

IMPACT OF DOHA NEGOTIATIONS ON NAMIBIA'S TRADE AND DEVELOPMENT,

Lecture by Dr. Dickson Yeboah, Head English Africa Unit, Institute for Training and Technical Cooperation, World Trade Organization

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Excellencies,
Ladies and Gentlemen

Let me begin by thanking you, and especially my friend Mr. Jürgen Hoffmann, for inviting me to Namibia to be part of this important event. I also wish to say how honoured I am for this opportunity to address you this morning.

Taking into consideration the theme of this meeting, I shall focus my intervention on the "Impact of Doha Negotiations on Namibia's Trade and Development". The Namibian economy is greatly dependent on the extraction and processing of minerals for export. Rich alluvial diamond deposits make Namibia a primary source of gem-quality diamonds. Namibia is the fourth-largest exporter of non-fuel minerals in Africa, the world's fifth-largest producer of uranium, and the producer of large quantities of copper, gold, lead, zinc, tin, silver, and tungsten. Export of processed fish has assumed an added importance. On the agriculture front, important export products are table grapes, beef, lamb and Karakul skins. Other important agricultural crops are millet, maize, wheat and livestock.

Now, let's turn to the **state of play of the Doha negotiations in Agriculture**. The agriculture negotiations continue to hold the key to the success of the DDA. In February, the Chairman Ambassador Crawford Falconer circulated his revised blue print paper for the modalities identifying possible areas of convergence and areas where gaps still needed to be bridged in all the three pillars—market access, domestic support and export competition. On overall **trade-distorting domestic support**, the highest tier (above \$60bn, i.e. EU) will be cut by 85% or 75% (EC's ceiling for 15 Members is estimated at €110 bn or \$152 bn). The cut would bring down the ceiling to €27bn or €16bn.

The middle tier (\$10-\$60bn, i.e. US and Japan) will be cut by 66% or 73%. US current ceiling is estimated at \$48bn. The cut would bring down the ceiling to \$16bn or \$13bn. The lower tier (below \$10bn, i.e. all other developed countries) would be cut by 50% or 60%. There'll be a down-payment of 33% at the start of the implementation period.

Regarding **Amber box** (*support that distorts trade and production*), the highest tier (above \$40bn, i.e. EU) will be cut by 70%. EU's current ceiling is €67bn, about \$95bn. The cut would bring that down to €20bn. The middle tier (\$15bn-40bn, i.e. US and Japan) would be cut by 60%. The US current ceiling is \$19bn, and the cut will bring that down to \$7.6bn. The lower tier (below \$15bn, i.e. all other developed countries) would be cut by 45%. There'll be a down-payment of 25% cut for the 3 main subsidisers at the start. Also, there'll be amber box per product-specific caps to avoid concentration of support on certain products. This will be limited to no more than the amounts actually provided on average during the base year 1995-2000. Trade-distorting support on cotton would be cut more than for the rest of the agriculture sector.

On **agriculture market access**, a tiered formula will equally be applied where products in higher tiers would be subject to steeper cuts. Members have already agreed to 4 tiers—the question now is the percentage cuts. Up till now, ranges are proposed, but eventually a single percentage cut will be negotiated for use in each tier. For developed countries, the cuts range from 48-52% for tariffs below 20%, to 66-73% for tariffs above 75%. Two-thirds proportionality rule applies to developing countries. Also spelt out are flexibilities for sensitive and special products. The numbers in the formula are among the narrower set of more political issues that would probably only be settled when compared with NAMA and possibly other areas, as the negotiations go more political.

There has been no mention of tariff cap in the draft text. The question is whether to set fixed limits or caps on tariffs. It is mentioned that developed countries whose tariffs end up at levels above 100% would have to provide larger increases in tariff quotas (incentive for countries to keep their tariffs within a certain limit). The G10¹ resists any capping. The Cairns group² supports capping to ensure market access.

Why **sensitive products** (e.g. beef, rice, sugar, dairy products, etc.). Products are considered sensitive for political reasons. Sensitive products would be subject to smaller

¹ Bulgaria, Iceland, Israel, Japan, Korea Rep., Liechtenstein, Mauritius, Norway, Switzerland, Taiwan.

² Argentina, Australia, Brazil, Canada, Chile, Colombia, Fiji, Indonesia, Malaysia, New Zealand, Paraguay, Philippines, South Africa, Thailand, Uruguay.

cuts than would normally have under the tiered formula. Developed countries would be able to designate between 4% and 6% of tariff lines as sensitive products. For developing countries, the figure is one-third more of products. The cuts envisaged would deviate from the formula cut by $\frac{1}{3}$, $\frac{1}{2}$ or $\frac{2}{3}$. Some more market access will be created via a tariff quota (where quantities inside are charged at a lower duty or no duty. Out of quota is the normal rate determined by the reduction formula). New access opportunities would be a 4-6% of domestic consumption, by volume, where the maximum deviation of two-thirds is used, or 3-5% where the minimum deviation of one-third is used. Complexity of domestic consumption data has led to what Members describe as the "partial designation methodology" together with "sub-categorization" to allow WTO members to sub-categorize products in order to split domestic consumption.

Domestic consumption figures for many products do not exist at the 8-digit level. For this reason, the "Friends of the Agriculture negotiations on sensitive products": US, European Union, Japan, Canada, Switzerland and Norway on the importers' side; and Argentina, Australia, Brazil, New Zealand and Uruguay on the exporters side, agreed to work with an EU-proposed methodology for calculating the increase in domestic consumption for sensitive goods that will serve as the basis for TRQ expansion.

Under the partial designation approach, domestic consumption is calculated using the value of imports as a proxy, adjusting them according to total global trade for the product in question. However, data submitted by importers and plugged into this "partial designation" methodology showed far less increase in TRQ volumes than exporters had been hoping for.

"Sub-categorization" allows importers to limit the impact of an anticipated minimum requirement for market access openings for tariff lines in a product category containing sensitive tariff lines by dividing tariff lines into two groups, each subject to half of that minimum requirement. The related issue that continues to divide members is how tariff rate quotas associated with sensitive products apply to the sub-categorized lines. The options under discussion are whether the sub-categorized lines would be subject to the single TRQs for the whole product categories of which they are a part, or whether the larger quotas could be divided between the two sub-categorized groups of lines. The second option is backed most strongly by Canada and favoured by US who may be interested in using "sub-categorization" to protect against dairy and sugar imports.

Exporters are worried that the ability to split a quota into two parts could damage export opportunities because there is nothing in the compromise agreement to guard against a

member unequally allocating the overall TRQ allotment at the whole product category between two sub-categorized groups in order to limit openings in the more desirable, high-value tariff lines. In addition, exporters could demand some benefit in return for granting the ability to use two TRQs in sub-categorization. For example, if a trading partner were to avail itself of two TRQs in sub-categorization, exporters may demand that that trading partner have a smaller allowance in the separate area of sub-allocation. Under the sub-allocation provisions of the compromise text, trading partners can create a maximum of two TRQs in each of up to three of their product categories. Canada argues that it is not using sub-allocation to reduce the overall market access openings for sensitive products under a particular product category, but simply to exert greater control over how consumption is allocated between the two groups, which is a legitimate use of sub-categorization.

New Zealand, Uruguay and Argentina (part of Friends of the Chair group) were joined by Chile, Costa Rica, Ecuador, Pakistan, Paraguay, Peru and Thailand to criticize efforts to have two TRQs for sub-categorized products. They stated on 18 April 2008 that "if such a flexibility were ever to find its way into the agreement, it would circumvent any possibility of delivering a reasonable, predictable and balanced market access package". The exporters charged that "the original compromise deal had effectively no rules on how quantities were divided between those two tariff quotas, meaning that there "would be nothing to stop a member from establishing a tiny tariff quota on the lines that are of trade interest, and a huge tariff quota on other lines of little or no commercial importance".

Special products are reserved for developing countries only to address problems of food security, livelihood security and rural development concerns. It's by self-designation. The figures being proposed are 8-12% or 8-20% of tariff lines. The G33 favour 20% of tariff lines to be designated as special products. Special products will be subject to less cuts, and some no cuts at all.

Also under discussions are the new safeguard for developing countries to temporarily protect their producers in cases of import surges and price declines. The issues at stake are: how many times in a year can developing countries resort to the special safeguard mechanism? Can they exceed their bound tariff rates? These are open questions.

In the UR Agreement on Agriculture, the special safeguard provision was used mainly by developed countries because of the requirement in the Uruguay Round that countries should tariffy (convert all NTBs to tariff equivalents). Many developing countries preferred to go for ceiling bindings. The question is: should we eliminate or reduce the number of products

eligible under the current SSG? The G10 and EU support retention. The Cairns group and G20 support elimination.

Tariff escalation – problem of higher tariffs on processed products than on raw materials, which hinders processing for export in countries producing raw materials. Where the escalated processed product has a tariff significantly higher above the unprocessed product (5% points or more), it would take cuts in the tier above. If it's already in the tier above, it would be subject to an additional 30% cut.

No Cuts. Country groupings which will experience no cuts are LDCs, very recent New Members (Saudi Arabia, FYR of Macedonia, Vietnam), as well as small low-income new Members (Albania, Armenia, Georgia, Kyrgyz Rep and Moldova).

Export competition. Export subsidies are to be eliminated by the end of 2013 by developed countries, with 50% cut by the end of 2010. Elimination date for developing countries would be 2016.

Export credits, guarantees and insurance programmes would be disciplined to avoid "hidden subsidies" and ensure programmes operate on commercial basis, for example, limiting repayment periods to 180 days, ensuring programmes are self-financing (that, not making losses over a period) etc. LDCs and net food-importing developing countries would be allowed 360 days to repay.

The activities of **state trading enterprises** would be disciplined. The key question remains as to whether or not monopoly powers would be outlawed or just disciplined.

Food aid. Emergency food aid would be in a "safe box" with more lenient disciplines. Emergencies would be declared by relevant international organizations e.g. UN, WFP, Red Cross, etc. Other food aid (not emergency) would be disciplined to avoid displacing commercial trade, and with a needs assessment, under the responsibility of UN agency. Recipient government would be given priority over all food aid operations.

Export subsidies on **cotton** would be eliminated from the start of the implementation period.

NAMA

In February, the Chairman Ambassador Don Stephenson circulated his revised blue print paper for the modalities to take the negotiating process forward. The **key issue remains,**

the coefficients in the Swiss formula for developed countries (8-9) and developing countries (19-23 plus flexibilities). **Swiss formula** (the lower the coefficient the deeper the overall cuts, with the coefficient also deciding the maximum tariff). **NAMA 11** (led by South Africa) wanted a gap of **25** and **developed countries "within sight of each other"** (e.g. 5 and 10).

The main issue has been the deletion of numbers in brackets in para 8 flexibilities which would allow developing countries to choose between cutting 10% of their tariff lines at half the formula rate or 5% with no cuts at all.

The Chairman has been conducting an intensive process since February and could issue a revised text (putting back numbers in Para 8) and recent new ideas including a "sliding scale" that would offer different options for developing countries between the coefficients used in the Swiss Formula and flexibilities. Idea is that flexibilities increase as the coefficient goes down.

South Africa's concerns are that SACU undertook deep tariff cuts in the UR which reduced their bound rates to almost half of the other developing countries and that also comprised Lesotho (an LDC) and three SVEs who will have to bear the burden of South Africa's tariff cuts through the formula, notwithstanding their rights to have no, or significantly lower tariff reductions.

Services.

Two parallel tracks are proceeding: (i) consultations on a multilateral text to be adopted at the same time as the Ag and NAMA modalities, and (ii) preparation for a possible plurilateral signalling exercise on market access. The aim of a possible Services text is to provide further guidance in the services negotiations at the time of adoption of modalities in agriculture and NAMA, **including:**

- Reaffirming the status of Annex C as the basis for continuing and concluding the services negotiations (objectives, approaches & timelines)
- Capturing the progress made in Services negotiations since HK in both market access and Rules
- Setting timelines for submission of offers and final schedules and for implementation of LDC modalities, and

- Referring to the mandated negotiations on domestic regulation and GATS rules.

Some Members (Cuba, Venezuela, Bolivia and Nicaragua) have questioned the necessity of developing a services text. The Services demandeurs (EC, US, Canada, Japan, Australia, Korea, Hong Kong) have suggested that the text contain a statement on the level of ambition in services negotiations, which should be parallel to that in agriculture and NAMA.

Services signalling conference

- At time of adopting the Ag and NAMA modalities, a certain level of comfort is needed regarding the request/offer market access negotiations.
- In absence of revised final offers- the ideal barometer for progress, exchanging signals among participants in the plurilateral request-offer negotiations could be an alternative means of providing comfort.

There has not been much progress in the GATS rules (ESM; Subsidies; government procurement).

Among the many ways through which the Doha Round could be assessed on whether it has successfully delivered on its development mandate, would be whether the final results are supportive of Namibia's trade and development. This, in my view, can only be achieved if the negotiations result among other things in revised trade rules including those relating to fisheries subsidies, enhanced market access not just for commodities in their primary stage, but also for value-added production through elimination of tariff peaks and escalation and more, importantly, through more comprehensive commitments in services. It can be recalled that under your last schedule on services, Namibia undertook full commitments on tourism and travel-related services (hotels and restaurants, travel agencies and tour operator services), modes 1 - 4 = None for both limitations on market access and limitations on national treatment; Other business services (related scientific and technical consulting services: off-shore oil and gas exploration, modes 1 - 4 = None for both limitations on market access and limitations on national treatment.

The services sector of Namibia accounts for 58.1 percent of GDP³ and is poised to grow rapidly, especially when the limitations on market access and on national treatment are

³ Source: CIA World Factbook. Also see http://www.indexmundi.com/Namibia/gdp_composition-by-sector.html

liberalized at the successful conclusion of the Doha Round. According to the WTO Annual Report 2007, Namibia enjoyed a commercial services surplus of nearly \$160 million in 2006.

If one considers the agriculture sector, what is already on the table is quite substantial. At our last ministerial conference in December 2005 in Hong Kong, developed country members agreed to an important package of reforms including a substantial reduction of trade-distorting agricultural subsidies, elimination of export subsidies, provision of duty-free quota-free market access for agriculture exports of LDCs, among others. This package, whose benefits may be mixed for a net food-importing developing country like Namibia, is linked to the successful conclusion of the whole of the Doha negotiating agenda.

There is a commitment to eliminate by 2013, with substantial reductions by 2010 export subsidies that have led some developed countries to depress world prices and crowd out African agricultural exports. The issue of export restrictions has emerged as a key theme in world agricultural trade discussions as global concern over soaring food prices increases. Even as negotiators work towards a final agreement on phasing out subsidisation of exports, the focus is now switching to the opposite problem—namely export bans, quotas and taxes. Japan, for example, wants the WTO to introduce new rules to prevent countries from restricting exports of wheat, rice and other key staples. As the world's largest net importer of food, Japan sees itself as being vulnerable to short-notice moves by supplier countries to restrict exports in order to safeguard domestic supplies. The practice of limiting exports has fuelled food shortages in several parts of the world. According to the EU Trade Commissioner, Peter Mandelson "If we restrict trade, we're simply going to add food scarcity to the already large problems of food shortages that exist in different countries. The WTO stands for free trade... It's got to stand up against export restrictions, export taxes which could stop the free flow of trade in foodstuffs and agricultural produce".

But export restrictions represent something of a double-edged sword in terms of food security. Argentina, for example, has consistently argued that without its restrictions on beef exports, the price of one of the country's most important food staples would soar, causing domestic unrest among the Argentinean population.

No language in 'modalities'

The latest draft on Agriculture modalities contains no language which would outlaw the imposition of export restrictions or prohibitions. It merely seeks to tighten up existing disciplines in this area, arguing that any such prohibitions or restrictions must be notified to the WTO Committee on Agriculture within 90 days, together with a due justification for the

measures taken. It also states that the duration of any such export curbs "should not normally be longer than 12 months".

Namibia, as a developing country, will be able to designate a number of its agriculture tariff lines as special products thereby shielding them from deep tariff cuts. In addition, Namibia is entitled to designate a number of her agriculture tariff lines as sensitive products, again shielding them from the full force of tariff reductions. Whereas TRQ expansion is associated with sensitive products, it is not required in the case of special products.

Let us remember that if one looks at the tariff lines which are under negotiations in the DDA, two-thirds of these are about processed agricultural products. In a way, opening trade in agriculture is very much about opening trade in agro industry, contrary to the conventional wisdom which relates this negotiation to farming only.

Namibia normally imports about 50% of its cereal requirements; in drought years food shortages are a major problem in rural areas. A study on the implications of a complete elimination of agricultural support policies in OECD countries pointed to upward-biased increases in world market prices for basic foodstuffs, particularly those benefiting from the highest degree of protection (wheat, dairy products, sugar and meat). This led to concern that food-importing developing economies could face higher import bills for temperate food products. For developing economies as a whole, export revenues of net food-exporting countries were estimated to rise, so that effects on the food trade balance would be mixed. It is noteworthy that higher commodity prices can be expected to lead to higher supply as long as governments allow price increases to be passed on to farmers.

The negotiations in the area of industrial goods are also crucial to industrialization strategies of Namibia. Indeed, today nearly 47% of total exports of Namibia are accounted for by manufactured goods⁴. Furthermore, most duties are paid by developing countries in trade with other developing countries. The reductions resulting from the Doha Round therefore have the potential to contribute to industrial development.

The majority of developing countries on the other hand, will not undertake any effective tariff cuts and can therefore preserve the space they require for their industrial development strategies. For Namibia, the increase in national income resulting from the Round would come from two principal sources: first, from a more efficient use of domestic resources as

⁴ Source: WTO Trade Profiles 2007 p. 119

domestic distortions, such as trade barriers, are reduced; second, from increased access to the markets of trading partners. Put somewhat differently, the more a country is willing to reduce its own trade barriers in the context of a negotiation, the larger will be the increase in its own exports and national income, for two reasons: *first*, trading partners are likely to offer greater reductions in tariffs on the country's exports; and *second*, the country will be reducing distortions in its own economy, thereby increasing its competitiveness and economic growth, hence its ability to capitalize on the increased access opportunities for its exports in foreign markets.

To illustrate, about 47% of Namibia's exports are manufactured goods, and therefore any significant improvements in this area will serve to unlock Namibia's export potential. One may argue that these are products for the manufacturing process in other countries, and not products that have been manufactured in Namibia *per se*. Of course, there should also be a commitment to address some of the barriers currently facing Namibia's exports, such as standards and sanitary and phytosanitary measures that are in place in export markets.

I am glad to note that on these issues, the WTO has successfully been cooperating with other Agencies including FAO, World Bank, WHO, World Organization for Animal Health and bilateral donors through the Standards and Trade Development Facility to extend technical assistance to Namibia and others. The objective of this initiative is to assist African countries comply with international SPS standards to the benefit of both their domestic food safety, plant and health situation and their market access.

Another key area of industrial policy in the negotiations which does not often receive much attention despite its growing significance as a driver of economic growth in most developing countries is that of trade in services.

The fact is that traditionally, industrial policy discussions have tended to focus on the manufacturing sector only, leaving out the services sector among others. Unless the removal of restrictions to services trade are accorded similar political priority as that accorded to manufacturing capacity, the growth of industry output and exports in developing countries will remain severely limited.

To highlight this point, consider the case of India, Mauritius and Egypt which have successfully placed services at the heart of their economic growth strategies. It is widely acknowledged that these policy reforms which enabled greater openness, more competition and better government regulation spurred the impressive growth of their industries. Of

particular interest is the impact on industrial development of specific government policies aimed at promoting investments in the telecommunications, IT, tourism and transport sectors.

Important services sectors in Namibia are financial services, transport and communication, wholesale and retail trade, real estate and business services, as well as tourism and travel-related services (which contributes more than 10% to GDP). According to WTO data for 2006, Namibia registered commercial services surplus amounting to nearly 160 million US dollars. The figures for 2007 show a drop of 2%. Concluding the Doha Round can provide a strong anchor for the Namibian economy. I would therefore strongly urge you to continue to promote the services sector in Namibia's pursuit for economic growth.

A successful conclusion of the current services negotiations will result in improved market access commitments in core sectors of interest to Namibia such as financial services, telecommunications, environmental services and a broad range of business services, all of which are central to industrial development strategy of Namibia. The liberalization of trade in services would allow the services enterprises of Namibia to develop export activities, in particular in the labour-intensive sectors (construction and tourism), encourage competition and hence bring import prices down for Namibian services importers, enable Namibia to diversify export earnings as foreign investments create centres of excellence, and encourage national and regional development if the services concerned are aimed at basic sectors such as road building to improve distribution systems, basic telecommunications, and financial services. Tourism is also important in inwards and outwards linkages.

For our part, as a response to some of the supply-side challenges, particularly in the area of trade facilitation, the WTO is working together with other international agencies and regional development banks to put together a comprehensive "aid for trade" package. Aid for Trade will be key in addressing current bottlenecks in production capacity and unlock the potential in benefits from increased opportunities offered by the results of the Round.

Well, there may be lingering questions such as whether the WTO delivers A4T money, what the available channels are and when these will be operational; Is A4T supported by country initiatives or through the Breton Woods institutions? I'll try to respond to each of them. First, Does the WTO deliver A4T Money? No, the WTO does not deliver A4T money. This will be for donors, the World Bank and regional banks. The WTO is only trying to provide guidance and motivation for alerting governments and regional financial institutions to the potential role trade can play in development.

Second, What channels are available for A4T and when would this be operational?

Countries are teeming up with banks and the private sector in their regions to identify trade bottlenecks and are drawing up proposals to overcome them and other supply side constraints. These proposals will then be studied and hopefully be funded through the banks and donors.

Third, Is A4T supported by country initiatives or through Breton Woods Institutions? A4T is for individual developing countries and specific regions. The World Bank and the Fund, as well as the regional banks in Latin America, Africa and Asia can assist with some of the financial aspects.

Way Forward

Modalities in Agriculture and NAMA are the gateway to concluding the Round as they are essential for the 3 components of the next phase: (i) scheduling agriculture and NAMA; (ii) tabling final offers and scheduling services and (iii) finalising the other rule-making parts of the negotiation

If Members can agree on modalities early this year, the Round could conclude before the end of 2008. Therefore securing modalities remains the primary focus.

Conclusion

I hope that through this brief intervention, I have been able to highlight how we see the Doha negotiations impacting on Namibia's trade and development.

I am ready to take a couple of comments or questions that you may have.

Thank you.