

**MEMO/05/357**

**Brussels, 10 October 2005**

**Statement of EU conditional negotiating proposals – with explanatory annotations**

This statement by EU Trade Commissioner Peter Mandelson sets out the EU's conditional negotiating proposals in the Doha Development Round as of 1<sup>st</sup> October 2005. It was circulated to Ministers at the WTO Doha Round Informal Ministerial in Zurich on October 10 2005. In it, Peter Mandelson argues: "If we do not advance this negotiation in concrete terms this week - and amongst ourselves today - we will have to acknowledge that we may simply run out of time for Hong Kong...the emphasis must be on the offers, rather than the conditionality we attach to them. They have to be real offers providing forward movement. The time has come to push the envelope." The proposals made in Zurich are entirely contingent on satisfactory reciprocal gestures from other parties. This version of the text has been annotated to explain technical detail.

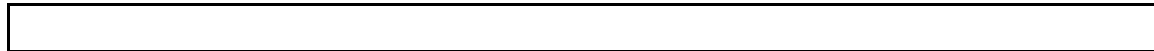
The EU's key proposals:

- On **domestic support in agriculture**: ambitious cuts in trade distorting forms of agricultural support – a 70% cut in the EU's Aggregated Measurement of Support (AMS). An additional 65% reduction – at least - in agreed maximum levels of trade distorting '*de minimus*' support and possible reductions in maximum agreed levels of partially distorting 'Blue Box' payments. This would, in effect, bind in Geneva internal reform already undertaken as part of the current CAP reform. Other subsidisers would make lower but proportional cuts.

- On **market access in agriculture**: four tariff bands, with higher cuts for higher tariffs. Some limited flexibility around a linear cut in some bands. Highest band: tariffs over 90%, these would be cut by at least 50%.

- A **maximum agricultural tariff** for developed countries as proposed by the G20, at a level "that will create a severe constraint for all developed countries".

- **Minimum recourse to sensitive agricultural products**, and an explicit willingness to provide higher tariff rate quotas for sensitive products whose tariff cuts fall below the average cut for their band.



- On export competition in agriculture: a reiterated offer to end all export subsidies, with an end date and 'frontloaded' timetable agreed at Hong Kong.

- On NAMA, a 10% maximum tariff for developed countries, achieved through harmonised cuts by Swiss Formula. No obligatory cuts for Least Developed Countries and "less than full reciprocity" for some developing countries. The EU recalled that if there is not a satisfactory

outcome on NAMA, “there will be no outcome on agriculture or other parts of our negotiation”.

- On Services, the use of multilateral formulae, different for developed and developing countries, that will set a minimum number of service sectors to be covered. The production of ‘benchmark’ sectoral models to illustrate possible ambitious outcomes.

- On Development, the extension by all developed countries to Least Developed Countries of trading terms equivalent to those offered by the EU’s Everything But Arms (EBA) system; this to be agreed at Hong Kong.

- A “Round for Free” for Least Developed Countries – no obligatory tariff cuts. Some flexibility for other developing countries – but the expectation of ambition from advanced developing countries.

“I intend today to set out the EU’s current negotiating proposals and positions in all the key areas of the Round – agriculture, NAMA and services. The time has come for all of us to put cards on the table; to stop the bidding and to start to play the hand. If we do not advance this negotiation in concrete terms this week - and amongst ourselves today - we will have to acknowledge that we may simply run out of time for Hong Kong. That is not where I want to be. Within the limits of our mandate, the EU will make moves to prevent it if others do likewise.

Hong Kong matters. It is not the end of the process: but it is a vital staging post. My ambition is to make sufficient progress there to allow us to finish the round in 2006. That essentially means agreeing modalities in all areas of negotiation.

#### Agriculture

I recognise that agriculture is the engine for an ambitious and balanced result at Hong Kong. That is why I have been prepared to focus more closely on agriculture than on other issues in recent weeks. That certainly does not mean that the other issues are less important, or that the EU will agree to unbalanced final outcomes.

In agriculture first, and then immediately in the other areas of negotiation, I suggest that we now all make a series of conditional offers, including figures.

The emphasis must be on the offers, rather than the conditionality we attach to them. They have to be real offers providing forward movement.

Our own proposals on the three pillars will remain on the table as long as they are joined by others’ proposals and do not sit there alone. I will give an overview, and Mariann will flesh out on agriculture.

#### Domestic support

Because we are ambitious we propose to make substantial cuts in total and AMS support

in this Round. The current CAP reform that is now coming into effect allows this. We are not dependent on further CAP reform to discharge our DDA obligations.

To be precise, we are ready to reduce our AMS by some 70% assuming that the other major subsidisers commit themselves to proportionate, but not equal, reductions and introduce disciplines that lead to clear reforms as envisaged in paragraph 14 of the framework. We are prepared to go into the top band of reductions and to do more than others. We accept the principle of progressive harmonisation of the levels of support of the main players. But, I stress, there must be proportionality. If we are to end up with a high degree of ambition we need others, not just the United States but also Japan, Canada, Korea, Switzerland and Norway for example, to come with us along the way.

**What does this mean?**

The agriculture negotiations are divided into three 'pillars': domestic support, export competition and market access. The EU is proposing to reduce its aggregate measure of trade distorting support by 70% contingent on proportionate reductions from other major subsidisers like the US and Japan. Because the existing CAP reform has already moved 90% of EU payments into the non-trade distorting 'Green Box' the EU is able to offer to bind reductions on this scale through the WTO. The EU is proposing to divide agricultural subsidisers into three bands. In the top band is the EU, with other subsidisers below. The top band, in which the EU would be situated, would lock in the highest aggregate cuts (70%), with a reduced cut for the second band and a further reduced cut for the third band

We also propose a very substantial reduction in the *de minimis* category of subsidy, of at least 65% and potentially much more if others do the same.

**What does this mean?**

All WTO members are permitted to provide minimal supports totalling no more than 5% of agricultural production for developed countries. The EU is proposing to reduce this allowance by at least 65%.

On the Blue Box, the ceiling agreed in July 2004, which remains at this stage, is 5%. This requires a significant reduction of EU blue box use. Our negotiating flexibility on that ceiling is limited, but I can confirm that there is some room. We can offer a commitment to negotiate on product specific caps.

**What does this mean?**

In the WTO agricultural rules an additional 'Blue Box' exists for classifying subsidies. A Blue Box subsidy is a payment that would usually qualify as Amber Box which is paid in a way that discourages overproduction or is explicitly limited in time or scale. Under the July Agreement Framework these payments will be capped as 5% of a state's total agricultural production. The EU is signalling that it is willing to reduce existing payments to this level and may be able to show further flexibility. It has however also called for clearer definitions of what constitutes a Blue Box support.

## Market access

On market access the Framework contains a checklist of what has to be done by developed countries. A protracted process has taken place on the AVE conversion, and it is clear that a lot of complex technical and negotiating work on the modalities remains to be done. We must now do it.

Before the summer, Mariann announced that the EU would move from a Uruguay Round approach as the basis for the overall tariff reduction formula. This unlocked the negotiation on the structure of the formula. The EU has accepted the G20's linear approach to tariff cuts, provided that this includes some defined and limited degree of flexibility.

### **What does this mean?**

The Uruguay Round reduced agricultural tariffs through a linear cut – all tariffs were reduced by a single percentage regardless of their initial level. This results in reduced tariffs, but it preserves the 'tariff landscape' by reducing high and low tariffs by the same amount. The G20 proposal suggested a non-linear band system for overall cuts with a linear cut in each band – for developed countries five bands, with a reducing linear cut (ie 60%, 50%, 40%) in descending bands. The EU has proposed to accept this approach so long as a limited degree of flexibility can be agreed around the linear cut in each band. This 'pivot' would be minimal and subject to important restrictions – see below.

In respect of the actual size of the tariff cuts in the formula, if we had four bands, including a top band starting at tariff levels of 90%, we could envisage either a cut of 60% in the top band, with a limited variation on either side, or a straight linear cut of 50%. Until there is agreement among us on this formula, it is difficult for us to go beyond this kind of exploration and make any firmer offer. But that is where we want to go.

### **What does this mean?**

Based on a G20 'non-linear bands with linear cuts' structure, the EU is proposing four bands for developed countries in which the top band would contain all tariffs higher than 90%. The EU is proposing that this band be subject to either a 60% cut with limited flexibility in either direction or a straight 50% cut.

We are also ready to accept a tariff cap that will create a severe constraint for all developed countries

### **What does this mean?**

The G20 proposal suggests a cap of 100% for all agricultural tariffs for developed countries (and a cap of 150% for developing countries). The EU is willing to accept this.

We are ready to explore ways to set clear limits on flexibility around the central cut. For example we could limit the permitted upward variation, so as to prevent a below formula

cut in one or several lines being offset by “piling” the shortfall all into a disproportionate cut in another single line. Or we could limit recourse to flexibility around the linear cut to a limited number of tariff lines. Or we could forego the right to flexibility completely in certain bands. We stand ready to discuss these and other options in order to meet the concern of partners to understand the limits and implications of flexibility.

**What does this mean?**

WTO members are permitted by the July Framework to nominate an ‘appropriate’ number – to be negotiated – of sensitive products that will be subject to reduced or special cuts. The EU is recalling that countries are permitted to nominate their own sensitive products but that the total number is open for negotiation. The EU is signalling that the greater the flexibility given in linear tariff cuts in each band, the fewer total number of sensitive products it would seek. However the EU is signalling that it is willing to apply very clear limits to its use of flexibility – limiting upward variations from tariff cuts, forgoing flexibility in some bands, or limiting flexibility to certain tariff lines.

The Commission has developed a set of scenarios to illustrate the implications for the identification of sensitive products of different degrees of flexibility around a central cut.

The Framework makes clear that sensitive products will be selected by WTO members themselves. But we accept that the number of them is for negotiation.

We also - very importantly - need to tackle the question of how we intend actually to treat sensitive products - through tariff reductions and Tariff Rate Quotas (TRQ) which secure market access in these products. In this, we fully understand that sufficient comfort has to be given to exporters that there will be substantially improved market access in the tariff lines where the real trade is taking place.

Our starting proposal is to link the tariff cut for sensitive products to the agreed average reduction in the tariff-level band in which the sensitive product lies. We accept that the more the cut for a sensitive product falls short of the average agreed cut, the larger the expansion of the TRQ must be. This EU approach ensures real, substantial market access.

**What does this mean?**

Sensitive products are subject to Tariff Rate Quotas – so that a defined quota of the import in question enters at a certain rate and all imports above that level at a new higher tariff rate. The EU is signalling that it recognises that there will need to be a trade off between the level of cut applied to sensitive products and the level of tariff rate quota applied to that product – if the cut for a sensitive product is less than the average for that product’s band, the tariff rate quota for that product should rise. The EU is stating clearly that it will balance recourse to sensitive product categories against new, real market access.

What we are prepared to do to improve access to our markets for others is of course linked to the satisfaction of our own exporting interests, including in agriculture. This is why we consider that substantial results are necessary in the area of Geographical Indications (GIs), in order to provide some of our exporters with a more certain legal environment to market their products globally. We wish to engage in intensive

negotiations now on the Register, and to have a firm agreement in Hong Kong to start negotiations immediately on the extension of the register. We are prepared to show flexibility in some of our initial demands in this area, but we will only do this when the negotiating process justifies it.

#### Export competition

Here, the situation is somewhat simpler. The EU has made firm commitments in 2004 to the elimination of export subsidies, and to finding an agreed date for this. We stand by that commitment.

However, the elimination of our export subsidies must be matched by the removal of other trade-distorting practices in export competition, which are less easily quantifiable. Movement on both State Trading enterprises and Food Aid is urgently needed. We look to Canada, Australia, New Zealand and the US to negotiate the necessary action. I would like to be able to resolve this issue - and set a date - at Hong Kong. But let us also remember that the end date is not the whole story. We are ready to negotiate and agree a phased and ambitious timetable for the elimination of export supports.

#### **What does this mean?**

<p>The EU reiterates its commitment to end all export subsidies and to negotiate both a final phase out date and a phase out schedule for export subsidies. The EU is reinforcing that by 'frontloading' the final timetable, some eliminations could happen soon after the signing of a final agreement. The EU is demanding that its own move be matched by the removal of other forms of export subsidy by the US, Canada, Australia and New Zealand.</p>
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We need, in a short space of time, to set the agreed parameters and to go deeper into the numbers. The EU is ready to have these discussions at once. I hope others will come to the table. And I hope Pascal will guide us towards rapid progress.

The time has come to make equally clear offers in other parts of the negotiation. When the crunch comes, the EU's negotiating flexibility in agriculture will be heavily influenced by how ambitious all WTO members are on NAMA and services. And there will certainly be no deal on agriculture unless and until there is a balanced outcome across the board. We all need wins in this negotiation – and that, after all, is what multilateral trade negotiations are all about.

#### NAMA

In NAMA, we seek – and indeed we all need – to achieve an understanding on full modalities for market opening in Hong Kong.

This requires a package to be in place by the end of this month covering the formula to govern tariff reductions, the flexibilities associated with this formula, and the treatment of unbound tariffs.

The modalities must result in both real market access and predictability for economic operators in all parts of the world. This means that the modalities for tariff reduction must cut into the applied rates of most WTO members, and that we should increase substantially the level of binding of our tariffs where they are not bound.

To this end, the EU proposes to accept a maximum level for our own industrial tariffs of 10%, after the application of a Swiss formula, provided that this also applies to all developed countries. It remains our position that Least Developed Countries, and the countries covered in Paragraph 6 of the July 2004 framework text, will not be subject to the application of the formula.

**What does this mean?** The EU would seek to cap industrial tariffs at 10% using a Swiss Formula (it is called a Swiss Formula because it was proposed by Switzerland during the Tokyo Round). The Swiss formula is:

$$Z = AX/(A+X)$$

X is the initial tariff rate; A is the maximum final tariff rate and the coefficient which is agreed to represent the level of cuts; Z is the final tariff rate that results. So a coefficient of 30 (representing a final maximum tariff of 30%) applied to an initial tariff of 100% produces a final tariff of about 23%. The same cut applied to an initial tariff of 15% produces a final tariff of 10%. The party with the higher initial tariff has made cuts of about 77%, the party with the lower tariff has made cuts of about 33%. The final cut determined by a Swiss Formula can be applied over a number of years.

We also propose to implement the principle of less than full reciprocity to the other developing countries. But most of them should be obliged by the formula to cut into their applied duties as well, so as to create new market access opportunities, including for weaker developing countries. This South-South opening is a vitally important aspect of the development agenda for the Round. We consider that setting a maximum tariff level of 15% for this group of developing countries who can afford to offer greater market access should deliver this objective.

As we have agreed, the application of the formula would start from bound tariffs. On the treatment of unbound tariffs, we favour an approach which would give an “advantage” to the lowest applied unbound duties rather than to the highest. This would be more equitable, in the sense that it would take into account the unilateral efforts made by certain Members, as well as the divergences in tariff structures.

On the question of what degree of flexibility should be permitted in the application of the formula, the EU cannot accept a coefficient that would cut only a few applied duties, and for these cuts then to be excluded through recourse to “flexibilities”. The result of this would be paper cuts only for nearly all developing countries, including those that have now become very competitive. This is not an outcome I could or would wish to sell as a success. If this is the maximum level of ambition partners can muster on NAMA, let me be crystal clear – there will be no outcome on agriculture or other parts of our negotiation.

#### Services

In the area of services, the aim of the EU is to agree at Hong Kong to modalities that will impose a clear level of ambition for these negotiations, and for the new market access to be delivered as a result of the Round. Our meeting today should specifically instruct the

negotiators of the countries present here to start immediately to develop language for the Hong Kong declaration which will have that effect, and to carry this forward to the discussions in Geneva later this week.

The modalities must set a level of ambition that is high enough to match the levels of ambition we set in Agriculture and NAMA. I cannot accept that services should be a Cinderella. If we cannot show ambition we will not be able to have a balanced overall DDA package that will be acceptable to the EU. That said, we recognise that the Hong Kong package will have to contain flexibilities to enable some Developing Countries to be able to participate.

The modalities to be agreed at Hong Kong should include at least four elements.

A multilateral formula for commitments by WTO members

This formula should be based on a mandatory numerical target for the number of services sectors in which each WTO Member would be required to make offers. Without such a target, the multilateral formula would bring no added-value and would fall short of the ambition we are seeking and the approach we are following in Agriculture and NAMA.

### **What does this mean?**

The current services negotiations are based on a request-offer system in which each member tables a request from other members and a parallel offer of what it is willing to provide. Because of a disappointing level of ambition under this system it is now proposed to establish certain minimum numbers of sectors to be covered – and to produce ‘model schedules’ in certain sectors that will provide ambitious benchmarks for members to aim for.

In order to make the multilateral numerical target acceptable to all, we propose:

- (1) To set bands for the number of sectors to be addressed by developed and developing countries. These bands would differ, thereby offering flexibility reflecting the level of development of WTO members;
- (2) To accept both new commitments in sectors not yet committed, as well as improved commitments in sectors where partial commitments have already been made.
- (3) To provide guidance on, rather than set a mandatory link with, the 4 different modes of supply.

Agreeing to the principle of sectoral model schedules – the plurilateral approach

We propose to produce benchmarks to guide the level of commitments in sectors of interest to Members. These benchmarks could take the form of “model schedules” (ready to use). They would be more ambitious than the multilateral formula, and would include flexibilities for Developing Countries. We propose that work should proceed on those sectors where a critical mass of Members indicate an interest, rather than predetermining a list of sectors.

Setting dates for new revised offers and final offers

In Hong Kong, clear and firm dates should be fixed during the first four months of 2006 for the presentation of revised services offers reflecting both multilateral targets set for

coverage , and, where relevant, the sectoral model schedules.

Agreeing on targets for negotiations on “rules”

We may also want to discuss realistic targets for negotiations on “rules” in the services area (Government procurement, emergency safeguards, subsidies). In the view of the EU progress to date is not sufficient to enable significant decisions at Hong Kong going beyond a simple decision to pursue negotiations on the basis of existing proposals for these three areas. Negotiations are also needed on domestic regulations (licence and qualification procedures and requirements + technical standards), where the Ministerial Declaration could set out elements to be addressed.

Rules

Antidumping

Antidumping is an important aspect of market access.

The objective of the DDA negotiations in this area must be to ensure that reductions in tariffs are not frustrated by inappropriate recourse to antidumping, and to ensure that antidumping duties do not remain in force longer than is justified. Similarly, we cannot accept that costs for exporters to co-operate are prohibitive, or that national authorities hide behind confidentiality requirements to escape transparency in the way they use trade defence instruments. We all share an interest in tackling these issues. There is no clear distinction between the users and the targets of antidumping measures.

Our specific goals for Hong Kong should be to agree on the most important problems to be addressed and on broad guidelines for how we intend to treat them.

The EU has circulated its list of priorities and possible solutions, covering the prevention of improper use of antidumping measures; the avoidance of excessive duties; transparency; cost saving and the prevention of circumvention. It is essential that we move forward now on all these fronts.

Trade Facilitation

In trade facilitation, the objective for Hong Kong should be to provide a political endorsement of the main future commitments in a multilateral agreement, to allow us to turn this into a legal text in 2006.

We are determined to build on progress in this area – which is of critical importance for development – by working between now and Hong Kong both on the identification of the rules to be improved through a future agreement and on addressing technical assistance and special and differential treatment as part of this agreement.

Development

This Round is the Doha Development Round. The EU is very conscious of the obligations this places upon us. We cannot come out of Hong Kong without clear proposals on development outcomes that go beyond the better access to markets that developing countries will get as a result of the DDA’s core agenda. Although that market access, both to the developed economies and to the stronger developing economies, is essential for development, we must also make progress on a number of other issues which are of particular importance to the Least Developed Countries (LDCs) and small

economies, but to varying degrees matter also to other developing countries.

First, duty free/quota free market access. We propose that all developed country WTO Members should agree in Hong Kong on a clear-cut, concrete commitment to grant duty free quota free access to LDC products. This would be delivered as part of the final DDA undertaking. There are a number of reasons why we should make this commitment. It provides an essential part of the response to the erosion of these countries' present preferential access to some of our markets. It has virtually no economic cost to developed countries. There is no defensible reason for not now moving on this.

Where major developing countries are also in a position to do so, they should make a similar commitment. The level of access may be more limited, and the timeframe for implementation longer, But such a gesture of solidarity between developing countries would have great impact. We hope that a number of developing countries will make a firm *political* commitment at the Hong Kong Ministerial to take steps in this direction. They would then have until the end of the DDA to find the right formula to translate their political commitment into real market access for LDCs.

#### **What does this mean?**

The EU's Everything but Arms system extends tariff and quota free access to all imports (except weapons) from Least Developed Countries. At Cancun all other developed countries undertook to extend similar access – the EU is calling for delivery.

Second, LDCs should not be asked to open their markets in the current negotiations. We adhere to the principle of the Round for Free. But within the wider group of developing countries, there are many countries who may also have particular problems with opening their markets too rapidly. In this we must be fair. Developing countries should be allowed to reflect their specific sensitivities in the speed and degree to which they open their markets. In arguing this, I recognise that we would be drawing distinctions between developing countries. But the problem is that, if we don't make some differentiation, we risk being faced either with an overall outcome that is not ambitious enough, or with an outcome that the poorer developing countries cannot in fairness live with.

#### **What does this mean?**

The EU is reiterating its support for a "Round for Free" for Least Developed Countries – asymmetrical tariffs cuts from developed countries without a reciprocal requirement for LDCs. The EU is also proposing to extend some flexibility to non-LDC developing countries but argues that there are important differences in capabilities among developing countries.

Third, Special and Differential Treatment and implementation of Uruguay Round commitments. The time has come for all of us definitively to agree to the 28 Cancun proposals. There are 5 LDC proposals, including one on duty-free/quota-free access, where intensive work in Geneva before the summer narrowed differences considerably. We should renew our efforts to ensure that they are agreed at, and preferably before, Hong Kong. We should also all be prepared to discuss other outstanding proposals.

Fourth, addressing preference erosion: there are a number of vulnerable countries with real concerns in this area. There is no single key for addressing preference erosion, and we cannot solve this issue in the WTO alone. But there are responses. Some are trade policy measures, such as opening up South/South trade, creating duty/quota free access, and longer transitional periods for particularly affected products. Others are supply side measures, such as substantial support for capacity building, restructuring, diversification and regional integration. We need to use all these instruments and structures, including mobilising other multilateral agencies, to provide adequate expert advice and financial support.

Finally, Trade Related Assistance. The developed countries, together with the multilateral agencies (the World Bank, IMF, etc.) must put together a strong aid-for-trade package for Hong Kong, along the lines of what was agreed at the Gleneagles G8 summit. The EU proposes that, at Hong Kong, Ministers should announce that they support the joint recommendation of the IMF/World Bank Trade Progress Report to enhance the Integrated Framework and give the green light to start building up this programme to be in place no later than 1 January 2007. This is a concrete commitment we should all sign up to.

I have circulated these proposals in writing to the ministers present today.”