Newsletter No. 78 (EN)

Short overview of the World Trade Organisation (WTO)

January 2008

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1. Overview

The WTO was established on 1 January 1995, and is the successor to the General Agreement on Tariffs and Trade (GATT), which was created in 1947.

The WTO is a global international organization and deals with the rules of trade between nations at a global or near-global level; it is responsible for negotiating and implementing new trade agreements, and is in charge of policing member countries' adherence to all the WTO agreements.

The WTO agreements cover goods, services and intellectual property. They include individual countries' commitments to lower customs tariffs and other trade barriers, and to open and keep open services markets. They also set procedures for settling disputes amongst member states.

Meanwhile, the WTO has 150 members' states.
Germany, Thailand and Hong Kong are members since 1 January 1995, China is a member since 11 December 2001, Taiwan is a member since 11 January 2002, and Vietnam became a member on 11 January 2007.

2. Agreements

The agreements for the two largest areas — **goods and services** — are as follows:

1. The **General Agreement on Tariffs and Trade** (**GATT**) was originally created by the Breton Woods Conference as part of a larger plan for economic recovery after the Second World War. The GATT's main purpose was to reduce barriers to **international trade of goods**. This was achieved through the reduction of tariff barriers, quantitative restrictions and subsidies on trade through a series of different agreements.

2. The **General Agreement on Trade in Services** (**GATS**) entered into force in January 1995 as a result of the Uruguay Round negotiations. The treaty was created to extend the **multilateral trading system to services**, in the same way the General Agreement on Tariffs and Trade (GATT) provides such a system for merchandise trade.

3. The **Trade Related Intellectual Property Rights (TRIPS)** provides rules requiring governments to ensure minimum standards of **protection of Intellectual Property (IP) Rights** such as copyrights and related rights.

The Services Agreement GATS rests on three pillars. The first contains basic obligations which apply directly to all member states and service sectors. The second concerns national schedules of commitments containing specific further national commitments which will be the subject of a continuing process of liberalization. Such commitments are laid down in individual country schedules whose scope may vary broadly among members. The third is a number of annexes addressing the special situations of individual service sectors.

According to Article II of GATS, members are based on a basic of **most-favoured-nations (MFN) obligation,** bound to provide immediately and unconditionally access to services or service providers of all other members. This results in a prohibition of preferential arrangements among groups of members in individual sectors.

However, if such arrangements existed before the GATS came into force the so-called Article II-Exemptions are applicable (and remain applicable) if such arrangements were allowed before.

3. Advantages of WTO membership and obligations for the member states

An important advantage of the WTO membership is that companies having their registered office in one of the member states enjoy certain rights such as:

- Equal treatment of companies of all states (with a few exceptions)
- Maximum duty rate
- Basically free trade.

Referring to the obligations, generally all foreign companies must be treated equally by the member state and in the same way as its local companies.

However, in most cases the WTO rules are accepted by the member states only under certain **reservation**. Many prospective members serve various exceptions before joining the WTO. Some of these exceptions will stay in force without any time limitation (e. g.: Thailand: in certain sectors foreign investors are only allowed to own up to 50 % of the company's shares). Other reservations only last for a limited period of time (e. g.: Vietnam accepted the WTO rules under the reservation that until 2008 in certain service sectors, especially in the distribution sector, the majority of a company's shares must be held by a Vietnamese shareholder). Most of the reservations are usually made in the **agricultural** sector, since government subsidies are often granted to local farmers (blocking free import from other countries).

Other reservations are based on **health reasons**. A member state will most likely levy import restrictions on certain products if such product is regarded (by the opinion of the government of the importing state) as bearing health risks for the people (e. g.: export of shrimps to EU).

However, especially highly developed countries such as the USA, Australia and many countries in Europe reserved the right to treat the so **called least developed countries (LDC**) such as Laos, Cambodia, Afghanistan and many others (however, not China and Vietnam!) preferentially due to the reason that these countries are still underdeveloped.

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Preferential treatment means that for a certain period of time no duty will be imposed for certain products within a **certain quota** (whereby on imports from other, more developed countries duty is levied on) if produced with a minimum value added actually contributed by the LDSC country. As a consequence, many products had been (illegally) exported especially to Laos, being a LDC. From Laos then the products were (re-)exported "duty free" to Europe or Australia etc..

However, nowadays such proceedings do not work in practise, because for every product a **Certificate of Origin** is needed. In order to qualify for a Certificate of Origin, certain contents or a certain value added processes must have been carried out locally in the respective country.

There might be some **anti dumping measures** imposed mainly by developed countries to other member states in case that prices demanded by competitive companies are not regarded as fair world market prices. Any company can ask its government to request for procedure at the WTO headquarters in Geneva (Switzerland) as anti dumping measures. The country asking for such procedure, however, has to prove that certain unfair subsidies had been provided.

The reason, why under WTO rules all **export promotions** for local companies are prohibited, is the aforementioned obligation of the member states to treat all company's equally regardless of its origin. Therefore, so called export companies must be treated in the same way as local companies in the target country without being granted subsidies leading to unfair competition.

4. Doha Development Round

The Doha Development Round of the WTO started with a ministerial-level meeting in Doha, Qatar in November 2001, was planned to be finished in 2004. The negotiations aimed at lowering trade barriers around the world and permitting free trade between countries of varying prosperity.

At the end of 2006 the talks stagnated due to divergence between the developed nations and the major developing countries, represented by the **G-20** developing nations.

The G-20 (Group of 20) is a block of developing nations, established in 2003, who has urged for industrialized nations ending agricultural subsidies granted to their farmers. The G-20 covers 60% of the world population, 70% of its farmers and 26% of world's agricultural exports.

The stagnated Doha Round was planned to be turned around by a conference, held in Potsdam in June 2007, between four of the world's big trade powers - the United States and the European Union, (representing the developed countries) as well as Brazil and India (representing the developing countries) in Potsdam in.

The so-called **G4** were attempting to overcome the huge differences which came up in the Doha Round, namely the extend up to which agricultural and industrial markets should be opened and subsidies for farmers in "rich nations" should be cut.

The main topics of the conference were:

- **Farm Subsidies**: Most developing countries like India and Brazil wanted the developed countries to largely cut the subsidies they pay to their farmers. This demand was rejected by countries like the United States. The US offered to decrease its subsidies to USD 17 billion a year. An earlier offer made nearly two years ago amounted to USD 22.5 billion. India said this was far too high.

- **Farm Tariffs**: The European Union had offered a 50% overall cut. The US wanted more. Indian officials said that the EU and US had probably arrived at an understanding to restrict the cuts to some items, while leaving out "sensitive" products. India, while willing to open up to farm imports, also wantedthe right to restrict many products to protect the interests of its near 300 million farmers.

  Although the EU said officially that it had not changed its negotiating position, the EU had in fact increased its offer of tariff cuts to 70% from the previously offered 60%. India however apparently held firm to its demand that 20% of its import tariffs should remain in place.

- **Industrial Goods:** The developed world will cut industrial tariffs to 10% and wanted developing countries to accept a 15% ceiling for industrial tariffs. This was a sore point with India and others; they felt this was an unfair arrangement and wanted a 30% ceiling, while EU and US said they can accept 18% for poorer states.

The conference failed on 21 June 2007.

India's Commerce and Industry Minister Kamal Nath blamed the United States for the collapse, arguing that the US refusal to cut subsidies to American farmers was unfair to developing nations. He said that the US paid an estimated amount of USD 10.8 billion last year in subsidies, so that there was no equity, logic and fairness in proposing an increase to USD 17 billion since the actual payments are by far lower.

With the failure of the G4 it seems that the Doha Round is collapsing finally.

For additional information please consult our homepage (available at: www.lorenz.co.th), where you'll find under "Newsletters & Publications, International" our Brochure B23: What WTO Means to Your Business.