

# WTO REPORT

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FOR the drinks industry, the World Trade Organisation (WTO) has always been something of a mixed blessing. To be sure, its goal of cutting restrictive import quotas, reducing tariffs and harmonising consumer health rules have generally been welcomed, but the slightly shabby truth is that the drinks industry has always been protected to some degree. In Europe especially, with its complex appellation systems and regulations on oenological practices, support for simple free trade in drinks is far from universal.

However, it is a sad yet obvious fact that governments do not exist merely to further the interests of their respective drinks industries and there are other sectors where the case for free trade is stronger. As a result, despite some lurches towards protectionism in recent years, there is still overwhelming support within national capitals for the creation of more free trade and the destruction of barriers hindering its progress. And, there is also general global agreement that the best place to achieve this goal is at the World Trade Organisation, (WTO), whatever the failures of various summits over the past few years.

So the pressure is on to liberalise the drinks sector at the ongoing Doha Development Round, (named after the WTO summit in Qatar that launched the negotiations in 2001). And there is a very good chance that a final deal will yield significant liberalisation, because the heart of these negotiations are moves to update the WTO's Agreement on Agriculture, which governs the world's trade in food and drink. And if anyone thinks that drinks were more of an industrial product, and so should be covered by the WTO's older General Agreement on Tariffs and Trade (GATT), think again. The WTO says agricultural products include the following:

- \*Waters, including natural or artificial mineral waters, aerated waters, those containing added sugar or other sweetening matter or flavoured, and other non-alcoholic beverages;

- \*Beer;

- \*Wines, fortified wines and Vermouth (plus other wines with aromatic substances);

- \*Other fermented beverages such as cider, perry, mead;

- \*Mixtures of fermented drinks and alcoholic plus unfermented drinks;

- \*Spirits and liqueurs;

- \*Fruit and vegetable juices;

- \*Tea and coffee.

Even ice and snow are covered. So that's pretty much anything that the drinks industry makes. So maybe it would be a good idea to keep a weather eye on progress at the Doha round's agriculture talks.

## FRAMEWORK AGREEMENT

And there have been some recent significant developments, which need to be carefully noted by the drinks industry. This July at the WTO general council, in Geneva, a 'framework' agreement was struck that supposedly marks the halfway point in the Doha talks. Crucially, this especially focused on the agricultural portion of the round, which have so far been the most fought over aspect of the round.

Its importance is that it more or less guaranteed a final deal at the end of the Doha process (probably in 2007 or 2008) that will significantly liberalise global trade in drinks and food. Notably, developed countries explicitly promised to slash an average of 20% from all "trade distorting support" on the production of all drinks and food products in the first year following the striking of a final agreement, and this covers schemes limiting production too, such as the EU's set-aside grants. It is the hope of WTO officials that this carrot will be tempting enough to persuade developing countries, who have disrupted two out of the last three WTO summits, to sign up to a deal which involves them opening their markets, as well as being given assistance by their richer trading partners. Furthermore, the framework deal also allowed these developed nations - such as the USA and European countries - to set red lines, enabling rich and poor countries to sufficiently protect their key interests to be comfortable with starting to bargain over more detailed figures in duty and subsidy cuts. In short, it was about building confidence worldwide, so that a final deal can be struck. It includes just enough numbers to guarantee poor countries a significant reduction in developed world food production subsidies. Similarly, it will allow richer countries - especially the EU - to continue paying millions of Euros and Pounds to producers, (southern European wine producers will be pleased to hear).

Indeed, the framework deal allows them to continue production limiting subsidies (such as set-aside and grubbing up grants) if they "are made on a fixed and unchanging" yield of particular produce and crops, or if they cover 85% or less of current production levels in a certain sector.

## THE FOLLOW UP

This is all very well, but many more details need to be agreed in the round. The key point here is that these framework agreement commitments are averages, taken across all food and drink production. The food business, (even if you take account of drinks industry ingredients), is much bigger than the drinks sector, so final deals on individual tariffs and quotas, could still allow protectionist policies to prevail in many parts of the business. Furthermore, WTO members still have to strike a so-called 'modalities' agreement, that includes universal numeric goals for capping all food and drink production and tariff supports, a deal which will probably be made next year after the US presidential election results have bedded in. Doha round watchers will remember of course that such an agreement should have been forged last year and some cynics say the framework deal is about allowing WTO members to at least strike a deal about something, especially after last year's barren summit at Cancun. In short, for the drinks industry, it is all still to play for at the Doha Development Round.

At the very least, however, the framework agreement is a wake-up call, reminding the industry and its lobbyists that they ignore the WTO and its negotiations at its peril. Agreements made in Geneva have to be implemented by everyone, the US and the European Union (EU) included and they are legally binding, as the losers in recent years' WTO disputes proceedings will testify. A WTO round deal is global trade law in the making. And that is something worth fighting for.

This point has been made - albeit with some hubris - by WTO director general Dr Supachai Panitchpakdi, who hailed the framework agreement as "truly historic". He added: "WTO governments have sharpened the focus of the Doha round and provided a foundation which will enable negotiators to continue these talks from significantly higher level; greatly enhancing our chances for successful completion of these important talks."

Furthermore, it would be churlish to deny that member countries have made progress, notably underlining their resolve to ban export subsidies, even those paid by developing countries.

Here members agreed that there would be a firm deadline for eliminating such payments and close relatives such as export credits, export credit guarantees or insurance programmes that have repayment periods exceeding 180 days. Although shorter-term programmes of this type will be spared the Geneva guillotine, they will have to abide by rules on interest payments, (including minimum rates), minimum premium requirements, and other elements. Also, special foreign trade enterprises, (such as those that have recently landed the USA in hot water at the WTO), will have to abide by rules opposing export subsidies, receiving government financing, and having losses underwritten. And there was a commitment to outlaw certain kinds of food aid as disguised subsidies, although further negotiations will be needed to define right and wrongs.

Crucially, developing countries will have to play ball. Although they will "benefit from longer implementation periods for the phasing out of all forms of export subsidies," the key point here is that export subsidies must die, everywhere. Cloudier language is used for the less stark forms of export support, where "appropriate provision for differential treatment in favour of least-developed and net food (and drink)-importing developing countries," will be made.

And what of the WTO's drink and food production subsidy 'boxes', as they are known in Geneva's often baffling jargon? These relate to types of production subsidies handed out under WTO rules. The agriculture agreement's boxes define the circumstances under which these can be paid and cap them at a certain level. More detail on this arcane but crucial aspect of WTO lore will come later in this report, but regarding the framework agreement, there have been two varieties of subsidy being haggled over here. First the blue box, beloved of Europe as the home of set aside. Here, the European Commission - negotiating for all 25 EU member states - has agreed for the manacles to be slapped on and to come quietly. It conceded that subsidies linked to limiting production will not exceed 5% of a WTO member's "total value of agricultural production during an historical period", although the dates will be set later. That said, a little featherbedding for Europe has been secured in that the deal allows "some flexibility" for members with "an exceptionally large percentage of its trade-distorting support in the blue box".

On the green box - beloved of the United States, which takes pride in claiming these direct payment subsidies do not corrupt free markets - Washington has accepted that its definition can be "reviewed and clarified...(to ensure they) have no, or at most minimal, trade-distorting effects or effects on production." This is the trade off for Brussels, which has grumbled that US direct farm payments can indeed inflate prices and production. Furthermore, the review will allow "non-trade concerns" to be considered, a real sweetie for the EU, because it would allow growers to be subsidised for such pet European concerns as taking care of beautiful countryside. Retaining unprofitable yet bucolic vineyards whose roots are essential to soil stability might well come into this category.

As for reducing tariffs, there are weaker commitments in the framework agreement, although there is a general agreement about "substantial overall tariff reductions as a final result from negotiations", the end of the Doha round is a long way off and "substantial" covers a multitude of sins. The devil is most certainly in the detail in this crucial area, and WTO members have yet to even agree how a formula for cutting tariffs might work. The number of tariff bands included in a deal, thresholds

such bands and the type of reduction within each group remains under negotiation. This large amount of work underlines the amount of work required to strike a modalities deal and then top it off with a final round agreement. It will demand at least two years of bilateral horse-trading to translate global goals principles into the nitty-gritty detail of which tariffs and subsidies, and when.

## GEOGRAPHICAL INDICATIONS

While these agricultural agreement detailed are being worked out at Geneva and elsewhere, other talks linked to the round grind on, and not necessarily as effectively. The key bugbear for the drinks industry is the long running talks on creating a multilateral register for geographical indications on wines and spirits. This was supposed to be a priority of the Doha round, with a deal blazing a trail for broader negotiations, such as on the agriculture agreement. Instead, the reality is rather the other way round. The only way in which the polarised discussions on a register will move is if WTO members are prepared to budge as a trade-off for concessions in other Doha negotiations.

The report of the WTO council for trade-related aspects of intellectual property rights summed up the problems in a note masterful in its diplomatic understatement: "The range of issues require further work, including, but not limited to, resolving the key issues of the legal effects of registrations and participation in the system." Translated, that pretty much means there is no agreement over whether such a register should really exist. And for years, representatives of the EU and the US have danced around a pin on elaborating their respective basic positions that naming a geographical term on the register should prevent foreign producers from using it, or that registration should have no real legal implications. In the run up to the framework agreement, WTO officials have said the EU, the US and their supporters "remain far apart". As a result, the framework agreement, merely "reaffirmed....members' commitment to progress...." The only recent progress has been a Swiss government paper outlining where the world's drinks producing countries agree over this long-running debate. It includes an acceptance that terms that have become generic should be unprotected by a register, that member countries can decide how geographical indications should be protected within their own systems and that a register should "facilitate" protection. If anything, this paves the way for a deal that underlines the status quo, an agreement in which traditional European drinks producers would gain very little.

## PHYTOSANITARY RULES PROGRESS

There was also little progress within the framework agreement over changes to the WTO's sanitary and phytosanitary agreement, which stipulates what health-based restrictions and controls may be imposed by importing countries on drink and food products. Here - as with much of the rest of the Doha round - there is tension between rich and poor countries. Developing country governments are calling for rich countries to be less rigorous in checks on their products, requiring less bureaucratic hoops for their exporters, because they have not the administrative or scientific capacity to deal with them. In the developed world, however, concerns about the spread of food and drink borne illnesses make governments reluctant to make such concessions at the WTO and they are talking more about providing technical assistance to poor country exporters and governments, so they can comply with tough rules.

## SERVICES

Another issue lightly touched by the framework agreement was the services sector, whose liberalisation could be promoted by an upgrade to the General Agreement on Trade in Services (GATS). This impacts on the drinks sector by incorporating bilateral commitments to open up economies to foreign competitors in the distribution and retail sectors. In a sense, WTO members had to do little within the framework deal, because the round is already further advanced in the services negotiations. Generally, there has been agreement that there should be liberalisation, and the talks are in the phase of making firm bilateral offers and counter-offers to open up this or that sector to competition. There have been grumbles that deadlines to make such offers are being missed however, so these talks too have some way to go.

## DISPUTES SETTLEMENT

And the framework deal did little to further reforms to the WTO's immensely cumbersome disputes settlement procedures, which are a lawyers' delight, enabling them to dance on a pin about the most excruciatingly obscure point of international trade law. Cases can take years to solve. Even after appeals have been settled, governments often fail to abide by rulings, leading to further disputes panels being set up to consider implementation. These deliberations are also subject to appeal and so on.

Of course, there has been no moratorium on disputes whilst the Doha round continues. Indeed, 10 have been launched this year, including one brought by the United States against Mexican soft drinks taxation. Note that the result of these disputes could have a significant affect on the ongoing negotiations. The dispute brought by Brazil and others against EU sugar subsidies is a case in point. An interim report from a disputes panel in August suggested that the European row was indeed illegal. If this is upheld, (maybe on appeal), then it would actually make it easier for the European Commission to trade off sugar subsidies for other trade concessions, because opposition to such a move would be underlined by their being declared illegal. Another dispute to watch is the complaint brought by the USA against the workings of the Canadian Wheat Board. If this is found to be comprehensively working outside WTO rules, what does that mean for other collective marketing

organisations of this type? What about Canadian retail alcohol monopolies? There could be affects here on the services talks.

## THE DRINKS INDUSTRY

So given there is so much to play for, what does the drinks industry want to see emerging from the Doha round? In a way, the answer is simple, it wants to be able make more money. Of course different national sectors will have different priorities, but there is quite a lot of broad agreement, which bodes well for striking a final deal. Peter Wilkinson, chairman of the trade committee of the Confédération Européenne des Producteurs de Spiritueux (CEPS), representing EU European spirits producers echoes an almost universal desire, when he says his organisation's number one goal is better access to export markets. High tariffs on particular products in markets protected so well, there is not a cat's chance in hell of any exports squeezing through are the focus of drinks industry lobbyists. Said Mr Wilkinson: "We need a tariff reducing formula that helps targets tariff peaks for our products". Arch offenders in this regard are countries such as India and Thailand, who have tariffs of between 100% and 200% on various wine and spirit products. "When you have this kind of taxation, these countries are considered completely closed for our products," he said, adding for good measure: "This goes against the spirit of the WTO". His organisation's case is strong, given the zero-for-zero duty-free already deals struck between the US, the EU and Canada, for instance. If free trade has been shown to work for the trans-Atlantic spirits trade, why not elsewhere? Renaud Gaillard, of the Confédération Européenne des Entreprises Européennes des Vins is similarly keen to see a Doha deal knock serious digits of high emerging market tariffs, being hopeful that it could even cut comparatively lower rates of around the 20% to 25% mark in Brazil and South Korea. Whatever, drinks tariffs will almost certainly be subject to a general agreed reduction formula for all food and drinks products. Mr Gaillard said: "We will want to pocket and bank what we can get from the formula, but by identifying priority markets to the Commission negotiators, there might be the possibility for an offer where you get India to reduce tariffs to 100% on sprits if we do something for them on gherkins and cut-flowers, for instance. We're hopeful it might be possible to improve on what the formula delivers, but we mustn't ask for the moon".

Market access is not just about tariffs, however. There are many other ways in which importing countries can deliberately or by accident stifle the world trade in drinks. These are what the WTO calls 'non-tariff barriers', because they are too varied to come up with a more useful term. However, they can be a major headache to drinks exporters, who have to get to grips with a myriad of national regulations on labelling, certification, quality control, foreign exchange controls, language and others, before they can even get their product into the shops, let alone persuade foreign consumers to part with their hard earned money. The Bolivarian Republic of Venezuela is a particular pain at the moment, with its swashbuckling President Hugo Chávez making it almost impossible for importers to use hard currency to pay for goods. Result: no trade. After all, who wants to swap a container of Scotch for a fistful of Bolívares (Venezuela's local currency). Not Britain's Scotch Whisky Association, that's for sure. Said Mr Wilkinson: "If you are an exporter to China, Brazil and South Africa, and you need different labels each time, it's a nightmare and very costly. We want WTO member governments to be more active in this area". Here, he is looking at the WTO Agreement on Technical Barriers to Trade, which is also up for review in the Doha round. It says procedures deciding whether a product conforms with national standards have to be fair and equitable and discourages methods giving domestically produced goods an unfair advantage. It also encourages the harmonisation of labelling, testing and other trade red tape, and this what the drinks industry would really like to see emerge from the round. "We would see it as a distinct bonus", said Mr Gaillard. This is especially because, despite the existence of the agreement, there are still plenty of niggardly annoying rules of this type that simply do favour domestic producers over exporters. In theory, these could be challenged via the WTO's disputes procedures, but in reality, because of their slowness and complexity, challenging umpteen labelling laws around the world at Geneva would be akin to cracking a bowl of peanuts with a fossil hammer. It would take forever. "Disputes settlement is a very costly and resource intensive business; it's not something to go into lightly," said Mr Gaillard. "We take the view that if something is causing real difficulties we have to do something, but if it's a pain, but not much worse, then you live with it". The point here, of course is that the Doha round offers the opportunity to deal with the myriad of non-trade barriers en bloc, via a beefed up technical barriers agreement. If this can be achieved, it would represent real progress for the sector.

Very few drinks industry players, in the developed world at least, would disagree with much of this, but there is of course one issue that divides them, and that is geographical indications. Here, European producers are hopeful of a deal, even if the Americans and their allies would rather the issue rolled up and expired. Mr Wilkinson is insistent that the EU will keep it on life support, in case some life can be breathed into this old negotiation warhorse later. "We could hope for something on this issue at the end of the round, but not before," he said. "Other countries could have other interests. We want to make sure it is part of an updated TRIPs agreement." So expect the European drinks industry to keep pushing the importance of a geographical indications register with teeth, that it is at the front of EU negotiators' mind when they casting around for a demand to make in response to a last minute request from trade partners at around 2007. Maybe global legal protection will be accorded to European AC wines in exchange for improved access for north American car parts in a liberalised EU automobile market. You never know.

## EXISTING AGREEMENTS

What all these drinks industry interests and the governments they hope will represent their views are working from is the 1994 Uruguay Round agreement of the General Agreement of Tariffs and Trade (GATT), which created the WTO as the body that would oversee the operation of an updated GATT and a string of newer related agreements, such as TRIPS. This deal

effectively anointed the WTO as a global trade law court, with its disputes resolution panels issuing rulings on whether one country or another is in breach of the agreements for which the organisation is responsible. Disputes under the old GATT system were invariably solved by agreement and consensus, while the new WTO procedures allow disputes panels to sanction retaliatory sanctions by aggrieved countries that successfully make cases about trade agreements being broken. This arbitration role has led to a significant increase in the number of disputes hearings being heard by the WTO, as opposed to the old GATT mechanisms. Apart from the disputes mentioned already, drinks industry readers will be well acquainted with the Havana Club involving the blocking of the sale of this brand in the US.

The second role of the WTO was a throwback to the old GATT system, in that it was tasked with hosting negotiations between member countries on reforming world trade rules. Indeed, some critics say it far too closely mirrors GATT procedures, with EU trade Commissioner Pascal Lamy lambasting them as "medieval" after a break down in Doha Development Round talks at last year's summit in Cancun, Mexico, last year. Indeed, there are serious difficulties here. WTO member countries have to agree all changes to world commerce rules by consensus, effectively allowing every member a veto. In reality, however, the WTO operates according to the commercial culture of the deal. It is a marketplace where countries offer one kind of liberalisation of their markets in return for improved access from a trade partner. This worked quite well in the past when GATT reigned supreme and deals were mostly focused on industrial goods import controls. Following the Uruguay Round however, agreements were struck on services, intellectual property, health controls, agriculture and others, making the variety of deals that could be struck in future talks very wide indeed. Given the ever expanding membership of the WTO and the fact that developing countries have ceased to be passive bystanders in trade talks that have in the past (under GATT) been something of a stitch-up between the EU and the US, the loose decision making procedures of the WTO are groaning under the weight of deepening complexity. The bottom line for the drinks industry however, is that it is the updating of the agriculture agreement that really matters, so here is a sketch of its key battlegrounds for negotiators in the current round.

## AGRICULTURE AGREEMENT

The existing agreement on agriculture established after the Uruguay round was the first attempt to globally regulate the trade in drinks and food products and commodities. As a result, the initial deal was as important for just existing than for the extent to which it actually liberalised agricultural trade, which in reality remains the domain of high tariff barriers and significant domestic production subsidies (in developed countries at least). There was an acceptance that the agreement would have to be improved in the future, with negotiations earmarked for the year 2000, along with talks on further liberalising the new General Agreement on the Trade in Services (GATS). These talks started on time, but given that their launch followed a disastrous WTO summit in Seattle, in 1999, progress was and has been slow.

Looking at the deal in place, it is couched - as with the non-food agreement GATT - in bilateral commitments, with each country making its own promises to abide by a certain tariff maximum or import quota for this or that product. This format comes from the very nature of the WTO, which is as much an arena for striking a whole host of bilateral deals as an organisation that lays down global dictates on trade law. That said, these bilateral deals were designed to fit a number of collectively agreed principles and these have been written into their individual national commitments.

\*Crucially, many arbitrary non-tariff border measures restricting imports of particular food or drink products, (or banning them altogether in some instances), were replaced by tariffs that provided "substantially" the same level of protection. The aim here was not liberalisation per se, but simplification and transparency. Simply, the agreement aimed to make things easier for drinks exporters. If they want to sell - say - a chocolate beer to a Switzerland, then they will not have to worry about an obscure regulation insisting that such cocoa-additives be made of Swiss chocolate. However, there was nothing stopping the Swiss erecting massive tariffs that would make chocolate beer imports unprofitable. The idea is that this trade barrier is in the open, unmasked as a tariff. Also, the other benefit of tariffs is that they are adjustable. That 150% beer tariff could be reduced in subsequent negotiations to 100%, without too much bother. So in this way, tariffication opened the door to possible further liberalisation in the future. Of course, as drinks industry figures have pointed out, many non-tariff barriers still remain, some illegally, others illegally.

\*That said liberalisation was written explicitly into the 1994 agreement, the fount of hope that there will be more to come from Doha. WTO members accepted that tariffs on agricultural products would be reduced by an average 36 per cent over six years for developed countries and 24 per cent over 10 years for developing countries, with minimum reductions for each tariff line being required. The poorest nations of the world - named 'least-developed' countries - did not have to cut tariffs, a good example of the special and differential treatment sought by these countries in most WTO discussions. The agreement also insisted upon the maintenance of existing market access opportunities, (in terms of tariffs and import quotas that can restrict the amount of a particular product that is exported to a country). Regarding products whose protection had been turned into tariffs by the agreement, a "special safeguard" rule was written, in case the abolition of a non-tariff barrier led to a surge in imports that threatened to damage a local production industry. In this case, member countries were allowed to impose additional temporary duties to deal with the menace, with the agreement framing a formula for deciding when a safeguard duty was required (also see below). This depends on the proportion of a particular food market commanded by imports; where they account for a large proportion of consumption, a smaller import surge required to trigger safeguard action, because the local industry is deemed to be more vulnerable. History may not repeat itself in the Doha round, but there is a good chance that it will, at least in part. It's easier to reshape an old agreement rather than create a completely different one,

after all.

\*Commitments were also written into the agreement on reducing domestic support and subsidies, although, to get everyone on board, (including the subsidy-loving Europeans and Japanese), a diplomatic slight of hand was required. Also, as this is the WTO, it should be of no surprise that this deal was a) complex and b) riddled with jargon. Indeed, this is the issue where Geneva diplomats talk about boxes - blue boxes, green boxes and amber boxes, to be precise. Domestic supports are all placed administratively within a particular box, to which certain commitments are attached.

Maybe the most important of these is the 'Amber Box', into which are loaded subsidies and other domestic supports deemed to distort trade, such as production-linked handouts that have helped create the EU's once fabled wine lake that have been kept in storage until prices rose. Crucially, under the agriculture agreement, these subsidies are subject to limits, covering up to five per cent of agricultural production for developed countries and 10 per cent for developing countries. The 30 WTO members sporting larger subsidies than these levels in 1994, had to reduce them. Also, there was a general promise to by developed countries to cut these supports by 20 per cent (13.3 per cent for developing countries with no reduction for least-developed countries).

Which all sounds fine and dandy, after all, not many players in the drinks industry want artificially low prices. But, there was a catch. Cast your mind back to the early 1990s and remember those debates in Brussels about set-aside, paying ingredient growers money to leave fields fallow. The EU was keen to see its first real reform of the Common Agricultural Policy (CAP) written into the Agreement on Agriculture. And so the 'Blue Box' was created, into which were piled subsidies that could distort markets, (by being linked to the amount of food produced or sold), but at the same time required limits on production. No limits were placed on this kind of subsidy, to the relief of Brussels, to whom set-aside was an excellent way to cut subsidies, whilst mollifying angry French farmers.

So much for the Europeans: but what about the Americans? Well, they were not much interested in the 'blue box', claiming that their subsidies actually did not distort the market at all, (or not much anyway). For such pure subsidies (and there are many economists who argue strongly that these actually cannot really exist), a different 'Green Box' was created. As with the blue, there were no limits placed on these subsidies, which have to be government-funded (ie. cannot involve charging consumers higher prices) and must not help support prices. Because they are 'de-coupled' from production, they supposedly prevent farmers producing more food than the market needs. Other payments covered include government food and drink research, disease control and infrastructure investment. (There are some other non-green box subsidies that are also free of WTO spending caps. These include certain government agricultural and rural development programmes for developing countries).

Interestingly, the latest attempts in Brussels to reform is focused on this decoupling, and would see many subsidies in the often maligned blue box being transferred to the more saintly green box. This, of course gives the EU some room to manoeuvre in the Doha Development Round, something to offer its trading partners for improved access elsewhere. This carrot has been an important part of the European Commission's wooing of subsidy-loving EU countries such as France, so that they sign up to its latest CAP reforms. A key focus of the Doha round will be attacking the amber box still further and seeing as many subsidies as possible moved into the green box. As ever, the devil will be in the detail. Watch out for ferocious rows on how that green box is actually defined.

\*One particular focus in the Doha talks is on export subsidies, which WTO countries generally agree are a 'bad thing'. The European Commission has said it is prepared to remove these subsidies from any foodstuff....it just wants to hear which subsidy really riles its trade partners. In the Uruguay Round, member countries agreed to reduce by 2000 the value of (mainly) direct export subsidies to 36 per cent below their level in 1986-90 and the quantity of subsidised exports by 21 per cent over the same period. Again developing countries got an easier ride: their promised reductions being two-thirds those of the rich world over 10 years, (with no reductions applying to least-developed countries). Poorer countries also made no promises to reduce specific marketing, internal transport and freight charge subsidies.

\*If export subsidies are not negotiated out of existence, you can be sure WTO member governments will be itching to use the organisation's disputes proceedings system to attack them, or erect special countervailing duty protection (allowed under another WTO agreement mentioned later), designed to help industries fight off foreign competition that benefits from 'unfair' subsidies. This concern has been heightened by the expiry of the agriculture agreement's 'Peace Clause' this January. This was agreed to prevent the WTO's new disputes arbitration system from being flooded with complaints about excessive farm protection and subsidies, preventing such actions being launched against 'green box' payments and export subsidies that were paid in line with the agriculture agreement. There was also a commitment that 'due restraint' would be respected regarding the use of countervailing duties. With the peace clause expiring, the gloves are now off. Indeed, a recent case involving Brazil challenging American cotton production subsidies showed that the peace clause did not offer total protection anyway: the US was found to have broken commitments to maintain subsidies at below its 1992 levels, removing the protection of the clause from its grants. If Doha does not deliver, expect a lot of disputes cases on agriculture at the WTO. If it does deliver, a new peace clause might be agreed, allowing developed countries to be free from legal challenges to their subsidies and tariffs, while they gradually reduce them in size.

## THE FUTURE

So where does the Doha round go from here? Geneva diplomats have been so busy trying to stitch up a framework agreement, they have had little time or energy to consider the next step. As regards the agriculture agreement, this is definitely a 'modalities' deal. But when might that be struck? The framework deal did include setting a political milestone, namely a planned summit of trade minister to be held in Hong Kong next December. Although, there is yet no firm date for this meeting, nor - crucially - is there any agreement over what its agenda should be, one diplomat echoed a common view to just-drinks.com, saying: "People clearly have modalities by Hong Kong in mind." In the meantime, special negotiating sessions of the WTO agriculture committee will be staged, (the body charged with discussing the drink and food aspects of the Doha round). These may, for the rest of this year at least, focus on technical issues left undefined within the framework deal, such as creating complicated and rival formulae for cutting tariffs. With this kind of detailed work in the bag, political decisions on setting universal subsidy and protection reducing targets will be easier for the politicians. Note, however that the senior personnel within these discussions are due to change. A replacement for outgoing European trade Commissioner Pascal Lamy, of France, has been announced, namely Peter Mandelson, a former British cabinet minister. As a man with a reputation for slippery but deft negotiation and the confident handling of complex briefs, Mandelson is well qualified to further Brussels' corner at the talks, in which he represents all EU member states en bloc. Certainly he will face less domestic pressure to resist negotiating away food and drink production subsidies and protection than Mr Lamy, who has been more exposed to the often ferocious French drinks and farming lobbies. But Mandelson will have to deal with other powerful legates, and here he may need to work on his act, given his track record of making powerful political enemies throughout his career. It will be especially helpful if he can gel with the US Trade Representative, a job that American diplomats predict will have a new incumbent after the presidential election. Maybe that is no bad thing, as the current and effective representative Robert Zoellick is seen as something of a policy wonk, akin to M Lamy. Mandelson is better versed in politics' darker arts. Maybe a smoother operator on the US side might work better with Mandelson to strike the necessary deals.

Then again, personalities can only go so far. "If the chemistry is good, it helps. If not, it may delay things, but people say 'we need to do this, despite our differences' and make a deal," said one WTO official. After all, the last major world trade agreement was struck with the UK's oleaginous Leon Brittain in charge of the Brussels team. Striking up any 'chemistry' with this man requires some imagination, yet a deal was done anyway. Food and drink for thought.

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