



Making trade work for development at MC6

What Hong Kong can do?

As the host and Chair of the Sixth World Trade Organisation Ministerial Conference (MC6), Hong Kong has a significant role to play in trade negotiations this year. To make use of this key moment to make trade work for poor people, this paper sets out what Oxfam believes Hong Kong can do in the run-up to and at the WTO Ministerial Conference in Hong Kong in December 2005.



Summary

The Sixth Ministerial Conference (MC6) of the WTO takes place on 13-18 December 2005, right here in Hong Kong. The MC6 is particularly significant because of its potential to be the decisive moment in the Doha Development Round of negotiations, which promises developing countries that their needs and interests would be at the heart of the WTO's negotiating programme. At the MC6, the WTO will make decisions that will have a huge impact on the lives of millions of people around the world, for better or for worse.

As the host and Chair of the MC6, Hong Kong has a significant role to play. It can help ensure that the voices of civil society actors are heard, and that the agenda of developing countries' is made more prominent. The MC6 is also a key moment in Oxfam Hong Kong's campaign for fair trade rules. We believe it is an excellent opportunity to help Hong Kong people learn more about trade and poverty, and to act to make change possible. Oxfam's Make Trade Fair campaign has been calling on governments, institutions and multinational companies to change the rules so that trade can become part of the solution to poverty, not part of the problem.

Oxfam urges Hong Kong in 2005 to:

- Press at the WTO for an early end-date for export subsidies and reform of domestic subsidies which also contribute to dumping.
- Ensure that no WTO rules constrain the right of developing countries to guarantee food security and reduce poverty. Guarantee the right of poor countries to decide their agricultural policies in line with their development needs.
- Support developing countries' demands for proper 'special and differential treatment' for their agriculture. Rich countries should therefore support a separate tariff-reduction formula, the ring-fencing of food and livelihood security crops from liberalisation – so-called special products – and a special safeguard mechanism against agricultural import surges.
- Allow developing countries to choose the pace, scope, and coverage of import-tariff reduction in the Non-Agricultural Market Access (NAMA) negotiations at the WTO, in line with their economic development needs, and allow tariffs to be increased if necessary for development purposes.
- Agree in the NAMA talks to reduce tariff barriers to developing-country manufactured exports; and reduce non-tariff barriers which are used for protectionist purposes. Support demands of Least Developed Countries (LDCs) for duty-free, quota-free access to industrialised-country markets.
- Give active political support and technical assistance to developing countries which wish to limit patent rights in order to ensure access to affordable medicines.
- Stop pressing for basic public services to be included in the WTO services agreement.

1. Introduction

The countdown to the all-important WTO Ministerial Conference in Hong Kong in December is well underway. Hong Kong citizens, as taxpayers, have contributed to the sum of nearly 300 million dollars to this world-class project. However, apart from this monetary contribution, how else could Hong Kong citizens relate to the Ministerial Conference? And what roles could the HK SAR government, the Legislative Council, business associations and civil society play throughout the process?

The WTO Ministerial Conference is the highest decision-making body of the WTO, which meets at least once every two years. Since the collapse of the fifth Ministerial Conference in Cancun in 2003, the Sixth Ministerial Conference (MC6) is particularly significant because of its potential to be the decisive moment in the Doha Development Round of negotiations, which promises developing countries that their needs and interests would be at the heart of the WTO's negotiating programme, that they will 'secure a share in the growth of world trade commensurate with the needs of their economic development', and that poverty alleviation would be a central goal.

2005 is a critical year to secure the prospect of a genuinely pro-development outcome. As the host and Chair of the MC6, Hong Kong has a significant role to play. It can help ensure that the voices of civil society actors are heard, and that the agenda of developing countries' is made more prominent. Oxfam hopes that Hong Kong would recognize and respect developing countries' interests and urge rich countries to deliver on their promise in the Doha Declaration to put development at the centre of global trade reform.

Agriculture is where negotiations are deadlocked, as rich countries refuse to phase-out subsidies and end export dumping, and developing countries are hindered from utilizing policies that can protect threatened agricultural products and sectors. For the Doha Development Round and particularly MC6, agriculture can be considered the 'make or break' element. Oxfam will make use of this key opportunity to change unfair agricultural trade rules, which is at the top of the agenda at MC6.

2. Agricultural Trade Rules Must Be Changed

The crisis of agriculture

Agriculture is in deep crisis. Global trade rules force millions of farmers into poverty while helping a handful of big agriculture corporations grow wealthier each day.

Farming feeds all six billion people on the planet. But most farmers and rural poor – around 1.2 billion people – make only US \$1 or less a day. Many are losing their land, can't afford to send their children to school, pay for medicines or even put enough food on the table.

The poorest farmers are in head-to-head competition with the world's richest farming conglomerates that have vast technological and economic advantages and can grow surplus food and crops. This has helped to severely depress world agricultural prices. The US and European Union, particularly, have skewed the balance even further in their farmers' favour by paying massive trade-distorting subsidies. These subsidies mean rich farmers have more money to invest in technology, and can continue to over-produce and dump the surplus at below cost price on global markets. This "subsidy cycle" further depresses the prices that poor farmers get.

Among the few winners are the giant trans-national companies that are consolidating their power in every part of the world food chain and making hefty profits on cheapened commodities at the expense of the growers and labourers at the bottom. For poor farmers, this leads to a relentless downward spiral: less income, less education for children, lack of food, deteriorating health, more indebtedness and eventually bankruptcy, failure and migration.

The potential of trade to drive economic growth and equity is being lost. The benefits of agricultural trade are being skewed toward the powerful and denied to the vast majority of people in the world. This is neither natural nor inevitable. It is not sustainable. The health of the world economy – and a future free of suffering for most of its people – depends on these inequities being rolled back.

An end to agricultural export dumping

In theory, a system of common trade rules could help raise standards of living across the globe. Oxfam believes in the potential for world trade to reduce global poverty. The agriculture sector – which is such a populous and rich one – was the most important to get right.

However in practise, what the WTO produced – the 1995 Agreement on Agriculture – has served to entrench and exacerbate the inequities of global agricultural trade. Brought about by deliberate and reversible decisions, the agreement has worsened the farming crisis. Its rules have worked directly against poor farmers, rather than for them, and have not helped to curb world hunger or stop mass farm failures and rural migration. The agreement has not helped reduce global poverty, as it promised.

WTO trade rules have allowed rich countries – again, particularly the United States and the European Union – to continue to subsidise their biggest farmers, encouraging massive overproduction. This has depressed prices to below the poverty line. The rich world is dumping its cheap surplus foods and crops onto poor markets at as little as one third of the real cost of production. For example, the US and the EU account for half of all the world's wheat exports, even though it costs more for their farmers to grow it than they get in sales. The export price for EU wheat is 46% below the cost of its production, the US 34% below. The wheat barons remain profitable because they are so heavily subsidised.

The same is true in maize, sugar, cotton and many other commodities. Last year, 25,000 US cotton farmers received \$2.3 billion in government handouts, encouraging over-production such that they exported 68% of their crop at prices substantially below the true cost of production. Last year, European milk producers were again the world's biggest exporters, though it costs them twice as much to produce the milk as to sell it. European sugar exporters, the world's second biggest bloc, export at prices 75% below what they get themselves.

This vicious and unfair competition is ruining poor farmers who simply cannot compete against the world's biggest treasuries. Although calculations vary, most analysts including the UN and the World Bank say that subsidies in OECD countries amount to around US \$330 billion a year, of which US \$250 billion goes directly to producers. These subsidies exceed the combined income of 1.2 billion of the world's poorest people. The US pays more in emergency farm payments than the UN's entire humanitarian aid budget. World leaders promised to cut the worst trade-distorting agricultural subsidies but in the past ten years have not done so. Some subsidies are increasing.

While millions of poor farmers struggle to survive on total income of less than \$400 a year, American farmers get on average US \$21,000 a year in subsidies alone, and European farmers on average US \$16,000 a year in subsidies. Rich countries don't pay these in order to keep small struggling family farms in business. Instead, they're skewed to the largest farmers.

In the US, the largest 25% of farms receive 89% of all government support. The remaining majority of 1.6 million mainly small US farmers share the balance. Half of all US farmers get no support at all. In the EU the picture is similar, with the largest 25% of farms receiving 70% of all support, while the smallest 2 million EU farmers share the remaining 10%.

Agricultural dumping has risen up the trade-negotiating agenda and is now seen publicly as one of the principal injustices of world trade. Ending dumping is a priority for many developing countries in the Doha Round. We hope an agreement on an early end-date for export subsidies could be reached at MC6.

Ensure poor countries' right to decide their own agricultural policies

Meanwhile, the rich world is forcing poor countries to open up their markets too quickly, while keeping its own heavily protected from competition by imposing high tariffs and restrictive quotas. Average agricultural tariffs in rich countries are two to four times higher than manufacturing tariffs. Tariff peaks as high as 500% confront imports from developing countries. Tariffs are significantly higher on exports that are extremely economically important to poorer countries, such as sugar, tobacco and fruit juices. In rich countries, tariffs on processed food are three times higher than those on primary commodities.

As a result of these and other tariffs, developing countries lose out on trade worth around US \$100 billion a year – twice as much as they get in aid. Sub-Saharan Africa, the world's poorest region, alone loses US \$2 billion a year.

The rules are used to exclude poor farmers from selling high value-added and profitable produce, like chocolate or orange juice. Poor countries instead are stuck in a trap of having to grow primary commodities at a loss. For example, Europe charges no import tax on poor countries exporting cocoa seeds, but tariffs at 15% if the seeds are processed to produce chocolate. This protectionism explains why Germany processes more cocoa than Ivory Coast (the world's biggest producer) and the UK more than Ghana.

Guilty of subsidised dumping and keeping their markets closed to competition, rich countries have instead forced poor countries to open up their own markets. This rapid liberalization has been ill-thought. Instead of reducing poverty – as carefully planned liberalisation can help achieve in the right setting – it has pushed millions of farmers to bankruptcy and stymied rural development. The advice from the World Bank and the International Monetary Fund to open up markets, quickly and widely, is ideologically driven and based on flawed research. In fact, there is no direct and simple correlation between trade liberalisation, growth and poverty alleviation.

Many Oxfam partner organizations in developing countries see the right to manage their own agricultural sectors as their number one concern, given its importance in poverty reduction. For this reason, Oxfam is calling on rich countries to support developing-country demands for 'special and differential' treatment for their agriculture and ensure the right of poor countries to decide their agricultural policies in line with their development needs.

Recommendations on the Agreement on Agriculture (AoA)

The responsibility to solve the crisis also lies with world leaders and the governments and institutions under them. They must fix their mistakes. 2005 is a make-or-break year.

For the US, the European Union, Canada, Japan and other rich nations, 2005 is an opportunity to unlock the development potential of world trade. They, together with developing countries, must rewrite the rules to help poorer countries to develop. The key to this is to make agricultural trade fair. This is at the top of the agenda at MC6, which should finalize new world trade rules through to around 2020.

2005 is also when the world checks the progress of the "millennium development goals" – the first of which seeks by 2015 to halve the number of people who live on US \$1 a day and suffer from hunger. Oxfam believes this goal too is doomed to fail unless we first tackle the global farming crisis and change agricultural trade rules. The solution to this crisis requires more than timidity and cosmetic adjustments. The rules need rewriting. A successful result could lift a billion or more people out of poverty and have a virtuous knock-on effect around the world.

Failure – more hand-wringing, more hypocrisy, more broken promises and missed opportunities – will mean for those poor people more suffering, hunger, lost opportunities and deepening sense of injustice and powerlessness. It will mean the rich getting richer at their expense.

The WTO must agree a new Agricultural Agreement which will:

- End subsidised over-production and all forms of agricultural dumping.
- Ensure that no WTO rules constrain the right of developing countries to guarantee food security and reduce poverty. Guarantee the right of poor countries to decide their agricultural policies in line with their development needs.
- Support developing countries' demands for proper 'special and differential treatment' for their agriculture. Rich countries should therefore support a separate tariff-reduction formula, the ring-fencing of food and livelihood security crops from liberalisation – so-called special products – and a special safeguard mechanism against agricultural import surges.

3. A fair deal on Non-Agricultural Market Access (NAMA)

Moderate market-access concession demands from developing countries

As part of the Doha round, WTO members are negotiating the reduction of tariffs on manufactured goods, fish, and forest products. In these NAMA talks, rich countries are demanding far-reaching market-access concessions from developing countries which will put at risk their ability to industrialise. If they are successful, poor countries will no longer be able to use tariff policy as part of a strategy to build domestic industries that are capable both of supplying local markets and of exporting, which would thereby increase employment and incomes, and generate other benefits for the economy. There is a real danger that excessive opening to imports will destroy local businesses and jobs, without bringing compensatory economic gains. In addition, governments may face balance-of-payments problems and loss of tax revenue. Effects such as these are evident in a number of countries that have undergone World Bank and IMF structural adjustment programmes.

For industrialised countries to deny the 'policy space' to poorer countries that they themselves used on their own path to development is both unfair and inconsistent. Therefore, Oxfam is calling on rich countries to allow developing countries to choose the pace, scope, and coverage of tariff reduction in the NAMA negotiations, in line with their development needs, and allow tariffs to be increased if necessary for development purposes.

Reduce trade barriers and protectionism

In a further display of double standards, rich countries are not demonstrating a commitment in the NAMA talks to reduce their barriers to developing-country exports. For example, Europe has recently indicated that it may re-impose quotas on Chinese textile imports despite having had 10 years to prepare for the end of this form of protection. A willingness to reduce such protectionism is another key component of the success of the Doha trade round. Even though rich countries have low average industrial tariffs, there are tariff peaks in sectors of interest to poor countries such as textiles and clothing, footwear, and electronics.

Tariff escalation also undermines development by hindering poor countries' efforts to diversify production towards goods with more value-added. For example, the EU imposes a tariff of less than 4 per cent on Indian yarn, but the tariff increases to 12 per cent if the yarn is worked into garments.

Developing countries also face protectionist abuse of anti-dumping actions and product standards, and excessively demanding rules of origin. Protectionist use of health, safety, and technical standards, along with complex and confusing rules of origin, are also major market-access concerns for developing countries. The rich countries are refusing to include these on the WTO negotiating agenda, and there has been little movement on negotiating disciplines on anti-dumping measures.

With the deadline fast approaching for a July agreement at the WTO on the main elements of the Hong Kong package, it is essential that rich countries change their approaches to the NAMA negotiations. Consistent with the principles of 'less than full reciprocity' and special and differential treatment that guide the Doha talks, rich countries should moderate their demands for developing-country liberalisation, while offering greater reductions in their own trade barriers i.e. to reduce tariff and non-tariff barriers to developing-country manufactured exports, and support LDC demands for duty-free, quota-free access to industrialised-country markets.

4. Support developing countries on the Trade-related Aspects of Intellectual Property Rights (TRIPS)

Put public health before patent rights

The issue of patents and access to medicines is of vital importance to the developing world, and is also a key test of whether the industrialised world is prepared to make trade rules serve the public good rather than short-term commercial interests.

The problem is now much more acute since, from January 2005, the world's major suppliers of generic medicines, including India, have had to comply with the WTO TRIPS agreement and can no longer produce affordable versions of new patented drugs that come on to the market. In the long term, this problem can only be addressed by reform of the agreement. In the short term, it is vital that national patent law in developing countries takes advantage of what flexibility there is in the TRIPS agreement in order to limit the negative effects on public health.

Rich countries should reaffirm their commitment to the Doha Declaration on TRIPS and Public Health, and support developing countries that do not wish to introduce intellectual property rules that go beyond WTO obligations. Although it will be difficult to persuade the USA to abandon its pursuit of 'TRIPS plus' regional trade agreements, a strong position on the primacy of public health over private commercial interests will help governments in developing countries to be more assertive. Rich countries should also clearly state their support for the use of good-quality, low-cost generic medicines in treatment programmes funded by international aid, and put pressure on the large international companies to go much further in reducing drugs prices in the developing world.

At the WTO, member states are discussing a minor amendment to the TRIPS agreement, which is intended to make it easier for developing countries without drug-manufacturing capacity to import generic versions of patented medicines. The terms for these amendments are set by an agreement struck at the WTO in August 2003. In Oxfam's view, that deal was unnecessarily restrictive and will not make a significant difference to poor people's access to affordable medicines. Nevertheless, member states should do its best to support African countries and others who want the new rules to be as 'least bad' as possible.

5. A more development-friendly position in the services negotiations (GATS)

Northern countries continue to press at the WTO for inappropriate liberalisation in services in developing countries. While some liberalisation may be desirable in some sectors, it is important that developing countries retain the policy space to regulate public-service sectors, including restricting foreign ownership or setting performance requirements for foreign investors.

Careful assessment of the impact of services liberalisation on development is essential, because once a government has made a binding commitment, it is very hard to reverse. Oxfam believes that basic services should remain public for developmental reasons. Markets for water, health care, and education are not the same as those for television sets and cars, and they should not be governed by the same principles. Rich countries should make a statement in support of the right of all developing countries to abstain from making either initial or further offers in the services negotiations in areas deemed essential to national development and poverty reduction.

6. Policy Recommendations

Agriculture:

- Press at the WTO for an early end-date for export subsidies and reform of domestic subsidies which also contribute to dumping.
- Ensure that no WTO rules constrain the right of developing countries to guarantee food security and reduce poverty. Guarantee the right of poor countries to decide their agricultural policies in line with their development needs.
- Support developing countries' demands for proper 'special and differential treatment' for their agriculture. At the WTO, rich countries should therefore support a separate tariff-reduction formula, the ring-fencing of food and livelihood security crops from liberalisation – so-called special products – and a special safeguard mechanism against agricultural import surges.

Market access:

- Allow developing countries to choose the pace, scope, and coverage of import-tariff reduction in the Non-Agricultural Market Access (NAMA) negotiations at the WTO, in line with their economic development needs, and allow tariffs to be increased if necessary for development purposes.
- Agree in the NAMA talks to reduce tariff barriers to developing-country manufactured exports; and reduce non-tariff barriers which are used for protectionist purposes. Support LDC demands for duty-free, quota-free access to industrialised-country markets.

Other:

- Give active political support and technical assistance to developing countries which wish to limit patent rights in order to ensure access to affordable medicines.
- Stop pressing for basic public services to be included in the WTO services agreement.

7. Conclusion

In April 2002, Oxfam launched its campaign to 'Make Trade Fair'; and since then, we have contributed to efforts that have led to:

- A leap in the global sales of fair trade coffee, worth some US\$25 million dollars in increased returns to poor coffee farmers
- A reduction in the price of anti-retrovirals in Africa, from US\$10,000 per person per year, to around US\$200 – a fall of 98%
- The European Union dropping the 'New Issues'
- Two cases on sugar and cotton dumping succeeding at the WTO Dispute Settlement Board

The MC6 is another key moment in Oxfam Hong Kong's campaign for fair trade rules. We believe it is an excellent opportunity to help Hong Kong people learn more about trade and poverty and to make change possible. If we can work together, we can force changes in the rules of trade. Till the end of the MC6, Oxfam Hong Kong will conduct a series of educational and youth activities like road shows, seminars, Big Noise signature campaigns, Fair Trade Fair, International Youth Conference as well as produce teaching resources on trade and poverty. If you would like to sign the petition online or get the latest updates, please visit our Make Trade Fair website at <http://www.maketradefair.org.hk>.

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Oxfam Hong Kong is an independent development and relief agency based in Hong Kong. We work with poor people regardless of race, sex, religion or politics in their struggle against poverty, distress and suffering. Oxfam Hong Kong is a member of Oxfam International.



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