POSITION PAPER ON THE COMPLETION OF THE DOHA ROUND

Background

In a highly interconnected global economy, the state of business anywhere is defined by what transpires in the larger economic environment of the world.

The world is currently experiencing a global economic crisis whose intensity is surpassed only by the tremors of the Great Depression in the late 20's of the 20th Century. The global financial system has not seen anything like this. Giant and established financial institutions with the likes of Lehman Brothers, Fannie Mae, and Freddie Mac have either gone bankrupt or are teetering on the brink. The giant Wall Street-based investment houses that once ruled global finance have either shut down or, for those that survived, fallen into irreparable disrepute. The more developed countries in Europe, Japan, and Singapore are in recession.

The global financial crisis compounded the episode of rising oil and food prices that kicked up inflation rates all over the world. World exports dropped more than expected as foreign markets shrunk. Investments in stock markets evaporated. Foreign direct investments fell below target.

This terrifying roller-coaster ride in the world's financial markets will not be a passing episode that leaves no scars in the future of the global economy. The aftershocks from the financial crisis will continue to rumble on in the real economy for a long time to come. There will be profound changes along a wide horizon ranging from a reevaluation of the role governments play in the market to dramatic alterations in the policies governing financial institutions. There will be profound changes everywhere, not only in the mature markets but also in the emerging ones. Not only in the world of banking and finance but also in manufacturing and trade.

In the aftermath of this financial shock and global turbulences, there will be a shakeout in the real economy as weaker enterprises succumb and stronger ones become even more dominant.

In this gloomy economic atmosphere, the critical role of the WTO and the conclusion of the current Doha Round need not be overemphasized. At this critical juncture, the Doha Round needs to take an unprecedented "leap of faith" and distribute its development promises to lesser developed countries. This is simply not the time for countries to just coast along because of the lack of consensus among the 150-member nations -- on significant issues of interest to the developing world.

With more than a decade of existence and trade negotiations, the WTO has become more relevant to a nation – and, to the world. The current and emerging global economic & trade complexities, all the more, require a multilteral institution to govern the practice of trade. There is need to provide the necessary framework in order to advance the function of economies – making them capable of generating wealth. There is also need to keep the factors of production -- the core of any economic activity -- running.

The need for the Doha Round to be concluded is at its critical period. Keeping it at the present status quo will definitely create a loser's scenario. The World Bank, in its Global Economic Prospects report, said that a successful Doha Development Round could generate US$291B in global economic gains. Measured in static terms, by 2015, some US$159B would be reaped by developing countries -- while rich countries would gain around US$132B. Therefore, the number of poor is expected to substantially decline. By 2015, it is expected that the number of persons living on a US$1-per-day or less will decline by 61 million -- or 8% of the forecast of 734 million. In addition, the number living on US$2-per-day or less will decline by 144 million.

It must be acknowledged, though, that if only to resurge from the aftermath of "no breakthroughs" and "lack of consensus" that has crippled the trade negotiations cycle in the last 7 years; the WTO -- although an important instrument to facilitate trade -- has to redeem itself from the ill-aspects of trade conspiracies that has benefited only a few trading blocs. The WTO has to review its own rules, implement further structural reforms, and convince its member countries to reassess and realign their respective trade policies in tune with the current global realities.

The Philippines, being an active player at the WTO, needs to reassess some of its negotiation stance especially in the aftermath of the global economic crisis. Some industries may need more protection, and others may simply need to be sacrificed to gain more. Under this helm, private sector participation must be encouraged – and enjoined --in trade negotiations. Government and the private sector needs to be in one roof and start the process of assessment, transparent review, and chart a roadmap of where it wants to be in the future, as far as trade negotiations stance are concerned.

As the need for a fundamental shift from economic might—influence driven" days of the past WTO rounds to "developmental—economic and governance responsibility" challenge posed by the Doha Round arises, the U-ACT spearheaded a workshop titled " Moving Forward with the WTO Doha Round: Issues, Perspectives, Negotiations Stance." This was held last March 12, 2009 at the Dusit Hotel Nikko.

The workshop was successful in achieving the following objectives:

1. Assess, transparently review, and evaluate the current Philippine negotiations stance on the WTO.
2. Allow the different stakeholders to maximize the opportunities presented by the new market openings facilitated by the current global economic and trade environment.
3. Explain to the stakeholders how these current negotiation stance will impact on the different sectors, industries, and the Philippine economy.
4. Come up with a policy paper highlighting the current Philippine trade negotiations situation and how they may be affected and be further improved in the context of the current global financial crisis.
5. Gather inputs from the private sector specific policy recommendations needed to chart a coherent, dynamic, and sustainable roadmap for the country's trade policy positions.

STAKEHOLDERS CONSULTED

1. Alyansa Agrikultura
2. Association of Petrochemical Manufacturers of the Philippines (APMP)
3. Benguet LGU
4. Cement Manufacturers Association
5. Ceramic Tile Manufacturers Association (CTMA)
6. Chamber of Automotive Manufacturers of the Philippines (CAMPI),
7. Chemical Industries of the Philippines, Inc
8. Fair Trade Alliance
9. Federation of Philippine Industries
10. Flat Glass Alliance of the Philippines
11. Philippine Association of Battery Manufacturers, Inc (PABMA)
12. Philippine Exporters Confederation, Inc. (PHILEXPORT)
13. Philippine Iron and Steel Institute (PISI)
14. Philippine Plastics Industry Association (PPIA)
15. Philippine Steel Rolling Mills Association
16. Philippine Sugar Millers Association
17. Philippine Wood Producers Association, Pulp and Paper manufacturers Association (PULPAPEL)
18. Samahan ng Magsasapatos ng Pilipinas (SMP)
19. Tire Manufacturers Association of the Philippines (TMAP)
20. United Broilers Raisers Association

Consolidated Position

The Philippine Chamber of Commerce and Industry (PCCI), the recognized voice of Philippine Business, remains supportive of efforts to push for the conclusion of the WTO Doha Development Round. Given the prevailing global economic realities, the private sector believes that the conclusion of the Doha Round has become a necessity that would help reinvigorate many distressed economies.

Never has the world seen, since the Great Depression of the 1930s, the global economy drastically slowing down and contracting, with both developed and developing countries greatly affected. Trade, which is considered to be one of the most important engines of global growth, has drastically been cut as a result of lower consumer demand and lack of access to credit.

Studies show that global trade will decline by 9% this year, the biggest contraction since the World War Two. Both the developed and developing countries will be negatively affected, with exports from developed countries falling by 10% and 2-3% for developing countries.

As such, the PCCI strongly believes that a more open trading system, which is the main agenda of the Doha Round, is one of the best avenues to help address the ongoing global economic crisis. PCCI considers the principles of openness, transparency, non-discrimination, and fairness espoused by the Doha Round to be important drivers in stimulating the growth of a battered global economy.

The PCCI strongly opposes any calls for protectionism and isolationism. The experience of increasing tariff rates and reverting to other protectionist measures during the Great Depression showed that these kinds of policies only lead to the further depression of economies and thus, to global economic slump.

The business community believes that any form of protectionist measures will not, in anyway, help in the recovery of the global economy, but instead hamper global economic growth. While some countries have signified their intention to protect their domestic industries and sectors from the crisis, history has shown that this will only lead to retaliatory measures from others, which would only further undermine global trade.

In this regard, the PCCI welcomes the release of the December 2008 negotiating drafts for agriculture and non-agriculture market access negotiations (NAMA). The private sector views this as a positive step in moving forward towards the eventual conclusion of the Doha Development Round.

While not all proposals published in the December text are favorable to the interests of the Philippines, PCCI remains optimistic that the WTO members will arrive at a common ground and agree on terms that reflect and address the development theme of the negotiations.

Since the text was released a few months ago, there have been no new developments in the negotiations. This ongoing lull in the WTO gives the Philippines a good opportunity to consolidate the positions of the various local industries in order for the negotiators to be able to come up with a negotiating stand that takes into account the offensive and defensive interests of the various sectors.

In its efforts to develop an inclusive private sector position for the ongoing Doha Round of Trade Talks, PCCI, has consulted various stakeholders under both the agriculture and NAMA sectors in order to get their inputs regarding the recently distributed negotiating text. Based on our consultations, PCCI, therefore raise the following points for the consideration of our Government Negotiators:

Agriculture

The discussion with the different agriculture stakeholders centered on the following negotiating areas: Special Products, Special Safeguard Mechanism (SSM), Special Safeguard (SSG), and Domestic Support.

On **special products**, the released text pushes for 12% of total agriculture tariff lines to be declared "special", with 5% of the tariff lines to be exempted from any cuts and the remaining 7% to be subjected to tariff reductions. The 5% tariff lines (no cuts) and 7% tariff lines (with cuts) combined shall have an average cut of not more than 11%.

PCCI's stakeholders in agriculture believe that there is a need to increase the percentage of tariff lines that will be accorded no tariff cuts. *The 5% proposed number of tariff lines in the negotiating text is not sufficient to cover all Philippine agriculture sectors, and would thus lead to the domestic sectors/ stakeholders to "fight out" each other. Moreover, PCCI' stakeholders believes that the proposed average tariff cuts is too high and as such, the negotiators must fight for a rate that is lower than the proposed 11%.*

Moreover, the PCCI, together with the various agriculture stakeholders would like to see the negotiating team push for the provision that if a particular product falls under special products (whether zero cuts or subject to cuts), then those product/products should not be subject to any tariff quota (TRQ) expansion.

With regard to the **Special Safeguard Mechanism** (SSM), PCCI believes that the negotiations *should take into account that SSM was instituted in order to protect the developing countries from import surges or price falls. As such, any modality to be finalized in the Doha Negotiations should reflect this stated objective.*

In this regard, PCCI unanimously oppose the "cross-check" proposal of the United States, which would only allow remedies, such as tariff increase, to be imposed when a developing country has breached the volume trigger and consequently demonstrate that the influx of imports is the reason for the decline of prices.

The proposal of the United States is not feasible as it puts the developing countries, such as the Philippines at the losing end. This proposal imposes another layer for developing countries before they can make use of the SSM. Furthermore, this proposal is complicated, since it would be hard for developing countries to prove the connection between import surge and price decline due to the lack of and unavailability of data.

The PCCI is in agreement with the agriculture stakeholders that it is imperative that the negotiators push for increased remedy levels with regard to percentage points, wherein the figure/ number must be above that of the bound rates. There is a need to fight for increased remedy levels because the figures that were proposed are too low.

Moreover, PCCI requests the country's negotiators to push the importation under the Regional Trade Agreements (RTAs) and Free Trade Agreements (FTAs) must be included in the computation for volume triggers. With the current proposal being circulated, wherein importation under preferential trading arrangements will not be included in the computation of the volume trigger, developing countries are placed at a great disadvantage, since it would be harder for them to breach the trigger levels, and thus harder for them to implement the needed remedies.

On the Special Safeguard (SSG) Mechanism, PCCI notes the need to rebase the periods that will be used for the formula, wherein the period (1986-1988) used in the formula is already insignificant. Moreover, there is a need for the negotiators to push that the remedies used in the SSG be allowed to go over the Doha bound rates.

With regard to the issue of Domestic Support, there is a need for continued advocacy in the area of subsidy reduction, in order that developed countries bring down the subsidies that they provide to their local farmers and sectors. These subsidies have put developing countries at a big disadvantage, since the subsidies provided by developed countries depress world prices, which in turn affect the inherent comparative advantage of developing countries, such as the Philippines.

Lastly, PCCI calls on the negotiators to ensure that all negotiating commitments of the Philippines at the bilateral, regional, and multilateral levels are harmonized in order that any gains we get from the bilateral or regional agreements will not be offset by the concessions we get from the multilaterals and vice versa. Only through this, will we be able to take advantage of the benefits that such FTAs accords to the parties involved.

Non Agricultural Market Access (NAMA)

PCCI believes that the immediate focus of the NAMA negotiations must be on clarifying the parameters of a possible tariff reduction formula that balances adjustment costs domestically while advancing the reduction and elimination of tariff peaks and escalation in developed country markets, particularly on products of export interest to developing countries.

Philippine industries need to work for a balance and proportionate outcome that does not negatively impact on our and other developing countries industrial policy capacity. The Philippines in this regard to further clarify the scope for flexibility. PCCI and its allied industries have always stand firm in its previous proposal that tariffs should be cut in a way that developing countries like the Philippines have enough policy space to give their industries the leeway to adjust to unprecedented movements in global prices and trade trends.

It must be made clear that the Doha Round, in the last three NAMA Chairman's text has made a fundamental shift in modalities by linking the percentages of flexibilities to the coefficient of the Swiss formula. *The Philippine position has always been to view the flexibilities as stand-alone provisions and not in anyway dependent on the level of coefficient. Industry stands by this basic principle.*

However, if the country is made to choose among the three proposed formulas, we will find a way to navigate through the new text.

Based on a more thorough analysis of the three proposed modalities for tariff reduction, we choose the modality which will give the maximum flexibilities. Therefore, Philippine industries proposes the adoption of the modality of X=20, if with flexibilities of 14% half cuts, or 6.5% zero cut or unbound.

By choosing to apply the lowest coefficient, which is 20, this would mean that the Philippines would be entitled to make smaller or no cuts in 14% of our most sensitive industrial tariff lines, provided that these tariff lines do not exceed 16% the total value of our NAMA imports. As an alternative, It may also be considered to keep 6.5% of the country's tariff lines unbound or exclude them from tariff cuts, provided they do not exceed 7.5% of our total value of NAMA imports.

Furthermore, *a 20 coefficient would allow the country to protect up to 708 sensitive tariff lines*, or about 14 percent of the country's 5,060 nonagricultural lines, from reduction in the bound rates (or 329 tariff lines for 6.5% or no cuts).* Subsequently, *a coefficient of 20 would result in new bound rates that will still be higher than the applied rates, so the country will still be able to maintain some policy space should it opt to adjust upward the existing rates.*

Since the Philippines is not presently utilizing available policy space, "unbound status" is rendered meaningless. It therefore more advantageous to shield more products from actual cuts in their applied levels by opting to exercise the 14% half-cuts rather than insisting on keeping sensitive products totally unbound, or the 6.5% no cuts.

Philippine industries also clamor that the WTO should recognize and give credit for those countries, like the Philippines, who have undertaken autonomous liberalization.

On sectoral initiatives, *Philippine industries believe that further sectoral consultations should continue supported by further technical work before finalizing which industries would be willing to participate.*