

Weekend in Cancun - Headed for the wall?

By Peter Clark

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Cancun – Days 4 &5 - The mood in Cancun is becoming gloomier by the minute. No one is pleased with the efforts of either the facilitators or the Chairman's latest compromise text. Some country delegates complained that the USA packed the plenary meeting last evening and there wasn't enough room for everyone who wanted to be there. There are more complaints about lack of transparency and consultation. NGO's and some developing countries are taking the extreme position of claiming Minister Pettigrew (PSP) betrayed them by tying the start of negotiations on Investment to Market access on agriculture and Non-Agricultural goods (the now infamous footnote 3). The facilitators' task is to make hard decisions and this is what happened. But it is an emotional issue to developing countries who thought Canada's national position should disqualify PSP. There was no way to put up a middle of the road text in this area without taking account of the E.U. wants. It is their linkage. Now PSP is being very personally demonized (by Maude Barlow and others - Hurrah for the Council of Canadians) for doing his job. We have predicted from the start that there would be finger pointing and blame casting, and here it is.

Because the Indians and others were questioning PSP's objectivity early in the week and suggesting he should not be facilitator on the Singapore issues. Objections by those opposing engagement on these issues to any middle ground text were inevitable. Their positions were extreme and it is impossible to satisfy everyone, and certainly countries who do not want to discuss the issue at all are upset by having progress in other areas linked to launching negotiations on investment. These moments are very low points in the diplomacy of international trade.

Will the talks crash and burn? WTO spokesperson Keith Rockwell told us that no one likes the text. Failure is a real possibility and Ministers are working round the clock to try to save the conference. But reminiscent of Seattle, it appears that advance preparation may have been inadequate and the bridges between the various groups may be too wide to build in the short time available. Add to this the unwillingness of poor countries who consider they have nothing to lose by holding firm and the prospects of an agreed text seem very limited. The restricted group discussions on Agriculture were delayed and have not begun yet and it is early afternoon in Cancun. Agriculture is after the discussions on Singapore issues and while Lamy is rumoured to be a bit more flexible on having all four Singapore issues engaged it could be several hours before the restricted group

meetings on Agriculture begin. This is not much time to address the differences. Indeed, the dissension is very deep.

Mexico would like to finish on time. Brazil, India and others do not want to be rushed into an unsatisfactory deal. Canadian farm groups are telling Ministers they want them to take their time to get it right. We are told that Chairman Mr. Derbez has set a deadline to finish today; however, we have heard conflicting signals from other sources. Tomorrow is the start of Mexico's National Day celebrations and it could be problematic to ensure proper administrative support. The Mexicans take their independence day very seriously, but if there is any hope of a deal, we see at least a stopping of the clock in the old GATT/WTO tradition.

The USA has told his advisors that they will be delaying their return by a day. They have concluded that text will not be fixed today. The celebrations of Mexico's National Day do not begin until tomorrow evening but no one will be working Monday, but going into overtime does appear to be an option and indeed it appears to be inevitable. We should know this soon.

This text appeared to be searching for a middle ground and while the USA and E.U. are prepared to work with it, the compromises hit at some very sensitive Member country positions. The developing countries, notwithstanding some movement in their direction, feel their needs and wants have been largely ignored and that the USA-E.U. are managing events. If it seems like a North South division – it is. If Ministers succeed in reaching an agreed text, it will likely be a lowest common denominator one where they can claim victory, get out of Cancun and backslide after being lobbied the same way they did after Doha. And there will be a lot more blame casting. It is possible that Ministers could agree to some issues here and leave others for later as they did in Montreal during the Uruguay Round.

Agriculture is still the sticking point as much as the Singapore issues are the emotional flashpoint. The E.U. has moved on agriculture but not enough for the developing countries - or for U.S. farm groups. They want better controls on U.S. export credits. This is particularly galling as the U.S. export credits are arguably WTO inconsistent and the text envisages this as a concession which would permit the USA to sell the same fish twice.. A timely challenge would prevent this. Why are we so timid when it comes to enforcing our rights? The WTO is not self enforcing - and will not do it for us. The principles have already been established in the **Aircraft** dispute rulings.

The E.U., like some Canadian farm groups, is concerned about approaches to reductions in domestic support. The cuts in E.U. export subsidies will be focused on products of interest to developing countries. There is no firm date for eliminating all export subsidies and the same vague language we had at Doha remains. The flexibility which Canadian Ministers have been seeking in the context of Market Access for agriculture is limited to products where there are non-trade concerns. Supply Management is not normally considered a non-trade concern.

Canadian dairy and poultry farmers have made it extremely clear that the changes in the text fail to meet their concerns and told Ministers very bluntly that acceptance of this text is signing the death warrants of thousands of farms in these sectors. Added to market access concerns is a proposed cap on product-specific domestic support designed to prevent the E.U. and USA shifting from one product to another which would hit Canadian dairy farmers very hard.

Canadian farm groups are concerned that they could not be able to deal with emergencies like BSE and that the proposals do nothing to reduce U.S. domestic support which is costing Canadian grains and oilseeds farmers \$1.3 billion annually. Some of the proposals would not require the USA to cut its support but would mean reductions in Canadian support.

The E.U. and USA have extension of the Peace Clause in a higher profile position. This is a disgraceful development. The USA and E.U. agree to rules and then agree not to challenge certain practices and bind everyone else to the same constraint. This is a license to cheat.

The African countries' proposal to eliminate developed country trade distorting support on Cotton has been turned on its head and made useless by linkages to reform of the entire textiles and clothing sector. They seem more inclined to help the African farmers to diversify out of cotton than to stop distorting world markets. To use a garment industry description they have given the African countries "the sleeves off their vests".

For Canada the text on Agriculture is very thin gruel with some very indigestible lumps. State Trading Enterprise disciplines are still an issue. Geographic indicator initiatives are still alive. There will not be any effective controls on U.S. so-called green box domestic subsidies causing widespread disruption to grain and oilseed farmers in Canada and in developing countries unless and until Canada uses the information provided to Ministers earlier this year to challenge the U.S. designations and force it to be counted. This is the answer for the African countries as well. If Canada wants to help on cotton, they should help the Africans with the

technical and financial assistance to mount a challenge. This would send a message the USA and Congress badly need to receive.

The Non Agricultural Market Access (NAMA) text is inadequate for the USA and too much for India and others. The agreement is "to intensify the work". Best efforts at best.

The Singapore issues have been split with agreement to begin negotiations on Government procurement and trade facilitation while Investment and Competition policy will remain in Limbo and tied to movement in other areas as noted above. South Africa, India, Kenya and Malaysia rejected any discussion of Singapore issues before they get a better text on agriculture.

On trade rules (anti-dumping) a lot more talk and no action. As a political matter, Zoellick must walk a fine line – he cannot bring back an agreement with U.S. concessions on trade law, but he cannot take it off the table in Cancun if he wants others to buy into a text.

The USA and China are leading proponents of even greater flexibility in discussing the text. But each likely has different reasons. China has said they are not going to do much because they paid so high a price to accede. The USA wants to give its best shot because they have their own goals and do not want to be seen as a cause of failure. But their tactics and coordination in small groups is not appreciated and the principal developing countries appear to be resisting on grounds of both principle and economic interest.

There are other issues in the draft text but we have addressed the main issues here and will deal with the others in the final wrap-up.