What to do about Doha: A Look Inside the U.S.

INTRODUCTION

On June 21, 2007, the WTO Doha Round hit another setback when talks collapsed between the U.S., European Union, Brazil and India, known as the G4. Insurmountable divisions over how to reform trade in agriculture, manufactured goods and services remain as prominent today as they have been since the Doha Round was launched in 2001.

Nevertheless, the Director-General of the WTO, Pascal Lamy, and some WTO members continue to push for a Doha deal. Most members, though, are disillusioned and doubt the prospects of a deal in 2007. Many eyes are focused on the U.S.

The U.S., still the number one global economic power, has played and continues to play a major role in any outcome at the WTO. Its continued support for a strong multilateral trading system (or its reform) is critical. And yet, vigorous internal debates within the U.S. on trade and agriculture policies have sparked concerns among trading partners that this support is being eroded.

So where does the U.S. stand in relation to Doha? Below are short analyses of four developments in the U.S. to help answer this question.

THE NEW U.S. CONGRESS

Elections held in November 2006 gave the Democrats control of both the House and the Senate. This major shift has stripped President Bush of much of his influence on the legislative agenda. The Democratically-controlled Congress will write the 2007 Farm Bill and have final say on any trade deals negotiated by the Bush Administration.

Resistance to trade agreements modeled on the Uruguay Round and NAFTA (North American Free Trade Agreement) is growing among the U.S. public. Many of the newly elected Democrats owe their election victory to their critical stance on free trade and its effects. Labor and environmental organizations in particular have called free trade assumptions into question and are forcing Congress to think harder about who loses from policy changes that favor the free movement of capital and goods.

While the Bush Administration is still in charge of trade negotiations and wants a Doha deal to be finalized (with a view toward ensuring more market access for U.S. based firms), it knows that Congress, and its electoral base, has a different view. Further handicapping the Bush Administration is its all-time low (29 percent on July 10, 2007) approval ratings, due in large part to the war in Iraq.

Some influential U.S. firms are pushing for a deal. Many of them do so because they are transnational firms with operations in dozens of countries, looking to increase South-South trade or to facilitate their intra-firm trade between foreign affiliates and the U.S.

But does the U.S. Congress want a Doha Deal? In brief, the answer is: not enough. There is no longer the clear and focused alliance of interests that pushed to ensure that the Uruguay Round Agreements were approved.

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THE EXPIRATION OF "FAST TRACK"

"Fast track" authority, which gave the Bush administration the ability to negotiate free-trade deals that Congress cannot amend but merely approve or disapprove on a simple up-or-down vote, expired on July 1, 2007.

The loss of Fast Track is a strong limitation to the Bush Administration's ability to negotiate trade deals, as trading partners will be reluctant to make concessions when they know that the final deal could be picked apart by Congress after the signature. This is especially true for Doha, as Pascal Lamy emphasized on June 12, 2007 at an annual meeting of the Bretton Woods Committee: "Many U.S. trading partners will consider that no movement to renew trade promotion authority would signal that the U.S. might have lost faith in the Round, and this would certainly have an impact on the dynamics of the negotiations."

On May 10, 2007, the "secret deal" agreed to by the Bush Administration and Democratic Congressional leaders to include environmental and labor standards in pending bilateral trade agreements signals further changes. The deal is unpopular among many Democrats for being full of loopholes that would undercut effective enforcement. The backlash against the Democratic leadership for cutting the deal is indicative of the deep divisions on trade even within the same party. The internal debate on trade is likely to continue throughout the next election cycle through the fall of 2008 when a new President and Congress will be elected. Any renewal of Fast Track in the meantime looks highly improbable.

THE FARM BILL

The 2002 Farm Bill (The Farm Security and Rural Investment Act) will expire at the end of September 2007. Every five years, Congress must renew the farm legislation. Congress is scheduled to submit legislation to the President by the end of September, but it is becoming increasingly possible that it will take longer to complete the Farm Bill.

The 1996 and 2002 Farm Bill debates featured important discussions on trade. U.S. farmers were asked to trust export markets to increase their sales. But after a decade of depressed commodity prices, farmers have grown skeptical of international trade as the road to improved incomes.

In the meantime, U.S. ethanol production has been expanding at a phenomenal pace, doubling between 2001 and 2005 and likely to double again in the next few years. Most of the attention of U.S. agriculture policy-making has thus significantly shifted to domestic demand.

Some legislators and a number of private and public interest groups have tried to use the Doha negotiations to influence the outcome of the Farm Bill. Agriculture Secretary Mike Johanns, for instance, has argued that one of the goals of the 2007 Farm Bill should be to protect U.S. agriculture programs from attack under multilateral trade rules.

But these arguments are not sticking. The Farm Bill has its own, independent track and seems unlikely to make the kinds of changes other WTO members would expect. U.S. legislators are reluctant to let outside pressures influence their decisions. One of the major proposals under discussion in the House would simply extend the controversial 2002 Farm Bill, even though a number of the 2002 provisions have been found to be inconsistent with U.S. obligations under WTO rules. While there is much pressure to reform U.S. agricultural policy from those who want to support renewable energy, reduce environmental damage, and improve public health, very little of this organized public pressure has anything to do with trade.

THE BIOFUELS BOOM AND U.S. DOMESTIC SUPPORT

One of the main focuses of the Doha agriculture negotiations has been the level of U.S. spending on "trade-distorting" agriculture support. The U.S. is currently allowed to spend US$19 billion in Amber box subsidies at the WTO. USTR has been reported lately to offer to cap its spending at US$17 billion. But given the Congressional approach to the Farm Bill and fast track, how could this new offer be made? And is it likely to make a difference for world markets?

Most of U.S. agriculture subsidies currently go to five crops: corn, soybeans, wheat, cotton and rice. The mechanisms are structured in such a way that payments are triggered when world prices decline. The expanding biofuels demand has reversed the decline in world commodity prices and therefore has also reduced U.S. spending on agriculture support. U.S. farm subsidies linked to prices have already dropped for 2006 and 2007, which made it possible for USTR to talk about lower subsidy numbers.

Agricultural dumping for major commodity crops has also declined due to the new biofuels dynamics. While some corn needed to meet higher ethanol demand could come from increased production, the U.S. Department of Agriculture (USDA) states that much of the additional corn needed for ethanol production will be diverted from exports. The impact on world markets could become significant, not only for corn but also for soy, cotton and wheat that look less interesting to U.S. farmers.

However, world prices continue to be volatile and it is unclear how long prices will stay high, or how the biofuel market will develop. And structural reforms to the Farm Bill that would stabilize fair prices, keep spending down, and stop export dumping are not on the table: not in the U.S. or at the WTO. The changes made to Blue Box spending in July 2004 moved WTO law a step further from those goals (see link below to IATP analysis "The new blue box, a step back for fair trade").

CONCLUSION

The U.S. administration is one of the strongest voices pushing a negotiating agenda at the WTO that is modeled on the Uruguay Round. But the model is not getting the support it needs: neither at the WTO nor inside the U.S.

At the WTO, negotiations continue to be deadlocked, and each attempt at a breakthrough ends in a new collapse. Inside the U.S., particularly in relation to agriculture and trade, there is increasing dissent and unease with this agenda.

It is time for all WTO members, and particularly the U.S., to take a step back from the current path, rethink the model of trade that is needed, and work towards a different set of trade rules. One that includes measures to redress imbalances and inequities enshrined in the existing trading system, and that looks harder at the impediments to realizing a "fair and market oriented" trading system.

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