international market.<sup>179</sup>

In the case of *market access*, as tariffs are the only instruments to sustain agricultural production in Turkey, Turkey expects to have a gradual liberalization process and special and differential treatment flexibilities for developing countries to minimize the possible negative impacts of liberalization and sustain her agricultural production. Hence, Turkey attaches great importance to the concepts of Special Products (SP) and Special Safeguard Mechanism (SSM).<sup>180</sup>

In this line of thinking, as agriculture which has a major impact on the economic and social development of Turkey, Turkey’s position in the three pillars of agricultural negotiations (namely market access, domestic support and export

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<sup>178</sup> TPR Report of Turkey, WTO Secretariat, p.78; [http://www.wto.org/english/tratop\\_e/tpr\\_e/s192-04\\_e.doc](http://www.wto.org/english/tratop_e/tpr_e/s192-04_e.doc)

<sup>179</sup> TPR Report of Turkey, WTO Secretariat, p.79-81.

<sup>180</sup> Position Paper by the UFT.

<http://www.dtm.gov.tr/dtmadmin/upload/ANL/CokTaraflıAnlasmaDb/yeninotson1.doc>



competition) since 2000 has been designated to protect her agricultural production against unfair international trade practices.

### 13.1. Domestic Support

The existing Agreement on Agriculture which foresees the continuation of a general reform process in agricultural sector worldwide, has reached its predetermined targets already and now members are negotiating for further liberalization. In that sense, since domestic supports are allowed in agriculture under some conditions and developed countries are the main providers of them, the reduction or elimination of subsidies has become a crucial issue for Turkey during the negotiations. The trade distorting subsidies (which are directly provided for targeted products) plus blue box subsidies (that are provided for production limiting purposes) plus *de-minimis* amount (which is allowed to encounter market needs) are due to reduction at the end of the negotiations.<sup>181</sup>

For Turkey and so many other developing countries the issue is not complex. Some of the developing countries have already committed themselves to subsidize their agriculture not more than the *de-minimis* level (10 % of the total value of the agricultural production and will most probably be kept at the same rate after Doha negotiations) which is allowed (that number for developed countries is 5 % of their agricultural production and is expected to be lowered after Doha). However, it is a matter of concern for everyone that since developed countries have budgetary resources, their direct product subsidies not only restrict the export capacities of the developing countries but generate real import pressure on global markets as well. Therefore, developing countries including Turkey have been asking the developed countries to reduce substantially their trade distorting subsidies.<sup>182</sup>

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<sup>181</sup> Position Paper by the UFT, p.3.

<http://www.dtm.gov.tr/dtmadmin/upload/ANL/CokTaraflıAnlasmaDb/yeninotson1.doc>

<sup>182</sup> Ibid, p.4.

### **13.2. Export Competition Issues**

Under this topic mainly export subsidies, export credits and trade distorting food aid are being discussed. The most important achievement on this topic has been the commitment of the EU, albeit conditional to the developments in other export competition issues, to abolish all export subsidies by 2013. As a main stakeholder in this topic EU expects the US to commit itself to apply commercial-like conditions in export credits. Moreover, the discussions on food aid have been concentrated on the exemption of humanitarian aids but bringing in disciplines to grant any type of aid.<sup>183</sup>

It is the decision of all members to abolish the export subsidies since those are the direct involvement of governments to the global market and impede fair trade. By the same token, the export monopolies especially located in developed countries are also under discussion in order to discipline their global commercial activities.

### **13.3. Market access**

Relatively important aspect of agricultural negotiations is the market access pillar. Let us dwell a little bit on the significance of agriculture on economies of countries to make a better assessment of the agricultural tariff reductions. Since 75 % of the world poor live in rural areas, the sustainability of agricultural production and rural development, food security and livelihood security are all matters of concern in these negotiations. The agriculture constitutes 1.7 % of the US's GNP, 2.7 % of Canada's GNP and 1.7 percent of Japan's GNP. This ratio in Turkey is about 13 % which is more for other developing countries. Also, the rate of rural

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<sup>183</sup> Position Paper by the UFT, p.5,  
<http://www.dtm.gov.tr/dtmadmin/upload/ANL/CokTaraflıAnlasmaDb/yeninotson1.doc>

population to the total in the US is 2.2 %, in Canada 2.4 %, in Japan 4.3 % and in Turkey 30 %.<sup>184</sup>

It is not only an issue for developing countries but some developed countries are also looking at this sector from a non-mercantilist point of view. Those countries are also putting forward sustainability food supply, rural livelihood and environmental concerns as non-trade concerns such as the EU countries, Norway, Switzerland and Japan. The needs of these developed countries produced the provisions for sensitive products.<sup>185</sup>

Hence, the market access negotiations in agriculture have become a key concept of the DDA. For the time being, a tiered formula approach is adopted as the tariff reduction modality where higher tariffs will be reduced at high percentage points and lower tariffs at lower percentage points. In the current draft text the average reduction rate for developed countries is 54 % whereas it is designed as 36 % for the developing countries.

In agriculture negotiations because of this sector's economic and political importance for all countries there is the concept of "sensitive products" whose tariff rates will be less reduced than a formula cut subject to tariff quota commitments of the countries. Since the tariff quota issue has been tied to the consumption data of the related countries there have been very intensive technical preparations of the modalities.

Turkey has continued to reiterate in all possible grounds that the WTO Members should not give in to any attempt of diluting the development Mandate of the Doha Round nor compromise the agreed Doha Development Agenda (DDA)

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<sup>184</sup> IMF World Economy Outlook, WTO International Trade Statistics and UFT statistics.

<sup>185</sup> "The Doha Development Round of International Trade Negotiations", Bozkurt Aran, Ağustos 2008, Ankara.

<http://www.mfa.gov.tr/data/Kutuphane/yayinlar/EkonomikSorunlarDergisi/sayi30/aran.pdf>

mandates on special and differential treatment, particularly on Special Products and Special Safeguard Mechanism. Special Products would provide the opportunity for developing countries to either leave some of their agricultural products out of the tariff liberalization or have lesser tariff cuts on their chosen agricultural tariff lines. Special Safeguard Mechanism would be established to increase tariffs above the bound levels in case of import surges either in terms of volume or price (when there is a sudden increase in the volume of imports or a sudden decrease in price).<sup>186</sup>

The objectives of food security, livelihood security, and rural development play a crucial role in the success of the reforms undertaken by developing countries. For Turkey, the central position of Special Products in achieving these goals should be taken into account in the negotiation process by all members of the WTO.

In addition to Special Products, Turkey has expressed its support to the Special Safeguard Mechanism which is a fundamental element of the Special and Differential Treatment in the market access area as the problems arising from import surges or sudden price falls have serious repercussions on the agricultural sector of developing countries. Turkey asserted that the establishment of a Special Safeguard Mechanism is essential to protect farmers from short-term price fluctuations and import surges. The Mechanism should be operational and effective reflecting the needs of the importer developing countries.<sup>187</sup>

Turkey has actively participated in the agricultural negotiations in order to reach these objectives together with the G-33 which includes major developing country actors like India, China and Indonesia and aims to acquire effective and operational flexibilities (SP and SSM) for developing countries.

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<sup>186</sup> Position Paper by the UFT, p.6,

<http://www.dtm.gov.tr/dtmadmin/upload/ANL/CokTaraflıAnlasmaDb/yeninotson1.doc>

<sup>187</sup> Ibid.

Constituting an integral part of the modalities and outcome of negotiations in agriculture, Turkey argued that these instruments were necessary to cope with the possible challenges that might arise as a result of further liberalization in tariffs.<sup>188</sup>

As a conclusion, although a fundamental progress have been witnessed in the agriculture negotiations, there are still some contentious areas on which parties have different positions. These are the issues of sensitive products, SSM and cotton. Any development in these subjects is directly linked with the progress in NAMA subjects such as sectorals, preference erosion and NTBs. Agriculture negotiations play a key role in the conclusion of the Round and a possible breakthrough in this sector would mean finalization of the overall Round.

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<sup>188</sup> Position Paper by the UFT, p.6,  
<http://www.dtm.gov.tr/dtmadmin/upload/ANL/CokTaraflıAnlasmaDb/yeninotson1.doc>

## **CHAPTER IV: NEGOTIATIONS ON NON-AGRICULTURAL NEGOTIATIONS (NAMA):**

While Doha Round Negotiating Package consists of seven subjects<sup>189</sup>, two of them, agriculture and NAMA, constitute a core group. Any progress in other areas was put under the hostage of the progress in core issues and others became as marginal items until recent years. Both developed and developing countries have measured the degree of market openness and special and differential treatments in agriculture and NAMA on a reciprocal basis. Having analyzed agriculture negotiations in Chapter I, NAMA negotiations will be examined in this Chapter.

### **1. Issues and context**

Although the concentration in the Doha Round has generally been on the agricultural negotiations, much of the concrete gains from the round will come from opening markets in industrial goods. Traditionally trade in industrial goods was nine times larger than trade in agriculture. Of the \$8.91 trillion in merchandise trade in 2004, manufactured goods accounted for \$8.12 trillion and agricultural trade was worth \$0.79 trillion.<sup>190</sup>

NAMA negotiations have played a critical role in moving the Doha Round forward, as together with agriculture negotiations. Members have generally established a linkage between developing countries' acceptance of deeper cuts to their industrial tariffs and further agricultural market openness and reduction of support programs by the developed countries.<sup>191</sup>

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<sup>189</sup> "How the negotiations are organized", WTO, [http://www.wto.org/english/tratop\\_e/dda\\_e/work\\_organ\\_e.htm](http://www.wto.org/english/tratop_e/dda_e/work_organ_e.htm)

<sup>190</sup> "International Trade Statistics 2005", WTO Publications, Geneva, 2005. [http://www.wto.org/english/res\\_e/statis\\_e/its2005\\_e/its05\\_bysector\\_e.pdf](http://www.wto.org/english/res_e/statis_e/its2005_e/its05_bysector_e.pdf)

<sup>191</sup> "Non-Agricultural Market Access (NAMA) Talks Threaten Development" Joint NGO Briefing Paper November 2005, <http://www.twinside.org.sg/title2/par/mk007.pdf>

The negotiations in the area of industrial tariffs, more formally called “non-agricultural market access”, have focused, at the outset, mainly on three issues<sup>192</sup>:

- reduction of industrial tariffs from the bound levels,
- increasing the binding coverage<sup>193</sup> through commitments of binding on the current unbound levels of tariffs,
- non-tariff barriers.<sup>194</sup>

While considering the issues of tariff reduction and increasing the binding coverage, it is important to take into consideration the divergence in the current structure of tariffs across the range of countries. As a result of Uruguay Round commitments, the developed countries generally have full binding coverage. A large number of the developing countries however have comparatively lower binding coverage.

Due to their comparative advantage, developed countries have generally low levels of tariffs on industrial products. Although their average tariffs are around 5 percent, their tariffs on the products of export interest to the developing countries such as textile and clothing, leather and footwear are high compared to their average tariff. Compared to developed countries, the developing countries have generally high levels of tariffs; their average is 28-30 percent.<sup>195</sup>

Over the various rounds of negotiations in the past, countries reduced their bound tariff rates and expanded their binding coverage in the course of exchange of

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<sup>192</sup> <http://www.ustr.gov/trade-topics/industry-manufacturing/non-agricultural-market-access>

<sup>193</sup> Binding coverage means product coverage of NAMA negotiations. Increasing the coverage would mean decreasing the policy space of members on industrial products during determination of the tariff rates. A tariff binding is a ceiling level above which a Member cannot apply a tariff. In other words, it is the maximum tariff that may be applied by a Member. [http://www.wto.org/english/tratop\\_e/markacc\\_e/nama\\_negotiations\\_e.htm](http://www.wto.org/english/tratop_e/markacc_e/nama_negotiations_e.htm)

<sup>194</sup> There is no official definition but, in general terms, it refers to any measure other than a tariff which protects domestic industry. Many non-tariff measures are based on a legitimate goal (such as the protection of human health).

<sup>195</sup> South Center Analytical Note SC/AN/TDP/MA/9; June 2008; pp 6-7.

concessions. Those countries which undertook the commitment of increasing the binding coverage and reducing their bound tariff rates in the past may be presumed to have done so while getting concessions from other members. Some countries however continued to preserve a low binding coverage and high levels of bound tariffs by forgoing the counter-concessions. In this manner, the present tariff structure of the countries reflects the current balance of the emerging rights and obligations in the GATT/WTO framework.<sup>196</sup>

## **2. Trends and positions in the negotiations**

The current NAMA negotiating mandate is stated precisely in Annex B of the July Framework Agreement of 2004<sup>197</sup>. With the July Framework, governments agreed to increase market access commitments through a tariff reduction formula that will “harmonize”<sup>198</sup> tariff levels across products. High tariffs will be subject to deeper cuts compared to lower tariffs, and tariffs will be cut on a product-specific basis.

This is a fundamental difference as compared to past rounds where countries were only required to make an average tariff cut. This (reduction in average) was allowing them to choose the products having high tariffs and thus, allowed tariff peaks to continue. Such an approach also creates “tariff escalation,” whereby the tariff applied to a particular product increases with its level of value added. For example, a 4% tariff might be applied on raw wool while wool cloth would be subject to a 40% tariff and a wool suit would be subject to 80% tariff. Product-

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<sup>196</sup> Bhagirath Lal Das “The WTO’s Doha Negotiations: An Assessment”, 17-18 December 2007, Penang, Malaysia.

<sup>197</sup> Decision Adopted by the General Council of WTO on 1 August 2004 (WT/L/579; 2 August 2004).

<sup>198</sup> Annex B of WT/L/579 Decision, paragraph 4.



specific tariff cuts with a harmonizing effect would necessitate tariff cuts on all three products and would force high tariffs be cut more steeply.<sup>199</sup>

The Hong Kong Ministerial Declaration<sup>200</sup> stipulated the adoption of a “Swiss formula”<sup>201</sup> for tariff reduction. In this formula, the base tariff<sup>202</sup> (or initial tariff) and the final bound tariff<sup>203</sup> are linked by a coefficient. A lower coefficient yields a greater reduction in the tariffs. All final tariffs must be lower than the coefficient; thus the coefficient constitutes as a ceiling for the tariff. An initial tariff equal to the coefficient will be halved upon reduction. For the same coefficient, a higher initial tariff will be subjected to a comparatively higher percentage of reduction. The choice of coefficient in this formula is thus critical in determining the tariff ceiling and the extent of reduction in the tariff.<sup>204</sup>

**Table 4: Effect of Swiss Formula:**

Initial tariff % (T0)	Coefficient (B)	Final tariff % (T1)	Reduction %
10	10	5,0	50
20	10	6,7	67
30	10	7,5	75
50	10	8,3	83
100	10	9,1	91
1000	10	9,9	99

**Note:** This table has been produced by the author.

**Formula:**  $T1 = [B * T0] / [B + T0]$  where, T1 = Final bound tariff rate T0 = Base tariff rate B = Coefficient

<sup>199</sup> [http://www.wto.org/english/thewto\\_e/whatis\\_e/tif\\_e/dev4\\_e.htm](http://www.wto.org/english/thewto_e/whatis_e/tif_e/dev4_e.htm)

<sup>200</sup> Hong Kong Ministerial Declaration, WT/MIN(05)/DEC, 22 December 2005, paragraph 14.

<sup>201</sup> The ‘Swiss formula’ is a non-linear formula with a single coefficient. The formula is the following:  $T1 = [B * T0] / [B + T0]$  where, T1 = Final bound tariff rate T0 = Base tariff rate B = Coefficient

<sup>202</sup> Base tariff is a tariff rate on which formula will be applied.

<sup>203</sup> Final tariff is a tariff rate obtained by the application of the formula.

<sup>204</sup> Harish, Iyer: “Formula approaches to tariff reduction”, Powerpoint Presentation, UNESCAP. [http://www.unescap.org/oes/speca/docs/Divisions/TID/Doha\\_Training\\_Yerevan/Paper/ESCAP/formula\\_approaches\\_to\\_tariff\\_reduction\\_rev1.pdf](http://www.unescap.org/oes/speca/docs/Divisions/TID/Doha_Training_Yerevan/Paper/ESCAP/formula_approaches_to_tariff_reduction_rev1.pdf)

The Doha Ministerial Declaration lays down the principle that there will be “less than full reciprocity”<sup>205</sup> for the developing countries in tariff reduction commitments. By this principle it is accepted that developing countries will benefit favorable treatment in formula reduction in comparison to developed ones. The Hong Kong Ministerial Declaration reiterates this principle.

The developing countries have made two major concessions in respect of industrial tariffs by accepting the Hong Kong Ministerial Declaration. Firstly, they have agreed to have reduction in each and every tariff lines. Never in the past had the developing countries undertaken such an obligation. Previously, their obligation was limited to reducing the average tariff, and they retained certain high tariffs and tariff peaks to protect their domestic production. Secondly, they have agreed to have full binding coverage.

In fact, the concessions of the developing countries began with the ABI<sup>206</sup> proposal given in April 2005 by Argentina, Brazil and India. These countries proposed a Swiss formula with a coefficient that is dependent on the average tariff ( $t_a$ ) of each member. Perhaps they thought their tariff reduction would be lower in this manner since their average tariff was high (Average tariffs of India, Brazil and Argentina are 44%, 30% and 31% respectively) and ABI formula has a harmonizing effect around average tariff<sup>207</sup> of member country. However, by this proposal, linear formula approach was given up and tariff reduction by means of the Swiss formula was generally accepted in Hong Kong Ministerial Meeting.

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<sup>205</sup> Doha Ministerial Declaration, WT/MIN(01)/DEC/1, 20 November 2001, paragraph 16. “...The negotiations shall take fully into account the special needs and interests of developing and least developed country participants, including through **less than full reciprocity** in reduction commitments...” [http://www.wto.org/english/thewto\\_e/minist\\_e/min01\\_e/mindecl\\_e.htm](http://www.wto.org/english/thewto_e/minist_e/min01_e/mindecl_e.htm)

<sup>206</sup> TN/MA/W/54, [http://commerce.nic.in/wto\\_sub/NAMA/sub\\_tmaw54.pdf](http://commerce.nic.in/wto_sub/NAMA/sub_tmaw54.pdf)

<sup>207</sup> By ABI formula for example, India’s tariff peaks (tariffs higher than 100%) would be reduced to around national average. i.e. 44%. On the other hand, in case of Swiss formula with a coefficient 24, all high tariffs would be reduced to a level below than 24%. (Calculations have been made by the author)

**ABI Proposal on formula:**  $t_1 = \frac{B \times t_a \times t_0}{B \times t_a + t_0}$

$t_1$  is the final rate, to be bound in *ad valorem* terms

$t_0$  is the bound base rate

$t_a$  is the average of the current bound rates

$B$  is a coefficient, its value(s) to be determined by the participants

### 3. The lead actors in the NAMA negotiations:

Like in other areas of the Doha Round, the conflict of interests plays a major role. In this vein, members having close negotiating positions come together and build groups or sub-groups in order to defend their interests in NAMA negotiations. Some of these groups are;

- NAMA-11<sup>208</sup> is a coalition of developing countries seeking flexibilities to limit market opening in industrial goods trade. Members are Argentina, Brazil, Egypt, India, Indonesia, Namibia, Philippines, South Africa, Tunisia, and Venezuela. Pakistan left the group later.
- Friends of Ambition<sup>209</sup>: Seeking to maximize tariff reductions and achieve real market access opportunities in NAMA. Australia, Canada, the EU, Japan, Rep. Korea, New Zealand, Norway, Sweden, Switzerland, the UK, the US. Turkey aligned with this group in formula approach of NAMA because of its Customs Union with the EU.
- Middle Ground Group<sup>210</sup>: Moderate ambition, seeking to improve market access into both developed and developing countries. Chile, Colombia, Costa Rica, Hong Kong China, Israel, Malaysia, Mexico, Morocco, Pakistan, Peru, Singapore, Thailand

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<sup>208</sup> WTO Negotiating Groups. [http://www.wto.org/english/tratop\\_e/dda\\_e/negotiating\\_groups\\_e.htm](http://www.wto.org/english/tratop_e/dda_e/negotiating_groups_e.htm)

<sup>209</sup> WTO Negotiating Groups. [http://www.wto.org/english/tratop\\_e/dda\\_e/negotiating\\_groups\\_e.htm](http://www.wto.org/english/tratop_e/dda_e/negotiating_groups_e.htm)

<sup>210</sup> Ibid.

- Recently acceded members (RAMs)<sup>211</sup>, countries that negotiated and joined the WTO after 1995, seeking lesser commitments in the negotiations because of the liberalization they have undertaken as part of their membership agreements. RAMs is composed of Albania, Armenia, Cape Verde, China, Croatia, Ecuador, FYR Macedonia, Georgia, Jordan, Kyrgyz Rep., Moldova, Mongolia, Oman, Panama, Saudi Arabia, Chinese Taipei, Tonga, Ukraine and Viet Nam.
- Small and vulnerable economies (SVEs) are a category that has not yet been formally defined, but countries seeking special consideration under this designation are primarily small island nations, land-locked countries, and Central American countries.<sup>212</sup>
- Paragraph 6 countries: In NAMA (refers to paragraph 6 of the first version of the NAMA text, July Framework of 2004), for reducing the number of new bindings they would have to contribute and to increase the average target from 27.5%. Members are Cameroon, Congo, Côte d'Ivoire, Cuba, Ghana, Kenya, Macao China, Mauritius, Nigeria, Sri Lanka, Suriname and Zimbabwe.<sup>213</sup>
- LDCs are the world's poorest countries. The UN list was used in the WTO.

#### **4. Tariff reduction**

After Hong-Kong Ministerial Declaration, the Negotiating Group on NAMA concentrated on the core issues. i.e.: formula, coefficients and flexibilities.<sup>214</sup> The Chairman of the NAMA negotiating group has circulated a negotiating text<sup>215</sup> on 17

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<sup>211</sup> Ibid.

<sup>212</sup> Ibid.

<sup>213</sup> Ibid.

<sup>214</sup> Favourable treatment to the developing countries by certain exemptions.

[http://www.wto.org/english/tratop\\_e/dda\\_e/meet08\\_brief02\\_e.doc](http://www.wto.org/english/tratop_e/dda_e/meet08_brief02_e.doc)

<sup>215</sup> JOB(07)/126,

[http://docsonline.wto.org/GEN\\_viewerwindow.asp?http://docsonline.wto.org:80/DDFDocuments/t/J OBS/Ext07/126.doc](http://docsonline.wto.org/GEN_viewerwindow.asp?http://docsonline.wto.org:80/DDFDocuments/t/J OBS/Ext07/126.doc)

July 2007 proposing coefficients of 8-9<sup>216</sup> for the developed countries and 19-23<sup>217</sup> for the developing countries. The NAMA 11, developing country group having protective position in NAMA, has proposed that the differential between the coefficients for the developing countries and the developed countries should be at least 25. By this proposal NAMA 11 countries aimed at to preserve their high average tariff at the same time tried to open developed country markets further. In comparison to this, some developed countries however insisted on the proposed coefficients of 10-15 for the developed and developing countries respectively.<sup>218</sup>

The evaluation of the effects of these coefficients is complex especially taking into account of different levels of reduction for different tariffs of countries. There will be disparities as between the countries and also as between the products of a country. However, we may simplify the problem by calculating the impact of the formula on a tariff of a country which is very close to its average tariff level. The average tariffs of the developed and developing countries are around 5 and 30 percent respectively.

As a comparison, let us take the outer figures of the Chairman's ranges, we may take 8 for the developed countries and 23 for the developing ones as the best possible alternative in the Chairman's proposal from the perspective of the developing countries.

By the application of a Swiss formula with two coefficients, a tariff of 5 percent in the developed countries, which is very close to their average tariff, will be reduced to 3, resulting in a reduction of 38 percent. A tariff of 30 percent in the developing countries, which is near their average tariff, will however be reduced to 13, resulting in a reduction of 56 percent. This difference in reduction is totally an outcome Swiss formula. Since Swiss formula is a non-linear formula and it reduces

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<sup>216</sup> JOB(07)/126, paragraph 5.

<sup>217</sup> Ibid, paragraph 5.

<sup>218</sup> Ibid, paragraphs 15-16.

high tariffs more and low tariffs less. Developing countries argue that this formula is unfair and iniquitous and violates the principle of “less than full reciprocity” for the developing countries. In fact, it puts on the developing countries a burden that is nearly one-and-a-half times heavier compared to that on the developed countries.<sup>219</sup>

## **5. Binding coverage**

Under this title, the ultimate target is to increase the ratio of bound tariffs within the national tariff schedule of members. The exercise has centered around adding a constant mark-up number to the currently unbound tariff level as applied on a particular date. The applied tariff plus this mark-up will result in the presumed bound level of tariff and reduction will operate on that level. The Chairman of NAMA Negotiating Group in his July 2007 paper<sup>220</sup> has proposed a mark-up of 20 over the unbound tariff rate as applied on a specified date.<sup>221</sup>

In fact, by the acceptance of Swiss formula, the significance of the mark-up number became less important. This is because non-linear formula has a sweeping effect on the numbers above coefficient level. As is seen in the following table, coefficient 25 is sweeping bound tariffs (110-140) with different options of mark-up (10-40) to the 20 and 21.

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<sup>219</sup> Calculations have been made by the author.

<sup>220</sup> JOB(07)/126, paragraph 6.  
[http://docsonline.wto.org/GEN\\_viewerwindow.asp?http://docsonline.wto.org:80/DDFDocuments/t/JOB/Ext07/126.doc](http://docsonline.wto.org/GEN_viewerwindow.asp?http://docsonline.wto.org:80/DDFDocuments/t/JOB/Ext07/126.doc)

<sup>221</sup> JOB(07)/126, paragraph 6(b).

**Table 5: Mark-up and Swiss formula:**

<b>Unbound tariff % (T)</b>	<b>Mark- up (M)</b>	<b>Bound tariff % (T0)=(T+M)</b>	<b>Coefficient (B)</b>	<b>Final tariff % (T1)=(T0*B/T0+B)</b>
100	10	110	25	20
100	20	120	25	21
100	30	130	25	21
100	40	140	25	21

Note: This table has been produced by the author.

## **6. Non-tariff barriers**

The Doha Ministerial Declaration has included non-tariff barriers<sup>222</sup> (NTBs) in the negotiating agenda. The July 2004 Framework<sup>223</sup> accepts NTBs as an integral part of the negotiations. The negotiations on this subject have lagged behind those on tariffs. NTBs are particularly important for the developing countries as their exports often restrained by these barriers in the developed countries.

## **7. NAMA Negotiations in 2008**

NAMA negotiations witnessed an important progress in the year 2008. The Chairman of the Negotiating Group has circulated four negotiating texts in February<sup>224</sup>, May<sup>225</sup>, July<sup>226</sup> and December<sup>227</sup> of 2008.

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<sup>222</sup> WT/MIN(01)/DEC/1, 20 November 2001, paragraph 16.

[http://www.wto.org/english/thewto\\_e/minist\\_e/min01\\_e/mindecl\\_e.htm](http://www.wto.org/english/thewto_e/minist_e/min01_e/mindecl_e.htm)

<sup>223</sup> WT/L/579; 2 August 2004, Annex B, paragraph 14.

[http://www.wto.org/english/tratop\\_e/dda\\_e/ddadraft\\_31jul04\\_e.doc](http://www.wto.org/english/tratop_e/dda_e/ddadraft_31jul04_e.doc)

<sup>224</sup> TN/MA/W/103; 8 February 2008,

[http://www.wto.org/english/tratop\\_e/markacc\\_e/namachairtxt\\_feb08\\_e.doc](http://www.wto.org/english/tratop_e/markacc_e/namachairtxt_feb08_e.doc)

<sup>225</sup> TN/MA/W/103/Rev.1; 19 May 2008

[http://www.wto.org/english/tratop\\_e/markacc\\_e/namachairtxt\\_may08\\_e.doc](http://www.wto.org/english/tratop_e/markacc_e/namachairtxt_may08_e.doc)

<sup>226</sup> TN/MA/W/103/Rev.2; 10 July 2008,

[http://www.wto.org/english/tratop\\_e/markacc\\_e/namachairtxt\\_july08\\_e.doc](http://www.wto.org/english/tratop_e/markacc_e/namachairtxt_july08_e.doc)

<sup>227</sup> TN/MA/W/103/Rev.3; 6 December 2008,

[http://www.wto.org/english/tratop\\_e/markacc\\_e/namachairtxt\\_dec08\\_e.doc](http://www.wto.org/english/tratop_e/markacc_e/namachairtxt_dec08_e.doc)

On 19 May 2008, the Chairman of the WTO Negotiating Group on Market Access released a second draft of his proposed modalities for WTO NAMA negotiations. This revised draft text constitutes, like the previous versions of the NAMA modalities (July 2007 and February 2008), a proposal from the Chairman to facilitate negotiations by concentrating mainly on the so-called core issues, formula and the flexibility. As it was expected the revised text has not been formally endorsed by WTO members. Intense discussions were made around the matters covered by the revised modalities text.

The revised modalities confirm a trend that had already been noted with regard to its February 2008 version, namely, a more “hands-off” chairmanship of the negotiating process. Chairman had continued to refrain from proposing a narrow range of numbers, in this respect, by wider ranges of options modalities text was still reflecting the polarization of Members’ views. In addition to this, the structure of the text has also been revised, by the elimination of the column with the Chair’s personal comments.<sup>228</sup>

In the revised text, the Chairman has reiterated that the members should negotiate among themselves, not with the Chairman.<sup>229</sup> This instruction realized by the Chairman’s decision to suspend formal NAMA negotiations after 2 June until further notice. As a result, the process has continued in a plurilateral and informal format. A small informal group was formed by the US which is called as G-12 (although precise numbers vary). Among developing countries only Brazil, China, India, and South Africa (as coordinator of NAMA 11) have attended the meetings of G-12. Nonetheless, the countries taking part in these core group consultations were doing so on their own account, and did not represent groups of countries. As much as there can be truth in the fact that negotiations should happen among Members and not with the Chairman, a more diffuse negotiating process deteriorated the

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<sup>228</sup> South Center, “Comments to the Second Revision of WTO NAMA Draft Modalities” SC/AN/TDP/MA/9, June 2008, Geneva. <http://www.iadb.org/intal/intalcdi/PE/2008/01931.pdf>

<sup>229</sup> [http://www.wto.org/english/tratop\\_e/markacc\\_e/namachairtxt\\_may08\\_e.doc](http://www.wto.org/english/tratop_e/markacc_e/namachairtxt_may08_e.doc)



transparency and inclusiveness of the process. It particularly alienated smaller countries' delegations. Seeing huge criticisms from developing countries the Chairman reconvened the negotiating group in formal mode.<sup>230</sup>

### 7.1. Developed countries

The May 2008 revised NAMA draft modalities widened the range (7-9) for the Swiss Formula coefficient to be applied by the developed countries, bringing the lower figure in the range from 8 down to 7.<sup>231</sup> This lower figure seems to be the lowest coefficient developed countries are willing to accept facing the opposition of their sensitive productive sectors (particularly textiles, footwear and garment) protected by relatively high tariffs. Nonetheless, even with a slightly broader range, the difference in the application of either figure is negligible, as can be seen from the table below.

**Table 6: Average tariff reductions by major developed countries (%)**

		<i>Current Bound average</i>	<i>New Bound average After Swiss (B=7)</i>	<i>Average Reduction</i>	<i>New Bound average After Swiss (B=9)</i>	<i>Average Reduction</i>
<b>US</b>	Peak tariff	48	6.11	87.3	7.58	84.21
	Simple Average	3.20	2.20	31.37	2.36	26.23
<b>EU</b>	Peak tariff	26	5.52	78.8	6.69	74.29
	Simple Average	3.90	2.50	35.8	2.72	30.23
<b>Japan</b>	Peak tariff	26	5.52	78.8	6.92	76.92
	Simple Average	3.90	2.50	35.8	1.83	20.35

Source: South Center

<sup>230</sup> South Center, "Comments to the Second Revision of WTO NAMA Draft Modalities" SC/AN/TDP/MA/9, June 2008, Geneva. <http://www.iadb.org/intal/intalcdi/PE/2008/01931.pdf>

<sup>231</sup> TN/MA/W/103/Rev.1; 19 May 2008, paragraph 5.

[http://www.wto.org/english/tratop\\_e/markacc\\_e/namachairtxt\\_may08\\_e.doc](http://www.wto.org/english/tratop_e/markacc_e/namachairtxt_may08_e.doc)

However, as also seen from these examples, the coefficients are very effective in bringing down developed country tariff peaks. As a result, some products of interest to developing countries which are subject to high MFN tariffs in developed country markets (mostly fish products, footwear, apparel and clothing) will be subject to strong reductions.

## **7.2. Developing countries subject to the Formula**

Because of different modalities (SVEs, Paragraph 6 countries, LDCs) in NAMA text, 31 developing countries will be subject to the tariff reduction formula.<sup>232</sup> The range of coefficients for developing countries in the May 2008 revised text has also been slightly enlarged, moving from (19 to 23) to (19 to 26). This new range has seemed to indicate the highest coefficient developed countries were willing to consider and, similarly, the lowest coefficient developing countries were willing to consider. Because of the structure of the Swiss formula, the differences in the application of the figures in either extreme of this range were very marginal. NAMA 11 countries would make, on average, reductions of 60% with the lowest end coefficient (19) and reductions of 54% with the higher coefficient proposed (26).

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<sup>232</sup> TN/MA/W/103/Rev.1; 19 May 2008.

[http://www.wto.org/english/tratop\\_e/markacc\\_e/namachairtxt\\_may08\\_e.doc](http://www.wto.org/english/tratop_e/markacc_e/namachairtxt_may08_e.doc)

**Table 7: Impact of the Swiss Formula coefficients on average bound rates, NAMA 11(%)**

<b>WTO Member</b>	<b>MFN Applied Average</b>	<b>Simple Bound Average</b>	<b>Swiss 19</b>	<b>Reduction</b>	<b>Swiss 26</b>	<b>Reduction</b>
Argentina	12.60	31.80	11.89	62.60	14.30	55.02
Brazil	12.60	30.80	11.75	61.85	14.10	54.23
Egypt	12.20	27.70	11.27	59.31	13.41	51.58
India	16.40	34.30	12.23	64.35	14.79	56.88
Indonesia	6.80	35.60	12.39	65.20	15.03	57.79
Philippines	5.80	23.40	10.49	55.19	12.32	47.37
South Africa	7.90	15.70	8.60	45.24	9.79	37.65
Tunisia	21.00	40.50	12.93	68.07	15.83	60.90
Venezuela	12.70	33.90	12.18	64.08	14.71	56.59
<i>Group Average</i>	<i>12.00</i>	<i>30.41</i>	<i>11.52</i>	<i>60.66</i>	<i>14.02</i>	<i>53.91</i>

Source: South Center

As it is seen from the table, a coefficient 19 generally eliminates developing countries' "water"<sup>233</sup> but also reduces applied rates. Hence coefficient 19 provides a real market access situation for the developed countries. On the other hand, a coefficient of 26 significantly reduces water, but preserves to a larger extent developing countries' MFN applied tariff rates.

An outstanding aspect of the revision paper of May 2008 was that the reduction modalities continue to require developing countries to undertake, on average, much larger tariff reductions than developed countries. This means that even with the currently broadened ranges for the coefficients, the principle of Less than Full Reciprocity in reduction commitments would be violated. Tariff reductions

<sup>233</sup> The difference between applied and bound tariff rates.

by NAMA 11 countries would continue to be, on average, almost the double (54%) of those made by the three major developed countries (30.6%).<sup>234</sup>

**Table 8: Less than full reciprocity – Comparison of formula effects on the NAMA-11 and major developed countries (%)**

<i>Average Tariff reductions</i>	MFN Average	Bound Average	Swiss 19	Reduction
<i>NAMA-11 countries</i>	15.03	30.41	14.02	53.91
<i>Developed countries (EU, Japan, US)</i>	3.63	3.13	2.14	30.63

Source: South Center

Regarding the flexibilities, the May 2008 revised text has reintroduced figures for paragraph 7<sup>235</sup>. Almost all members had been strongly criticized the chairman for his approach by leaving empty brackets in the paragraph concerning flexibilities in his February 2008 text. The revised figures in paragraph 7(b) were exactly the same as those of the July 2007. However, applying to these flexibilities was linked to choosing a coefficient of 21 to 23 in the formula. There was a “sliding scale”<sup>236</sup> proposal, with two new options for the flexibilities, both linked to specific coefficients:

<sup>234</sup> South Center, “Comments to the Second Revision of WTO NAMA Draft Modalities” SC/AN/TDP/MA/9, June 2008, Geneva. <http://www.iadb.org/intal/intalcdi/PE/2008/01931.pdf>

<sup>235</sup> The flexibilities which will be granted to developing countries in accordance with the principle of Less Than Full Reciprocity. July 2004 text has proposed a flexibility package in which 10% of tariff lines that could be subject to half of the formula cuts or 5% of tariff lines that could remain unbound or be exempted from cuts. TN/MA/W/103/Rev.1; 19 May 2008.

[http://www.wto.org/english/tratop\\_e/markacc\\_e/namachairtxt\\_may08\\_e.doc](http://www.wto.org/english/tratop_e/markacc_e/namachairtxt_may08_e.doc)

<sup>236</sup> Trading off the formula coefficients against the flexibilities.

### **7.3. Paragraph 7(a) of the May 2008 text:**

- (i) less than formula cuts for up to [12-14] percent of non-agricultural national tariff lines provided that the cuts are no less than half the formula cuts and that these tariff lines do not exceed [12-19] percent of the total value of a Member's non-agricultural imports; or<sup>237</sup>
- (ii) keeping [6-7] percent of non-agricultural national tariff lines unbound or exempted from cuts provided they do not exceed [6-9] percent of the total value of a Member's non-agricultural imports.<sup>238</sup>

### **7.4. Paragraph 7(c):**

No flexibilities are granted to developing countries applying a higher coefficient in the formula (between 23 and 26). This sliding scale proposal establishing a linkage between the formula coefficient and the flexibilities were construed as a severe loss of negotiating ground for developing countries. The flexibilities normally operate as a shelter to cover sensitive sectors from the impact of the formula reduction. By limiting the scope of flexibilities, developing countries would be forced to open their most sensitive sectors to foreign competition. The choice of coefficients for the formula would impact all other sectors and products which cannot be shielded from the formula.<sup>239</sup>

It is clear that expanding the size of flexibilities package would hinder export interests of other members. This is the reason for why Friends of Ambition make pressure to further circumscribe the utilization of these flexibilities both by limiting the scope (by inserting limits on number of tariff lines and volume of trade) and by

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<sup>237</sup> TN/MA/W/103/Rev.1; 19 May 2008.

[http://www.wto.org/english/tratop\\_e/markacc\\_e/namachairtxt\\_may08\\_e.doc](http://www.wto.org/english/tratop_e/markacc_e/namachairtxt_may08_e.doc)

<sup>238</sup> Ibid.

<sup>239</sup> TN/MA/W/103/Rev.1, paragraph 5.

preventing the protection of entire sectors<sup>240</sup> (putting entire HS chapter into flexibilities).

An interesting but confusing novelty in the revised text has concerned the possibility for developing countries to get a higher coefficient in the formula depending on their participation in sectoral initiatives<sup>241</sup>. While the intent was to provide incentives for the participation of major developing countries<sup>242</sup> in specific sectoral<sup>243</sup> negotiations, it was unclear however how it would operate. There would have to be a balance between a specific coefficient for the formula and the participation in sectoral initiatives. Since, size and product coverage of each sectoral initiatives are different.

## **8. Small and Vulnerable Economies (SVES)**

The revised modalities confirmed the tariff reduction approach for SVEs in three bands<sup>244</sup>. The ranges for reductions in each of the three bands were the same. An important difference, however, was the introduction of maximum average reductions (“caps”) for the two higher bands, as had been requested by the SVE proponents.

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<sup>240</sup> This is called as “anti-concentration” clause according to which excluding an entire chapter, such as 87 chapter is forbidden. Since Chapter 87 covers all the automotive sector and by excluding this chapter from formula reduction, you can protect your entire auto sector. For this reason, developed countries have tried to limit usage of flexibilities. <http://gurn.info/en/topics/bilateral-and-regional-trade-agreements/wto-multilateral-trade-agreements/doha-round/nama/the-anti-concentration-clause-final>

<sup>241</sup> TN/MA/W/103/Rev.1, paragraph 7(i). Sectoral initiatives envisage reduction beyond formula.

<sup>242</sup> China, India and Brazil.

<sup>243</sup> Chemicals, machinery, gems and jewelry, etc.

<sup>244</sup> TN/MA/W/103/Rev.1, paragraph 13.

Table 9: SVEs Modalities

Band	Current Simple Bound Average	Bind all Non-Agricultural tariff lines at a new average of
Band 1	above 50%	22% to 32% Or a maximum of 40% reductions
Band 2	between 30% and 49.9%	18% to 28% Or a maximum of 30% reductions
Band 3	between 0 and 29.9%	14% to 20% in addition, undertake minimum cuts of [5-10%] on [90-95%] of all tariff lines

Source: TN/MA/W/103/Rev.1

## 9. Members with a low level of binding coverage

Members with a low level of binding coverage<sup>245</sup> have been recognized separate treatment in the modalities since July 2004 Framework text. The novelty in the May 2008 revision text was the introduction of a differentiated contribution by different members of the group depending on their current level of binding coverage. The inclusion of a banded approach has in fact been proposed by Paragraph 6 countries. Paragraph 8(a) of May 2008 revised text reads as follow;<sup>246</sup>

As an exception, developing Members with a binding coverage of non-agricultural tariff lines of less than 35 percent will be exempt from making tariff reductions through the formula. Instead, developing Members with a binding coverage of non-agricultural tariff lines:<sup>247</sup>

<sup>245</sup> Paragraph 6 of July 2004 Framework. These countries were called later as “Paragraph 6” countries. Binding coverage (the tariff lines bound to the WTO) of these countries are up to 35% of their lines.

<sup>246</sup> TN/MA/W/103/Rev.1, paragraph 8.

<sup>247</sup> TN/MA/W/103/Rev.1, paragraph 8(a).

- below [12] percent shall bind [70-90] percent of non-agricultural tariff lines;
- at or above [12] percent but below [25] percent shall bind [75-90] percent of non-agricultural tariff lines; and
- at or above [25] percent but below [35] percent shall bind [80-90] percent of non-agricultural tariff lines.
- Each Member shall bind at an average level that does not exceed 28.5 percent.

This new approach comprises the effort made by each WTO developing country member concerned by this paragraph to her respective situation. Members with a lower binding coverage would need to bind a lower proportion of tariff lines than others members that have a higher binding coverage already.

## **10. Recently Acceded Members**

The revised text of May 2008 confirms specific situation of Recently Acceded Members (RAMs) and these countries continue to have differentiated obligations under NAMA. There are three sub-groups for purposes of tariff reduction modalities.<sup>248</sup> While one group (it covers mainly low-income RAMs and very recently acceded members) undertakes no tariff reductions, they will only be required to fulfill their accession obligations. Other two groups however should reduce their tariffs by applying the formula or under the third, lower band applicable to the SVEs:

**Sub-Group 1** makes no commitments under NAMA<sup>249</sup>:

- Implements only accession commitments.

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<sup>248</sup> TN/MA/W/103/Rev.1, paragraphs 18-20..

<sup>249</sup> Albania, Armenia, Macedonia (FYROM), Kyrgyz Republic, Moldova, Saudi Arabia, Tonga, and Viet Nam, Ukraine.



**Sub-Group 2** applies the tariff reduction formula<sup>250</sup>:

- A Grace period before undertaking reductions of [2-3] years on each tariff line (after the implementation of accession concessions). and,
- An additional implementation period of [2-5] years beyond the [8-10] years provided for developing countries. The revised ranges for the extended implementation period have thus become larger (2-5 instead of 1-4).

**Sub-Group 3** reduces tariffs as per Tier 3 of the SVEs modalities<sup>251</sup>:

- Grace period before undertaking reductions: 3 years (no brackets) on each tariff line (after the implementation of accession concessions)
- Implementation: [8-10] years

## **11. Non-Tariff Barriers (NTBs)**

NTBs section in the revised text of May 2008 has a significant structural change. In this context, Chairman has eliminated the second column where his comments were placed. He preferred to enumerate in the new text the titles of all proposals.<sup>252</sup> While it is true that all proposals were placed in the text within brackets, it is well acknowledged that some of them enjoy much greater support or resistance than others. The Chairman clarifies in Annex 5 of his text that the inclusion of a textual proposal in the draft modalities does not indicate that it has sufficient support.<sup>253</sup>

Another problematic element in NTB section is the sequencing proposed. It is proposed in the text that text-based negotiations on NTBs will be concluded in

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<sup>250</sup> China, Croatia, Oman and Chinese Taipei.

<sup>251</sup> Ecuador, Georgia, Jordan, Mongolia, and Panama.

<sup>252</sup> TN/MA/W/103/Rev.1, paragraph 24.

[http://www.wto.org/english/tratop\\_e/markacc\\_e/namachairtxt\\_may08\\_e.doc](http://www.wto.org/english/tratop_e/markacc_e/namachairtxt_may08_e.doc)

<sup>253</sup> TN/MA/W/103/Rev.1, Annex V, page 18. "The inclusion of a proposal in this Annex does not presume a consensus around it".

five months period after the modalities were accepted.<sup>254</sup> This would mean that when the formula and flexibility parts are adopted, members would still not know which NTB proposals would be discussed and on what terms.

## **12. Sectoral negotiations**

Although formula reduction modalities are fundamental instrument in reaching further market access, sectoral initiatives perform as a supplementary element in real market openings. Therefore, sectoral negotiations have gradually become an essential aspect of the NAMA negotiations. In fact, the number of tariff lines for which sectoral tariff reductions have been proposed is now very substantial, to the point of becoming a concern for some members. In the revise text, a new sectoral initiative, which had not been enumerated in the February 2008 version of the modalities, is proposed, namely for industrial machinery.<sup>255</sup>

The final decision on a sectoral would only be known after the adoption of formula reduction modalities,<sup>256</sup> because members desiring to participate in each initiative will only have the list of participants to an initiative (critical mass)<sup>257</sup> at that stage. Hence, the overall ambition in NAMA would depend on formula coefficient numbers, flexibilities and sectorals. This could make it difficult to operationalize a trade off between the participation of some members in the sectoral initiatives and a lower coefficient for developing countries in the formula.

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<sup>254</sup> TN/MA/W/103/Rev.1, paragraph 25.

[http://www.wto.org/english/tratop\\_e/markacc\\_e/namachairtxt\\_may08\\_e.doc](http://www.wto.org/english/tratop_e/markacc_e/namachairtxt_may08_e.doc)

<sup>255</sup> TN/MA/W/103/Rev.1, paragraph 11.

<sup>256</sup> TN/MA/W/103/Rev.1, paragraph 12(c).

<sup>257</sup> Ctical mass is determined by sectoral initiatives as 90% of world trade. Therefore, when the members' trade volume reaches to 90% of total world trade, then the problem of "free rider" effect will be prevented. <http://ictsd.org/i/news/bridgesweekly/32632/>

### 13. Preference erosion

Preference erosion is the decrease in the margin between a preferential tariff rate and the MFN tariff rate as a result of multilateral tariff liberalization. Countries utilizing unilateral<sup>258</sup> or bilateral<sup>259</sup> preferential tariff regimes of the developed members will face such a negative situation. For example, the average tariff of the EU in textiles is around 8 per cent, LDCs and many ACP countries have a zero tariff access right to the EU market by preferential treatment under the GSP regime. Hence, they can compete with China, India and other major developing countries since the margin is 8 at the moment. On the other hand, after end of Doha Round, if the EU would be required to reduce its tariffs in textile sector by a coefficient 8, then the final average tariff rate on textile products would be 4, then the preferential margin for LDCs in the EC market would be eroded by 50%. Heavy dependence of LDCs and ACP exports (mainly in textile sector) on the EU and the US markets makes the situation very sensitive for these countries. In that respect, they came together from the beginning of the negotiations to protect their interest. The EU and the US extended their supports to these countries because by this way they would also be able to shelter at least some of their sensitive products.<sup>260</sup>

The revised text calls preference granting developed countries to provide technical and financial assistance to preference receiving countries. While the February 2008 draft text “urged” members to assist preference dependent developing countries, the revised text contains an option whereby assistance “shall” be provided.<sup>261</sup>

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<sup>258</sup> Generalized System of Preferences (GSP) granted by developed countries to developing countries and LDCs.

<sup>259</sup> A country may enjoy preferential treatment via free trade agreement or other bilateral arrangements.

<sup>260</sup> Patrick Low, Roberta Piermartini and Jurgen Richtering (2008): Multilateral Solutions to the Erosion of Non-Reciprocal Preferences in NAMA World Trade Organization, Geneva. <http://ctrc.sice.oas.org/TRC/Articles/TradePreferenceErosion/Chapter07.pdf>

<sup>261</sup> TN/MA/W/103/Rev.1, paragraphs 28-29.  
[http://www.wto.org/english/tratop\\_e/markacc\\_e/namachairtxt\\_may08\\_e.doc](http://www.wto.org/english/tratop_e/markacc_e/namachairtxt_may08_e.doc)

In addition to technical assistance, members negotiated a longer implementation period for the selected LDCs and ACP products in the EU and the US markets. By this way, LDCs and ACP countries would continue to protect their preferential margins in both markets. But India, Pakistan, Indonesia and other major competitors opposed to this proposal.<sup>262</sup>

#### **14. Pascal Lamy's package deal in July 2008**

In order to overcome the blockade the negotiations faced with in July, DG Pascal Lamy took an initiative and proposed a package to members. Since this package and the July process has already been explained in Chapter 1, only NAMA part of that package will be dealt with in this section.<sup>263</sup>

##### **14.1. Tariffs**

Numbers were suggested for the coefficients of the so-called Swiss formula that would be used to determine tariff cuts for industrial products, and for the flexibilities that would be granted to developing countries. For developed countries, the coefficient would be 8 (tariffs would be cut to below this value). Developing countries would be able to use a 'sliding-scale': they could choose between a coefficient 20, 22 or 25, but the higher the coefficient they would take, the less they would have flexibility for sensitive products (in the number of products to be sheltered and in the deviations from full cuts);<sup>264</sup>

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<sup>262</sup> TN/MA/W/103/Rev.1, paragraphs 30.

[http://www.wto.org/english/tratop\\_e/markacc\\_e/namachairtxt\\_may08\\_e.doc](http://www.wto.org/english/tratop_e/markacc_e/namachairtxt_may08_e.doc)

<sup>263</sup> Atul Kaushik, Rashid Kaukab and Pranav Kumar: "A Brief Analysis of the July 2008 Lamy Package", CUTS, Geneva Resource Centre and Policy.

<http://www.cuts-citee.org/pdf/ADV08-11.pdf>

<sup>264</sup> "What is the Package of Elements that WTO D-G Lamy Talks about?" By: Cyndee Todgham Cherniak, Retrieved: Sunday, July 27, 2008.

[http://tradelawyersblog.com/blog/archive/2008/july/article/what-is-the-package-of-elements-that-wto-d-g-lamy-talks-about/?tx\\_ttnews%5Bday%5D=27&cHash=3b58935392](http://tradelawyersblog.com/blog/archive/2008/july/article/what-is-the-package-of-elements-that-wto-d-g-lamy-talks-about/?tx_ttnews%5Bday%5D=27&cHash=3b58935392)

## **14.2. Sector-specific initiatives**

For sector-specific liberalization initiatives (initiatives aiming at achieving extensive liberalization in certain specific sectors, e.g. automobile or chemicals), a clause was proposed, according to which countries could commit to participate in negotiations for at least two important sector-specific initiatives. Developing countries that would make such a commitment could be rewarded with a higher coefficient in the Swiss formula;<sup>265</sup>

## **14.3. Anti-concentration' clause**

In order to prevent certain developing countries from concentrating their tariff-reduction flexibilities (and thus maintain high tariffs) on a limited number of key sectors, e.g. automobile, the anti-concentration provision was proposed. Developing countries would have to apply full tariff cuts to either 20% of tariff lines or 9% of import value within each HS chapter.<sup>266</sup>

## **15. NAMA Negotiation Text of 6 December 2008**

The Chairman's last revised paper (December text<sup>267</sup>) basically uses the coefficients and flexibilities of the Lamy proposal, which in turn is mainly based on the then NAMA Chair's 10 July text. December text requires also the developing countries to undertake tariff reductions by more than developed countries. It also cuts the developing countries' bound tariffs very deeply, thus reducing many applied tariffs, and seriously reducing policy space to make use of tariffs for industrial development in general and the development of future industries in particular.

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<sup>265</sup> Ibid.

<sup>266</sup> Ibid.

<sup>267</sup> TN/MA/W/103/Rev.3, 6 December 2008,  
[http://www.wto.org/english/tratop\\_e/markacc\\_e/namachairtxt\\_dec08\\_e.doc](http://www.wto.org/english/tratop_e/markacc_e/namachairtxt_dec08_e.doc)

The December Text fixes coefficient 8 for developed countries<sup>268</sup>, which would mean that the average tariff reduction rates of the EU, the US and Japan would be 33%, 29% and 22% respectively. The average bound tariff of the three major developed countries would be reduced by about 28%. The text fixes coefficients 20, 22 and 25 for developing countries<sup>269</sup> (with flexibilities for 14%, 10% and zero in numbers of lines respectively); the countries would be in a position (Sliding Scale) to choose one of the options. A choice of the middle Coefficient 22 would reduce the average tariff of developing countries like India, Brazil, Indonesia, and Venezuela by about 60%.<sup>270</sup>

December NAMA text also keeps the “anti-concentration clause” the aim of which is to prevent developing countries from excluding an entire sector, or close to an entire sector, from full formula tariff cuts. The new NAMA text legitimises it further by stating that “full formula tariff reductions shall apply to a minimum of either 20% of national tariff lines or 9% of the value of imports of the Member in each HS Chapter.”<sup>271</sup> Despite the protests by many developing countries before and in July, this anti concentration clause has now been put in a more concrete form in the Chair’s text.<sup>272</sup>

As regards the “sectoral initiative”, it was clearly understood in Hong Kong Ministerial Conference that participation of any member in a “sectoral approach” (in which participants agree to lower their tariffs in selected sectors to zero or very low levels) would be voluntary. However some developed countries, especially the US, have insisted that some developing countries (China, India, and Brazil) must take part in at least one or two sectoral initiatives from among sectors these developed

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<sup>268</sup> TN/MA/W/103/Rev.3 6 December 2008, paragraph 5.

[http://www.wto.org/english/tratop\\_e/markacc\\_e/namachairtxt\\_dec08\\_e.doc](http://www.wto.org/english/tratop_e/markacc_e/namachairtxt_dec08_e.doc)

<sup>269</sup> Ibid.

<sup>270</sup> Khor, Martin (2008): “Analysis of the New WTO Agriculture, NAMA Texts of 6 December 2008”, Third World Network. <http://www.twinside.org.sg/title2/wto.info/twninfo20081213.htm>.

<sup>271</sup> TN/MA/W/103/Rev.3 6 December 2008, paragraph 7(d).

<sup>272</sup> Khor, Martin (2008).

countries have chosen, including chemicals, industrial machinery and electronics. They legitimize their demand by an argument that level of ambition is low in formula and flexibilities and they want to get further concessions from China and India in sectorals. In this respect, Lamy's July text for the first time included the new obligation that certain countries (listed in an Annex Z of the December text) have committed to participate in negotiations in at least two sectoral initiatives.<sup>273</sup>

The Lamy text was not acceptable to some of the developing countries in the G7 talks within the mini Ministerial in July. The Chairman in his December text has refrained from repeating Lamy's proposal and has chosen to highlight sectorals as a major problem, in which "we are far from a consensus."<sup>274</sup>

## **16. General evaluation of NAMA negotiations**

The outcome of NAMA negotiations has appeared likely to be the least development-friendly. A new system has been created that will remove or reduce the present development flexibilities in the General Agreement on Tariffs and Trade.<sup>275</sup>

In the core modalities (formula and flexibilities), members are asked to bind all their industrial tariffs. At present, each country can choose how many of their tariff lines they want to bind. In addition to this, unbound tariffs will have to be bound at low levels. For the first time, developing countries will be subjected to a Swiss formula to reduce tariffs in a non-linear mode which cuts higher tariffs more deeply than lower tariffs. Since most developing countries have quite high industrial tariffs, their tariffs will be cut more steeply than the tariffs of developed countries. The cuts are to be done on a line-by-line basis. This means that every product will be cut by this drastic formula. In the Uruguay Round, the developing

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<sup>273</sup> Khor, Martin (2008).

<sup>274</sup> TN/MA/W/103/Rev.3 6 December 2008, paragraph 9.

<sup>275</sup> Khor, Martin: "Least Development-Friendly Outcomes Expected From NAMA Negotiations" [http://www.centad.org/focus\\_36.asp](http://www.centad.org/focus_36.asp)

countries had to cut their tariffs by an overall target of 30%, but they could choose at which rate to cut which product's tariffs.<sup>276</sup>

Although a longer implementation period is foreseen for the Doha Round results, the implications of the NAMA proposals are serious and detrimental and will likely to exacerbate the deindustrialisation in many developing countries because of rapid liberalization, as a result of the structural adjustment programmes of the IMF and World Bank. For example, the domestic industries of many African countries have been seriously damaged in the 1980s and 1990s.<sup>277</sup>

There is a myth that developed countries and successful developing countries industrialized because they had opened their domestic market to foreign competition and that the lower the tariff the higher the industrial growth. In fact, history of industrialization has already shown that developed countries used of high tariffs in order to protect their infant industries during their industrialization phase. Also, the successful East Asian economies of Taiwan, South Korea and Japan applied tariff measures to ensure their industrial development. For example, the US maintained average applied industrial tariffs of 40 to 50% from 1820 to 1931. France had average tariffs of 20 to 30% from 1913 to 1931. Spain had 41% tariff in 1913 and 1925, rising to 63% in 1931. Germany's tariff was 20-21% in 1925 and 1931 and 26% in 1950.<sup>278</sup>

The US had 44% tariff in 1913 when its per capita income was \$5,301, and 14% tariff in 1950 when its per capita income was \$9,561. Germany had 26% tariff in 1950 when its per capita income was \$3,881, and the UK's tariff in 1950 was

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<sup>276</sup> Ibid.

<sup>277</sup> "Economic and Welfare Impacts of the EU-Africa Economic Partnership Agreements" Economic Commission for Africa, p.19.

[http://uneca.org/eca\\_programmes/trade\\_and\\_regional\\_integration/documents/KAringi.pdf](http://uneca.org/eca_programmes/trade_and_regional_integration/documents/KAringi.pdf)

<sup>278</sup> Mehdi Shafaeddin (1998): "How Did Developed Countries Industrialize? The History of Trade and Industrial Policy", December 1998, UNCTAD/OSG/DP/139.  
[http://www.unctad.org/en/docs/dp\\_139.en.pdf](http://www.unctad.org/en/docs/dp_139.en.pdf)



23% (\$6,907 per capita income). In 2001, the average applied tariff was 13.6% for LDCs (\$898 per capita income), 8.1% for developing countries (\$3,260 per capita income), 10.4% for Brazil (\$5,508 per capita income), 12.3% for China (\$3,728 per capita income) and 24.3% for India (\$1,945 per capita income)<sup>279</sup>

Tariffs constitute an important tool at present for industrialization since the use of other tools (domestic supports, subsidies, TRIMs, TRIPs, etc.), which other countries had used during their industrialization, has now been either prohibited or restricted by WTO rules. Another dimension is that, customs revenues are still very important for some developing countries, therefore reducing tariffs will decrease their income while for developed countries this is less than 1%.<sup>280</sup>

## **17. Turkey position in NAMA negotiations**

In general non-agricultural products constitute almost 75 % of all tariff lines in a single tariff schedule. They also represent 92 % of the global trade. For Turkey, non agricultural products amount to 97 % of imports and 96 % of exports. In addition, if one considers the value added produced by the industrial sector and the employment it provides, the likely impact of the liberalization on the global economy will become more apparent. That impact may have two sides. First, as it has been stated above, the previous round of negotiations demonstrated that the international liberalization of trade might improve the welfare of countries. On the other hand, liberalization also has triggered competitiveness which in turn has challenged the domestic manufacturers. Therefore both risks and opportunities need to be reflected on together.<sup>281</sup>

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<sup>279</sup> Ibid.

<sup>280</sup> Ibid.

<sup>281</sup> Position Paper of UFT,  
<http://www.dtm.gov.tr/dtmadmin/upload/ANL/CokTaraflıAnlasmaDb/yeninotson1.doc>

Following that general assessment, if we look at the ongoing negotiations one may easily identify the fact that the existing bound tariff rates<sup>282</sup> of developed countries on average is about 6.8 %. This number for 10 selected developing countries<sup>283</sup> which are still preserving their protectionist stance in the negotiations is about 34.9 %.<sup>284</sup>

Moreover developing countries, including Turkey, have not bound all their non agricultural products at the WTO yet. For Turkey, almost 39 % of all non agricultural products are bound.<sup>285</sup> This theoretically means that those countries could apply any tariff rate without any limit if they wish to do so. Nonetheless, this probability hinders transparency and predictability for the exporters. The present target is to bind the tariff rates of all products at the end of the Doha negotiations. However, non-tariff barriers also constitute a real impediment to the international trade of non agricultural products and they are scrutinized accordingly.

In Doha negotiations, since the overall average of tariffs of developed countries is low *vis a vis* that of the developing countries', developed countries claim deep tariff reductions from the developing countries. This also depends on the coefficient of the Swiss formula where a higher coefficient would result in relatively less reductions (in terms of percentage points) however a lower coefficient would yield more reductions. That's why the developing countries, such as India, Brazil, Argentina and South Africa are bargaining for higher coefficients for themselves while developed countries are insisting lower coefficients for more market access.

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<sup>282</sup> For developed countries the bound rates are almost same with the applied rates.

<sup>283</sup> NAMA 11 countries.

<sup>284</sup> TN/MA/S/4/Rev.1, 1 November 2002.

[http://docsonline.wto.org/GEN\\_viewerwindow.asp?http://docsonline.wto.org:80/DDFDocuments/t/tn/ma/S4R1.doc](http://docsonline.wto.org/GEN_viewerwindow.asp?http://docsonline.wto.org:80/DDFDocuments/t/tn/ma/S4R1.doc)

<sup>285</sup> TPR Report of Turkey, WTO Secretariat, [http://www.wto.org/english/tratop\\_e/tpr\\_e/s192-04\\_e.doc](http://www.wto.org/english/tratop_e/tpr_e/s192-04_e.doc)

Nevertheless, it is the consequence of the “special and differential” treatment principle of the negotiations that developing countries will apply a higher coefficient for their products relative to that of the developed countries’.<sup>286</sup> According to the “special and differential” treatment, developed countries and developing countries will commit themselves proportionate to their economic capacities. Another result of the “special and differential” treatment is developing country members will be able to keep a certain part of their non agricultural products out of any formula cut or may reduce the bound levels of a particular percentage of tariff lines at half of the original rate of cut.

The applied average tariff rate in Turkey is about 4.2 % which is no different than any developed country average and Turkey is ambitious in these negotiations to have more market access.<sup>287</sup> That is why since the beginning, Turkey is in favor of a low coefficient for developing countries. In WTO negotiations Turkey has posed itself like any other developing country. However in real terms, for the industrial products, Turkey will be applying the developed country coefficient with all the practical consequences due to the Customs Union with the EU. Thus it would be preferable if the developed countries eventually end up at a relatively high coefficient so as Turkey could have some margins to shelter its sectors. This is a result of the *sui generis* nature of Turkey’s general position which frequently surfaced in the other areas of the negotiations as well.

In this vein, on the subject of the formula and flexibilities, Turkey has sought a position which is very close to Friends of Ambition (developed countries and South Korea). These countries including Turkey stand a more liberal policy in NAMA. Therefore, they are negotiating a lower coefficient for the developing

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<sup>286</sup> As a result of principle of “less than full reciprocity”. Doha Ministerial Declaration, WT/MIN(01)/DEC/1, 20 November 2001, paragraph 16.

[http://www.wto.org/english/thewto\\_e/minist\\_e/min01\\_e/mindecl\\_e.htm](http://www.wto.org/english/thewto_e/minist_e/min01_e/mindecl_e.htm)

<sup>287</sup> TPR Report of Turkey, WTO Secretariat, [http://www.wto.org/english/tratop\\_e/tpr\\_e/s192-04\\_e.doc](http://www.wto.org/english/tratop_e/tpr_e/s192-04_e.doc)

countries. In addition to this, this group has also demanded more limited exceptions to developing members.<sup>288</sup>

On LDCs, Paragraph 6 countries, RAMs, NTBs, SVEs Turkey's position is very similar to that of the Friend of Ambition. On the other hand, on sectorals and preference erosion, Turkey's position departs from the group.<sup>289</sup>

As regards sectorals, Turkey had a different perspective for the general structure of sectorals. Although voluntary nature of sectorals has been accepted in Hong Kong Ministerial Declaration, Turkey proposed a mandatory participation in its proposal titled with "Harmonization of Tariffs in Textile and Clothing Sectors".<sup>290</sup>

According to Turkey, the harmonization of the tariffs of all WTO members would be the right method to address the specific needs of the textiles and clothing sectors. Turkey has asserted that textiles and clothing sectors be treated on their own merits since the economies of developing countries are highly dependant on those sectors.<sup>291</sup>

The initiative, proposed by Turkey, like the Chemicals Tariff Harmonization Agreement (CTHA) of the Uruguay Round, highlights the "harmonization approach" and allows differentiated treatment of various chapters of the textiles and clothing sectors<sup>292</sup>. With this method, it is possible to reach a lower rate of reduction in the tariff rates of member countries in comparison to a formula while going for

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<sup>288</sup> Position Paper of UFT,  
<http://www.dtm.gov.tr/dtmadmin/upload/ANL/CokTaraflıAnlasmaDb/yeninotson1.doc>

<sup>289</sup> Ibid.

<sup>290</sup> JOB (06)/60, 22 March 2006.

[http://docsonline.wto.org/GEN\\_viewerwindow.asp?http://docsonline.wto.org:80/DDFDocuments/t/JOBS/Ext06/60.doc](http://docsonline.wto.org/GEN_viewerwindow.asp?http://docsonline.wto.org:80/DDFDocuments/t/JOBS/Ext06/60.doc)

<sup>291</sup> Ibid.

<sup>292</sup> Chapters between 50 to 63 of Tariff Schedule.

deeper cuts in certain sub-categories. By this way, general liberalization can also be reached in scope of the initiative.<sup>293</sup>

In this framework, in Turkey's view, this initiative should be considered outside the scope of traditional proposals for sectorals that aim basically at further liberalization than the formula. The proposed initiative would also deal with trade-distorting practices and Non-Tariff Barriers (NTBs) in a comprehensive and coherent manner.

Some textile exporter developing countries<sup>294</sup> utilizing preferential access to the EU and the US markets expressed support for Turkey. Although it is not openly, the US has also extended its support to a certain extent. This deliberate policy of the US was a result of their concern about increasing opposition from NAMA 11 members.

Nonetheless, other MFN supplier countries like Pakistan, China and Indonesia opposed to the proposal by arguing that Turkish proposal carve textiles and clothing out of the general tariff reduction formula for industrial goods in the Doha Round. WTO Director-General Pascal Lamy has also commented against the proposal by saying that partially exempting textiles and clothing from tariff cuts would "be very strange," and said that "a large part of the Members" shared his view. "This would be a new animal — a NAMA-minus — in a negotiation"<sup>295</sup>

After this, although Turkey has never withdrawn this proposal formally, taking into account the fragile and weak support to his proposal it has turned its focus on the issue of preference erosion. After changing its policy in sectorals, Turkey started to approach other sectoral initiatives positively, and expressed its informal support to gems and jewelry and industrial machinery sectoral initiatives.

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<sup>293</sup> JOB (06)/60, 22 March 2006.

<sup>294</sup> Jordan, Mauritius, Sri Lanka, and Tunisia.

<sup>295</sup> Bridges Weekly Trade News Digest, Volume 10, Number 11, 29 March 2006.

On the other hand, with regard to chemicals, electronics, forestry and healthcare sectoral initiatives, it refrained from to participate in these sectorals especially taking into account high tariffs and domestic production in these sectors.<sup>296</sup>

Regarding preference erosion, Turkey has focused on this subject especially since 2007 after seeing lack of support to its textile proposal. As it is explained before, preference erosion is the decrease in the margin between a preferential tariff rate and the MFN tariff rate as a result of multilateral tariff liberalization. It has two versions, unilateral or bilateral. Turkey's interest is in the second one. As a result of Customs Union, there is a free circulation rule between Turkey and the EU. In that respect, Turkey can export all industrial products (other than iron and steel which are covered by another agreement between Turkey and the EU) to the EU with a zero tariff rate. At the end of Doha Round, the EU will reduce its customs tariffs by a coefficient of 8. As a result, the average tariff of the EU will be reduced from 3.90 to 2.60 by 33 percent reduction rates<sup>297</sup>. In certain high sensitive sectors such as automobile, textile and footwear this reduction rate will be higher. For example in auto sector, tariff of the EU is 10 % and after Swiss formula with 8 coefficients, the final rate will be 4.4 percent with 56 percent reduction rate.<sup>298</sup>

Turkey has begun to apply close positions with those of LDCs and ACP countries in preference erosion issue since 2007. Its interests were nearly identical with these countries in the EU market. Both LDCs and ACP countries were defending their preference margins in the EU market for a products list which was mainly composed of textile and clothing products. Turkey's textile and clothing exports are also mainly destined to the Europe market. Therefore both parties formed an alliance and acted as a bloc in NAMA negotiations on this issue. As a result, the number of products which were sheltered from preference erosion in the

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<sup>296</sup> Position Paper of UFT,  
<http://www.dtm.gov.tr/dtmadmin/upload/ANL/CokTaraflıAnlasmaDb/yeninotson1.doc>

<sup>297</sup> Author's calculation.

<sup>298</sup> Author's calculation.

EU market was 23 in 2007, it reached to 57 in the end of 2008. Turkey's exports to the EC in those products were nearly 7 billion USD.<sup>299</sup>

Finally, while further liberalization in non-agricultural products will bring about better market access opportunities for Turkish exporters in Asia, in the US and in the Middle East, in real terms, all entrepreneurs must be prepared for a more competitive global environment both in Turkey and in the EU markets due to tariff reduction by Coefficient 8.

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<sup>299</sup> JOB(07)/80/Add.2, WTO, the Secretariat Report for the Small Group Members (including Turkey) negotiating preference erosion.  
[http://docsonline.wto.org/GEN\\_viewerwindow.asp?http://docsonline.wto.org:80/DDFDocuments/t/JOBS/Ext07/80A2.doc](http://docsonline.wto.org/GEN_viewerwindow.asp?http://docsonline.wto.org:80/DDFDocuments/t/JOBS/Ext07/80A2.doc)

## **CHAPTER V- BRIEF OUTLOOK OF OTHER NEGOTIATION SUBJECTS**

Although agriculture and NAMA has constituted core elements of Doha Package, the parallel negotiations in some other fields have also been conducted. These subjects are also very important for putting certain fields of trade in goods under the discipline and also further clarify certain controversial issues regarding implementation of current WTO agreements. A brief summary of these negotiations were placed in next pages.

### **1. Negotiations on Trade Facilitation:**

As part of the Doha Development Agenda (DDA), WTO Members agreed to start negotiations on trade facilitation (TF) in July 2004 (so called July Framework of 2004) in order to clarify and improve the existing WTO provisions on Freedom of Transit (GATT Article V), Fees and Formalities connected with Importation and Exportation (Article VIII), and Publication and Administration of Trade Regulations (Article X).<sup>300</sup>

The mandate directs Members to address developing country concerns with respect to the issues of technical assistance, capacity building and special and differential treatment in this field. The negotiations also aim to improve effective cooperation between customs and other appropriate authorities on trade facilitation and customs compliance issues.<sup>301</sup>

Turkey has been supporting the trade facilitation negotiations since it is one of the essential elements of the market access topics under the DDA negotiations. The implementations of cross- border trade and transit of goods have been regarded as potential sources of trade barriers. Thus, to the best of its ability, Turkey has been

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<sup>300</sup> WT/L/579, 2 August 2004; paragraph g.  
[http://www.wto.org/english/tratop\\_e/dda\\_e/draft\\_text\\_gc\\_dg\\_31july04\\_e.htm](http://www.wto.org/english/tratop_e/dda_e/draft_text_gc_dg_31july04_e.htm)

<sup>301</sup> Ibid.



actively involved in the negotiation process not only by submitting several proposals but also by contributing to the enhancement of the others.<sup>302</sup>

Turkey is especially sensitive in freedom of transit in the negotiations and she expects a real progress in that area. She aims to achieve freedom of transit with a view that sees freedom of transit as the principle and restrictions to that are allowed only in exceptional cases. Moreover any restrictions that a member intends to apply should be clearly justified within the context of GATT articles XX and XXI.<sup>303</sup> Turkey is also trying to ensure that the measures applied would be the least trade restrictive way of achieving legitimate aim.<sup>304</sup>

In line with its priority areas, Turkey together with some other Members has tabled textual proposals<sup>305</sup> which are being negotiated in the TF Committee, namely the Establishment of National Websites and Enquiry Points, Advance Ruling and Quota-Free Transit Regime. All those proposals together with others will be the basis of a potential TF Agreement.

## **2. Negotiations on Trade and Environment:**

The WTO Committee on Trade and Environment meeting in special sessions is mandated to discuss three negotiating items which are identified in Paragraph 31 of the WTO Doha Ministerial Declaration<sup>306</sup>. According to this paragraph, Members are required to negotiate on (i) the relationship between existing WTO rules and specific trade obligations set out in Multilateral Environmental Agreements (MEAs)

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<sup>302</sup> Position Paper of UFT, p.15.

<http://www.dtm.gov.tr/dtmadmin/upload/ANL/CokTaraflıAnlasmaDb/yeninotson1.doc>

<sup>303</sup> These articles provide exceptions to the members in certain conditions.

<sup>304</sup> Position Paper of UFT, p.16.

<http://www.dtm.gov.tr/dtmadmin/upload/ANL/CokTaraflıAnlasmaDb/yeninotson1.doc>

<sup>305</sup> Turkey's proposals were circulated in the documents; TN/TF/W/153, TN/TF/W/132/Rev.1, TN/TF/W/146/Rev.1.

<sup>306</sup> WT/MIN(01)/DEC/1; 20 November 2001.

[http://www.wto.org/english/thewto\\_e/minist\\_e/min01\\_e/mindecl\\_e.htm](http://www.wto.org/english/thewto_e/minist_e/min01_e/mindecl_e.htm)

(ii) procedures for regular information exchange between MEA Secretariats and the relevant WTO committees, and the criteria for the granting of observer status, and  
(iii) the reduction or, as appropriate, elimination of tariff and non-tariff barriers to environmental goods and services.

The mandate set by the Ministerial Declaration promises win-win-win outcome for the environment, trade and the development. The basic rationale is that the reduction or elimination of the barriers to trade on environmental goods and services will translate into lower costs and increased trade. This in turn will lead to greater access to technologies and products that support environment and development goals concurrently. In this regard, Turkey supports the negotiations carried under the Committee on Trade and Environment in Special Session (CTESS) with a view to reaching a conclusion achieving the triple-win goals. So far, different approaches have been put forward by the parties on the method to be employed for identifying the goods and services which will be eligible for tariff reduction. Though all approaches have merits of their own, the list approach has appeared to be the most feasible method to follow. However, it should be noted that the task of preparation of a list of environmental goods and services is extremely difficult due to the inevitable dual use nature of these goods. Moreover rapid change of technology makes the task even harder. The more time spent on the preparation of the list; the more outdated the list becomes. Turkey argues that the list to be agreed upon should manage to establish the delicate balance among the triple win goals. It is estimated that global market for environmental goods and services amount to approximately 700 billion US Dollars. Moreover most of the largest clean technology firms are headquartered in developed countries. Therefore, the benefits of an expanding green economy for developed countries seem apparent. At this point, according to Turkey it is crucial that the concerns of the developing countries with regard to the benefits of liberalizing trade on environmental goods and services should be elaborately taken into consideration in the course of negotiations. The

negotiations can only be finalized if the list reflects a broad based consensus among all state parties, developed and developing alike.<sup>307</sup>

### **3. Negotiations on Services:**

The WTO services negotiations began in 2000, as mandated under article XIX.1 of the General Agreement on Trade in Services (GATS). They subsequently became part of the single undertaking when the Doha Development Agenda was launched in 2001.<sup>308</sup>

The negotiations cover two main areas: Members' specific commitments and the completion of the GATS text for the issues pending from the previous round of negotiations (Uruguay Round).<sup>309</sup>

The negotiations on specific commitments has significant importance, since it is one of the three pillars of market access in DDA and thus plays a major role in the overall balance of the round. In these negotiations countries strive to improve market access in more than 21 sectors such as financial services, telecom, transport, energy, distribution, logistics, tourism, construction and computer. In general, developed nations (US, EU, Japan, Australia, etc) pursue a high level of ambition, whereas developing ones seek a favorable and differential treatment.<sup>310</sup>

In services, Turkey promotes a substantive outcome which will ensure progressive liberalization. The liberalization of services is crucial particularly because of its capacity to attract foreign investments. Moreover, providing access to higher quality services in key areas such as financial services, telecommunications,

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<sup>307</sup> Position Paper of UFT, p.17-18.

<http://www.dtm.gov.tr/dtmadmin/upload/ANL/CokTaraflıAnlasmaDb/yeninotson1.doc>

<sup>308</sup> [http://www.wto.org/english/tratop\\_e/serv\\_e/s\\_negs\\_e.htm](http://www.wto.org/english/tratop_e/serv_e/s_negs_e.htm)

<sup>309</sup> Ibid.

<sup>310</sup> Ibid.

transport and construction, it is necessary to develop a competitive growing economy. Turkey has actively and constructively engaged in the services negotiations and co-sponsored proposals for progressive liberalization of services. Turkey has received plurilateral requests to further liberalize 13 services sectors from a group of countries and participated in the plurilateral request on construction as demander. Turkey presented its initial offer on liberalizing services in 2003 and revised it in 2005.<sup>311</sup>

#### **4. Negotiations on Rules:**

The negotiations taking place in the area of *rules* cover the development of the disciplines enclosed in the Anti Dumping Agreement (AD) and the Agreement on Subsidies and Countervailing Measures (ASCM) and the development of measures to increase transparency in dumping and subsidy investigations.<sup>312</sup>

##### **4.1. Anti-dumping and subsidies**

Improving and clarifying the provisions of the Anti Dumping Agreement and the Agreement on Subsidies and Countervailing Measures during these negotiations are the main goals of the negotiations. In addition to this, negotiations are also taking place to adjust the differences between the provision of the Anti Dumping Agreement and the Agreement on Subsidies and Countervailing Measures that regulate the same subjects.<sup>313</sup>

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<sup>311</sup> Position Paper of UFT, p.13.

<http://www.dtm.gov.tr/dtmadmin/upload/ANL/CokTaraflıAnlasmaDb/yeninotson1.doc>

<sup>312</sup> [http://www.wto.org/english/tratop\\_e/rulesneg\\_e/rulesneg\\_e.htm](http://www.wto.org/english/tratop_e/rulesneg_e/rulesneg_e.htm)

<sup>313</sup> Ibid.

While supporting the approach to bring light on and to improve the rules enclosed within these agreements, Turkey asserts that the agreements should not result to being more complicated and impracticable than it is.<sup>314</sup>

The changes envisaged in regard to transparency, the increase of predictability and the reinforcement of procedural rights of parties to an investigation are generally considered as positive steps, even though they are also considered to bring new obligations for Turkey and other developing countries in the implementation stage.<sup>315</sup>

#### **4.2. Fishery subsidies**

The mandate of the negotiations on fisheries subsidies requires the prohibition of the subsidies which serve overfishing and overcapacity.<sup>316</sup> This is essential to preserve many fish species and Turkey extended its support to a broad prohibition of the subsidies which are proven to contribute overcapacity and overfishing.<sup>317</sup>

On the other hand, another important element in the mandate is the provision of effective and appropriate special and differential treatment for developing country members. Fishing is an essential for many developing and LDC members for the livelihood of a considerable amount of people and thus for developmental aspirations.<sup>318</sup>

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<sup>314</sup> Position Paper of UFT, p.10.

<http://www.dtm.gov.tr/dtmadmin/upload/ANL/CokTaraflıAnlasmaDb/yeninotson1.doc>

<sup>315</sup> Position Paper of UFT, p.11.

<http://www.dtm.gov.tr/dtmadmin/upload/ANL/CokTaraflıAnlasmaDb/yeninotson1.doc>

<sup>316</sup> [http://www.wto.org/english/tratop\\_e/rulesneg\\_e/rulesneg\\_e.htm](http://www.wto.org/english/tratop_e/rulesneg_e/rulesneg_e.htm)

<sup>317</sup> Position Paper of UFT, p.12.

<http://www.dtm.gov.tr/dtmadmin/upload/ANL/CokTaraflıAnlasmaDb/yeninotson1.doc>

<sup>318</sup> Ibid, p.13.

Finally, although rules, services, environment, trade facilitation negotiations fall behind the agriculture and NAMA negotiations, they constitute significant tools of Doha Round Package. Since there is a Single Undertaking rule, all topics will have a share in overall balance of negotiations.

## **CHAPTER VI: TURKEY'S REGIONAL AND BILATERAL TRADE ARRANGEMENTS**

Doha Round negotiations will certainly affect the formulation and implementation of Turkey's multilateral, regional and bilateral trade arrangements. Therefore, prospective implications of Doha Round for Turkey's regional and bilateral trade relations will be examined in this Chapter.

### **1. Regional trade agreements**

Turkey has participated in several regional trade arrangements among them; the Customs Union with the EU has the priority. According to the Association Council Decision (Customs Union Decision-CUD) No. 1/95 of 6 March 1995, establishing the Customs Union, Turkey harmonized its trade regime with that of the EU and is progressively aligning its preferential regime with the EU, including the GSP. Turkey has also a free-trade agreement with EFTA and is part of the Euro-Mediterranean Partnership aimed at establishing a free-trade area in the region. Other regional organizations where Turkey has membership status are the Economic Cooperation Organization and the Black Sea Economic Cooperation. Turkey's membership in several arrangements makes its trade regime complex and difficult to manage. For example, while in agricultural products Turkey's WTO obligations are main determinant, in non-agricultural products however its obligations stemming from Customs Union and Free Trade Agreements are effective.<sup>319</sup>

#### **1.1. Customs Union with the European Communities**

The Customs Union (CU) between Turkey and the EU entered into force on 1 January 1996. The CUD establishing the CU provides for free trade between the parties by eliminating all customs duties and quantitative restrictions on industrial

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<sup>319</sup> TPR Report of Turkey, WTO Secretariat, [http://www.wto.org/english/tratop\\_e/tpr\\_e/s192-04\\_e.doc](http://www.wto.org/english/tratop_e/tpr_e/s192-04_e.doc)

goods and the industrial component of processed agricultural goods<sup>320</sup>. It obliges also Turkey to apply a common external tariff (CET) on the same product coverage. This has led to a substantial reduction of its tariffs on these imports. There is no firm timetable for the integration of agriculture to CU. However, the free movement of agricultural goods is set as a common objective.<sup>321</sup>

The scope of the CUD excludes Turkey from some of the important aspects of the EU's common market: the common agricultural policy (CAP); and membership of the euro area. Unlike countries in the European Economic Area (EEA), Turkey may also be subject to anti-dumping and countervailing measures by the EU.<sup>322</sup>

When we look at the recent developments in Turkey's trade with the EU, we see a downward movement in trade numbers because of deep crisis in world economy in 2009. As a result of this, due to the shrink of Europe market, Turkey's export to this market has declined by 26% in 2009 and has accounted as USD 47 billion. The EU's share in Turkey's exports has decreased by 2 percent and realized as 46%. Turkey's import from the EU has decreased by 24% in the same year and fell to USD 57 billion.<sup>323</sup> Since the decrease rate of Turkey's total imports is higher than the decrease rate of imports from the EU, Europe has increased its share in total Turkish imports by 3%. Hence Turkey's foreign trade deficit with the EU also diminished in the last year.<sup>324</sup>

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<sup>320</sup> Processed agricultural products are composed of two parts; these are agricultural and industrial components. CU covers only industrial part.

<sup>321</sup> Association Council Decision 1/95.

[http://www.dtm.gov.tr/dtmadmin/upload/AB/TarimSerbestTicaretDb/EU/1\\_95.pdf](http://www.dtm.gov.tr/dtmadmin/upload/AB/TarimSerbestTicaretDb/EU/1_95.pdf)

<sup>322</sup> An anti-dumping investigation was initiated by the EC on imports of hot rolled coils from Turkey in December 2001. The investigation on imports of welded tubes and pipes (iron and non-alloy steel) led to the imposition of provisional duties in March 2002 (WTO, 2003).

<sup>323</sup> UFT statistics.

<http://www.dtm.gov.tr/dtmweb/index.cfm?action=detayrk&yayinID=1116&icerikID=1225&dil=TR>

<sup>324</sup> UFT statistics.

<http://www.dtm.gov.tr/dtmweb/index.cfm?action=detayrk&yayinID=1116&icerikID=1225&dil=TR>



The CUD has consolidated the trade relations between Turkey and the EU. The product composition of exports transformed parallel to changing production scales and structure due to the improved competition conditions and market access advantages gained from the Customs Union. Apart from traditional sectors like textile and clothing (having the largest share in exports to the EU by 29%), motor vehicles (20%), machines (9.2%), agricultural and processed agricultural goods (8.2%), electrical goods (7.4%) and iron and steel (6.4%) sectors increased both their shares and competitiveness in the EU market.<sup>325</sup>

On the other hand, Turkey has not faced with a fundamental change in the structure of imports after the Customs Union. In 2009, imports of inputs and investment goods constitute nearly 85 % of total imports. By the customs union Turkey's tariffs were removed and this increased imports of consumer goods from the EU since these products have high income and demand elasticity. In 2009, main import items from the EC were machines (17.4%), motor vehicles (11.8%), electronics and electrical goods (10.9%), iron and steel (10.5%) and textile and clothing (3.8%)<sup>326</sup>.

## **1.2. Free-trade agreement with the European Free Trade Association (EFTA)**

The free-trade agreement between Turkey and the EFTA entered into force on 1 April 1992 (September 1992 for Iceland).<sup>327</sup> The agreement covers: industrial products (within HS chapters<sup>328</sup> 25 to 97); fish; and processed agricultural products. The agreement also covers intellectual property, competition, state aid and anti-dumping.<sup>329</sup> Since 1 January 1993, Turkey has granted non-agricultural imports from EFTA countries the same customs duty treatment as to those from the EU.

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<sup>325</sup> UFT statistics. [http://www.dtm.gov.tr/dtmadmin/upload/AB/ABKurumsalDb/TR-EU\\_Trade.xls](http://www.dtm.gov.tr/dtmadmin/upload/AB/ABKurumsalDb/TR-EU_Trade.xls)

<sup>326</sup> UFT statistics. [http://www.dtm.gov.tr/dtmadmin/upload/AB/ABKurumsalDb/TR-EU\\_Trade.xls](http://www.dtm.gov.tr/dtmadmin/upload/AB/ABKurumsalDb/TR-EU_Trade.xls)

<sup>327</sup> EFTA comprises Iceland, Liechtenstein, Norway, and Switzerland.

<sup>328</sup> Harmonized System chapters cover all products subject to trade and first 6 digits of the HS codes are identical in WTO members.

<sup>329</sup> Turkey-EFTA FTA. <http://www.dtm.gov.tr/dtmadmin/upload/AB/SerbestTicaretDb/efta.doc>

Turkey has provided duty-free treatment on fish and fishery products from EFTA countries. Trade in processed agricultural goods follows the same system as between Turkey and the EU.

In 2009, some 99% of Turkey's merchandise imports from EFTA and 90% of its exports to EFTA were covered by the agreement (i.e. subject to zero or reduced tariffs). Total EFTA-Turkey merchandise trade was about US\$7.1 billion in 2009 (up from US\$2.9 billion in 2002); Turkey's exports to EFTA countries were mainly textiles, vehicles, and iron and steel products (about US\$4,327 million), while imports were mainly machinery, mechanical appliances, and pharmaceutical products (about US\$2,781 million). Turkey accounts for 0.7% of EFTA's total trade with the world.<sup>330</sup>

### **1.3. Euro-Mediterranean Partnership**

In November 1995, the EU and 12 Mediterranean partners established the Euro-Mediterranean Partnership<sup>331</sup>, which is a political, economic, and social programme aimed at creating "an area of shared prosperity", including a Euro-Mediterranean Free-Trade Area. This will be achieved through the Euro-Mediterranean Association Agreements negotiated between the EU and its Mediterranean partners, together with the free trade agreements among the Mediterranean partners. Turkey's trade with Mediterranean partners increased from USD 2.5 billion in 1995 to over USD 14 billion in 2009; fuel and manufactured goods constitute the majority of this trade.<sup>332</sup>

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<sup>330</sup> EFTA online information. Viewed at: <http://secretariat.efta.int>.

<sup>331</sup> The Euro-Mediterranean Partnership currently comprises 37 members: 27 EC member states and 10 Mediterranean partners. The original members were: Algeria, Cyprus, Egypt, Israel, Jordan, Lebanon, Malta, Morocco, Palestinian Authority, Syria, Tunisia, and Turkey. Libya has observer status (since 1999).

<sup>332</sup> EC online information, UFT statistics.

<http://www.dtm.gov.tr/dtmadmin/upload/AB/EuomedEntegrasyonDb/euomed.doc>

#### 1.4. Economic Cooperation Organization (ECO)

Economic Cooperation Organization (ECO) is an inter-governmental regional organization established in 1985 by Iran, Pakistan, and Turkey for the purpose of sustainable socio-economic development of the member states. ECO is the successor organization of Regional Cooperation for Development (RCD), active from 1964 to 1979. In 1992, ECO was expanded to cover seven new members: Afghanistan, Azerbaijan, Kazakhstan, Kyrgyz Republic, Tajikistan, Turkmenistan, and Uzbekistan. ECO has embarked on several projects in priority sectors of cooperation, including energy, trade, and transportation, agriculture, and drug control.<sup>333</sup>

On 6 March 2000, a Framework Agreement was signed with a view to enhancing trade relations among ECO members. After three years of preparations, the ECO Trade Agreement (ECOTA) was finalized and signed between Afghanistan, Iran, Pakistan, Tajikistan, and Turkey on 17 July 2003.<sup>334</sup> The Agreement foresees the reduction of tariffs (by not less than 10% per year) to a maximum of 15% within a maximum period of eight years after its entry into force. ECOTA has binding provisions on, *inter alia*, state monopolies, state aid, and protection of intellectual property rights, dumping and anti-dumping measures, and elimination of quantitative restrictions to trade. ECOTA is not fully operational yet since it is subject to ratification by all signatory countries.<sup>335</sup> Turkey's export to the ECO countries reached to USD 6 billion in 2009. Imports of Turkey from these countries on the other hand fell to 7 billion as a result of economic recession in Turkey.<sup>336</sup>

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<sup>333</sup> <http://www.ecosecretariat.org/>

<sup>334</sup> <http://www.worldtradelaw.net/fta/agreements/ecota.pdf>

<sup>335</sup> Afghanistan, Pakistan, Tajikistan, and Turkey have already completed the ratification process, which is still pending in Iran.

<sup>336</sup> UFT statistics. <http://www.dtm.gov.tr/dtmadmin/upload/EAD/IstatistikDb/eko04.xls>

## **1.5. Black Sea Economic Cooperation (BSEC)**

The Black Sea Economic Cooperation (BSEC) aims to improve and diversify economic and trade relations among its eleven members.<sup>337</sup> Although the BSEC provides for cooperation in various fields, it does not as yet provide for preferential tariff concessions. The areas of cooperation include banking and finance, and exchange of statistical data and economic information regarding energy, transport, telecommunications, trade and industry, agriculture and agri-industry, environmental protection, tourism, and science and technology.<sup>338</sup> In this context, the Black Sea Trade and Development Bank became operational in 1999. A declaration of intent for the establishment of a BSEC free-trade area was adopted on 7 February 1997. The declaration envisages the examination of ways and means for the progressive establishment of such an area, taking into account each country's existing and future links with the EC. Turkey's trade with BSEC countries reached USD 41 billion in 2009, it was only USD 8.5 billion in 1997.<sup>339</sup>

## **2. Bilateral agreements**

Taking into account its responsibilities stemming from the CU and its commercial priorities, Turkey concluded 19 preferential trade agreements until today. Turkey's free-trade agreements with Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovak Republic, and Slovenia expired when these countries became the EU members.<sup>340</sup> Currently, only 12 of these preferential agreements are in force: EFTA, Israel, Macedonia, Croatia,

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<sup>337</sup> The BSEC Declaration was signed on 25 June 1992. The original members were: Albania, Armenia, Azerbaijan, Bulgaria, Georgia, Greece, Moldova, Romania, the Russian Federation, Turkey, and Ukraine.

<sup>338</sup> <http://www.bsecorganization.org/documents/LegalDocuments/statutory/head/Download/HeadQuartersAgreement071115.pdf>

<sup>339</sup> UFT statistics. <http://www.dtm.gov.tr/dtmadmin/upload/EAD/IstatistikDb/eko04.xls>

<sup>340</sup> See WTO Trade Policy Review Reports (2004) and (2007).

[http://docsonline.wto.org/GEN\\_viewerwindow.asp?http://docsonline.wto.org:80/DDFDdocuments/t/WT/TPR/S192R1-00.doc](http://docsonline.wto.org/GEN_viewerwindow.asp?http://docsonline.wto.org:80/DDFDdocuments/t/WT/TPR/S192R1-00.doc)

Bosnia-Herzegovina, Palestine, Tunisia, Morocco, Syria, Egypt, Albania and Georgia. In addition to these, ratification process of four<sup>341</sup> FTAs is still continuing.

### **3. Bilateral trade relations of Turkey and export market diversification**

Turkey has been continuing to expand its trade volume by finding new markets for along time. Even though the European Union still receives the significant share of Turkish exports, its relative importance in Turkey's foreign trade has started to diminish as a result of new commercial opportunities arising in several countries located to the east, south and north of Turkey.<sup>342</sup>

Turkey's exports to EU countries contracted by 50 percent last year due to the global financial crisis, while exports to 86 other countries increased despite the tedious developments in world economy.<sup>343</sup> In 2008, 60 percent of Turkish exports went to European countries, totaling \$63 billion. But this figure fell to \$47 billion last year in line with the contraction European economies suffered with the recession. Although a recovery from the crisis has started in nearly every country, Turkey's export figures to the EU have yet to regain their pre-crisis levels. The January-April period of 2010 saw exports to the EU totaling \$17 billion, up from \$13 billion in the same period of 2009, but still smaller than \$22 billion, the figure in the January-April period of 2008.<sup>344</sup>

By adopting a neighboring and regional countries strategy, along with free trade agreements signed with several countries, Turkey has become a country involved in trade with countries around the world.<sup>345</sup> Exploring new markets was a choice for Turkey to diversify its export destinations. As a result of dedicated efforts for diversification, Turkey's exports to North African and Middle Eastern countries

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<sup>341</sup> Monte Negro, Serbia, Chile and Jordan.

<sup>342</sup> UFT statistics. <http://www.dtm.gov.tr/dtmadmin/upload/EAD/IstatistikDb/eko06.xls>

<sup>343</sup> <http://www.todayszaman.com/tz-web/news-213140-turkeys-axis-of-trade-widens-by-embracing-the-world.html>

<sup>344</sup> UFT statistics. <http://www.dtm.gov.tr/dtmadmin/upload/EAD/IstatistikDb/eko04.xls>

<sup>345</sup> <http://www.todayszaman.com/tz-web/news-213140-turkeys-axis-of-trade-widens-by-embracing-the-world.html>

rose significantly. According to data from the Turkish Statistics Institute, exports to 86 countries rose in 2009. The countries that increased the amount of goods they purchase from Turkey last year compared to 2008 include Egypt (83.6 percent), Libya (67.5 percent), Iraq (30.8 percent), Syria (27.8 percent), Brazil (10.4 percent), Algeria (10.4 percent), Senegal (6 percent) and Pakistan (5.2 percent). These countries indicate that Turkey's trade is not only increasing with its neighboring and regional countries but with a variety of countries from Asia to Africa and South America.<sup>346</sup>

Turkey currently is the second largest economy in its region, after Russia. Reaching a population of 1 billion, the region includes countries in Central and Eastern Europe, the Commonwealth of Independent States (CIS), the Middle East, the Gulf region and North Africa.<sup>347</sup> With an export volume of \$102 billion in 2009, Turkey is the fifth highest exporting country in the region. Oil and natural gas exports constitute the bulk of the exports of the higher-ranking countries.<sup>348</sup>

Russia, Syria, Iraq and Iran are the most important neighbor countries of Turkey because of their detached trade regimes. Common feature of these countries is that they are not a member of WTO and this provides them to implement their own national trade regimes outside of the sphere of multilateral trade rules.

### **3.1. Trade relations with Russia**

When we look at the developments in the last decade in Turkey's trade with Russia, we see from the following table that there is an upward movement in trade numbers since the dissolution of Soviet Union. Turkey's export to this market has increased by five times in last ten years. While exports figure was USD 589 million

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<sup>346</sup> UFT statistics. <http://www.dtm.gov.tr/dtmadmin/upload/EAD/IstatistikDb/eko06.xls>

<sup>347</sup> <http://www.todayszaman.com/tz-web/news-213140-turkeys-axis-of-trade-widens-by-embracing-the-world.html>

<sup>348</sup> Ibid.

in 1999, later it reached to USD 3.2 billion level in 2009. As regards the imports there is eightfold increase in this figure and imports have accounted as nearly USD 20 billion in 2009 compared to USD 2.4 billion in 1999. On the other hand, Turkey's exports to Russia contracted by 50.6 percent last year due to the global financial crisis, imports from that country fell by 37 percent due to the gloomy developments in world economy.

**Table 10: Trade figures with Russia**

**Million Dollar**

<b>YEAR</b>	<b>EXPORTS</b>	<b>CHANGE (%)</b>	<b>IMPORTS</b>	<b>CHANGE (%)</b>	<b>BALANCE</b>
1999	589	-56.33	2,374	10,17	-1.785
2000	644	9.38	3,887	63,71	-3.243
2001	924	43.52	3,436	-11,60	-2.512
2002	1,172	26.83	3,892	13,27	-2.720
2003	1,368	16.68	5,451	40,07	-4.083
2004	1,859	35.95	9,033	65,71	-7.174
2005	2,377	27.85	12,906	42,87	-10.529
2006	3,238	36.20	17,806	37,97	-14.568
2007	4,727	46.00	23,508	32,02	-18.781
2008	6,950	47.00	31,374	33,50	-24.424
2009	3,485	-49.90	19,726	-37,10	-16.241

Source: UFT statistics

With regard to the trade in goods, the following tables have shown that trade between Turkey and Russia has a complimentary nature. While Turkey's exports to Russia are mainly composed of agricultural products, motor cars, textiles and chemicals, Turkey's imports from Russia are natural gas, crude oil, petroleum products, iron and steel and other metals. Energy imports have 75 per cent share in total imports of Turkey from Russia in 2009. Such a significant share of energy imports explains the reason for the huge trade deficit. Imports were nearly six times higher than exports in 2009 and in order to have a sustainable trade relationship between Turkey and Russia, Turkey should increase its export figures.

Prospective results of Doha Round will necessarily affect the accession obligations of Russia to the WTO, therefore Russia would have to be required to further open its market. In this respect, successful conclusion of Doha Round and completion of Russia's accession process will stimulate Turkish exports to Russia.

**Table 11: Ten export items to Russia:** **Million \$**

<b>PRODUCT DESCRIPTION</b>	<b>2008</b>	<b>2009</b>	<b>CHANGE %</b>
Tomatoes, fresh or chilled	247	197	-20
Motor cars	660	145	-78
Fresh or dried mandarins	79	102	30
Petrol oils or bituminous inerals	126	88	-30
Fresh grapes	79	78	-1
Fresh or dried lemons citrus	64	73	14
Fresh or dried oranges	31	59	92
Dyed cotton fabrics	68	58	-15
Woven fabrics of yarn	72	50	-30
Rigid tubes and pipes of polymers	80	46	-42
<b>SUM OF TEN ITEMS</b>	<b>1,504</b>	<b>897</b>	<b>-40</b>
<b>TOTAL EXPORT TO RUSSIA</b>	<b>6,950</b>	<b>3,485</b>	<b>-50</b>

Source: UFT

**Table 12: Ten import items from Russia:** **Million \$**

<b>PRODUCT DESCRIPTION</b>	<b>2008</b>	<b>2009</b>	<b>CHANGE %</b>
Natural gas	10,875	6,125	-44
Petroleum oil or bituminous minerals	4,532	4,079	-10
Petroleum oils, crude	5,180	2,729	-47
Bituminous coal	1,367	1,140	-17
Light oils and preparations	530	612	16
Wheat and meslin	570	521	-9
Waste and scrap of iron or steel	1,227	367	-70
Semi-finished products of iron	868	365	-58
Aluminium, not alloyed	609	302	-51
Flat-rolled products of iron	459	258	-44
<b>SUM OF TEN ITEMS</b>	<b>26,218</b>	<b>16,497</b>	<b>-37</b>
<b>TOTAL IMPORT FROM RUSSIA</b>	<b>31,374</b>	<b>19,726</b>	<b>-37</b>

Source: UFT



### 3.2. Trade relations with Iraq:

The following table shows that Turkey's exports to Iraq have an upward trend since 2003. Exports of Turkey increased by six times in last seven years. While exports figure was USD 829 million in 2003, later it reached to USD 5.1 billion level in 2009. Turkey's exports to Iraq have not been affected from global financial crisis and increased by 30.9 percent last year. On the other hand imports from that country fell by 28 percent due to economic recession in Turkey.

**Table 13: Trade figures with Iraq**

**Million Dollar**

<b>YEARS</b>	<b>EXPORTS</b>	<b>CHANGE (%)</b>	<b>IMPORTS</b>	<b>CHANGE (%)</b>	<b>BALANCE</b>
2003	829	-	112	-	716
2004	1,820	119.5	467	316.9	1,353
2005	2,750	51.1	458	-1.9	2,291
2006	2,589	-5.8	375	-18.1	2,213
2007	2,845	9.8	645	72.0	2,200
2008	4,116	44.7	1,321	104.8	2,795
2009	5,394	31.0	953	-27.9	4,441

Source: UFT statistics

Like Russia, Turkey's trade with Iraq has a complimentary nature. Although Turkey's exports to Iraq are composed of diversified products, almost all of Turkey's imports from Iraq are oil and petroleum products. Turkey sells agricultural products, electrical products, electrical energy, iron and steel and other metals. Exports were nearly five times higher than imports in 2009. Iraq has a further potential for Turkey to increase its exports to this country.

Similar to Russia, the results of Doha Round will necessarily affect the accession obligations of Iraq to the WTO, therefore Iraq would be obliged to give further concessions. Such kind of tariff liberalization would mean an increase in Turkey's exports.

**Table 14: Ten export items to Iraq:****Million \$**

<b>PRODUCT DESCRIPTION</b>	<b>2008</b>	<b>2009</b>	<b>CHANGE %</b>
Bars and rods of iron/non-alloy steel	271	352	-44
Wheat or meslin flour	231	280	-10
Portland cement	181	276	-47
Vegetable fats and oils and their fractions	221	134	-17
Electric conductors,	114	122	16
Structures of iron or steel	60	96	-9
Electrical energy	65	93	-70
Frozen fowls of the species gallus domesticus	14	89	-58
Sanitary towels and tampons	57	85	-51
Carpets and other floor coverings	139	164	-44
SUM OF TEN ITEMS	1,354	1,690	-37
TOTAL EXPORTS TO IRAQ	4,116	5,394	-37

Source:UFT

**Table 15: Seven import items from Iraq:****Million \$**

<b>PRODUCT DESCRIPTION</b>	<b>2008</b>	<b>2009</b>	<b>CHANGE %</b>
Petroleum oils	1,188	832	-30
Medium oils and preparations	108	97	-10
Gold, incl. Gold plated with platinum	0	5	1,426
Dried, shelled lentils, whether or not skinned or split	4	4	-13
Mixed alkylbenzenes and mixed alkyl naphthalenes	0,3	4	+
Whole raw hides and skins of bovine	4,3	2	828
Boring or sinking machinery for boring earth	0,0	1	+
SUM OF SEVEN ITEMS	1,301	945	-27
TOTAL IMPORTS FROM IRAQ	1,321	953	-28

Source:UFT

### 3.3. Trade relations with Iran:

We witnessed a noteworthy increase in exports to Iran in last seven years. In this period, Turkey's export to this market has increased by four times. While it was USD 534 million in 2003, exports rose to USD 2 billion level in 2009. During the same period, imports increased by only 80 per cent. Despite the economic crisis in 2009, Turkey was successful to keep exports at the same level. On the imports side, however, Turkey's imports from Iran fell by 58 percent last year due to decrease in the industrial production in Turkey.

**Table 16: Trade figures with Iran:**

**Million \$**

YEAR	EXPORTS	CHANGE (%)	IMPORTS	CHANGE (%)	DENGE
2003	534	-	1,861	-	-1,327
2004	813	52	1,962	5	-1,149
2005	913	12	3,470	77	-2,557
2006	1,067	17	5,627	62	-4,560
2007	1,441	35	6,615	18	-5,174
2008	2,030	41	8,207	24	-6,177
2009	2,025	-0.2	3,410	-58	-1,385

Source: UFT

As the following tables have indicated that Turkey's exports to Iran are mainly composed of iron and steel, other metals, motor parts, chemicals, tobacco and cigarettes; Turkey's imports from Iran are natural gas, petroleum oil and other metals. Energy imports have 88 per cent share in total imports of Turkey from Iran in 2009. In order to have a balanced trade between Turkey and Iran, Turkey should increase its exports.

Finalization of Doha Round and completion of Iran's accession process will augment Turkish exports to Iran and increase the diversity in terms of products.

**Table 17: Ten export items to Iran:****Million \$**

<b>PRODUCT DESCRIPTION</b>	<b>2008</b>	<b>2009</b>	<b>CHANGE %</b>
Medium density fibreboard	81	99	22
I sections of iron or non-alloy steel	0	79	33,789
Cigarettes, containing tobacco	68	37	-45
Smoking tobacco	21	36	76
Accessories of tractors, motor vehicles	41	34	-16
Hot or cold metal-rolling mills	3	30	867
Plates, sheets, film of plastics	23	28	19
Bars and rods, of iron or non-alloy steel	11	27	143
Household or laundry-type washing machines	31	24	-23
L sections of iron or non-alloy steel	4	22	416
SUM OF TEN ITEMS	283	417	47
TOTAL EXPORTS TO IRAN	2,030	2,025	-0.2

Source: UFT

**Table 18: Ten import items from Iran:****Million \$**

<b>PRODUCT DESCRIPTION</b>	<b>2008</b>	<b>2009</b>	<b>CHANGE %</b>
Natural gas in gaseous state	1,920	1,600	-17
Petroleum oils	5,611	1,406	-75
Polyethylene with a specific gravity of $\geq 0,94$	45	57	26
Copper, refined	198	33	-83
Polyethylene with a specific gravity of $< 0,94$	19	31	59
Gaseous hydrocarbons, liquefied	0	27	146,714
Polyethylene terephthalate	7	20	164
Motor cars and other motor vehicles	8	16	110
Aluminum, not alloyed	3	12	286
Copper, unrefined	2	12	-59
SUM OF TEN ITEMS	7,814	3,213	-59
TOTAL IMPORTS FROM IRAN	8,207	3,410	-58

Source:UFT

### 3.4. Trade relations with Syria:

Following table shows Turkey's trade with Syria in the last decade. There has been an upward trend in export numbers since 1999. While exports figure was USD 232 million in 1999, later it reached to nearly USD 1.5 billion levels in 2009 by sextuple increase. As regards the imports, there is a small increase, only USD 40 million dollars, in this ten years period. Despite the world economic crisis, Turkey succeeded to increase its exports to Syria by 28 percent in 2009. In the same year Turkey's imports from Syria fell by 49 percent. Hence, Turkey's trade with Syria has produced a surplus since 2004.

**Table 19: Trade figures with Syria:**

**Million \$**

YEAR	EXPORT	CHANGE (%)	IMPORT	CHANGE (%)	BALANCE
1999	232	-	307	-	-75
2000	184	-21	545	78	-361
2001	281	53	463	-15	-182
2002	267	-5	506	9	-239
2003	411	54	413	-18	-3
2004	395	-4	358	-14	37
2005	552	40	272	-24	279
2006	608	10	187	-31	421
2007	798	31	377	102	421
2008	1,134	40	656	69	478
2009	1,448	28	347	-49	1,100

**Source: UFT**

As we see from the following tables that Turkey's main export items to Syria are portland cement, oil preparations, iron and steel, electrical energy and agricultural products; Turkey's import items from Syria on the other hand are petroleum products, calcium phosphates, textiles and chemicals. The unique nature of Syria among other three neighbor countries under consideration is that this country has a similar industrial production capacity and it produces directly competitive products to Turkish goods. Nevertheless, Turkish products have a

quality/price advantage as comparison to Syrian products and further integration of two economies will provide new opportunities to both sides. Finalization of Doha Round and completion of Syria's accession process will provide extra export conditions to Turkey in Syrian market.

**Table 20: Ten export items to Syria:** **Million \$**

<b>PRODUCT DESCRIPTION</b>	<b>2008</b>	<b>2009</b>	<b>CHANGE %</b>
Portland cement	96	133	38
Medium oils and preparations	40	121	198
Bars and rods, of iron or non-alloy steel	38	57	49
Electrical energy	8	47	476
Light oils and preparations, of petroleum	0	44	+
Maize (excl. Seed)	0	43	135,872
Preparations used in animal feeding	30	34	15
Sunflower-seed or safflower oil	80	20	-75
Containers of iron or steel	11	20	75
Vegetable fats and oils and their fractions	20	19	-5
SUM OF TEN ITEMS	325	538	66
TOTAL EXPORTS TO SYRIA	1,134	1,448	28

Source: UFT

**Table 21: Ten import items from Syria:** **Million \$**

<b>PRODUCT DESCRIPTION</b>	<b>2008</b>	<b>2009</b>	<b>CHANGE %</b>
Petroleum oils	316	106	-66
Light oils and preparations	159	63	-60
Natural calcium phosphates	68	43	-37
Textured filament yarn of polyester	1	20	1,470
Cotton, neither carded nor combed	7	12	60
Denim, containing >= 85% cotton	11	10	-1
Plates, sheets and strip, of non-alloy aluminum	10	8	-25
Single cotton yarn, of uncombed fibres	5	7	26
Woven fabrics of strip or the like	2	5	166
Multiple ""folded"" or cabled cotton yarn	4	3	-24
SUM OF TEN ITEMS	583	277	-53
TOTAL IMPORTS FROM SYRIA	656	347	-47

Source:UFT

Turkey seems to be successful in her policy change to diversify its export destinations in recent years. By implementing neighboring and regional countries strategy, Turkey has become very active trade partner in her near abroad and Turkey's exports to those countries rose significantly. Even though the European Union still receives the lion's share in Turkish exports, its relative importance in Turkey's foreign trade has started to diminish as a result new policy change. Turkey will reap the benefits of further liberalization in the region by the conclusion of the Doha Round

## CONCLUSION

WTO Trade Policy Reports (2003 and 2007) depict Turkey's trade policy as complex and assert that it is difficult to administer this multidimensional trade policy. In fact this argument reflects the reality. Since three set of international obligations constitute the framework of Turkey's trade policies. These are WTO rules, Customs Union and FTAs obligations.<sup>349</sup>

WTO rules with the results of Doha Round will continue to be effective in Turkish trade policy especially in agriculture sector, and in other horizontal mechanisms such as dispute settlement, anti-dumping and subsidy rules. While at the end of Doha Round a tariff reduction will occur in agriculture, Turkey will however be utilizing an effective tool (Special Safeguard Measure) in order to protect its high sensitive agriculture sectors. In addition to this, since the latest version of agriculture modalities text brings more tight rules on developed country subsidies in agriculture, Turkish agriculture sector will be facing less competition from the developed country exports.<sup>350</sup>

The December Revised Text (2008) will result in 36 per cent average reduction in the overall agricultural tariff lines of Turkey. Such kind of reduction is very ambitious for Turkey since the average bound protection rate of Turkey is around 65%. Although Turkey will be utilizing the provision of Special Products, the current modalities are far from meeting Turkey's expectations on this issue. For example, Chairman of the Negotiating Group has proposed 12% special products package with a zero reduction only for 5% of tariff lines. Turkey has however defended 15% special product tariff lines for a long time in the negotiations. Special

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<sup>349</sup> TPR Reports of Turkey, WTO Secretariat.

[http://docsonline.wto.org/imrd/gen\\_searchResult.asp?RN=0&searchtype=browse&q1=%28+%40meta%5FTitle+Turkey%29+and+%28+%28+%40meta%5FSymbol+WT%FCTPR%FCS%FC%2A+%29%29&language=1](http://docsonline.wto.org/imrd/gen_searchResult.asp?RN=0&searchtype=browse&q1=%28+%40meta%5FTitle+Turkey%29+and+%28+%28+%40meta%5FSymbol+WT%FCTPR%FCS%FC%2A+%29%29&language=1)

<sup>350</sup> Position paper by the UFT.

<http://www.dtm.gov.tr/dtmadmin/upload/ANL/CokTaraflıAnlasmaDb/yeninotson1.doc>



Products will provide the opportunity for Turkey to either leave some of its agricultural products out of the tariff liberalization or have lesser tariff cuts on its chosen agricultural tariff lines.<sup>351</sup>

On the Special Safeguard Measure, Turkey would like to design an operational mechanism to protect sensitive agricultural sectors. Special Safeguard Mechanism will be established to increase tariffs above the Uruguay Round bound levels in case of import surges either in terms of volume or price (when there is a sudden increase in the volume of imports or a sudden decrease in price).<sup>352</sup>

The December Text formula will mostly influence, in terms of average tariff reduction rate, the Chapters having relatively higher tariffs which are over 100% tariffs. These are meats (Chapter 2); sugar (Chapter 17); and crustacean, mollusk preparation (Chapter 16); banana (Chapter 08); sunflower seeds (Chapter 15).<sup>353</sup>

The modalities will directly affect 393 tariff lines at 6 digits and Turkey's imports on these products were USD 1.54 billion in 2006 which corresponds nearly to 40% of Turkey's total agricultural imports.<sup>354</sup>

In non-agricultural products (NAMA), however, Turkey's Customs Union obligations determine the import policy. In this respect, at the end of Doha Round, although Turkey will prepare and submit its national schedule to WTO, it will continue to apply the EU's Common External Tariff rates. Therefore, this is the logic and the reality behind Turkey's more liberal policies in NAMA.

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<sup>351</sup> Ibid.

<sup>352</sup> Ibid.

<sup>353</sup> Concession List of Turkey in the WTO.

[http://www.wto.org/english/tratop\\_e/schedules\\_e/goods\\_schedules\\_table\\_e.htm#tur](http://www.wto.org/english/tratop_e/schedules_e/goods_schedules_table_e.htm#tur)

<sup>354</sup> Study made by DG for Economic Research and Evaluation, UFT.

The non-linear formula approach in NAMA will result in high reductions in high tariffs. In that respect, in average, the developed country coefficient rate (i.e: 8) will not have a detrimental effect on Turkish economy. Since the average applied rate of Turkey is 4% in 2010 and it will be 2.7% as a result of Coefficient 8 and the reduction rate will be 33.3%. Again, this argument is true if we take into consideration the averages. But the average does not tell the entire story every time. Although the average protection rate is 4%, there are some chapters in Turkey's tariff schedule having high tariffs more than 10%, such as textile, clothing, footwear, saddler, TVs, etc. If we take in to account a product having 15% tariff rate, then the Coefficient 8 will yield a final rate of 5.2% by a 65.2% reduction. Therefore, Turkey will be devoid of using high tariff protection in certain products in its market. It will face also a deprivation of enjoyment in preferential treatment in the EU market.<sup>355</sup>

Results of Doha Round will affect not only Turkey but also Turkey's neighbors and these effects will be more dramatic in some of them. For the WTO members, these effects will be directly linked with the members' degree of developments. As for the EU members like Greece, Bulgaria and Romania, the agricultural market access opportunities will deteriorate the situation of these countries' agriculture sector, with regard to industrial sector the coefficient 8 will open their domestic manufacture sectors to more competition from the South East Asia.

Many of Turkey's neighbors are not member to the WTO. Namely, Russian Federation, Belarus, Azerbaijan, Iran, Syria, Turkmenistan, Uzbekistan Kazakhstan. Therefore the results of Doha Round will not directly affect these countries at this moment. On the other hand, the accession process of these countries will normally

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<sup>355</sup> Author's calculations.

be influenced from the ends Doha Round and these countries will be required to pay more before acceding to the WTO.<sup>356</sup>

The Doha Negotiations have been carried on for the last nine years. From agricultural issues to industrial products and from trade facilitation to services and rules negotiations, there are wide ranges of topics being covered. Technically the negotiators have reached at a certain level at present where political commitment is required. If members give priority to conclude this Round there will be a new international trade environment where some rules are strengthened, new disciplines are brought in agriculture and fishery sectors, a new WTO Agreement for Trade Facilitation is introduced, some sectors of services trade expand and of course existence of more liberal conditions in terms of reduced tariffs and lesser non tariff restrictions is secured.

The Turkish entrepreneurs with collaboration of their foreign partners will definitely benefit from the new environment and in turn will be able to boost the Turkish economy.

The achievement of above objectives will not be the end. There shall be other rounds of negotiations in the future which most probably will include the topics of competition rules, wider environmental issues and investment disciplines. We should also expect, relatively, lesser importance of any tariff negotiations since in applied terms tariff rates are getting smaller. On the other hand, non-tariff barriers and any impediment to the simple flow of trade or foreign investments will most likely be the targeted issues. We also expect more focused rounds of negotiations rather than a “single undertaking” approach which includes variety of topics.

Doha Round negotiations constitute a crucial stage in Turkey’s capabilities in the multilateral trade negotiations. In the previous rounds, Turkey’s impact on the

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<sup>356</sup> [http://www.wto.org/english/thewto\\_e/whatis\\_e/tif\\_e/org6\\_e.htm](http://www.wto.org/english/thewto_e/whatis_e/tif_e/org6_e.htm)

negotiations was very limited in accordance with its economic capacity. After getting negotiation experience during its bilateral trade relations with the EU and several other countries, Turkey has improved its negotiation skills and gained an immense trade data knowledge. Later, during Doha Round Turkey utilized this knowledge and experience in its negotiations with other members. In agriculture for example, Turkey was as an active member of G-33 and made an important contribution to policy formulation of this Group. In NAMA, Turkey tried to formulate a sectoral approach to defend the interests of many developing and least developed countries.

As a last point, widening globalization could assist better interaction between the trade communities and people of the countries. It will assist rational allocation of resources and may yield better resolution and preparation for any type of shortage, such as food crises, in any region of the world.

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