WORLD TRADE ORGANIZATION

"Concluding the WTO's Doha Round: The post Hong Kong Roadmap"

SOUTH AFRICAN INSTITUTE OF INTERNATIONAL AFFAIRS,

JOHANNESBURG, 10 FEBRUARY 2006,

Pascal Lamy, Director General

It is a pleasure to be back in South Africa and particularly to be here at the Institute. The last time I was here was May 2005, when I was still a candidate for WTO Director-General. I had a lot of encouragement from you but you forgot to tell me what it means to jump into this job just five months before the WTO Ministerial Conference in Hong Kong China. You will have noticed that I lost some hair and got some new wrinkles in the meantime!

Since my last visit here, there have been some positive developments on the trade front. South African exports of goods and services have grown by almost 15%, GDP by nearly 5% and business confidence index stood at a record level in January 2006. In addition, South Africa has been pursuing a very aggressive bilateral trade programme, concluding framework agreements with Mercusor and EFTA, initiating discussions with China and India in addition to a number of other bilateral trade cooperation agreements across the African continent and Middle East. All this points to an increased commitment by government to use trade as the driver of economic growth and development.

Let me know turn to today's discussion. As you know Hong Kong was never meant to be the end point of the WTO negotiations under the Doha Development Agenda which we launched in December 2001. But obviously with less than one year to go for the conclusion of the Round, Hong Kong was important in giving the necessary impetus for the end game.

Prior to the Hong Kong conference we decided to recalibrate our level of expectation about what we could possibly achieve at the conference. The reasons for this were quite straightforward. There was insufficient convergence in member's positions on key areas of the negotiations and therefore any attempt to force through consensus would have resulted in a failure.

Before Hong Kong, some members were saying that they could not move further on agricultural market access unless they saw a corresponding movement in industrial goods market access, services or Geographical Indications. Yet other members were saying they could only make improved offers in industrial goods which could lead to reductions in applied rates if there was an improvement in the agriculture market access offer and in farm subsidies reductions. Furthermore, there were also others that were saying they could only discuss industrial products if there was a sufficient degree of precision on special products and the special safeguard mechanism for agriculture products.

But even if we had to reassess our expectations for Hong Kong, all members agreed to maintain the overall level of ambition of the Round and in particular its development component. It is clear that development is not an isolated box in this negotiation, rather it is a component that we find in each and every area under negotiation, whether on agriculture, on services, trade facilitation, industrial tariffs or Aid for Trade to name a few.

So what happened in Hong Kong? We made progress, true it was a modest one, but it was all in the direction of developing countries and this is good news. Let me just give you some examples.

In agriculture, we secured a date for the elimination of export subsidies – a key negotiating demand by South Africa and other developing countries, by 2013 with a substantial part of them gone by 2010. We also agreed to achieve "effective cuts" in trade distorting domestic subsidies. There will be three bands with the EU, US and Japan undertaking the biggest reductions. Furthermore, we addressed two key demands from a group of developing countries that they would have the flexibility to self-designate a number of Special Products on criteria of food security, livelihood security and rural development to be treated specially. Developing countries will also have be able to trigger a special safeguard to protect themselves against imports, based on import quantities and prices, which they need to cope with the volatility of farm products on international markets.

In the important area of **cotton,** which was considered a litmus test by many, rich countries agreed to eliminate all export subsidies in 2006; they also agreed to make deeper and faster reductions in trade distorting domestic subsidies for cotton than those agreed under the general formula. Finally, rich countries and developing countries wishing to do so agree to provide duty free and quota free access to LDC exports of cotton.

In the area of **industrial products** (in our jargon NAMA), members reaffirmed the objective of reducing barriers to world trade in industrial products which today represent over 80% of world trade in goods, providing for new market opportunities, while at the same time making sure the interest and needs of developing countries are taken into account. This is particularly the case of tariff peaks and tariff escalation which today affect many developing country exports. It is now admitted by everyone that the coefficient to be used to reduce tariffs will be more favourable to developing countries than to developed countries.

In Hong Kong we also addressed a long-standing demand from the 32 world poorest countries **(least developed countries – LDCs)**. Rich countries agreed to provide duty free and quota free access for all LDC products to their markets on a lasting basis, to be implemented over transition even if some flexibilities are accorded in case of difficulties.

In **services,** Hong Kong opened the door to plurilateral negotiations It strikes an important balance between opening trade in services, which is a key and ever increasing part of WTO members economies and maintaining flexibilities for developing countries, including their right to regulate this sector of the economy which now represents 70% South Africa's GDP. I am aware that this is a sensitive issue for some of you and I would like to reassure you all that no commitment on services is mandatory in the negotiations. Each country has the right to choose the sectors that it will open to foreign service providers. However, given the profile of the South African economy where services represent 70% of GDP, 68% of employment and 74% of capital formation, and has been the main source of growth for the economy for more than a decade, South Africa clearly has offensive interests in this sector. I am also aware that South Africa has not yet presented its offer and would encourage them act swiftly.

Finally, we also agreed to ensure a solid **Aid for Trade package** that would help developing countries build supply-side capacity and trade-related capacity that would help them translate the potential of the DDA into realities. Just this week I have created a Task Force to help me prepare recommendations on how Aid for Trade can contribute effectively to the development dimension of the round. I have also begun consulting extensively among our other partners, the World Bank, IMF, UNDP, UNCTAD and the International Trade centre and regional development banks, including the African Development Bank to this end. But let's be clear, Aid for Trade is not a substitute for an ambitious development round. It is an essential complement to help developing countries reap the benefits of the new trade opportunities offered by the Doha Agenda. Aid for Trade will be of particular relevance in the context of the on-going negotiation on trade facilitation, which is the name given to measures to simplify and reduce the impact of import, export and customs procedures. Numerous studies have shown that the cost of trade procedures may range from 2% to 15% of the value of traded goods. Halving the cost of bureaucratic trade procedures may mean saving around €300 billion a year. But if this is to become a reality, technical assistance and capacity building will be essential for developing countries.

Let us now consider what remains ahead and what it will take to take us to a successful conclusion of the Round within the next 12 months or so.

During the last weeks, in Geneva, during my recent trip to Latin America and now here, I have received three clear messages: first, that there is widespread commitment to making good on what was agreed at Hong Kong; second, that there is a shared intention to move ahead across the whole of the DDA, making progress on all issues, and third, that all interlocutors understand that they will all have to move from their current positions and are willing to do so by moving "in concert".

Obviously, agriculture and industrial tariffs remain the flagships of the convoy since ministers have agreed to reach modalities by April. But no-one is in any doubt that our convoy is a large one. These two issues have an important role in leading the convoy to port, but we all know that the convoy must arrive together. Beyond Agriculture (including cotton) and industrial tariffs, we also have services, where for the negotiations to achieve real progress over the next weeks, the request/offer negotiations must be intensified. And we also have Rules, Environment, Trade Facilitation, not to forget issues such as small economies, the treatment of commodities or the erosion of preferences.

On Agriculture, in the coming three months, members will have to agree on the specific formulae for cutting tariffs and subsidies and flesh out the details of the final agreement on special products, special safeguard mechanism and food aid.

As we all know, South Africa's cereal exports are in competition with developed countries that use trade distorting support and therefore a substantial reduction in this support will improve South African market access for these products.

On industrial tariffs, the focus of our work will be on agreeing rapidly on modalities, i.e. by how much we will cut tariffs, what will be the flexibilities and on which products will be pursue sectoral initiatives over and above the general cuts.

If we are to conclude this round by the end of 2006, it is therefore imperative that over the next few months member's priorities converge. There is very limited time and the work we do in this first three to four months will facilitate the more difficult decisions down the track.

Let me share with you the widest shared secret in Geneva: every country know it will have to move! The EU will have to move on agricultural market access. As I have often said, the best way to address this market access issue is for members to test the water, to play with numbers as a means to start narrowing the existing gaps. The US will also have to move further on domestic subsidies in agriculture. The big developing countries, Brazil and India among them, also have to lend their energy to the train. They have to move on market access for industrial products and on services. And as I said earlier, checking number and testing hypothesis will be useful in unblocking discussions here too, and then these moves will be conditioned to one another.

The good news is that we have already solved the question of "who makes the first move". All members agree they have to move in concert.

So where is South Africa in all this? The leadership role of South Africa, in particular in Africa, will be crucial in ensuring that the major players make significant movement in agriculture, industrial tariffs and services to unblock negotiations and follow up on the decisions taken at Hong Kong. South Africa has a lot of gain from the elimination of distortions in world trade in agriculture, from the reduction of tariff peaks and escalation for industrial products on developed country markets, from greater trade opening on services as well as from new rules on trade facilitation. It is therefore clear that the final prize is worth South Africa's contribution, which should obviously be in relation to its development. South Africa's greater participation in the services negotiation and in the reduction of tariffs on industrial products will be worthwhile the benefits it stands to gain. Of course, this will imply changes and adjustments in South Africa's economic and social fabric. But I believe this is coherent with Accelerated and Shared Growth Initiative of South Africa.

You will agree with me that we are faced with a daunting task for the next 12 months. But it is not insurmountable.

History has taught us that trade negotiations by definition are difficult. Trying to balance the interests of 14 SADC members in the negotiations for a

SADC trade protocol was a headache as most of you will attest. Now, what about 149 countries with widely different ambitions and levels of development?

At Hong Kong ministers sent a clear signal not only that their commitment to concluding the Doha Round in 2006 remains intact but also that they will put their political weight behind achieving this goal. The time has come for us turn this commitment into reality and I am very confident that we will succeed.

Thank you.