Moving Past the Pain

Time for a New Trade Framework

INTRODUCTION

Judgment day seems to come around all too frequently at the WTO. On July 16, 2007 the two men who facilitate the Doha Round negotiations on agriculture and industrial goods and natural resources, Ambassador Falconer and Ambassador Stephenson respectively, released a new set of texts in yet another last ditch attempt to move WTO members towards agreement. The messages were clear: "pain will be required to get agreement" (Falconer) and "all must contribute" (Stephenson). The messages offer a reality check for what is in store if the Doha Agenda is concluded.

WTO members are a long way from the vision of 2001 when the Doha Round was launched. At that time, WTO members called for an agenda that would reform the existing trading system, rectify past mistakes, and rebalance the inequalities between rich and poor. Instead, the negotiations look like every other round: members came to the table with a set of interests and bargain with the rest of the world, ignoring the needs of poorer members in the process. Each country is offering to ignore the interests of some of its sectors, in which producers and workers will be losers, but only with the hope that other sectors will be winners. Member governments have made no attempt to look at the bigger picture, either to rectify the existing inequalities among richer and poorer member states, or to balance trade interests with other multilateral obligations—for instance, to tackle climate change or respect workers' rights. WTO Director General, Pascal Lamy reaffirmed this in a speech to the UN Economic and Social Council (ECOSOC) in Geneva earlier this month: "I doubt the negotiations are about morals, it is about trade-offs," he said.

This reality is not what many developing country members hoped for when they began negotiations on the Doha Agenda. Now all WTO members have to decide whether to accept or reject the whole effort once and for all.

The path proposed by Ambassadors Falconer and Stephenson has some appeal to WTO members. It is already laid out and it is familiar. If members decide to go forward on the basis of the current texts, there is a slight chance they could reach agreement in the not too distant future. After years of negotiations, the thought of concluding with an agreement is obviously appealing. Falconer's agriculture text looks better than past versions from the perspective of many developing country negotiators, building up their hopes. But this path has already been tried, under the Uruguay Round Agreements, and it has not delivered. It is a system that favours the rich and squeezes the poor.

There are important principles enshrined in today's system that we should keep (although many were not properly implemented), including rules to discipline dumping; rules from the 1947 GATT that allowed countries to use agricultural tariffs if they managed their production and did not export; rules to prevent countries from using food aid to dispose of surplus stocks and undermining production in poor countries; a prohibition on the use of export subsidies; rules to ensure governments' trade policies are transparent and subject to scrutiny. But there are many rules missing (including rules to limit market power and rules to support better management of agricultural goods) and others that require urgent reform (the dumping rules, the subsidy classification system, food aid rules and the drive to eliminate tariffs, for example). There is no reason for governments to continue accepting such an unbalanced outcome: it is time to build a new framework for the multilateral trading system.

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ENTICING ON AGRICULTURE

The agriculture text is enticing but incomplete. Ambassador Falconer tries to offer something to everyone—lower tariff cuts for a new group of 44 developing countries (essentially the small and vulnerable economies (SVEs) and the Africa, Caribbean and Pacific (ACP) countries), a solid proposal on cotton, improved language on commodities, stronger disciplines on U.S. food aid practices, and the G20 proposal as the basis for tariff cuts for the rest of the developing country members who are not included in the other flexibilities. Furthermore, Falconer tries to squeeze the developed countries more than he has done in the past—the U.S. is asked to cut domestic support to between $13 and $16.4 billion a year and the Europeans are asked to make tariff cuts between 48 and 73 percent, higher than the 30 to 60 percent amount they had offered.

The texts narrow the gaps on some key issues like domestic spending and how far to cut agriculture tariffs, but there are still huge holes to fill. Falconer does not propose any specific language on some of the most important issues for developing countries, including Special Products (SPs) and the Special Safeguard Mechanism (SSM), how to deal with tropical products, or how to address preference erosion. (See IATP Analysis for Ambassador Falconer's Challenges Papers below)

Ambassador Falconer wisely withholds from proposing a number for Special Products. Instead he suggests members should focus on indicators, using the G33 proposal as a basis. This is a good start. But what follows is unhelpful. Ambassador Falconer insists that SPs have to be transparent, objective and open to verification. All are important principles, but the requirement for verification will cause problems for the many developing countries that lack access to the data needed for verification. Some countries have raised these concerns in consultations with Ambassador Falconer. If the system only accepts SPs that meet a stringent process, there is a risk that countries may not be able to provide the data required, or that the data will be unreliable. The text should explicitly assume good faith on behalf of the governments involved, and propose money and other support to help establish practical and workable verification schemes.

Ambassador Falconer argues that the SSM should not be applicable to just any import surge but only to surges that undermine domestically produced products or substitutes of such products. This is insufficient. Developing countries need the SSM both to help avoid sudden and unsustainable demands on foreign exchange, to pay for a sudden increase in imports, and to protect locally produced products. Negotiators should determine clear and simple criteria for the use and potential coverage of an SSM, which would then be made available to all products.

Preference erosion is particularly poorly dealt with in both the agriculture and NAMA texts. Both Chairs continue to treat the issue as a problem of a few products (listed in annexes) that can be addressed by allowing for longer implementation periods for the tariffs on these products. The Chairs make no other proposal to address the problem. Neither Chair provides a position on other proposals that have been raised by preference receiving countries over the years, including compensation for losses, improving rules of origin, or providing technical and financial assistance to help countries make better use of the preference systems and to provide for adjustment costs.

Both Chairs miss the point on preferences. They ignore the fact (supported by recent studies from the World Bank, UNCTAD and a variety of think tanks) that the majority of developing country members do not stand to gain from the current WTO negotiations because either they lack the capacity to overcome supply-side constraints or they are unable to compete in what will continue to be highly distorted world markets. Many of these countries rely on preferential access as one of the few avenues available to them for participation in world markets. Preferences are not the perfect answer to those excluded from the trading system, but may be a necessary part of the system given the many inequalities and market distortions that simply aren't addressed by existing WTO rules.

A TRAVESTY FOR NAMA

The non-agricultural market access (NAMA) text is close to full modalities (concrete commitments including numbers). It is a travesty for an agenda that once dubbed itself the Development Agenda. Unlike Ambassador Falconer, Ambassador Stephenson made little effort to reflect the interests of all the different members. Ambassador Stephenson's paper looks like it offers something to everyone, but in fact, is strongly biased towards the position of the developed countries and a small groups of developing countries including Chile, Colombia, Costa Rica, Mexico, Peru, Hong Kong, Thailand and Singapore (most of whom either have a free trade agreement with the U.S. or are in the process of negotiating one). The positions of the NAMA-11 group of developing countries and the small and vulnerable economies (SVEs) are sidelined. "I think the texts have defects," Brazilian Foreign Minister Celso Amorim told reporters. "I want a good round," he said, "one that really constrains rich countries paying subsidies, with real opening of their markets but which respects our limits in the industrial area." (Reuters, "Brazil signals tough talks ahead to save WTO deal," July 18, 2007)

The least-developed countries (LDCs) and a number of other African countries (known as paragraph 6 countries) are not as badly treated. Still, they remain opposed to a framework that forces them to cap 90 percent of their tariffs at very low levels (28.5 percent). The LDCs and the African countries are also opposed to a framework imposed on other developing countries, which would set a tough starting point for them in any future negotiations on industrial goods.

Ambassador Stephenson sets out different flexibilities that each developing country group will be given. But the flexibilities are paper thin, and do not alter the fact that all developing countries will be forced to make significant cuts to their industrial tariffs despite considerable evidence that for many countries this will damage their prospects for industrial development and for increasing employment. Different layers of flexibility in an inherently flawed framework cannot address the particular needs of each country. And as a practical matter, the approach stands little chance of bridging the broad differences that remain between WTO members.

ISOLATING EMERGING MARKETS

Both texts unashamedly separate the larger developing countries from the rest of the developing countries. The proposals create clear categories that restrict some special and differential (S&D) measures to the poorer developing countries. Countries like India, Brazil, China, Indonesia, Philippines, South Africa, Cuba, Venezuela, Thailand, Mexico, Chile and Argentina, are left out from these additional S&D measures. China in particular is singled out. China is a member of the Recently Acceded Members (RAMs) Group, a group that is entitled to more flexible treatment because they have recently had to implement a whole series of trade reforms to become members of the WTO. In both texts, the Chairs find a way to create sub-categories within the RAMs to exclude China from the flexibility available to the other members of the group.

The so-called emerging economies are being asked to pay, and to pay dearly, with average cuts of 60 percent to industrial tariffs and average cuts of 36 to 40 percent to agriculture tariffs. (In the Uruguay Round these countries had to cut industrial tariffs by an average 28 percent and agriculture tariffs by an average of 24 percent.) It has been clear since the Doha Ministerial that what developed countries want out of these negotiations is greater access for their firms to emerging markets. They are not prepared to give these countries the same treatment as other developing countries and they are increasingly intransigent on this point. At a recent Asia-Pacific Economic Cooperation (APEC) meeting, U.S. Trade Representative Susan Schwab made this point clear in an interview with the Associated Press: "Will Thailand or Singapore or Chile or Peru or Mexico or Korea want to say that the very rigid, inflexible, low ambition position taken by India and Brazil represent their interests? I think the answer to that is no," she said. (AP, "The United States and Australia push Pacific Rim countries at APEC," July 5, 2007)

Of course, China and India have many more choices and economic opportunities than Kenya and Bolivia, who again have considerably more choices than Mali or Nepal. Yet the gap between Brazil or South Africa and the U.S. or France is still shockingly vast. The reality is that there are too many different situations to accommodate all countries through a single framework. The attempt to make this work has produced a messy web of exemptions and flexibilities. Countries' circumstances and stages of development are constantly shifting, and to manage those shifts governments require different tools and policy measures at their disposal. Rather than trying to fix categories of countries and give each a slightly different type of treatment, it would be worth exploring how to establish a set of strong rules that apply to all with criteria that accommodate different needs in different sectors at different times.

A LOOK INSIDE THE U.S.: WILL THE NEW TEXTS FLY?

The response to the draft modalities from inside the U.S. is far from friendly. Reacting to the texts, an official from the Bush administration said the proposed cut of $13 billion for U.S. farm spending was "unacceptable" and that on market access "there's nothing really you can hang your hat on right now." (Reuters, "$13B Farm Subsidy Cut "Unacceptable," July 18, 2007). A senior U.S. agriculture official said the demands for cutting cotton subsidies was also unacceptable (Inside U.S. Trade, "U.S. Rejects Cotton Cuts In WTO Proposal, Faces Pressure On Subsidies," July 20, 2007). Tom Harkin, Chair of the Senate Agriculture Committee, reacted by saying, "If a final Doha round agreement were to reflect these ranges, it would face a difficult road in being approved by the U.S. Congress."

These reactions are important. It is a clear sign that the U.S. Congress, which has to approve any deal signed by the Bush Administration, has no appetite for a deal that is not seen to promise increased market access for U.S. exporters. Nor is there much appetite to fix a limit on domestic support between $13 and $16 billion. There is no sign that the U.S. Congress is willing to move closer to what other WTO members are asking for, either in the Farm Bill or on trade policy. The Bush Administration, having failed to persuade Congress to renew Fast Track trade authority, and with shockingly low levels of approval in public opinion polls, has little power to exert influence in this area. (see IATP, "What to do About Doha? A look inside the U.S." July 13, 2007)

CHOOSING THE ROAD LESS TAKEN

It is not by accident that governments are looking at an agenda that does not challenge the existing balance of power. The agenda was designed that way. The Doha Agenda looks the way it does because there are many powerful commercial interests who profit from the existing model, while many policy makers are not convinced another model is possible or even desirable. Despite this inertia, a lot more questions, from many new sectors, are being asked about the trade system. Citizens in Europe and America are starting to raise more questions because they blame trade policies for poorer working conditions and damage to the environment. Citizens in the developing world have born the brunt of this model for several decades now, with all its damaging impact on development, employment and the environment. Some parts of the developing world have recorded impressive growth rates in the past decade, in particular China, India and Brazil, which has significantly reduced the incidence of poverty in these countries. Yet many citizens in the developing world are opposed to the current model of growth. Growth is unevenly distributed, has increased inequalities between the rich and the poor, and has done enormous damage to the environment. Farmers and small and medium-sized entrepreneurs are hurt by competition from giant multinationals. Workers are forced to accept miserable conditions. The latest framework offer for new trade rules does not support the model of development that most people are asking for.

If members choose to work with the Doha proposals now in front of them, it will be a dirty battle to the end. There will be momentary glimmers of hope, such as that offered by the current agriculture text, but they are very unlikely to turn into sustained light (note the hostile response on agriculture from the U.S. Congress). The proposals on NAMA do not even offer a glimmer of hope. It is time for WTO members to choose a more constructive path. They should focus on a framework for multilateral trade rules that respects other multilateral obligations and supports sustainable development for all the world's peoples (see below Letter to Trade Ministers from civil society groups).

The alternative path requires courage. It requires stepping away from the narrow pursuit of commercial interests in the short term, to build a framework that could lead to lasting benefits for all in the long term. The alternative path requires a more detailed examination of the problems with the existing rules and the elaboration of new ones. The alternative path requires serious debates locally, nationally and internationally, about the kind of trading system that people want. It would require working with the Intergovernmental Panel on Climate Change (IPCC) to see how the trading system could support efforts to reduce carbon emissions. It would require working within the UN system to ensure that human rights, including the right to food, work and education, are not undermined in trade agreements. It is an unfamiliar path but just may be what is needed to realize the vision of a fairer and genuinely open market-oriented trading system.

DOCUMENTS

- Draft Agriculture Modalities Text, 17 July 2007
  http://www.tradeobservatory.org/library.cfm?refID=99255
- Draft NAMA Modalities Text, 17 July 2007
  http://www.tradeobservatory.org/library.cfm?refID=99256
- What to do About Doha? A look inside the U.S., IATP, 13 July 2007
  http://www.tradeobservatory.org/library.cfm?refid=99225
- Confronting the Real Challenges, IATP
  http://www.tradeobservatory.org/library.cfm?refid=98452
- Still Not Confronting the Real Challenges, IATP
  http://www.tradeobservatory.org/library.cfm?refid=98818
- Letter to Trade Ministers from Civil Society Groups
  http://www.tradeobservatory.org/library.cfm?refid=99258