

LESSON 2 The Doha Round

Abstract

Trade negotiations of the WTO Trade Ministers' Doha "Development Round" are deadlocked over the issue of agriculture. Wealthy countries demand access to developing countries' markets, but refuse to meaningfully decrease their own agricultural tariffs and subsidy schemes. The negotiations involve complex issues in defining cuts to tariffs, exceptions for sensitive products, non trade reasons for agricultural subsidies, and demands for special and differential treatment by developing countries.

Background

"...in the current round of multilateral trade negotiations... the biggest stumbling block is agriculture. Agriculture is not simply a trade issue that will be decided solely on its economic merit.

In countries like France, Japan and the United States, it is first and foremost a political issue, one which only political leaders at the highest level can deal with. Everyone agrees the failure of the Doha round is in no one's interest, and yet failure looms. If the talks collapse, then many countries, rightly or wrongly, will feel that although the international systems we have built over the decades may work for some – they do not work for them.

Prime Minister Paul Martin, Washington, D.C., April 29, 2004

This latest WTO Round began in 2001 and faces a practical deadline of the end of 2006, because the American President's "fast track" authority (i.e. the ability to submit a trade agreement to Congress for a straight up or down vote without amendment) expires in mid-2007. The Doha Round has limped along, continually missing self-imposed deadlines. Pascal Lamy, the EU Commissioner responsible, identified the three areas where movement is critical so the rest of the items under negotiation can be constructively addressed: Firstly, the European Union must reduce the level of agricultural tariffs; secondly, the United States must reduce agricultural subsidies; and lastly, the group of key developing countries (also somewhat confusingly known as the "Trade G-20") must reduce industrial tariffs. Lamy's view is that developing countries, and the WTO itself, will suffer if the trade round fails.

The Doha Declaration by which WTO Ministers initiated the Doha Round contains the following key objectives for agriculture:

"...substantial improvements in market access; reductions of, with a view to phasing out, all forms of export subsidies; and substantial reductions in trade-distorting domestic support ... special and differential treatment for developing countries shall be an integral part of all elements of the negotiations and shall be embodied in the schedules of concessions and commitments, so as to be operationally effective and to enable developing

countries to effectively take account of their development needs, including food security and rural development.

http://www.wto.org/English/thewto_e/minist_e/min01_e/mindecl_e.htm
See Paragraph 13

According to the OECD, its members support agricultural producers to the tune of more than \$300 billion a year in subsidies. In 2002 these subsidies amounted to \$318 billion. Developing country proponents argue that in a bizarre twist on the Washington consensus, developing countries are being asked to open their markets to distortions created by the wealthy nations. The case for reform of agriculture trade is overwhelming. Markets would be opened for exports from developing countries; conditions would improve for poor farmers who are currently forced to compete with subsidized imports from developed countries.

The impact of a failed Doha Round on poorer countries is a major concern for Paul Wolfowitz, the recently appointed President of the World Bank. In his view, the existing trading system is itself one of the biggest obstacles to fighting poverty and improving living standards in developing countries.

The issues on the table are very complex – indeed, some argue too technical and complex for Leaders. For example, consider the issue of cuts in current tariff levels on agricultural commodities. Leaders' eyes glaze over when presented with discussions of tariff cutting options – the linear vs. the Swiss approaches. The Uruguay Round adopted the “linear” approach (backed by the European Union (EU), Norway, Switzerland, Japan, Korea, Taiwan, India, among others). In the “linear approach”, high and low tariffs are both reduced at the same percentage rate. Some tariffs are so high (in triple digits), even after 50% cuts have been made, the tariffs in effect prohibit entry. A 2006 American submission (<http://geneva.usmission.gov/Press2006/0119analysisofeuproposal.pdf>) pointed out that “Canada’s tariff on block cheese would remain at 98% after applying the EU formula on its current 246% tariff.” The Swiss formula (proposed by the Cairns Group) recognizes the wide diversity in the current range of tariffs, from in excess of 100% in some cases to little more than zero in others. In the Swiss Formula, high starting tariffs are reduced at a faster rate than lower tariffs, thus addressing the issue of tariff “peaks” for certain heavily protected products.

Exceptions for “sensitive” products provide a negotiating minefield. The 2006 American submission referenced above also noted if Canada designated poultry as “sensitive”:

“Under the EU proposal, Canada ... could reduce the 296% poultry tariff by as little as 20% (to 237%) and only compensate WTO members by providing an additional 7,000 metric tons of access, equal to only 0.7% of total domestic consumption of poultry in Canada.”

Special and differential treatment is another core theme in the negotiations. Failure to allow developing countries the policy space to protect their agricultural systems in the interests of food security would compromise efforts to combat rural poverty.

Similarly complex are provisions of domestic support. Article 20 of the Uruguay Round Agreement on Agriculture specifies that “non-trade concerns” (NTCs) should be taken into account when the process of continuing reform is resumed. The Doha Ministerial Declaration confirmed “that non-trade concerns will be taken into account in the negotiations as provided for in the Agreement on Agriculture.” NTCs are agriculture’s role in the environment (biodiversity), in assuring food security, in contribution to rural development and viability of rural communities; and to preserving heritage landscapes and buildings. Some countries argue that agriculture is more than food production and, that done properly, agriculture trade policy also produces a number of other important social benefits.

Policy makers in the EU and the US regularly seek to justify agricultural support by reference to social equity objectives. In passing the 2002 Farm Act, President Bush appealed to a tradition of independent family farming, while the French agricultural minister has described the CAP as part of the EU social model. Back in the real world, agricultural subsidies are directed overwhelmingly towards large producers and agribusiness interests. Agricultural support is highly regressive - bad not only for the poor in developing countries and for global income distribution, but also for distribution in subsidizing countries.

(The Gini coefficient

http://en.wikipedia.org/wiki/Image:Economics_Gini_coefficient.png is a measure of inequality of a distribution. The Gini coefficient for the distribution of agricultural subsidies is 77 for the EU and 79 for the US. Second-Round subsidy effects are also regressive, since they inflate land rents and prices for inputs.)

The basic question is whether countries should be allowed to pursue such domestic social objectives even if in doing so they distort trade, harming the interests of their trading partners. Certain types of non-trade-distorting (or minimally trade-distorting) measures are currently allowed under the Agreement on Agriculture, Annex 2, which creates a category of allowed support measures falling into what is called the “Green Box.” This set of allowed measures would seem to give governments a fair amount of policy space for pursuing NTCs such as rural development, environmental protection and food security. For a summary of the various negotiating positions that shows the debate is far from straightforward, see the International Institute for Sustainable Development (IISD) trade policy brief “Non-Trade Concerns in the Agricultural Negotiations of the World Trade Organization”, found online at:

http://www.iisd.org/pdf/2003/investment_sdc_may_2003_1.pdf

Lesson Plan

Set the stage by reviewing the World Trade Organization (WTO) as an institution. The WTO is at once highly political and highly technical. It is political because it is first and foremost a forum for negotiation among its members. It is the members which set the agenda and manage the organization through a Ministerial Conference, in which each Member is represented. It is not the decisions of the organization that are important but rather what Members can be persuaded to do through negotiation. Reform of agricultural trade will not result from a WTO program but from specific changes to domestic programs that Members agree to make through negotiation. The WTO is technical because of the level of complexity in these domestic programs and in other matters on the WTO agenda. The basic principles are easily grasped but attention to the fine print is critical to ensuring that political will is carried into action.

Review the declaratory elements of any G8 Summit Communiqué (Eg Gleneagles - http://www.fco.gov.uk/Files/kfile/PostG8_Gleneagles_Communique,0.pdf). The preamble to any future Communiqué would start by reminding of the commitment to the Millennium Development goals and be framed in a catchy phrase, perhaps “Trading Away Poverty”. Discuss the reasons why any communiqué would include some euphonic pronouncements such as:

- The improvement of free trade in agricultural products is important to the success of the development agenda and depends on resolving market access.
- The framework and formula to provide market access through tariff reductions shall be simple, transparent, automatic, and substantive.
- Flexibility on a limited number of sensitive products will accommodate key politically sensitive domestic concerns, but not be exploited.
- Economically developed countries will lead in providing market access
- Awareness of the legitimate concerns of influential farmers will limit the resistance to this agenda.
- Pursuance of liberalization and accepting the bare minimum of special and differential treatment will encourage the opening of markets - most of the gains for the South will come from opening other Southern markets.
- It is imperative to increase the capacity of poor countries, so to take advantage of trade liberalization.

Watch the Video <http://www.l20.org/publications/1-Agriculture.mov> where Ngaire Woods, Director of the Global Economic Governance Programme, Oxford University, reports on an experts meeting in June 2004 and makes the pitch for the Agricultural Trade being an agenda item for the L20

Discussion Questions

1. There are several value added commitments or decisions that L-20 Leaders could agree to endorse.

Question: From the list below is there an effective package of declarations, commitments and instructions that could be delivered only by Leaders?

- Trade Ministers could be instructed to break the deadlock by applying a framework involving:
 - (i) the “Swiss” formula for tariff cuts
 - (ii) flexibility in time of adjustment, but with limits; and
 - (iii) flexibility for "sensitive" commodities and producer groups (higher end level tariff), but with "automatic penalties"
- Trade Ministers could be further instructed to work with the WTO to prepare proposals to reform the Trade Policy Review Mechanism (the WTO activity of surveillance of national trade policies) to “name and shame” and catalyze enforcement.
- Finance Minister could be instructed to devise compensation (that does not repackage subsidies) to politically influential farmers.
- Leaders might instruct their ODA donor agencies to set verifiable and ambitious targets to increase support to building trade policy capacity, including the untying of aid.
- Leaders might commit to enforce WTO decisions in courts in their own countries
- The OECD and the World Bank could be requested to publish data and estimates by country on potential savings from liberalization, to consumers, agricultural input users and Treasuries;
- Further, Leaders could commit to transparency provisions for recipients of agricultural subsidies, and request the OECD to report on the correlation between political contributions and receipt of agricultural subsidies/support.

2. The IISD trade policy brief “Non-Trade Concerns in the Agricultural Negotiations of the World Trade

Organization”http://www.iisd.org/pdf/2003/investment_sdc_may_2003_1.pdf

lists the non-trade-distorting or, at most, minimally trade-distorting “Green Box” measures exempt from agricultural support reduction commitments made in the Uruguay Round. “Specifically, to fulfill this requirement any support must be provided through a publicly-funded government program rather than through transfers from consumers, and must not have the effect of providing price support to producers.” Check out the long list of approved measures included in the Green Box such as general services, “decoupled direct income support, insurance, disaster relief and income safety-net programs, etc.

Question: What would it take to convince Leaders to reform Green Box measures?

3. Amrita Narlikar argues that further formalizing of rules for WTO negotiations will allow for greater transparency, which will improve the trading position of those countries with

less capacity and resources. (“WTO Institutional Reform: A Role for G20 Leaders?”

http://www.l20.org/publications/2_dt_A_S_Narlikar.pdf)

The opposing view argues that real politik demands that the “real” negotiations will de facto be done informally, and not publicly – attempts to do otherwise would lead to charades.

Question: Given the resonance of both Narlikar's analysis and its critique, what is the best way forward?

RECOMMENDED WEB-BASED REFERENCES

“*What is the WTO?*” The World Trade Organization.

http://www.wto.org/english/thewto_e/whatis_e/whatis_e.htm

“*The Doha Agenda*”, The World Trade Organization.

http://www.wto.org/english/thewto_e/whatis_e/tif_e/utw_chap5_e.pdf

Deere, Carolyn. “*Capacity Building and Coherence: A Role for a Leaders' Level 20?*”

http://www.l20.org/publications/2_wX_A_S_Deere.pdf

“*Trading Away Poverty: The L20 & Doha – Agriculture.*” Report Conclusions from an Experts Meeting.

<http://www.cigionline.ca/publications/docs/g20.ottawa2.agriculture.pdf>

Watkins, Kevin. “*WTO Negotiations on Agriculture: Problems and Ways Ahead.*”.

http://www.l20.org/publications/2_7y_A_S_Watkins.pdf

Pascal Lamy, “The WTO and the Doha Round: The Way Forward”, April 6, 2006, p 9.

http://www.wto.org/english/news_e/sppl_e/sppl23_e.htm

Wolfowitz's remarks to the press on April 20, 2006.

<http://web.worldbank.org/WBSITE/EXTERNAL/NEWS/0,,contentMDK:20895908~menuPK:51062075~pagePK:34370~piPK:34424~theSitePK:4607,00.html>