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Ditching Doha?

The G20 seems headed in that direction.

BY DUANE LAYTON AND TIFFANY SMITH

In December 2008, World Trade Organization Director General Pascal Lamy had planned to hold a Ministerial to resolve the logjam that had been preventing members from reaching consensus on the framework, or "modalities," that will be used to further reduce tariffs on goods as part of the WTO's Doha Development Agenda. Key elements of this framework will address such issues as how large a cut countries will make in their tariffs on agriculture and non-agriculture goods, whether countries can exempt products from tariff reductions and, if so, for how many products, and whether certain mechanisms, or "safeguards," will be allowed to protect domestic producers. Prospects for reaching agreement on these issues, many of which have plagued the talks for years, had grown brighter after the leaders of the world's twenty largest economies gathered in Washington in November to discuss actions that would be needed to rescue the rapidly failing global economy. Among the 47 recommendations agreed to by the G20 was a commitment to strive to reach agreement in 2008 on modalities that would lead to a successful conclusion to the Doha Development Agenda with an ambitious and balanced outcome.

Unfortunately, the G20 leaders' statement generated little new negotiating flexibility in Geneva. Although agriculture negotiating group chairman Crawford Falconer and non-agriculture market access (NAMA) negotiating group chairman Luzius Wasescha issued new negotiating texts in December, there was still very little convergence among members on key difficult issues. While some countries, including Brazil and Chile, pressed Lamy to move forward with a ministerial, others declared that the prospects of another failed ministerial would be a critical blow to the multinational trading system. The U.S. Congress also weighed in. The House and Senate committees with jurisdiction over trade and agriculture sent letters to the Bush Administration expressing their doubts

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that holding a ministerial meeting at that time could achieve a breakthrough that provides results. Facing little prospect of success, Lamy was forced to delay plans for a ministerial.

The G20 showed little renewed momentum for restarting the Doha talks in London amid a growing global economic crisis and rising trends toward protectionism. The new Obama Administration U.S. Trade Representative Ron Kirk has been in office only a short time and has already indicated a need to rebalance the Doha round. Ambassador Kirk has indicated that in the current modalities texts the U.S. concessions are clear, but the numerous flexibilities available to other trading partners make it hard to determine the gains the United States can expect from the negotiations. In light of the United States' intent to "rebalance" the negotiations, developing countries should be looking for flexibility of their own to offer when negotiations eventually restart.

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Ambassador Kirk *answers questions at a media roundtable during his first visit to the WTO in May 2009.*

One of the main areas of disagreement among WTO members had to do with a special safeguard mechanism (SSM) that would allow developing countries to temporarily raise their tariffs on a limited number of agriculture products in response to a surge in imports. While there is consensus that such a mechanism should exist, there is little convergence on the details of how the SSM would work. Some developing countries have insisted that the SSM be allowed for a longer list of products, in a manner that is automatic and simple to use, and be available for longer periods. Developed countries are concerned that the SSM not prohibit normal growth in trade and want a more limited list of products subject to the SSM, a shorter duration for the tariff increase, and the safeguard to be invoked based on larger increases in imports. In the latest version of the agriculture negotiating text released December 5, agriculture negotiating group chairman Crawford Falconer attempted to outline the possible details of an SSM that he believed could be acceptable to all sides; however, his proposal was not met with enthusiasm from either side.

Absent movement from both developed and developing country WTO members, the SSM will continue to be a significant hurdle blocking further progress on the Doha Development Agenda. The import-sensitive developing country members should think very carefully about just how essential the SSM really is among their many priorities in the Doha Round. First, many developing countries, including most of the least developed, are dependant on imports to provide food for their people. Does it really make sense to have an easily triggered SSM that allows the government to raise tariffs for a long period of time on imported food products, thus raising the cost of feeding people? Second, WTO members have already agreed that least developed countries will have to make very few reductions in their current agriculture tariffs, and most meaningful tariff cuts will not occur until some time in the future. WTO rules allow tariff rate reductions to start from the maximum tariff rate allowed (the "bound rate"), which for most developing countries is much higher than the rate they actually charge at the border (the "applied" rate). Countries can raise or lower their applied tariff rates as they see fit so long as they do not exceed the bound rate. While the bound rate (the maximum) will gradually decrease each year under Doha tariff rate reductions, the rate charged at the border will not be reduced until the bound rate is reaches the applied rate. For many products going to developing countries, the bound rate will never cut into applied rates on agriculture products.

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Third, there are already a number of mechanisms agreed to in the Doha Round that allow developing countries to shield products from tariff cuts. WTO members have already agreed that the least developed countries will have

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to make very few reductions in their current agriculture tariffs, and most meaningful cuts will not occur until some time in the future. There is also agreement that the tariff treatment for developing countries will be less aggressive than for developed countries, that is, a tariff of 100 percent in a developed country would be subject to a 70 percent cut, while the same 100 percent tariff in a developing country would only be subject to a 42 percent cut. Developing countries would be allowed increased leeway in designated products as "sensitive" and subjecting them to smaller tariff reductions. Developing countries would also be allowed an additional category of tariff cuts that would be less than required by the overall formula called "special products" (up to 12 percent of all products), including as many as 5 percent of products that could be exempt from any cuts.

Safeguards are generally created to slow the pace of adjustment from additional market opening that results from new market liberalization. If there is little to no reduction in the prohibitive tariff rates most developing countries charge on agriculture products, there is little chance of any new "surge" in imports. With India, China, and other developing countries growing at 9 percent a year (and food consumption growing even more rapidly as hundreds of millions of people have been lifted out of poverty), a 40 percent increase in imports could easily occur in the normal course of trade. A safeguard "trigger" that is too low can effectively ban imports, rather than just raise the tariff a few points. Thus, the conditions under which the SSM could be imposed continue to be of critical importance—both to continued economic growth in the developing world, and also to the fundamental purposes of the WTO as an institution.

But showing flexibility on the SSM does not mean the developing countries will walk away from the Doha Round empty-handed. In fact, the opposite is true. There is still much on the table that would benefit developing countries in the Doha Round agriculture negotiations. The most important of these issues is the comprehensive reduction of domestic agriculture supports, which developed countries have committed to do. In July 2007, the United States agreed to reduce its allowed level of trade-distorting support programs from over $48 billion to close to $15 billion. Other developed countries would have to make proportionally large cuts. Reductions in agriculture supports in developed countries should be the top priority for developing countries since these programs stifle their ability to increase markets for their products. In addition, tariff reductions (both by developed countries and in advanced developing countries) will generate additional market opportunities for agriculture products from the developing world. Finally, the Doha Development Agenda will specifically address subsidies to cotton in the United States and other markets. Cotton is a commodity with great export potential for developing countries and agreement on its treatment would be a big victory for the developing world.

Unfortunately, developing countries have let the idea of an SSM stall the Doha Round and they are leaving real market access on the table as a result. Developing countries have been insisting on low thresholds, high increases in tariff rates—even raising rates above the current maximum rates allowed, and virtually no test or criteria to determine whether a safeguard is necessary. Developing countries have claimed that an SSM is necessary to protect millions of poor farmers, but the terms they have put forward are so flexible they would not even need to have a domestic industry to apply a safeguard following a surge in imports. For example, a country that had its domestic industry wiped out by disease or bad weather would require imports to replace domestic production. But adding an additional tariff as a result of the "surge" in imports hardly seems fair to consumers or to neighboring producers who are trying to help ensure an adequate food supply. In fact, the countries who have argued most strongly for the SSM, most notably India, are more likely protecting their oligarchs who control the food supply and do not want to face commercial competition. Indigent farmers in rural villages are less likely to be affected by commercial agriculture since they produce primarily for those who do not have access to commercial grocery stores or those who cannot afford to shop there. Developing countries should show some flexibility on the SSM, such as accepting higher thresholds that must be met before a safeguard can be used, a shorter-term duration, and reasonable criteria such as a determination that the SSM is necessary to prevent harm to domestic producers. Such flexibility would go a long way to reigniting the Doha agriculture negotiations and it would generate significant negotiating leverage for developing countries to demand concessions in reductions in support programs and tariffs that will truly make a difference in their ability increase agricultural production. ◆