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U.S. Boxed into a Corner at WTO

A new economic simulation of the U.S. agriculture proposal at the World Trade Organization (WTO) confirmed what NGOs and developing countries have been saying for months: the proposal has so many loopholes it may actually increase the allowable amount of domestic agriculture spending in the U.S. The new simulation exposed not only the emptiness of the U.S. proposal, but also the limited space that U.S. negotiators find themselves in as the Doha Round moves forward.

The May 19 economic simulation was prepared at the request of trade negotiators from the European Union, the U.S. and nine other WTO members. It assessed the main agriculture proposals from the U.S., EU, G-10 and G-20. It found that under the U.S. proposal, U.S. agriculture spending could legally increase to $22.5 billion a year, from last year's estimated $19.6 billion, simply by re-categorizing existing payments. The shift in payments would be made from a further restricted Amber Box to non-product specific and product-specific *de minimis* payments and into an expanded Blue Box.

When announcing its agriculture proposal in October, the U.S. Trade Representative characterized it as "bold," "ambitious" and "substantial." IATP and other NGOs quickly examined the fine print and reached conclusions similar to the new simulation model. Throughout the negotiations, developing countries like Brazil and India have been highly critical of the numerous loopholes in the U.S. proposal.

The new economic simulation also reveals the weaknesses of the WTO box system to restrict domestic support. Additionally, the U.S. and the EU have not notified their domestic payments to the WTO since 2001. So, the simulators had to use domestic payments going back into the 1990s, before the current Farm Bill was even passed. Currently, there is no penalty for late reporting.

In addition to losing credibility with its agriculture proposal, the U.S. raised the ire of many WTO members when it attempted to undermine a critical tool for development in poor countries with an April 6th framework paper on Special Products (SPs). Special Products are a tool to help poor countries protect their food security and rural development priorities through targeted tariffs on specific crops. The U.S. proposal would shrink the number of tariff lines allowed for SPs to five (out of 2000 on average per WTO member), and set tougher criteria for SP treatment. The U.S. proposal is regarded by the G-33, the Africa Group, the Africa-Caribbean-Pacific Group and the Least Developed Countries as a slap in the face that runs counter to the small bit of progress that was made on the issue in the July 2004 Package and the Hong Kong Ministerial Conference of December 2005.

Given the reaction to these recent proposals, questions are being raised about

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whether the U.S. is serious about completing the Doha Round this year. The tight box the U.S. finds itself in at the WTO is the direct result of powerful domestic agriculture lobbies combined with an unpopular President and growing discontent over current free trade policies.

On agriculture, the U.S. Trade Representative (USTR) is caught between the lobbying of U.S. based agribusiness exporting companies (which want more market access, especially to emerging markets in developing countries) and domestic commodity groups (which want to maintain high domestic support payments and have grown skeptical that greater market access will benefit them). This political division was not present at the time of the Uruguay Round, when the larger commodity groups allied more closely with agribusiness.

This division came to the fore last week, when the USTR met with the big farm groups in the wake of the simulation report. The USTR asked the commodity groups to accept further cuts in domestic support. The big farm groups flatly refused. In a letter to President Bush, the groups wrote: "we believe that it is important to make clear that American agriculture will not support any deeper cuts in domestic support than those already proposed by the administration. If negotiators are forced to scale back the level of ambition from the U.S. proposal on agricultural market access in order to reach an agreement, the level of ambition in cutting trade-distorting domestic support must be commensurately reduced from the U.S. proposal."

And for those wondering where the controversial U.S. proposal on SP came from, the big commodity groups spelled it out: "The treatment of . . . 'special' products for developing countries must be limited in order to preserve the market access gains achieved through overall tariff reductions."

Support for free trade is mixed at best in the U.S. The policy changes initiated following the Uruguay Round, particularly the 1996 and then 2002 Farm Bills, have proved expensive failures. The government now spends far more on agriculture than it did through the mid-1980s, while farm incomes are stagnant and in most cases falling. The U.S. share of the agricultural export market is falling too, while the sale of agricultural commodities at below cost price in world markets (a practice called dumping) continues.

The decade-plus track record of the North American Free Trade Agreement (NAFTA) and the effects of the 1996 Farm Bill's deregulation of agricultural markets are much more apparent to a variety of sectors today, including many Congressional members from states that have experienced major losses in farm income and related rural employment. Congress has experienced a number of bruising battles over trade recently. Trade Promotion Authority (Fast Track) barely passed in 2002, is set to expire in 2007, and remains highly contentious among congressional leaders and their constituencies. Regional Free Trade Agreements have either been stalled (for example, the Andean Free Trade Agreement and the Free Trade Area of the Americas) or have barely passed (the Central American Trade Agreement—CAFTA passed by only two votes) at the expense of splits within the national political parties. These national and regional disagreements around trade are prevalent and serve as a backdrop to the U.S. input at the WTO.

Some members of Congress have even taken an aggressive stance towards other countries in the WTO negotiations. For example, Charles Grassley, the Iowa Republican who is the powerful chairman of the Senate Finance Committee, threatened Brazil and India with terminating their benefits under the General System of Preferences, blaming them for holding up the WTO negotiations with their refusal to make offers in non-agricultural market access (NAMA). Some Congressional members have mentioned the possibility of extending both the U.S. farm bill and Fast Track Authority until WTO talks are concluded. But there is currently no great support for these extensions.

The record-low public support for President Bush is also important in this context. The Bush Administration faces a number of domestic concerns including: the war in Iraq, a huge budget deficit, and a number of highly damaging public scandals. Many Republican congressional representatives are distancing themselves from the Administration, worried that President Bush's unpopularity may cost them the election in November.

These domestic spurred President Bush to reassign the politically adroit U.S. Trade Representative, Robert Portman, to the Office of Management and Budget. The reassignment of Portman takes away someone who was highly skilled at navigating Congress—a necessity for the passage of an eventual WTO deal. Portman's replacement - the also skilled but relatively unknown trade bureaucrat, Susan Schwab—doesn't have Portman's contacts on the Hill.

While WTO Director General Pascal Lamy is still pushing for some agreement by late June, it seems the multilateral arena is rapidly shrinking for this U.S. administration. The U.S. government would of course like a Doha deal to be concluded, and there is a considerable pressure at the WTO to do just that. But there is no clarity on what such a deal needs to contain to make it work—the recent simulations from the agriculture negotiations suggest that the U.S. can offer very little substance to match its rhetoric of opening markets. Developing countries have little reason at this point to be satisfied that this round will fulfill its development mandate. With fall elections on the horizon, members of the U.S. Congress and the President are more inclined to be cautious in supporting any trade proposals, including those at the WTO, which might require significant sacrifice. The increasingly cantankerous debate over the previously dominant free trade agenda in the U.S. could have important implications for the future of the Doha Round. ▣

Resources

Agriculture Domestic Support Simulations: http://www.tradeobservatory.org/library.cfm?refid=87952

Applied Tariff Simulations: http://www.tradeobservatory.org/library.cfm?refid=87953

IATP analysis of U.S. WTO Agriculture Proposal of October 10, 2005: http://www.tradeobservatory.org/library.cfm?refID=77195

WTO Faces Moment of Truth on Development: http://www.tradeobservatory.org/library.cfm?refid=87286

Why is the Doha Round Failing?: http://www.iatp.org/iatp/library/admin/uploadedfiles/Why_is_the_Doha_Round_failing.pdf

Agriculture Commodity Groups Letter to President Bush: http://www.ncga.com/letters/PDFS/06_02_06NCGA-AgJointLetterPresidentBushWTO.pdf