United States General Accounting Office

GAO

Report to the Chairman, Committee on Finance, U.S. Senate, and to the Chairman, Committee on Ways and Means, House of Representatives

January 2004

WORLD TRADE ORGANIZATION

Cancun Ministerial Fails to Move Global Trade Negotiations Forward; Next Steps Uncertain

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Highlights

Highlights of GAO-04-250, a report to the Chairman, Committee on Finance, U.S. Senate, and to the Chairman, Committee on Ways and Means, House of Representatives

Why GAO Did This Study

Trade ministers from 146 members of the World Trade Organization (WTO), representing 93 percent of global commerce, convened in Cancun, Mexico, in September 2003. Their goal was to provide direction for ongoing trade negotiations involving a broad set of issues that included agriculture, nonagricultural market access, services, and special treatment for developing countries. These negotiations, part of the global round of trade liberalizing talks launched in November 2001 at Doha, Qatar, are an important means of providing impetus to the world's economy. The round was supposed to be completed by January 1, 2005. However, the Cancun Ministerial Conference ultimately collapsed without ministers reaching agreement on any of the key issues. GAO was asked to analyze (1) the divisions on key issues for the Cancun Ministerial Conference and how they were dealt with at Cancun and (2) the factors that influenced the outcome of the Cancun Ministerial Conference.

www.gao.gov/cgi-bin/getrpt?GAO-04-250.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Loren Yager at (202) 512-4347 or YagerL@gao.gov.

January 2004

WORLD TRADE ORGANIZATION

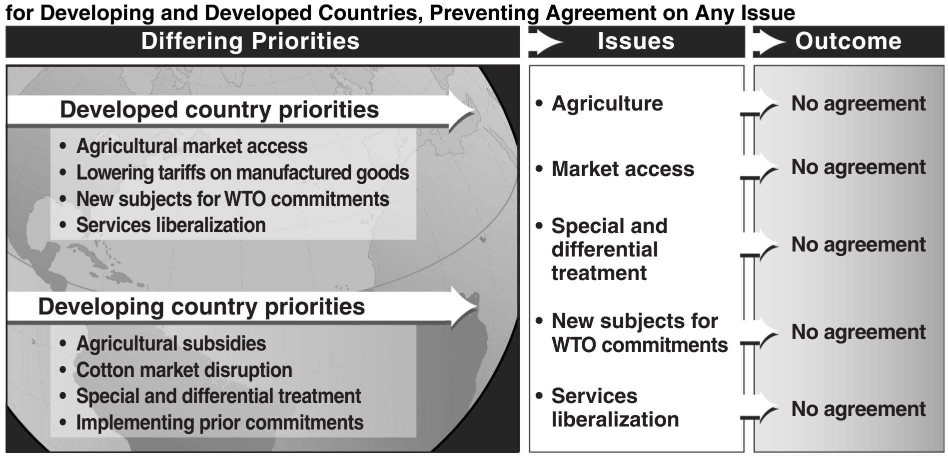
Cancun Ministerial Fails to Move Global Trade Negotiations Forward; Next Steps Uncertain

What GAO Found

Ministers attending the September 2003 Cancun Ministerial Conference remained sharply divided on handling key issues: agricultural reform, adding new subjects for WTO commitments, nonagricultural market access, services (such as financial and telecommunications services), and special and differential treatment for developing countries. Many participants agreed that attaining agricultural reform was essential to making progress on other issues. However, ministers disagreed on how each nation would cut tariffs and subsidies. Key countries rejected as inadequate proposed U.S. and European Union reductions in subsidies, but the U.S. and EU felt key developing nations were not contributing to reform by agreeing to open their markets. Ministers did not assuage West African nations' concerns about disruption in world cotton markets: The United States and others saw requests for compensation as inappropriate and tied subsidy cuts to attaining longer-term agricultural reform. Unconvinced of the benefits, many developing countries resisted new subjects—particularly investment and competition (antitrust) policy. Lowering tariffs to nonagricultural goods offered promise of increasing trade for both developed and developing countries, but still divided them. Services and special treatment engendered less confrontation, but still did not progress in the absence of the compromises that were required to achieve a satisfactory balance among the WTO's large and increasingly diverse membership.

Several other factors contributed to the impasse at Cancun. Among them were a complex conference agenda; no agreed-upon starting point for the talks; a large number of participants, with shifting alliances; competing visions of the talks' goals; and North-South tensions that made it difficult to bridge wide divergences on issues. WTO decision-making procedures proved unable to build the consensus required to attain agreement. Thus, completing the Doha Round by the January 2005 deadline is in jeopardy.

Trade Ministers at Cancun Unable to Attain Satisfactory Balance among Differing Priorities for Developing and Developed Countries, Preventing Agreement on Any Issue



Sources: GAO and MapArt.

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Abbreviations

ACP	African, Caribbean, Pacific
CAP	Common Agricultural Policy
EU	European Union
GNI	gross national income
LDC	least developed country
NGO	nongovernmental organization
TNC	Trade Negotiations Committee
TRIPS	Agreement on Trade-Related Aspects of Intellectual Property Rights
USTR	Office of the U.S. Trade Representative
WTO	World Trade Organization

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United States General Accounting Office
Washington, D.C. 20548

January 15, 2004

The Honorable Charles E. Grassley
Chairman
Committee on Finance
United States Senate

The Honorable William H. Thomas
Chairman
Committee on Ways and Means
House of Representatives

Trade ministers from 146 members of the World Trade Organization (WTO), representing 93 percent of global commerce, convened in Cancun, Mexico, in September 2003. Their goal was to provide direction for ongoing global trade negotiations. These negotiations, part of the global round of trade liberalizing talks launched in November 2001 at Doha, Qatar, are an important means of providing stimulus to the world's economy by lowering barriers to international trade in goods and services.[1] However, the Cancun Ministerial Conference ultimately collapsed without ministers reaching agreement on any key issues, thus impairing progress toward concluding the round by its scheduled completion date of January 1, 2005.

Because of the collapse of the ministerial in Cancun, Mexico, in September 2003, you asked us to analyze the progress and status of the Doha Round negotiations and the factors contributing to the meeting's ultimate lack of success. In this report, we describe (1) the overall status of the negotiations on the eve of the WTO ministerial conference at Cancun, (2) the divisions on key issues for the Cancun Ministerial Conference and how they were dealt with at Cancun, and (3) the factors that influenced the outcome of the Cancun Ministerial Conference.

To address these objectives, we met with and obtained documents from a wide variety of World Trade Organization, U.S., and foreign government officials in Washington, D.C., and Geneva, Switzerland, the WTO's headquarters. In addition, we met with officials from private sector groups. We also attended the Cancun Ministerial Conference. A full description of our scope and methodology can be found in appendix I.

[1]The negotiations are formally called the Doha Development Agenda but are commonly referred to as the Doha Round.

Results in Brief

On the eve of the World Trade Organization's Cancun Ministerial Conference in September 2003, the Doha Development round negotiations were behind schedule, and their successful completion was in doubt, based on our analysis and interviews with officials participating in the talks. The Cancun ministerial had symbolic and practical importance to the Doha Round of WTO negotiations, which, according to official status reports, had seen limited progress since its launching at the last meeting of trade ministers in November 2001. The Cancun ministerial meeting had two important goals, one symbolic and one practical. Symbolically, the Cancun meeting afforded ministers an opportunity to regain momentum necessary to conclude the Doha Round of negotiations by the scheduled January 2005 deadline. Practically, ministers needed to provide direction to negotiators on key issues that had thus far eluded consensus. With stalemate in the ongoing global trade negotiations looming, by July 2003, it was clear that a long list of required action items faced ministers at Cancun. However, only in the final weeks before the ministerial did countries begin to make concessions and move away from their long-held positions.

Hopes for breakthroughs still accompanied their September 2003 meeting, but ministers from WTO members ultimately were unable to bridge the wide substantive differences on key issues that faced them coming into Cancun, and as a result these key issues must still be dealt with for the round to continue. They recognized that making progress on agriculture was key to achieving progress in other areas. However, agreement on detailed methods to accomplish the goal of achieving significant agricultural reform through cuts in tariffs and subsidies proved impossible. Meanwhile, efforts by the European Union (EU), Japan, and others to add new issues such as investment to the global system of trade rules continued to engender strong resistance, particularly from those developing nations that remained unconvinced that the gains would outweigh the costs. On nonagricultural market access, discussions never resolved the key questions of how deeply developing nations, particularly the more advanced ones, would cut tariffs and what flexibility they would retain to insulate sensitive sectors. Ongoing services negotiations failed to receive a needed boost in participation, and many developing countries remained dissatisfied with proposed responses to their demands for special treatment and for relief from difficulties they were still experiencing in implementing existing WTO obligations.

Several other factors influenced the outcome of and contributed to the impasse at Cancun. The agenda for Cancun itself was large and complex because WTO members had missed earlier deadlines for decisions. As a result, ministers were asked to achieve in 5 days what had proved impossible to accomplish in the prior 22 months—all without the benefit of agreement to use the text provided as a starting point for discussion. Meanwhile, the sheer number of participating countries and emerging alliances made consensus-building difficult. For example, the assertive approach to agricultural reform by a group of key developing nations led by Brazil put the United States and the EU, traditionally at odds over agriculture, on the defensive together against calls for cuts in their domestic support payments. North-South tensions between developing and developed countries, already latent in the declaration that launched the round, became exacerbated. Noting that the ongoing talks are termed the "Doha Development Agenda," developing countries stressed their vision that the focus should be on addressing their needs and demands. However, developed nations were not prepared to liberalize their policies unilaterally and argued that lowering trade barriers is pro-, not anti-, development. Additionally, an initiative for immediate reform of the cotton sector, an issue of economic importance to several West and Central African nations, was difficult for the United States and others to deal with, in part because it is tied to the broader and more long-term question of agriculture reform. Facing wide substantive divergences and limited decision-making procedures, the WTO proved unable to build the consensus required for attaining agreement at Cancun.

Background

The WTO administers rules for international trade, provides a mechanism for settling disputes, and offers a forum for conducting trade negotiations. Such negotiations periodically involve comprehensive "rounds," with defined beginnings and ends, in which a large package of trade concessions among members is developed and ultimately agreed on as a single package. A total of eight rounds have been completed in the trading system's 56-year history. Each of the last 3 rounds cut industrial nations' tariffs by about one-third overall.[2]

WTO membership has increased since the organization's creation in 1995 to 146 members, up from 90 contracting parties of the General Agreement on Tariffs and Trade (the WTO's predecessor) when the Uruguay Round of negotiations was launched in 1986. WTO membership is also diverse in

[2]See WTO, *Cancun Briefing Notes*, "Facts for the Fifth," http://www.wto.org/english/thewto_e/minist_e/min03_e/brief_e/brief24_e.htm.

terms of economic development, consisting of most developed countries and numerous developing countries. The WTO has no formal definition of a "developing country." However, the World Bank classifies 105 current WTO members, or approximately 72 percent, as developing countries. In addition, 30 members, or 21 percent of the total, are officially designated by the United Nations as "least developed countries."[3]

The ministerial conference is the highest decision-making authority in the WTO and consists of trade ministers from all WTO members.[4] The outcome of ministerial conferences is reflected in a fully agreed-upon ministerial declaration. The substance of these declarations is important because it guides future work by outlining an agenda and deadlines for the WTO until the next ministerial conference. The WTO General Council, made up of representatives from all WTO members, implements decisions that members adopt in between ministerial conferences. Decisions in the WTO are made by consensus—or absence of dissent—among all members rather than on a majority of member votes, as it is in many other international organizations.

At the fourth ministerial conference in Doha, Qatar, in November 2001, WTO members were able to reach consensus on a new, comprehensive negotiating round, officially called the Doha Development Agenda.[5] The Doha Round is the first round of global trade negotiations since the conclusion of the Uruguay Round in 1994. The Doha Declaration sets forth a work program for the negotiations on agriculture, services, nonagricultural market access, and other issues. In addition, the work program emphasizes the development benefits of trade and the need to provide assistance to developing countries to help them take advantage of these benefits. The Doha Declaration also sets forth a structure and series of interim deadlines for the negotiations. Specifically, it established a Trade Negotiations Committee (TNC) open to representatives from all WTO members to oversee the negotiations, as well as several subsidiary bodies. In addition, it laid out several deadlines and other milestones through the

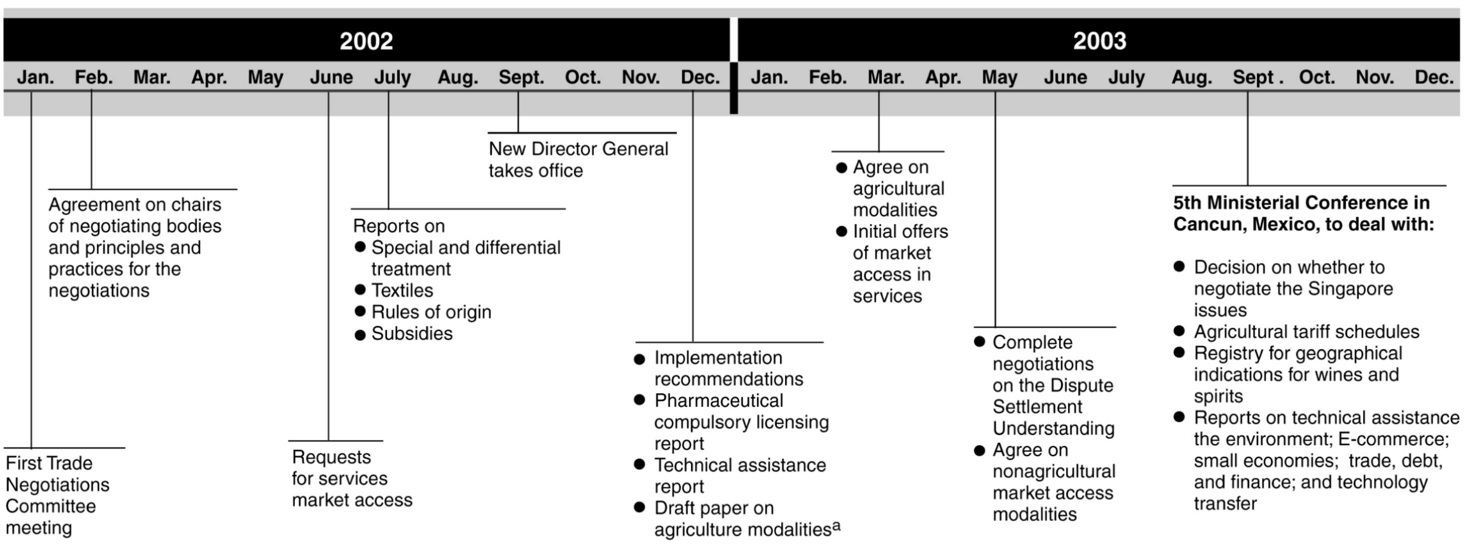
[3]The 30 least developed countries are listed in appendix III. WTO rules provide these nations special treatment.

[4]According to WTO rules, ministerial conferences are to be held at least once every 2 years.

[5]For additional information on the fourth ministerial conference and the Doha Development Agenda, see U.S. General Accounting Office, *World Trade Organization: Early Decisions Are Vital to Progress in Ongoing Negotiations*, GAO-02-879 (Washington, D.C.: Sept. 4, 2002).

next ministerial conference by which time negotiators were to make decisions on issues under negotiation. In the months following Doha, WTO members agreed that the next ministerial conference would occur in Cancun, Mexico, in September 2003. Figure 1 presents key milestones through the Cancun Ministerial Conference.

Figure 1: Key Milestones through the Fifth Ministerial Conference, as Planned at the Beginning of Negotiations



Source: GAO.

[a]Modalities include rules and guidelines for future negotiations.

The Doha Declaration also set several general goals for the next (Cancun) ministerial conference, namely, to take stock of progress at midpoint of the Doha negotiations, to provide necessary political guidance, and to make decisions as necessary. However, at their fifth ministerial conference held in Cancun, Mexico, from September 10 to 14, 2003, WTO ministers were neither able to achieve these goals nor bridge wide differences on individual negotiating issues. They concluded the conference with only an agreement to continue consultations and convene a meeting of the General Council by mid-December 2003 to take actions necessary to move toward concluding the negotiations.

Stalemate Loomed on Eve of Cancun Ministerial, as Preparatory Process Was Slow to Yield Progress

The Cancun Ministerial Conference provided an opportunity for both symbolic and practical progress in the Doha Round of negotiations. These opportunities were of heightened importance because negotiators had by their own admission failed to make sufficient progress to meet interim deadlines set out in the Doha Declaration, at least in part because members were awaiting the results of the agricultural reform efforts in the EU. Consequently, real give-and-take did not truly begin until the final weeks before the ministerial, leaving little time to bridge the substantial differences that existed on key issues.

Cancun Ministerial Held Symbolic and Practical Importance for the Negotiations

The September 2003 WTO Ministerial Conference held in Cancun, Mexico, had symbolic and practical importance for the Doha Round of negotiations. On the symbolic level, several WTO officials we met prior to the meeting noted that the Cancun Ministerial Conference might be a means to regain the momentum needed to bring the Doha Round to a successful conclusion. The Doha Round promised to be the most comprehensive round of global trade negotiations yet, involving a commitment to further liberalize trade, update trade rules, and further integrate developing countries into the world economy. The Cancun Ministerial Conference occurred at roughly the midpoint in the 3-year negotiations. However, based on our meetings with country delegations and WTO officials in Geneva and public statements by WTO officials, on the eve of the ministerial there was a sense true negotiations had not really begun. In particular, although WTO member governments had succeeded in actively submitting and discussing many proposals to achieve the general goals laid out at Doha, they had been less successful in narrowing their differences on these proposals or coming up with workable plans for developing specific national commitments (or schedules) to lower trade barriers.

WTO members held differing views on the symbolic importance of the Cancun Ministerial Conference. For instance, U.S. and some other member country officials, as well as WTO officials, expressed hope that the Cancun Ministerial Conference would create the political will to achieve a meaningful and ambitious agreement by the deadline that would benefit all participants. WTO officials we spoke with, for example, stressed that Cancun needed to provide a “boost” of fresh momentum to the flagging talks. Other members planned to use the meeting to focus on the centrality of agriculture reform. However, some members downplayed the symbolic importance of the ministerial and viewed it merely as an opportunity to take a mid-point assessment of the negotiations.

At a practical level, Cancun was viewed as critical to provide negotiators with direction in key areas that had thus far eluded consensus, according to WTO and member country officials. With just 16 months before the agreed-upon deadline of January 1, 2005, for concluding the negotiations, working-level progress in resolving outstanding issues was effectively stalled. Breaking the logjam hinged upon receiving clear ministerial direction in several key areas. For example, guidance was needed on the specific goals and methods that would be used to liberalize trade in agriculture.

Lack of Progress in Negotiations Required Scaling Back Expectations for Cancun

Progress on narrowing substantive differences in advance of the Cancun ministerial proved slow. As late as July 2003, observers and participants in the negotiations noted that WTO members were simply restating long-held positions on key issues and had yet to engage in real negotiations. For instance, in July 2003, the WTO Director General said that negotiators had been waiting to see what others are willing to offer without showing flexibility themselves. The chairmen of some of the negotiating groups repeated this sentiment in their statements to the July meeting of the Trade Negotiations Committee. (See app. II for a discussion of significant events in the WTO negotiations before and during the Cancun Ministerial Conference.)

A key factor hindering the progress of Doha Round talks had been the pace and extent of reform of the EU's Common Agricultural Policy (CAP).[6] Agriculture was considered by many WTO members to be a linchpin to achieving progress in all other areas of the Doha negotiating agenda. After considerable internal debate, on June 26, 2003, the EU agreed to CAP reform. Among other things, the reform would ensure that for many agricultural products, the amount of subsidy payments made to farmers would be independent from the amount they produce. Yet even after the EU CAP reform was announced, other members stated that they were still waiting to see the EU's internal reform translated into a significantly more ambitious WTO negotiating proposal. The EU resisted making a new WTO proposal, arguing that in effect it was being forced to pay for reform twice

[6] CAP is a set of rules and regulations governing agricultural production in the EU. CAP rules cover most aspects of agricultural activity, including support to farmers, production methods, marketing, and controls over quantities of food that different agriculture sectors can produce.

by reforming its internal policy once and then being asked by WTO negotiators to reform again to be able to conclude an agreement.

Another factor hindering overall progress was perceived linkages between various negotiating topics.The Doha Round's outcome is to be a "single undertaking," meaning a package deal involving results on the full range of issues under negotiation such as agriculture, services, and nonagricultural market access. As a result, trade-offs are expected to occur among issues to accomplish an overall balance satisfactory to all members. Thus, it is difficult to make progress on one issue without achieving progress on other issues. For example, many developing nations consider agriculture their number one priority and have been unwilling to make offers to open up their services markets until they see more progress on agricultural reform. On the other hand, the EU and Japan, who expect to make concessions on agriculture, wanted a commitment at Cancun to begin negotiations on several issues that were new to the trading system–investment, competition (antitrust), government procurement, and trade facilitation—which are collectively known as Singapore issues.[7]

By our mid-July meetings in Geneva it was clear that expectations for Cancun were being scaled back because of the overall lack of progress. Instead of issuing "modalities," (numerical targets, timetables, formulas, and guidelines for countries' commitments), for example, WTO officials and country representatives we met with suggested that "frameworks," or more general guidance on what types of concessions each participant would make, might be a more appropriate goal for Cancun. In other words, instead of ministers agreeing on some specific target, such as "all nations will cut tariffs by one-third," they would agree to something more general, such as all nations are expected to cut tariffs by a certain method and with the following kinds of results (e.g., substantially liberalizing trade and reducing particularly high tariffs).

[7]The term Singapore issues originated from the work program of the 1996 ministerial conference in Singapore, which created three working groups on the issues of trade and investment, trade and competition policy, and transparency in government procurement. Trade facilitation was also highlighted as a priority in the Singapore Declaration.

Real Negotiations Finally Began in the Weeks Just Before the Cancun Ministerial

The negotiations began to make some progress at the end of July, when trade ministers from a diverse group of approximately 30 WTO members met in Montreal, Canada, to discuss the status of the negotiations. During this meeting, ministers encouraged the United States and the European Union to provide leadership in the negotiations by narrowing their differences on the key issue of agriculture. The United States and the European Union agreed to do so, and in August they presented a joint framework on agriculture.

In addition, in late August, the General Council removed a potential obstacle to progress at the Cancun ministerial by approving an agreement involving implementation of the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) and public health declaration adopted in Doha.[8] The Doha TRIPS and public health declaration directed WTO members to find a way for members with insufficient pharmaceutical manufacturing capacity to effectively use the flexibilities in TRIPS to acquire pharmaceuticals to combat public health crises. U.S. and WTO officials and representatives from other WTO members we met with had identified this as an important symbolic issue for the WTO as an institution, especially for WTO members from Africa. They had urged its prompt resolution to create a more favorable climate for the Cancun ministerial meeting. Despite resolving the TRIPS issue and attaining some movement on agriculture in the final weeks before the Cancun ministerial, differences persisted on other key issues in the negotiations on the eve of the meeting.

[8] WTO members were unable to reach consensus by the mandated December 2002 deadline due to U.S. insistence that certain protections for research-based pharmaceutical companies be included in an agreement. Consultations on the issue intensified during the summer, as WTO members concluded that it must be resolved by the Cancun Ministerial Conference. At the end of August, the General Council approved a decision on implementation of paragraph 6 of the Doha Declaration on TRIPS and public health with an attached statement by the General Council Chairman regarding WTO members' shared understanding of the interpretation and implementation of the decision. The agreement waived certain provisions of the TRIPS agreement that prevented countries from exporting generic copies of patented medicines.

Differences on Key Issues Remain Unresolved after the Cancun Ministerial

The Cancun Ministerial Conference failed to resolve substantive differences on key issues: agriculture (including cotton), the “Singapore issues,” market access for nonagricultural goods, services, and development issues that included special and differential treatment for developing countries. Key countries’ principal positions were far apart, and certain aspects of each issue were particularly contentious. Although many looked to the Cancun ministerial to provide direction that would enable future progress, it ultimately ended without resolving any of the members’ wide differences on these issues.

Progress on Agriculture Was Central to Movement on Other Issues

Agriculture is central to the Doha Round of trade negotiations, both in its own right and because many WTO members say that progress on other negotiating fronts is not possible without significant results in agriculture. The Doha Declaration calls for negotiations to achieve fundamental agricultural reform through three “pillars” or types of disciplines (rules): (1) substantially improving market access; (2) reducing, with a view to phasing out, all forms of export subsidies (export competition);[9] and (3) substantially reducing trade-distorting domestic support (subsidies).[10] Additionally, the declaration imposed two interim deadlines on WTO agriculture negotiators: a March 31, 2003, deadline for establishing modalities (rules and guidelines for subsequent negotiations), and a deadline to submit draft tariff and subsidy reduction commitments at the Cancun meeting. Negotiators missed both deadlines. As a result, the goal for the Cancun ministerial was to adopt a framework and set new deadlines for subsequent work on the three main pillars of the agriculture negotiations. The delay in EU CAP reform, as well as the 2002 U.S. Farm Bill,[11] which was projected to increase U.S. agricultural support spending complicated resolution of these issues. Many WTO members felt this bill undermined the relatively bold negotiating stance the United States assumed in the WTO, which called for making substantial reductions in trade-distorting domestic support and tariffs.

[9]Export subsidies are subsidies contingent on export performance. For example, they include cost reduction measures, such as subsidies to lower the cost of marketing goods for export, and internal transport subsidies applying to exports only.

[10]Domestic supports are payments made to farmers that raise prices or guarantee income. They include such measures as government buying at a guaranteed price and commodity loan programs, or making direct payments to farmers.

[11]The Farm Security and Rural Investment Act of 2002 (P.L. 107-171, May 13, 2002).

Various countries or groups of countries differ in their objectives for the agriculture negotiations. The Cairns Group[12] of net agriculture exporting countries and the United States envisioned an ambitious agricultural liberalization agenda. The United States proposed a two-phase process to reform agriculture trade in the WTO. The first phase of the proposal would eliminate export subsidies and reduce and harmonize tariff and trade-distorting domestic support levels over a five-year period. The second phase of the proposal is the eventual elimination of all tariffs and trade-distorting domestic support. Other developed country members such as the EU, Japan, Korea, and Norway favored a more limited agenda. This group and several other small developed countries argued for flexibility to maintain higher tariffs in order to protect their domestic agriculture production. Finally, many developing countries wanted a reduction in developed country agriculture subsidies and market access barriers while, at the same time, wanting less ambitious obligations to liberalize their own market access barriers.

Differences on Agricultural "Pillars" Remained Wide

Domestic support. Arguing that such programs resulted in lower world prices and displacement of their producers from global markets, many developing countries forcefully pressed the developed countries to make significant cuts to their trade-distorting domestic support programs, particularly the United States and the European Union, which in 1999 totaled $16.9 billion and 47.9 billion euros ($45 billion at 1999 exchange rates), respectively.[13] Although they agreed in principle on the desirability of reducing trade-distorting subsidies,[14] both the United States and the European Union resisted further disciplines on their abilities to support domestic agriculture in ways that present WTO rules consider to be non-trade distorting. For example, they opposed calls to cap and reduce subsidies that are not currently subject to spending limits under the WTO. The EU argued that its CAP reform already addressed developing country demands by making domestic support payments independent of

[12]The members of the Cairns Group are Argentina, Australia, Bolivia, Brazil, Canada, Chile, Colombia, Costa Rica, Guatemala, Indonesia, Malaysia, New Zealand, Paraguay, the Philippines, South Africa, Thailand, and Uruguay. The group takes its name from the city in Australia where members first met in 1986.

[13]This is the latest year that WTO data are available.

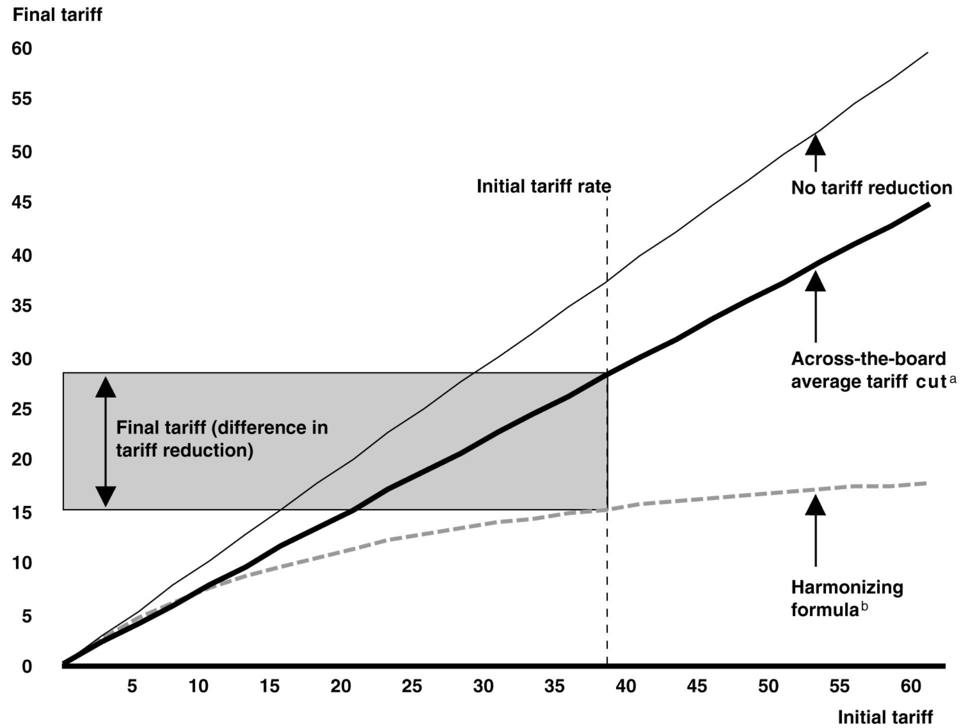
[14]The WTO classifies agricultural domestic support into three categories identified by "boxes": green (permitted), amber (trade-distorting subsidies that must be reduced), and blue (production limiting). Thirty WTO members have commitments to reduce their trade-distorting amber box supports. All the rest of the WTO members are capped at zero.

production, in principle making the payments less trade distorting, even though total expenditures will not be lowered. However, several WTO members indicated that the reforms were not ambitious enough. In addition, the United States said that it would not reduce its domestic support for agriculture unless other members, namely the EU, made cuts that substantially reduced the wide disparities in allowed trade-distorting domestic support. The United States also demanded that developing countries provide something in return for cutting subsidies, such as lowering their tariffs on U.S. exports.

Market access. The United States viewed attaining additional market access as an important objective in the negotiations. U.S. and Cairns Group negotiators proposed a harmonizing formula for tariff reduction known as the Swiss formula that would subject the higher tariffs to larger cuts. Other members, including the EU, Japan, and Korea, favored an across-the-board average cut and a minimum cut per product (tariff line).[15] As illustrated in figure 2, this approach would generally result in less liberalization than if the harmonizing formula were used. Many developing countries, and the Cairns Group, proposed substantially less liberalizing developing country tariff reductions, in part to counter continued use of subsidies in developed countries. Finally, according to their official statements, numerous smaller developing countries emphasized the importance of trade preferences to, and the negative effects that erosion of trade preferences would have on, smaller, more vulnerable economies.

[15]This is also known as a “Uruguay Round” formula, because it is the same approach to cutting agriculture tariffs that was used during the prior round of global trade talks.

Figure 2: Comparison of Harmonizing Formula to Across-the-Board Tariff Cut



Source: GAO analysis.

[a]Assuming an across-the-board cut of 25 percent.

[b]Assuming a “Swiss 25” formula.

A harmonizing formula reduces high tariffs more aggressively than across-the-board average tariff cuts. In the above example, for a given initial tariff (with the exception of low tariffs), the harmonizing formula leads to a lower final tariff than the across-the-board average tariff cut. The difference between the final tariff rates is highlighted.

Export competition. The United States, the Cairns Group, and many developing countries wanted to eliminate export subsidies for agricultural products. The EU, the primary employer of export subsidies, envisioned a substantial reduction and elimination of export subsidies for certain products but not a total elimination. It also tied any cuts in export subsidies to the adoption of stricter disciplines on U.S. food aid and export credits.[16]

[16]Export credit guarantee programs are programs that offer loan guarantees to buyers in certain countries where credit markets are not fully developed.

Like the United States, the EU also sought stricter disciplines on export state-trading enterprises.

As previously noted, the United States and the European Union had responded to calls to provide leadership by narrowing their differences on the three pillars of agricultural reform before the Cancun meeting. In a mid-August framework, the U.S. and the EU proposed reductions in trade-distorting domestic agricultural support, with those members with higher subsidies making deeper cuts and a three-pronged strategy to reduce agricultural tariffs. With respect to export subsidies, the framework eliminated export subsidies for some agricultural products and committed members to reduce budgetary and quantity allowances for others. Reaction to the framework was negative and swift, in part because it implied less ambitious reductions in domestic support[17] and market access barriers than the original U.S. proposal, which U.S. officials emphasize is still on the table, and did not completely eliminate export subsidies. For example, within a week a newly formed group of developing countries, commonly referred to as the Group of 20 (G-20)[18] for its 20 members, presented a counter framework that implied deeper cuts in domestic agricultural subsidies by developed countries, a tariff reduction formula that allowed developing countries to make less substantial cuts, and the total elimination of export subsidies. The draft ministerial declaration presented to ministers in late August contained elements of both proposals.

Although extensive discussions on agriculture did occur at Cancun, they ultimately failed to bridge the substantial gaps that remained. Sharp divisions remained on the extent to which the developing countries should be required to open their markets and whether it was possible to eliminate all export subsidies. On domestic support, divisions remained concerning the extent of cuts in trade-distorting domestic support and the question of whether additional disciplines on non trade-distorting support were desirable. Furthermore, the prominence of the G-20 of developing countries relative to the more diverse Cairns Group at the meeting imposed

[17]Importantly, the U.S.-EU framework included a provision that would modify current WTO regulations on “blue box” subsidies (see fn. 14). The U.S.-EU framework would modify the definition such that U.S. countercyclical payments (those payments made to producers when the price received by farmers for a commodity is less than the target price) authorized under the 2002 Farm Bill could be counted in this category. Many countries reacted negatively to this aspect of the U.S.-EU compromise.

[18]The group had 20 members originally, but its membership has fluctuated since tabling the agriculture framework.

a North-South dynamic on the agriculture negotiations. Specifically, several developed countries criticized the G-20's negotiating tactics, including their failure to offer market access concessions such as tariff cuts in exchange for substantial cuts in developed country subsidies and their demands for a long list of changes to the Conference Chairman's draft text, even though very little time remained to negotiate. Meanwhile, representatives from the G-20 argued that the developed country proposals and framework offered very modest gains and maybe even some steps backward in efforts to liberalize world agricultural trade.

Cotton Issues Involved Subsidy Elimination and Compensation

In addition to the three main agricultural pillars that were the agreed focus of the Doha agriculture negotiations, the Sectoral Initiative in Favour of Cotton put forward by four West and Central African countries figured prominently in the Cancun ministerial discussions. The initiative was added to the ministerial agenda in the weeks leading up to Cancun and does not appear in the Doha Declaration. The proposal by these cotton exporting countries singled out three WTO members--the United States, the European Union, and China--as the primary cotton subsidizers. They claimed that these subsidies were driving down world prices and that many of their farmers no longer found it profitable to produce cotton, a concern given their contention that cotton plays an essential role in their development and poverty reduction efforts.

The cotton initiative's guidelines called for immediately establishing a mechanism at Cancun to eliminate all subsidies on cotton and a transitional mechanism to compensate farmers in cotton-producing least developed countries (LDC) that suffered losses in export revenue as a result of cotton subsidies. Specifically, the proposal called for reducing all cotton support measures by one third annually for 3 years, thereby eliminating all support for cotton by year-end 2006. In addition, the proposal stipulated that any cotton-subsidizing WTO member would be a potential contributor to a proposed transitional compensation mechanism. The transitional compensation mechanism would last up to 3 years. The sectoral initiative did not specify the total amount of compensation to be paid but cited a recent study that the direct and indirect losses for the 3 years—1999 to 2002—were $250 million and $1 billion, respectively, for the countries of West and Central Africa.

The cotton initiative was discussed at length in Cancun; however, there was no resolution. The reason for the failure was that certain members had difficulty supporting a transitional compensation mechanism within the context of the WTO and saw the issue of cotton as hard to separate from the larger agricultural agenda. U.S. efforts to respond to the region's immediate concerns on cotton by broadening the original initiative made little headway, despite some evidence that falling world cotton prices were also attributable to other factors such as competition from manmade fibers. The failure to resolve the cotton initiative to the satisfaction of the developing countries had a negative impact on the overall tone of the Cancun meeting, because certain developing countries viewed the issue as a litmus test for the WTO and thought the proposed response fell far short of addressing their pressing needs. The issue also took on symbolic importance, becoming a political rallying point for a number of countries' frustrations.

Singapore Issues Remained Contentious

The Doha Declaration established a deadline for deciding how to handle negotiations aimed at adding four new issues, called the Singapore issues, to the global trading system. The four Singapore issues are investment, competition (antitrust), transparency (openness) in government procurement, and trade facilitation (easing cross-border movement of goods). According to the draft ministerial text presented to ministers before Cancun, ministers were to decide by explicit consensus the basis for starting actual negotiations on these issues, or to continue exploratory discussions on them. However, the wording of the Doha Declaration left unclear what was to specifically occur in Cancun. Certain members thought the declaration implied that formal negotiations were to begin in Cancun and that the only issue for Cancun was the type of negotiation. Others thought the declaration implied that formal negotiations could only begin if there were explicit consensus among the members at Cancun to do so.

Key players' positions were divided into three main camps. A group of developed and developing country members led by the European Union, Japan, and South Korea strongly advocated starting negotiations on all four issues, including investment and competition, which were particularly controversial. These nations had succeeded at Doha in getting the four issues included as part of the round's overall package but only on the condition that explicit agreement be reached at Cancun on the parameters to negotiate these issues. Many developing countries, on the other hand, had consistently expressed their strong opposition to the inclusion of the Singapore issues in the WTO negotiating agenda and several viewed Cancun as their opportunity to block negotiations on these issues. For example, India argued that for many of these countries, undertaking new obligations in these areas would have presented too great a burden, since they were still having difficulty implementing their Uruguay Round obligations. They also were not convinced of the development benefits that would result. A third group of countries, including the United States and some developing nations, were willing to negotiate but wanted each issue considered on its own merit. However, some of the developing countries linked their willingness to negotiate with progress in other areas such as agriculture. The United States had been pushing the issues of transparency in government procurement and trade facilitation. The United States was also willing to negotiate on competition policy and investment, but had some concerns that included whether negotiations could call into question its enforcement of strong antitrust laws and match the high standards that are a feature of its bilateral investment agreements.

The discussions at Cancun on the Singapore issues were contentious and contributed to the breakdown of the ministerial. Early in the week, a group of 16 developing countries argued that because there was no clear consensus on the modalities for the negotiations as required by the Doha Declaration, the matter of whether to add these four new issues to the negotiations should be dropped from the Cancun agenda and moved back to Geneva for further discussion. The draft text issued later that week called for beginning negotiations on two issues and setting deadlines for trying to reach agreement on possible bases for addressing the other two issues. This text was discussed on the last day of the conference, but in the end, compromise on this divisive subject proved impossible.

Proposed Tariff Formulas for Nonagricultural Market Access Were Divisive

Lowering barriers to market access of nonagricultural goods was also an important point of contention leading into the Cancun ministerial. The Doha Declaration stated that negotiations on nonagricultural market access should be aimed at reducing or, as appropriate, eliminating tariffs for nonagricultural products, including reducing or eliminating tariff peaks[19] and tariff escalation,[20] as well as nontariff barriers. The Doha Declaration also said that the liberalization of nonagricultural goods should take fully into account the principle of special and differential treatment[21]

[19]Tariff peaks are tariffs that exceed a selected reference level. National tariff peaks are considered to be those tariffs that exceed three times the national mean tariff.

[20]Tariff escalation is a practice that countries often use, whereby they increase tariffs in relation to the degree of processing found in a product.

[21]An extensive discussion of special and differential treatment appears later in this report.

for developing countries, including allowing for “less than full reciprocity” in meeting tariff reduction commitments. Because WTO members missed a May 31, 2003, deadline for reaching agreement on modalities for nonagricultural market access that would govern preparation of national schedules of barrier-cutting commitments, the goal for Cancun was to establish a “framework” or basic approach to tariff and nontariff barrier liberalization that would then be supplemented by more detailed modalities later.

Even though there are important differences in the situations and individual positions of various developing countries—a fact the United States likes to emphasize--WTO members were largely divided along North-South lines in nonagricultural market access talks going into the Cancun meeting. The United States and other developed countries were pushing for substantial cuts in tariffs and wanted the high overall tariffs of key developing countries like India and Brazil to come down. For example, India has an average bound tariff of 34 percent on nonagricultural products, while China and Côte d’Ivoire have average bound tariffs of 10 percent or less. The United States also aimed to seek a high level of ambition in opening markets and expanding trade for all countries through a harmonizing formula that cuts tariffs in all countries. In addition, it wanted to reduce wide disparities among members’ tariffs as well as reduce low tariffs. Publicly, the developing countries were fairly united in saying that any liberalization needed to leave them sufficient flexibility to address their special needs and should involve greater cuts by richer countries than poor ones. In May 2003, the chairman of the negotiating group on market access issued a “chair’s proposal,” attempting to reconcile WTO members’ various positions, including on tariff cutting formulas, sectoral liberalization, and special and differential treatment.[22]

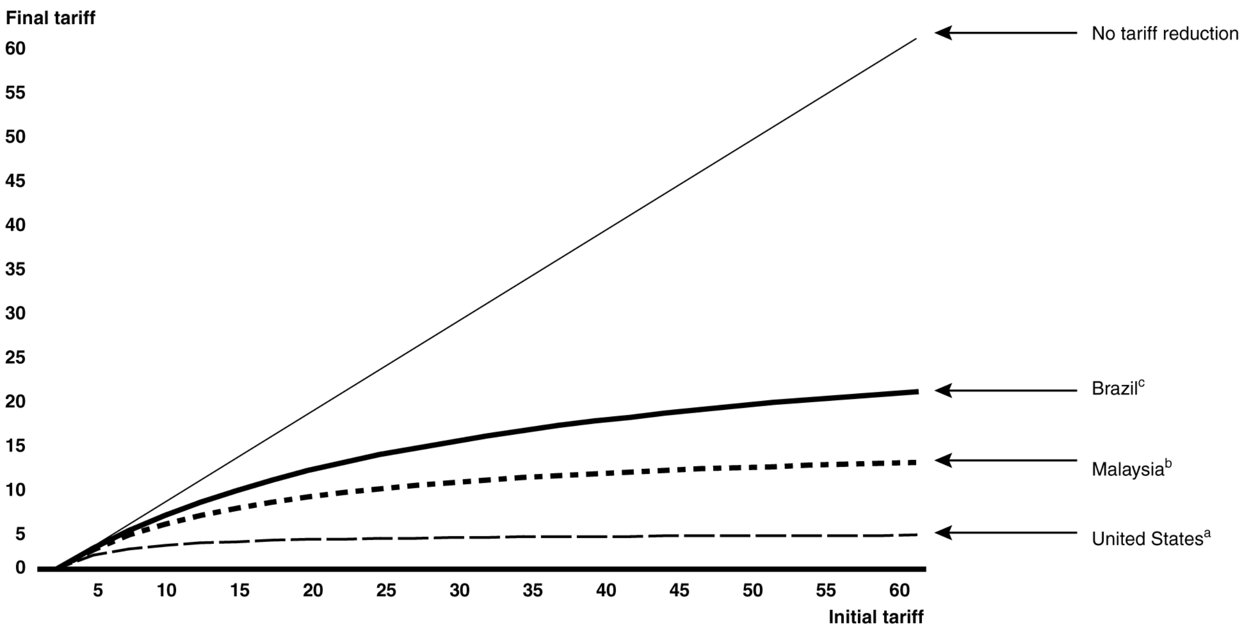
Coming into Cancun, two major proposals for cutting tariffs--one from the market access chairman and another from the United States, EU, and Canada--were under active discussion, though all of the numerous original proposals submitted by WTO members remained “on the table.” These two proposals differed in the type of mathematical formula that would be used to determine how much each member would be expected to reduce its tariffs. The proposed tariff formula developed by the chairman as a compromise would largely differentiate among countries according to their current overall average bound tariff rate. Specifically, a country with higher

[22]The chair’s proposal also addressed elimination of low duties and non-tariff barriers.

average bound tariffs would have to reduce its bound tariffs at a lesser rate than a country with lower average bound tariffs. To use an illustrative example, Brazil, with higher overall bound rates to begin with, would have to cut a 10 percent bound tariff on a particular product to approximately 7.5 percent, or by 25 percent. Malaysia, with lower overall bound tariffs, would have to slash a 10 percent bound tariff to 6 percent, or by 40 percent (see fig. 3).[23] Proponents argue that this formula would recognize each country's differing starting points for liberalization while still accomplishing significant cuts in bound tariff rates. Some officials counter that average bound tariffs are not a direct or good indicator of development status or needs. Moreover, they expressed concern that this formula would require more reduction from nations that have lower overall bound tariffs. The United States was concerned that this would effectively punish countries that have previously liberalized, while rewarding countries that had not liberalized. In addition, the United States was concerned that this proposal was based on average bound tariff rates, which would not necessarily lead to lower applied rates. Many developing countries' bound tariff rates are higher than the tariffs they currently apply. For example, Brazil has an average bound tariff of 31 percent and a 15 percent average applied rate. Real liberalization will only occur if countries reduce bound tariffs to below currently applied rates.

[23]If a coefficient of 1 was used in the chairman's formula. This GAO calculation is based on overall average tariff rates of 30 percent and 15 percent, respectively. See appendix I for further details. The chairman did not specify coefficients to be used, and Malaysia presented a proposal that different coefficients be used for different countries.

Figure 3: Chairman's Proposal Based on Average Bound Tariffs



Source: GAO analysis of WTO documents.

Note: Assumes a coefficient of 1 is used for all countries.

[a]Using an average tariff of 4 percent.

[b]Using an average tariff of 15 percent.

[c]Using an average tariff of 30 percent.

The Chairman's proposal implies that countries with a high average tariff are required to lower their tariffs on a given product by a lesser amount than countries with a low average tariff. In figure 3 above, Brazil is not required to reduce any given tariff as much as Malaysia.

On the other hand, the United States, the European Union, and Canada developed an alternative framework for negotiations. This framework calls for all countries to use a single harmonizing formula, such as a Swiss formula, where the coefficient of reduction does not depend on a country's average bound tariff rate. For example, if a Swiss formula using a coefficient of 8 were used, all countries would have to cut a 10 percent tariff on a particular product to 4 percent. Nevertheless, the U.S., EU, Canada framework does foresee some differentiation among countries. For example, it suggested that countries could be rewarded for "good behavior" by giving credits to countries that commit to do things that are considered sound trade policy, such as putting a ceiling on, or binding, a high percentage of their tariffs.[24] According to U.S. Trade Representative (USTR) officials, the credits would allow them to lower tariffs by a lesser amount than that implied by the formula. Developing countries, however, say this approach is inconsistent with the Doha mandate, which states developing countries as a whole will be allowed to make lesser commitments. In addition, they fear that they would have to cut tariffs much more than developed countries in absolute terms. As a result, just prior to the Cancun meeting, a few nations such as India reasserted their interest in an across-the board or linear approach to cutting tariffs on nonagricultural goods, similar to that depicted in figure 2. Under a linear approach, all tariffs would be cut at the same rate and therefore the results would not be harmonizing. The discussions at Cancun never got into the detailed proposals that had been debated before Cancun and failed to bridge these gaps on tariff formulas.

At Cancun, WTO members were also considering the complete elimination of tariffs in to-be-agreed-upon sectors, including ones that are particularly important to developing countries. However, the issues of choice of sectors and participation in the elimination remained controversial. Many developing countries wanted sectoral elimination to be voluntary. Also under debate was whether sectoral elimination should result in zero tariffs, harmonization, or a differentiated outcome for developed versus developing countries. The United States and many other countries thought that sectoral initiatives were an important way to supplement the general tariff cutting formula and to achieve their ambitious liberalization objectives. The United States wanted to make sure all countries competitive in a given sector would participate in sectoral elimination regardless of their level of development.

Consistent with the Doha mandate, WTO members were also considering special treatment for developing countries and new entrants such as recently acceded members in implementing their tariff commitments. This included longer periods to implement the tariff reductions, differentiation in how sectoral initiatives would be applied, and not making reduction commitments mandatory. The developed countries recognized that many nations, particularly least developed and other vulnerable economies, need

[24]Additional flexibility would be available to the least developed and International Development Association (IDA) only countries. IDA-only countries are countries that are eligible to borrow from the IDA, a concessional World Bank lending facility for the world's poorest countries, which are not also qualified to borrow from the Banks' regular lending facility, the International Bank for Reconstruction and Development.

flexibility to deal with sensitive sectors and other adjustment needs. However, they opposed across-the-board flexibility for all developing countries, including the more advanced ones.

At Cancun, some steps were taken to address the inherent trade-off between committing to ambitious tariff liberalization and retaining flexibility. The World Bank and the International Monetary Fund, for example, provided assurances that they were prepared to work with developing nations to help offset lost tariff revenue and address concerns related to erosion of preferences. Nevertheless, ministers did not resolve the debates over tariff-cutting formulas, the mandatory nature of sectoral elimination, and the degree of flexibility to accord to developing countries. Progress was not made on these issues because progress was not made or expected in agriculture nor on the Singapore issues.

Energizing Services Negotiations Was a Key U.S. Goal for the Cancun Ministerial

The Doha Declaration set a deadline for WTO members to complete the work they had initiated in January 2000 to further open services markets under the General Agreement on Trade in Services. In contrast with agriculture and industrial market access, the services group had already agreed on how to conduct these talks,[25] which are under way. The goal for Cancun—particularly for the United States—was to energize the ongoing services negotiations and to set a deadline for submission of improved offers[26] to lower barriers to services. According to a WTO official, only 38 (counting the EU as one member) of the WTO's 146 members had submitted offers before the Cancun ministerial.[27] Although 18 of these

[25]See document #S/L/92 – http://docsonline.wto.org The guidance and procedures for the negotiations included two key principles: (1) no sectors should be excluded from the negotiations, and (2) negotiations to further open services markets can occur in bilateral, plurilateral, or multilateral groups, mainly using a request-offer method, with results applied to all WTO members equally on a most-favored-nation basis.

[26]In the context of the services negotiations, members' offers in services include the addition of new sectors, the removal of existing limitations or the binding of modes of supplying services not currently committed, the undertaking of additional commitments, and the termination of exemptions that deny equal treatment to foreign services suppliers.

[27]These members had submitted initial offers before Cancun: Argentina, Australia, Bahrain, Bolivia, Canada, Chile, China, Chinese Taipei, Colombia, Czech Republic, Fiji, Guatemala, Hong Kong-China, Iceland, Israel, Japan, Korea, Liechtenstein, Macao-China, Mexico, New Zealand, Norway, Panama, Paraguay, Peru, Poland, Senegal, Singapore, Slovak Republic, Slovenia, Sri Lanka, St. Kitts & Nevis, Switzerland, Thailand, the European Union, Turkey, United States, and Uruguay. See appendix III for a list of developing countries.

offers were from developing countries, as defined by the World Bank, many large developing countries such as India, South Africa, Egypt, and Brazil had not submitted offers. Some of these nations, as well as others such as Argentina, China, and Mexico had their own market access ambitions, including further easing of the temporary movement of their services suppliers across national borders.

Services negotiations regained some momentum before Cancun due to two important events. First, the language contained in the draft Cancun Ministerial Declaration incorporated several of the demands from developing countries such as the need to conclude negotiations in rule-making in areas such as emergency safeguard measures[28] for services. Second, the adoption of modalities on September 3, 2003, for the special and differential treatment[29] of LDCs was expected to boost the participation of LDCs in the services negotiations. However, little progress was made in the services negotiations at Cancun because advances on other issues under negotiation, especially in agriculture, were needed in order to enable further movement.

Special Treatment Was Highest Priority for Many Developing Country Members

Many developing countries were greatly concerned about receiving special treatment in the form of making lesser commitments in ongoing global trade talks and receiving assistance in implementing existing WTO agreements. Global trade rules have long included the principle that developing countries would be accorded special and differential treatment consistent with their individual levels of development, including the notion that they would not be expected to fully reciprocate tariff and other

[28]These measures are provisions in trade agreements that permit a party to suspend its obligations when imports cause or threaten to cause serious harm to domestic producers. The General Agreement on Trade in Services does not yet have such provisions, although article X requires negotiations on this matter.

[29]Special and differential treatment includes, among other things, the concept that exports from developing countries should be given preferential access to markets of developed countries and that developing countries participating in trade negotiations need not fully reciprocate the concessions they receive. See document # WT/MIN (01)/DEC/1-Paragraph 44 – http://docsonline.wto.org

concessions made by developed countries.[30] In the Doha Declaration, WTO members agreed that all special and differential treatment provisions in existing WTO agreements should be reviewed with a view to strengthening them in order to make them more precise, effective, and operational. The declaration requires the WTO's Committee on Trade and Development to identify those special and differential treatment provisions that are mandatory and those that are nonbinding and to consider the legal and practical implications of turning the nonbinding ones into mandatory obligations. According to USTR officials, part of the continuing difficulty of this work has been the problems of separating work on special and differential treatment from the work underway in actual individual negotiating groups (e.g., agriculture) and the lack of progress on related issues such as graduation/differentiation,[31] which is also part of the Committee on Trade and Development's work programme.

Also, as part of the Doha Declaration, WTO members committed themselves to address outstanding implementation issues[32] and set a December 2002 deadline for recommending appropriate action on them, but they missed that deadline. Although there was agreement on a number of implementation issues at Doha, outstanding issues remain in areas like trade related investment measures, anti-dumping rules, and textiles. These issues have proved divisive, even among developing countries.

[30]Specifically, paragraph 8 of article XXXVI of the General Agreement on Tariffs and Trade merits special mention. It states that developed countries do not expect reciprocity for commitments they make in trade negotiations to reduce or remove tariffs and other barriers to the trade of developing countries. An interpretative note clarifies that the sentence "do not expect reciprocity" means that developed countries do not expect developing countries, in the course of trade negotiations, to make contributions that are inconsistent with their individual development, financial, and trade needs.

[31]Graduation and differentiation proposals would establish different levels of flexibilities for Members at different levels of development, and set some criteria for countries to graduate out of these flexibilities.

[32]Implementation issues refer to a set of issues relating to developing countries' ability to implement existing WTO agreements. First, many developing countries considered their Uruguay Round obligations to be too heavy for them. Second, developing countries believed that there should be negotiations to redress the unfair balance of the responsibilities they carried. Third, developing countries argued that in order to meet some of their obligations, they needed additional technical assistance and extended deadlines. Under these circumstances, some developing countries argued that new obligations should not be negotiated until they could fulfill their current ones.

At Cancun, ministers were asked to endorse and immediately implement a subset of the numerous proposals for special and differential treatment as well as to set a new deadline for resolving outstanding special and differential treatment and implementation issues.[33] For some developing countries, progress on these issues at Cancun was key to their willingness to negotiate further market liberalization in other areas. In addition, the African Group[34] in particular wanted to better ensure that the needs of the WTO's poorest member countries would be satisfactorily addressed in the overall package of Doha Round results.

However, developed and developing countries fundamentally disagreed in their interpretation and use of special and differential treatment. For example, government officials from several developed countries echoed their desire to better target special and differential treatment by adopting a needs-based approach. According to these officials, special and differential treatment provisions should be tailored to match the various levels of development and the particular economic needs of developing countries.[35] Many developing countries, on the other hand, wanted an expansion of special and differential treatment. Their expansionist ambition was reflected in 88 proposals for additional special treatment obligations, mostly from the African Group and the group of least developed countries. Among other things, the proposals sought additional technical support and called for an exemption for developing countries and LDC members from requirements to comply with existing WTO obligations that they believed would be prejudicial to their individual development, financial, or trade needs or beyond their administrative and institutional capacity. Developed countries and more advanced developing countries considered many of these demands to be problematic because some changes proposed would alter the balance of the Uruguay Round agreements.

[33]See document # Job(03)/150/Rev.1 – paragraph 11 and 12 http://docsonline.wto.org.

[34]The members of the African Group include Angola, Benin, Botswana, Burkina Faso, Burundi, Cameroon, Central African Republic, Chad, Congo, Congo (Democratic Republic), Côte d'Ivoire, Djibouti, Egypt, Gabon, The Gambia, Ghana, Guinea, Guinea Bissau, Kenya, Lesotho, Madagascar, Malawi, Mali, Mauritania, Mauritius, Morocco, Mozambique, Namibia, Niger, Nigeria, Rwanda, Senegal, Sierra Leone, South Africa, Swaziland, Tanzania, Togo, Tunisia, Uganda, Zambia, and Zimbabwe.

[35]Levels of development among developing countries vary significantly. Based on that fact, the World Bank makes a distinction among developing countries by categorizing them as low-income, lower-middle income, upper-middle, and high-countries. However, WTO rules contain no such distinction. See appendix III.

In the end, however, developed countries and some developing countries appeared ready to move forward on some of these proposals at Cancun, had the ministerial proved successful. The General Council Chairman worked carefully with a diverse group of key countries to put this package together. A total of 24 special and differential treatment proposals, including some related to implementation issues, were included in the draft Cancun Ministerial Declaration sent to Cancun from Geneva. An additional three proposals were added during the course of the Cancun meeting. While some developing nations argued that these proposals were of little economic value and felt agreeing to these proposals at Cancun would create a false sense of progress, other developing countries were willing to accept the package in return for assurances of future advances.

As for implementation issues, discussions on developing country proposals in this area were overshadowed at Cancun by another issue--a push by the EU and other European countries to secure greater recognition and protection of geographical indications (place names) for specialty agricultural products.[36] Many countries, including the United States, Australia, New Zealand, and some Latin American nations, strongly resisted, because they produce and market products under widely used terms such as “Champagne” and “Roquefort cheese” that the European nations were seeking to protect and monopolize.

In the end, no agreement was reached at Cancun on special and differential treatment or on implementation issues.

Cancun Meeting Ended without Resolving Any Major Issue

Despite a full ministerial agenda of issues requiring resolution, the only actual decision taken relating to the negotiations at Cancun was that the WTO’s General Council should meet by December 15, 2003. The closing session on Sunday, September 14, adopted a short ministerial statement expressing appreciation to Mexico for hosting the talks, welcoming Cambodia and Nepal to the WTO, and stating that participants had worked hard to make progress in the Doha mandate but that “more work needs to be done in some key areas to enable us to proceed toward the conclusion of the negotiations.” To achieve this, the concluding ministerial statement

[36]Geographical indications are names that identify a good as originating in a country, region, or locality where a given quality reputation is essentially attributable to its geographical origin. The TRIPs Agreement currently protects geographical indications, but the EU and others have sought to increase those protections in several parts of the current negotiations.

directed officials to continue working on outstanding issues with a renewed sense of urgency and purpose. The failure to make progress in resolving the major substantive issues at Cancun left the Doha Round in limbo and resulted in a major setback that will make attaining an overall world trade agreement by January 1, 2005, more difficult, according to WTO Director General Supachai and key WTO member country representatives. Specifically, no further negotiating sessions have been scheduled, although informal efforts to get the talks back on track have continued.

The Cancun ministerial declaration directed the Chairman of the General Council to coordinate this work and to convene a meeting of the General Council at the senior officials level no later than December 15, 2003 “to take the action necessary to move toward a successful and timely conclusion of the negotiations.” However, on December 9, WTO General Council Chairman Perez del Castillo notified the heads of delegation that there was a lack of “real negotiation” or “bridging of positions” in the informal talks. Because he believed insufficient convergence had occurred to take “necessary action to conclude the round,” he presented a Chair’s report outlining key issues and possible ways ahead. He also recommended that all negotiating bodies be reactivated in early 2004, after new chairs are chosen. The December 15, 2003, General Council meeting generally accepted this recommendation, according to the chairman’s closing remarks.

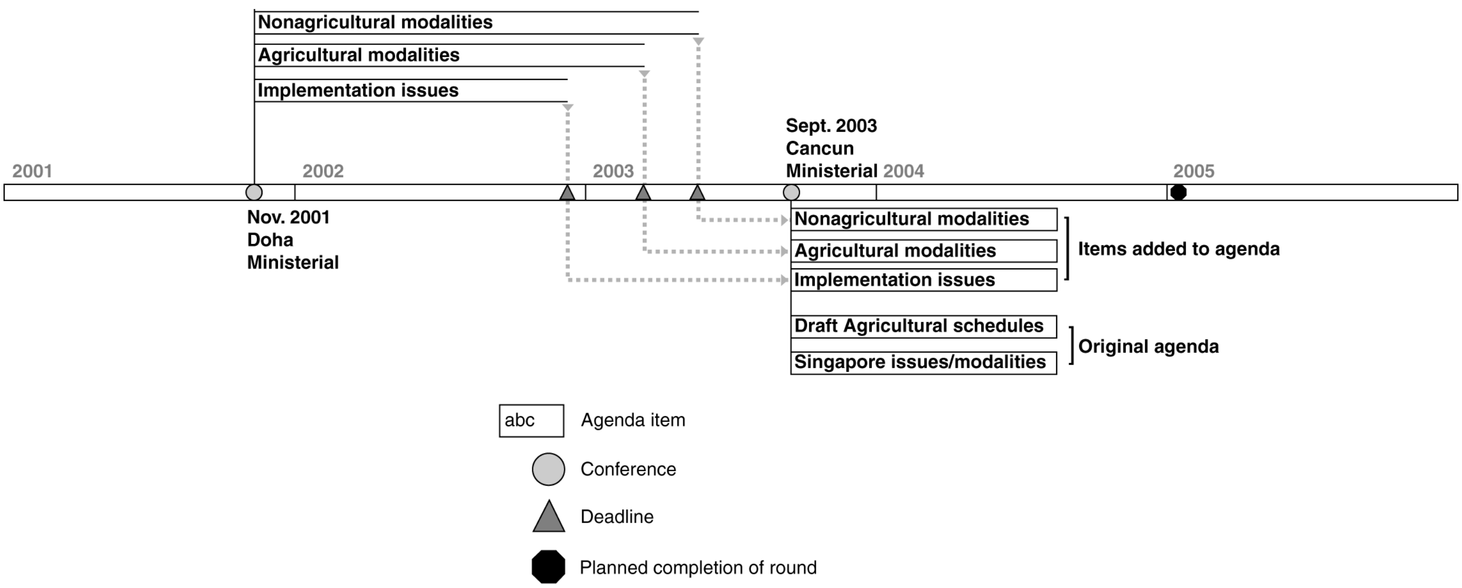
Several Factors Cited in the Talks’ Collapse

According to government officials, trade negotiations observers, authoritative reports, and GAO observations and analysis, several other factors contributed to the Cancun meeting’s collapse. The ministerial agenda was complex, and unwillingness by some nations to work with the text presented by the General Council Chairman hampered progress. In addition, the large number of participants and emerging coalitions influenced the meeting’s dynamic. Competing visions and goals for the Doha Round, particularly between developed and developing countries, and a high-profile initiative on cotton, fueled North-South tensions. Meanwhile, the WTO’s cumbersome decision-making process did not lend itself to building consensus.

Complex and Full Agenda Presented

The agenda for Cancun was not only complex, it was also overloaded. This situation was due to the stalemate that had characterized the Doha Round up to Cancun, in which the negotiators had missed virtually all self-imposed deadlines. The Doha Declaration already had specified that certain items were to be on the agenda for the next (Cancun) ministerial, such as deciding how to handle negotiations on the Singapore issues (see fig. 4). But as interim deadlines came and went without agreement, other issues were added to the Cancun agenda.

Figure 4: Key Negotiating Deadlines Missed Before September 2003 Cancun Ministerial



Source: GAO.

Although the goal of reaching agreement on these issues for achieving trade liberalization had eluded negotiators during the previous 22 months of work in Geneva, they proposed to reach agreement on all of them in Cancun, even though they had just 5 days to do so.

No Agreed Starting Point for Discussion

Adding to the complexity of the task, the Cancun ministerial began without an agreed-upon text as a starting point for discussion. In late August, the General Council Chairman issued a revised draft ministerial declaration. This version included draft frameworks for modalities for agriculture, nonagricultural market access, and the Singapore issues. These draft frameworks still included multiple bracketed items (items to be agreed upon) and lacked specific details in several areas. However, not all WTO members agreed to use this draft as the basis for ministers' discussion in Cancun.

Efforts to produce a new text of a ministerial declaration from which to work took considerable time at Cancun. The first 3 days of the 5-day conference were devoted to formal and informal meetings. The Conference Chairman, the Mexican Foreign Minister finally presented a draft text at a meeting on the fourth day of the 5-day conference (September 13). Just 30 hours remained until the scheduled close of the conference, yet ministers needed 6 hours to study the new text. The meeting to obtain reactions to the text took another 6 hours. More than 115 nations spoke, one after the other, with most ministers criticizing various points of the draft and repeating well-established positions. A WTO spokesman later reported that the only consensus evident that night was that the text was unacceptable to many WTO members. The U.S. Trade Representative advocated moving forward when he took the floor about halfway through the meeting. He expressed willingness to work with the draft, urged a collective sense of responsibility, and warned fellow trade ministers that they should not let the perfect become the enemy of the good. Certain other members such as Sri Lanka, Uruguay, Chile, and China were among the few other countries that made positive statements. After another several hours of critical interventions, however, the Conference Chairman closed the meeting, expressing concern that with less than 15 hours remaining, members did not appear to be willing to reach a consensus. A WTO spokesperson later reported that they could see a clear problem emerging because differences in positions were hardening.

Large Number of Participants and New Developing Country Coalitions Add Complexity

Achieving consensus at Cancun was a very complex undertaking due to the large number of participants and the emerging coalitions that affected the meeting's dynamics. Participants in the WTO talks at Cancun included 146 members with vastly different economic interests, levels of development, and institutional capacities. Moreover, the number of delegates at Cancun was substantially larger than the number of delegates at the Doha ministerial, which occurred shortly after September 11, 2001. Nongovernmental organizations (NGO) were also participating. The 1,578 registered NGO participants included business as well as a range of public interest (labor, environment, consumer, development, and human rights) groups, and both were active in seeking to influence the negotiations. For example, NGOs, such as the development advocacy group Oxfam, underwrote the literature being distributed on the cotton initiative, and poverty relief organization Action Aid's press release immediately called the Conference Chairman's draft text "a stab in the back of poor countries."

The emergence of two developing country coalitions also affected the dynamics of the Cancun meeting. Brazil was widely seen as the leader of the G-20 group of developing countries pressing for bigger cuts in developed country agricultural subsidies. The United States and the European Union, traditionally at odds over agriculture, complained that the group was engaged in confrontational tactics that were more directed at making a point than at making a deal. However, the group claimed that it took a businesslike and professional approach to the negotiations and had succeeded in highlighting the centrality of agricultural reform to the Doha Round's success. Another strong coalition that emerged in Cancun was a group of 92 countries made up of the African, Caribbean, Pacific (ACP) African Union /LDC countries. This group's main objective was to ensure that the WTO's poorest countries' interests were taken into account. In the end, their views were decisive, as their refusal to accept negotiations on the Singapore issues and other members' insistence to negotiate these issues triggered the Conference Chairman's decision to end the ministerial.

Developed and Developing Countries Had Competing Visions of Doha's Promise

In addition to a complex agenda and volatile meeting dynamics, the participants appeared to have competing visions of what the round had promised. Noting that the negotiations were titled the "Doha Development Agenda," developing countries still expected that the talks would focus primarily on their needs. For many, this meant progress on agriculture, while others stressed meaningful accommodation of their special needs. U.S. officials, on the other hand, told us that they would like to see further differentiation of the as-yet-undefined term "developing countries." Some U.S. officials told us that developing countries' reluctance to open their markets is contrary to sound development policies, because lowering trade barriers is pro-, not anti-development. Moreover, various studies had shown that a significant share of the estimated economic benefits of the Doha Round would be due to an expansion of trade between developing countries as they reduced their trade barriers to each other's goods.

As the days of the ministerial wore on without consensus, frustrations increased. The developed nations accused the developing countries of grandstanding and of not making an effort to reach agreement. Officials from some developed countries complained, for example, that developing countries had not approached the negotiations in the spirit of reciprocity but instead were focused on making demands without expecting to make concessions. In essence, developing countries were not seen as negotiating in good faith.

Developing countries also felt frustrated and believed that the lack of progress in the negotiations was due to an absence of political will by the developed countries to fulfill the promises at Doha. For example, developing countries believed that the developed countries had not offered enough on agriculture, the issue that many developing countries cared about the most.

The differences in expectations are illustrated in reactions to the cotton initiative, which served as a focal point for concerns about developed country agriculture subsidies. The WTO Director General personally urged ministers to give the matter full consideration and held consultations with the interested parties in an attempt to forge a compromise. While the African proponents believed that agreement on this issue would have been a sign of good faith, the United States viewed the request for monetary compensation as inappropriate and better suited to a development assistance venue. When the Conference Chairman issued his draft text, many countries reacted negatively to the proposed compromise on cotton. Brazil, speaking on behalf of the G-20, referred to the proposal as totally insufficient. The Chairman's text did not mention the elimination of subsidies but instead suggested that West African countries diversify out of cotton. The fact that the cotton initiative is one of the four key issues that the General Council Chairman has focused on after the ministerial, along with agriculture, industrial market access, and the Singapore issues, demonstrates its continued importance.

WTO Consensus-Building Process Broke Down

Finally, certain participants have also cited the WTO's cumbersome process for achieving consensus as contributing to the collapse of the talks. The WTO operates by consensus, meaning that any one participant opposing an item can block agreement. In the EU Trade Commissioner's closing press conference in Cancun, he expressed frustration that there was no reliable way within the WTO to get all 146 member nations to work toward consensus. Relatively few formal meetings involving all members actually occurred in Cancun, although plenary sessions and working groups took place. Moreover, formal negotiating sessions involving all members were not conducive to practical discussion or to achieving consensus. Instead, they often involved formal speeches. As a result, small group meetings were used to obtain frank input and conduct actual negotiations. Although efforts were made to keep the whole membership involved through daily heads of delegations meetings, certain members expressed a sense of frustration and confusion as epitomized by indignation by some members at the subjects being discussed during the green room meeting on the last day.

The Conference Chairman's decision to make the controversial Singapore issues, and not agriculture, the first and last item for discussion on the last day of the ministerial conference caused a backlash by a group of developing countries that ultimately precipitated the meeting's collapse. As opposed to the day-to-day negotiations, which are overseen in Geneva by the Director General acting as the head of the TNC and by the General Council Chairman, WTO ministerial conferences are unusual in that the Conference Chairman is the only person with the power to call and adjourn meetings, to invite participants, and to choose the topics for discussion. At Cancun, after the heads of delegations meeting the night before, the Chairman decided, after consulting with certain ministers, that he needed to see if there was any way to reach consensus on the Singapore issues, which seemed to him to be intractable. As a result, he convened a closed-door meeting of about 30 ministers broadly representative of the whole WTO membership on the morning of the final day of the conference to discuss them. According to reports, the EU representative reiterated at the beginning of this final, closed-door meeting his long-standing position that all four Singapore issues must be negotiated. Some developing countries, on the other hand, opposed starting negotiations on those issues. As the meeting progressed, the EU agreed to drop two (investment and competition), maybe even three (government procurement), of the Singapore issues—leaving trade facilitation on the table. This EU concession reportedly prompted some traditional opponents such as Malaysia and India to show some flexibility. The Chairman then recessed the meeting and asked the ministers to confer with other ministers who were not present in the "green room" to see whether there was consensus to negotiate on at least one of the Singapore issues.

During the break, at a meeting of the African, Caribbean, Pacific (ACP), LDC, and African Union members, many of the ministers present voiced surprise and indignation over the sequencing of topics under discussion in the closed-door meeting. They were upset that the Singapore issues were being discussed rather than agriculture. The Singapore issues were seen as rich members issues, while agriculture and cotton resonated with the poorer countries. Finally, members of the ACP/African Union/LDC coalition believed that no deal was better than a bad deal, and a deal on the Singapore issues in the absence of any agreement on agriculture or the cotton initiative was deemed a bad deal. As one country member rhetorically asked during the debate— “What are we taking home for the poor? We must say no.”

When the 30-country meeting reconvened, Botswana reported the decision of the ACP countries to the group, indicating that they could not accept negotiation on any of the Singapore issues, including trade facilitation, because “not enough was on the table.” According to reports, Korea, on the other hand, said it could not accept dropping any of the Singapore issues.

The Conference Chairman then said that consensus could not be reached and decided to close the conference without agreement on any issue. At a press briefing later that afternoon after the collapse of the talks, the Chairman explained that he had begun with the Singapore issues because of the dissent voiced on that issue during the meeting the night before. He further explained that he had decided to end the ministerial because it was clear to him that consensus could not be reached. Some countries, including certain EU member states and some developing countries, however, complained about what they saw as a precipitous decision to end the talks.

Concluding Observations

The Cancun Ministerial Conference highlighted the challenge of meeting the high and sometimes competing expectations created at Doha of both developing and developed countries, particularly with respect to negotiations on critical agricultural issues. While the issue has been contentious for many years, the Cancun experience demonstrates that forward movement on agriculture is central to the possibility of making further progress in the Doha Development Round. Although the Cancun meeting ended because of the lack of consensus on negotiating the Singapore issues, what many developing nations wanted from the developed world were concessions on agriculture, in particular dramatic reductions in export subsidies and domestic support.

At this point, it is difficult to predict how the setback at Cancun will ultimately affect the Doha Development Round negotiations. There are some signs that both developed and developing countries are rethinking their positions. The United States and the European Union have shifted away from taking an active leadership role, but have recently signaled some willingness to engage in further negotiations. Although a number of G-20 members have abandoned the group or made statements undercutting its unanimity of views, the group’s founders still appear intent to play a leadership role in pushing for global agriculture reform. While progress remains possible, political events scheduled to occur over the next year may add uncertainty to the negotiating process. For example, in the United States, the 2004 presidential and congressional elections are looming, and protectionist pressures are rising along with the U.S. trade deficit. Elections in Europe and in one of the largest developing countries, India, may also have an impact on the negotiations. Finally, how WTO members handle long-simmering disputes on such topics as corporate tax subsidies and steel could also affect the negotiating climate. In this regard, President Bush's recent decision to lift safeguard tariffs on steel may be viewed as an important development.

As we have noted in previous reports, the WTO has often found it difficult to achieve consensus and bridge its members' strongly held, disparate views on politically sensitive issues, in part because it is an ever-growing, more complex, and diverse organization.[37] Various devices, such as interim deadlines, were put in place for the first stage of Doha negotiations to redress these significant organizational challenges, but they fell short of achieving desired progress. The WTO Director General and General Council Chairman have been given the green light to work with WTO members to narrow differences on key issues in hopes that they can still salvage an agreement by the January 1, 2005, deadline. However, the failure to achieve substantive progress by mid-December casts further doubt.

One important consideration is that the delay in WTO negotiations could intensify momentum for concluding bilateral, subregional, or regional trade agreements. This has already happened in the United States, which, though remaining engaged in the WTO, has recently concluded three such agreements (Chile, Singapore, and Central America), is currently conducting negotiations on three others (Australia, Morocco and Southern African Customs Union), and has committed to begin negotiations on five others (Dominican Republic, Bahrain, Thailand, Panama, and the Andean region) as well as the 34-nation Free Trade Area of the Americas. Additional possibilities are in the wings. The effect that a proliferation of these kinds of agreements would have on the WTO is unclear.

[37]See U.S. General Accounting Office, *World Trade Organization: Seattle Ministerial Outcomes and Lessons Learned*, GAO/T-NSIAD-00-86 (Washington, D.C.: Feb. 10, 2000) and U. S. General Accounting Office, *World Trade Organization: Early Decisions Vital to Progress in Ongoing Negotiations*, GAO-02-879 (Washington, D.C.: Sept. 4, 2002).

Agency Comments and Our Evaluation

We requested comments on a draft of this report from the U.S. Trade Representative, the Secretary of Commerce, the Secretary of Agriculture, and the Secretary of State, or their designees. USDA's Foreign Agricultural Service agreed with our report's factual findings and analysis. Commerce's Deputy Assistant Secretary for Agreements Compliance provided us with technical oral comments on the draft, which we incorporated into the report as appropriate. The Secretary of State declined to comment on our report. The U.S. Trade Representative provided formal comments (see app. IV), indicating that many of the issues identified in GAO's analysis are consistent with the U.S. assessment of issues that must be addressed to put negotiations back on track in 2004. He stressed the United States is ready to exercise leadership provided other countries are prepared to negotiate meaningfully. The Assistant U.S. Trade Representative for WTO and Multilateral Affairs and other USTR staff also provided us with oral comments. While agreeing with much of the report's information, they provided a number of factual and technical comments, which we incorporated as appropriate. In addition, USTR staff expressed some concern that the overall tone of the report placed too much emphasis on the importance of the Cancun ministerial itself and on the North-South divide, particularly given the meeting's mandate from Doha and individual country positions. While we stand by the overall balance struck in our report, we did add some information to reflect the diversity within developing country ranks evident on certain issues.

We are sending copies of this report to interested congressional committees, the U.S. Trade Representative, the Secretary of Agriculture, the Secretary of Commerce, and the Secretary of State. We will also make copies available to others upon request. In addition, the report will be available at no charge on the GAO Web site at http://www.gao.gov.

If you or your staff have any questions about this report, please contact me at (202) 512-4347. Additional GAO contacts and staff acknowledgments are listed in appendix V.

Loren Yager
Director, International Affairs and Trade

Objectives, Scope, and Methodology

The Chairman of the Senate Committee on Finance and the Chairman of the House Committee on Ways and Means asked us to analyze (1) the overall status of the World Trade Organization's (WTO) negotiations on the eve of the WTO's ministerial conference at Cancun, Mexico, in September 2003; (2) the key issues for the Cancun Ministerial Conference and how they were dealt with at Cancun; and (3) the factors that influenced the outcome of the Cancun Ministerial Conference.

We followed the same overall methodology to complete the two first objectives. From the WTO, we analyzed the *2001 Doha Ministerial Declaration* and related documents, the July and August versions of the draft *Cancun Ministerial Declaration*, and other speeches and proposals from WTO officials, as well as some negotiation proposals from WTO members. From the WTO, U.S. government agencies, and foreign country officials, we obtained background information regarding negotiating proposals and positions.

We met with a wide variety of U.S. government and private sector officials, foreign government officials, and WTO officials. Before the Cancun ministerial, we met with officials from the Office of the U.S. Trade Representative (USTR) and the U.S. Departments of Commerce, Agriculture, and State. We also met with officials from the Grocery Manufacturers of America and the Pharmaceutical Researchers and Manufacturers of America. In addition, we met with representatives from developed and developing countries in Washington, D.C., including Australia, Malaysia, Brazil, and Costa Rica. Further, we traveled to the WTO's headquarters in Geneva, Switzerland, where we met with WTO officials and member country representatives from developed and developing countries, including Australia, Canada, the European Union (EU), Japan, Brazil, China, Malaysia, Mexico, and India.

To analyze the factors that influenced the outcome of the Cancun ministerial, we attended the Cancun Ministerial Conference in Mexico in September 2003. In Cancun, we attended USTR congressional briefings and went to press conferences and meetings open to country delegates. Also, we reviewed domestic and international news media reports; news releases on the developments at the ministerial conference and statements about the outcome of the ministerial conference from the WTO, the U.S. and foreign governments, and other international organizations.

To analyze the various tariff cutting formulas being proposed, we employed the following procedure. For agricultural market access, we compared an across-the-board tariff cut of 25 percent (also known as the "Uruguay Round" formula)[1] to a harmonizing or "Swiss formula" with a coefficient of 25.[2] On nonagricultural market access, we analyzed the Chair's proposal.[3] We employed a coefficient of 1 for the Chair's proposal. Since the Chair's proposal includes average overall tariffs as part of the formula, we compared how final tariffs on products with a given tariff level to begin

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[1]A linear or across-the-the board tariff cutting formula means all tariff rates will be reduced by the same percentage. Assume that the initial tariff rate prior to negotiations is given by t_0 and the final tariff rate resulting from the negotiations is t_1. The expression, which relates the two tariff rates, where c is a constant parameter, would be:

$$t_1 = c \times t_0$$

The final tariff rate would necessarily depend upon both the parameter c and the initial tariff rate. The original tariff rate is not a determinant of the rate of reduction. For purposes of this illustrative example, we used the parameter 0.75 to represent a 25 percent across-the-board tariff cut.

For further information, see WTO, *Formula Approaches To Tariff Negotiations* (Note By The Secretariat) TN/MA/S/3/Rev.2, April 11, 2003.

[2]According to the WTO, the harmonizing or so-called Swiss formula that has been used so far in tariff negotiations has the following specification.

$$t_1 = \frac{a \times t_0}{a + t_0}$$

The formula has the property of being a function of both the initial tariff and the coefficient *a*. The coefficient can be negotiated. For purposes of this illustrative example, we used a coefficient of 25.

[3]The chair's formula is defined as it was described in report by the chairman, Ambassador Girard, to the Trade Negotiations Committee, WTO Document TN/MA/12, September 1, 2003, Annex I, Para. 7, p. 8 and 9.

$$t_1 = \frac{B \times t_a \times t_0}{B \times t_a \times t_0}$$

where,

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

t_0 is the base rate

t_a is the average of the base rates

B is a coefficient with a unique value to be determined by the participants. For purposes of our analysis, we assumed a coefficient of 1 would be used for all countries. However, the Chair's proposal does not specify the value of coefficient and leaves open the possibility that a different coefficient could be used.

with would differ for countries with average tariffs of 4 percent, 15 percent, and 30 percent. We selected the United States, Malaysia, and Brazil as examples of countries that respectively fit into those categories on the basis of WTO annual *World Trade Report* data on average overall bound tariff rates.

We performed our work from June to October 2003 in accordance with generally accepted government auditing standards.

Significant Events in the WTO Negotiations before and during the Cancun Ministerial Conference

July 2003	**Trade Negotiations Committee (TNC) meets** The Chairman of the TNC, which had been established to oversee the Doha Round of global trade talks, reported that while the work of the TNC and its subsidiary bodies intensified in 2003, real negotiations had not yet begun.
	WTO General Council Chairman prepares draft ministerial declaration The text is intended as a first draft of an operational text through which ministers at Cancun would register decisions and give guidance and instruction in the negotiations. It reflects a lack of progress on key issues, as shown by its skeletal nature and the bracketed (disputed) items relating to “modalities” (rules and guidelines for subsequent negotiations) for agriculture, nonagricultural market access, and the Singapore issues (investment, competition [antitrust], government procurement, and trade facilitation).
	Montreal mini-ministerial occurs Approximately 30 trade ministers from WTO members meet in Montreal to prepare for the Cancun Ministerial Conference. At the meeting, the ministers encourage the United States and the EU to narrow their differences on the central issue of agriculture.
August 2003	**U.S. and EU submit joint agriculture framework** The framework includes reductions in domestic support, with those members with higher subsidies making deeper cuts, a three-pronged strategy to reduce tariffs, and reduction of export subsidies.
	Group of 20 Developing countries submit agriculture counterproposal The proposal includes substantial cuts in domestic subsidies by developed countries, a tariff reduction formula that allows developing countries to make less substantial cuts, and the elimination of export subsidies.
	General Council Chairman and WTO Director General submit revised draft ministerial declaration Now 23 pages, the text continues to reflect significant differences between members on many issues. It includes frameworks for modalities in agriculture and nonagricultural market access as well as proposed modalities on each of the Singapore issues. Additionally, it includes a section related to a proposal by Burkina Faso, Benin, Chad, and Mali to eliminate cotton subsidies and provide compensation to the four countries while the subsidies are phased out.
	General Council approves Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) and public health solution WTO members complete discussions mandated in Doha to make it easier for poorer countries to import cheaper generic drugs made under compulsory licensing if they are unable to manufacture the medicines themselves. The United States, previously the only member preventing an agreement, joins the consensus after the General Council Chairman provides a statement regarding WTO members’ shared understanding of the interpretation and implementation of the decision.
September 10, 2003	**Day 1 of Cancun Ministerial Conference** Mexican President opens the ministerial conference, and ministers start work on key issues. The Conference Chairman appoints ministers to facilitate discussions on key issues—agriculture, nonagricultural market access, development issues, Singapore issues, and other issues. Ministers also debate a proposal on cotton from four African members.
	Day 2 The first informal heads of delegation meeting occurs, and the Director General is appointed to facilitate discussions on the cotton initiative. Group discussions also take place on agriculture, nonagricultural market access, the Singapore issues, development issues, and other issues.

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	Day 3 A second informal heads of delegation meeting occurs in the morning and includes reports by the facilitators on each issue. Working group meetings continue throughout the day and conclude with a heads-of-delegation meeting at night. The Conference Chairman commits to draft a new version of the ministerial text and circulate it by the middle of the following day.
	Day 4 The Conference Chairman distributes a new draft ministerial text at a meeting with heads of delegations and then asks them to study the text and reconvene in the evening. After ministers reconvene, many criticize the draft text, arguing that their particular concerns have not been included. At the close of the meeting, the Conference Chairman warns ministers that if the ministerial conference fails, the negotiations might take a long time to recover.
	Day 5 The Conference Chairman begins closed-door consultations with 30 ministers representing a wide range of regional and other groups on the subject of the Singapore issues. During these consultations, positions shift, allowing the possibility of dropping two or possibly three of the issues. The Conference Chairman then suspends the meeting to allow participants to meet with their respective groups. When they return, there is no consensus on three, and the Conference Chairman decides to close the ministerial conference. Ministers subsequently approve a ministerial statement that instructs members to continue working on outstanding issues and to convene a meeting of the General Council by December 15 to take necessary action.

Source: Analysis of WTO and U.S. government documents.

"Developing Countries" in the World Trade Organization

The World Trade Organization (WTO) states that "about two thirds" of its 146 members are "developing countries." However, there are no WTO definitions of "developed" or "developing" countries—although the WTO does specifically recognize the 30 WTO members defined as "least developed countries" (LDC) by the United Nations. Instead, developing countries in the WTO are designated on the basis of self-selection within each individual WTO agreement. This is not necessarily automatically accepted because other WTO members can challenge the decision of another WTO member to make use of the special provisions[1] available to developing countries. In fact, given the political sensitivities and potential legal issues involved, the WTO Secretariat does not list or distinguish developing countries in its reports; for example, it produces annual trade statistics organized by geographical region and not development status.

The World Bank, however, does use the term "developing economies"[2] in its reports to denote the set of "low and middle income" national economies (subdivided into lower middle and upper middle) that it classifies on the basis of gross national income (GNI) per capita. We have used this definition to compile the list of "developing" WTO members in table 1. The World Bank divides all economies according to annual GNI per capita, calculated using the World Bank Atlas method.[3] The 2002 GNI ranges in U.S. dollars for the groups are the following: "low income," $735 or less;

[1]Developing country status in the WTO brings certain rights. For example, provisions in some WTO agreements provide developing countries with the right to restrict imports to help establish certain industries, longer transition periods before they fully implement agreement terms, and eligibility to receive technical assistance. See article XVIII of the General Agreement on Tariffs and Trade (GATT), articles IV, XII, and XXV of the General Agreement on Trade in Services, and articles 66 and 67 in the Agreement on Trade-Related Aspects of Intellectual Property Rights. In addition, developing countries may benefit from the Generalized System of Preferences, under which developed countries may offer nonreciprocal preferential treatment (such as zero or low duties on imports) to products originating in those developing countries the preference-giving country so designate. See *Decision on Differential and More Favourable Treatment, Reciprocity and Fuller Participation of Developing Countries*, adopted under GATT in 1979.

[2]World Bank publications with notes on the classification of economies state that the term "developing economies...does not imply either that all the economies belonging to the group are actually in the process of developing, nor that those not in the group have necessarily reached some preferred or final stage of development."

[3]The Atlas conversion factor for any year is the average of a country's exchange rate (or alternative conversion factor) for that year and its exchange rates for the 2 preceding years, adjusted for the difference between the rate of inflation in the country, and for 2001 onwards, that in the Euro Zone, Japan, the United Kingdom, and the United States. A country's inflation rate is measured by the change in its gross domestic product deflator.

"lower middle income," \$736 - \$2,935; "upper middle income," \$2,936 - \$9,075; and "high income," \$9,076 or more.

Table 1: "Developing" World Trade Organization Members as of July 2003

	Country	World Bank income group	Other
1	Albania	Lower middle income	
2	Angola	Low income	LDC
3	Argentina	Upper middle income	
4	Armenia	Lower middle income	
5	Bangladesh	Low income	LDC
6	Belize	Upper middle income	
7	Benin	Low income	LDC
8	Bolivia	Lower middle income	
9	Botswana	Upper middle income	
10	Brazil	Lower middle income	
11	Bulgaria*	Lower middle income	
12	Burkina Faso	Low income	LDC
13	Burundi	Low income	LDC
14	Cameroon	Low income	
15	Central African Republic	Low income	LDC
16	Chad	Low income	LDC
17	Chile	Upper middle income	
18	China	Lower middle income	
19	Colombia	Lower middle income	
20	Congo, Dem. Rep.	Low income	LDC
21	Congo, Republic	Low income	
22	Costa Rica	Upper middle income	
23	Côte d'Ivoire	Low income	
24	Croatia	Upper middle income	
25	Cuba	Lower middle income	
26	Czech Republic*	Upper middle income	EU/2004
27	Djibouti	Lower middle income	LDC
28	Dominica	Upper middle income	
29	Dominican Republic	Lower middle income	
30	Ecuador	Lower middle income	
31	Egypt, Arab Republic	Lower middle income	
32	El Salvador	Lower middle income	

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	Country	World Bank income group	Other
33	Estonia*	Upper middle income	EU/2004
34	Fiji	Lower middle income	
35	Gabon	Upper middle income	
36	Gambia, The	Low income	LDC
37	Georgia	Low income	
38	Ghana	Low income	
39	Grenada	Upper middle income	
40	Guatemala	Lower middle income	
41	Guinea	Low income	LDC
42	Guinea-Bissau	Low income	LDC
43	Guyana	Lower middle income	
44	Haiti	Low income	LDC
45	Honduras	Lower middle income	
46	Hungary*	Upper middle income	EU/2004
47	India	Low income	
48	Indonesia	Low income	
49	Jamaica	Lower middle income	
50	Jordan	Lower middle income	
51	Kenya	Low income	
52	Kyrgyz Republic	Low income	
53	Latvia*	Upper middle income	EU/2004
54	Lesotho	Low income	LDC
55	Lithuania*	Upper middle income	EU/2004
56	Macedonia, Former Yugo. Rep.	Lower middle income	
57	Madagascar	Low income	LDC
58	Malawi	Low income	LDC
59	Malaysia	Upper middle income	
60	Maldives	Lower middle income	LDC
61	Mali	Low income	LDC
62	Mauritania	Low income	LDC
63	Mauritius	Upper middle income	
64	Mexico	Upper middle income	
65	Moldova	Low income	
66	Mongolia	Low income	
67	Morocco	Lower middle income	
68	Mozambique	Low income	LDC
69	Myanmar	Low income	LDC

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	Country	World Bank income group	Other
70	Namibia	Lower middle income	
71	Nicaragua	Low income	
72	Niger	Low income	LDC
73	Nigeria	Low income	
74	Oman	Upper middle income	
75	Pakistan	Low income	
76	Panama	Upper middle income	
77	Papua New Guinea	Low income	
78	Paraguay	Lower middle income	
79	Peru	Lower middle income	
80	Philippines	Lower middle income	
81	Poland*	Upper middle income	EU/2004
82	Romania*	Lower middle income	
83	Rwanda	Low income	LDC
84	Senegal	Low income	LDC
85	Sierra Leone	Low income	LDC
86	Slovak Republic*	Upper middle income	EU/2004
87	Solomon Islands	Low income	LDC
88	South Africa	Lower middle income	
89	Sri Lanka	Lower middle income	
90	St. Kitts and Nevis	Upper middle income	
91	St. Lucia	Upper middle income	
92	St. Vincent and the Grenadines	Lower middle income	
93	Suriname	Lower middle income	
94	Swaziland	Lower middle income	
95	Tanzania	Low income	LDC
96	Thailand	Lower middle income	
97	Togo	Low income	LDC
98	Trinidad and Tobago	Upper middle income	
99	Tunisia	Lower middle income	
100	Turkey	Lower middle income	
101	Uganda	Low income	LDC
102	Uruguay	Upper middle income	
103	Venezuela	Upper middle income	
104	Zambia	Low income	LDC
105	Zimbabwe	Low income	

Source: GAO analysis of WTO and World Bank information.

Notes:

*=Listed by the Organization for Economic Cooperation and Development as a “Country in Transition” receiving aid, but not a “traditional” developing country.

EU/2004=Applicant joining European Union in May 2004.

Under the World Bank definition, the WTO membership currently has 105 developing economies, 30 of which are defined by the United Nations as LDCs. This includes 44 low income countries; 35 lower middle income countries; and 26 upper middle income countries. There are 40 high income WTO members (not counting the EU’s separate membership). The Cancun ministerial also recognized that upon ratification in their national parliaments, Cambodia and Nepal will accede to the WTO, both of which are LDCs.

Comments from the Office of the U.S. Trade Representative

EXECUTIVE OFFICE OF THE PRESIDENT
THE UNITED STATES TRADE REPRESENTATIVE
WASHINGTON, D.C. 20508

JAN 7 2004

Mr. David M. Walker
Comptroller General of the United States
U.S. General Accounting Office
Washington, D.C. 20548

Dear Mr. Walker:

Thank you for the opportunity to submit comments on the draft General Accounting Office (GAO) report entitled: "World Trade Organization: Cancún Ministerial Fails to Move Global Trade Negotiations." The Bush Administration considers the current round of multilateral trade negotiations – the Doha Development Agenda (DDA) – to be an integral part of our broader trade strategy to foster economic growth through comprehensive agricultural reform and wide-ranging trade liberalization in goods and services. I wanted to offer our comments as we look ahead to the DDA in 2004.

Your report provides a useful snapshot of the developments leading to, and at, the World Trade Organization's (WTO) Fifth Ministerial Conference in Cancún, Mexico, last September. Clearly, as the report confirms, agriculture is at the heart of the DDA. In the weeks leading up to the Cancún meeting, the United States and Europe, at the request of other Members, tried to developed a framework for agriculture to move those talks forward. It is significant that the Chair's text that was sent to Cancún included the outlines of that framework, and the structure remains in the draft Cancún text. Unfortunately, in Cancún many other WTO Members were unable to engage in the give-and-take necessary to move the negotiations forward. While this lack of progress in agriculture was the overriding issue that contributed to the impasse, it was also true that the evolution of the trading system, particularly the increased role and participation of many more countries, mostly developing countries, made the negotiations much more complex.

As the GAO is aware, the United States played a key role in launching the WTO negotiations at Doha, advanced them by proposing the elimination of all tariffs on goods and huge cuts in agricultural tariffs and subsidies, and solved the contentious access-to-medicines issue prior to the Cancún ministerial. After Cancún, the United States suggested a resumption based on the draft Cancún text, an idea that has won widespread support around the world. A realistic assessment is that progress now will depend on the European Union's willingness to eliminate agricultural export subsidies; the EU and Japan being flexible on opening agricultural market access as well as cutting other subsidies, along with the United States; mid-level developing countries lowering their barriers for goods, agriculture, and services; a compromise on the so-called "Singapore issues"; and continued commitment from all countries.

Mr. David M. Walker
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Since Cancún, many countries at various levels of development have signaled their agreement that Cancún represented a missed opportunity for the trading system and have shown an interest in returning to the negotiating table. As I write this letter, the WTO General Council has completed its work for the year, with the submission of an important report by Chairman Perez-del-Castillo on the key issues that need to be addressed if the Round is to move forward. Many of the issues outlined by the Chairman have been identified in your analysis, and are consistent with the U.S. assessment of issues that must be addressed if negotiations are to be put back on track in the new year.

As others determine their interest and flexibility in the WTO negotiations, U.S. trade policy is freeing trade all around the world through our FTA initiatives around the globe. These efforts, combined with our continued strong commitment to the multilateral trading system and the maintenance of the rules-based system embodied in the WTO, are powerful incentives for progress in 2004. Whether others are ready to meet the challenges identified remains to be seen. The United States is ready to exercise its leadership in the new year in moving the WTO agenda forward, provided that other countries are prepared to negotiate meaningfully. Thus, we hope and expect that as other governments reflect on the Chair's statement that they, too, will signal a readiness to engage in the real give-and-take of negotiations.

I appreciate the work of the GAO in analyzing the progress to date in the WTO on the Doha Development Agenda. We look forward to working with other WTO Members to put the negotiations on a sound, and ultimately successful, footing.

Sincerely,

Robert B. Zoellick

Robert B. Zoellick

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