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Concluding the Doha Round
The Reality Check

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Background

Time is running out, while the countdown has begun. After more than five months of lull, WTO members seem to be returning back to the negotiating table for some serious business. The WTO chief, Pascal Lamy, had already signalled the Geneva-based trade negotiators to start informal consultations in November 2006. Though nothing much has changed since the official suspension of talks in July 2006, any further delay in resumption may result in losing the ground covered. Moreover, the present round has also overshot its original time-period by two years. The 2001 Doha Declaration had spoken about December 2005 as the date of completion.

The negotiations were suspended in late July 2006 due to irreconcilable differences among G-6 countries over farm subsidies and tariff cuts. The various negotiating groups as well as the Trade Negotiating Committee (TNC), which oversees them, have not met formally since the suspension of talks. However, key WTO members have continued their informal consultations at Geneva and on the sidelines of major international meetings held in the post-suspension period in Brazil, Australia and Vietnam. Unfortunately, they have not been able to overcome the differences.

In spite of the not so encouraging outcome of members' informal consultations and some high profile meetings involving heads of states, Pascal Lamy, however is making one last-ditch effort to restart the Doha negotiations. Lamy is aware of the fact that whatever little chance of finishing the round by 2007 depends upon achievement of significant progress in negotiations by the early spring. If this is not done now, then the Round could go into hibernation. Therefore, and as suggested by many including the authors of this paper, Lamy may also be thinking of coming out with his own 'text' on the lines of Dunkel Draft. There is considerable opposition to this route, but one does not know what can happen when the push comes to a shove.

Exploiting the Limited "Window of Opportunity"

Lamy, the WTO DG, in his efforts to resume trade talks simultaneously cautioned members that the "window of opportunity" is limited, which arises mainly out of three factors. Firstly, the end-June expiry of the US Presidential fast track power – 'trade promotion authority' (TPA). Secondly, the persistent calls by Trade Ministers to restart negotiations. Thirdly, the increase in the number and frequency of informal consultations among WTO members. Lamy, however, at the moment is not in favour of calling for full-fledged negotiations that includes a ministerial level meeting because nothing has changed since he announced a suspension of negotiations in July 2006. He has proposed a technical discussion to prepare the ground, stressing that it is premature at this stage to move on to the ministerial pow wows.

The suspension in the Doha talks lasted almost five months. WTO members have not used the suspension to reflect seriously on the state of the Doha Agenda and the potential cost-benefit effects of concluding the round. While the US is not ready to move first, the EC Trade Commissioner, Peter Mandelson, is not sure how much support he can mobilise from the EU member states to accommodate G-20's demands of further cuts in farm tariffs. Mandelson's worry is mainly because of the pre-election period in France. The US on the other hand is in no mood to oblige the G-33 by accepting their demand to exempt 20 percent of tariff lines from reductions. According to reliable sources, the US is now willing to accept 3 percent tariff lines to be designated as special products as against 5 percent tariff lines proposed originally.

In a nutshell, there has not been any substantive shift in members' positions. Members, however, have expressed a strong desire to come back to the negotiating table. Lamy in his December 14, 2006 report to the TNC said, "The political will to conclude the Round is being

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Box 1: Delegations' Call for Progress

"The total collapse of the negotiations was a real possibility. A failure, they contended, would threaten the credibility of the multilateral trading system and risk giving rise to a wave of protectionism." – Argentina, Chile, and Japan

"In spite of the absence of a breakthrough on agriculture, Members have been making a sincere attempt to better understand each others' positions." – India

"Technical discussions have limits. Developed countries would have to give some sort of a signal – implying concessions – to determine how the talks would proceed." – Brazil on behalf of G-20

"The need for developing countries is to receive flexibilities to shield certain products from the full force of tariff reduction, and to protect farmers from the effects of import surges. The extent to which Members, both developed and developing, will be able to shelter products from liberalisation has been an extremely contentious issue in the negotiations." – Indonesia on behalf of G-33

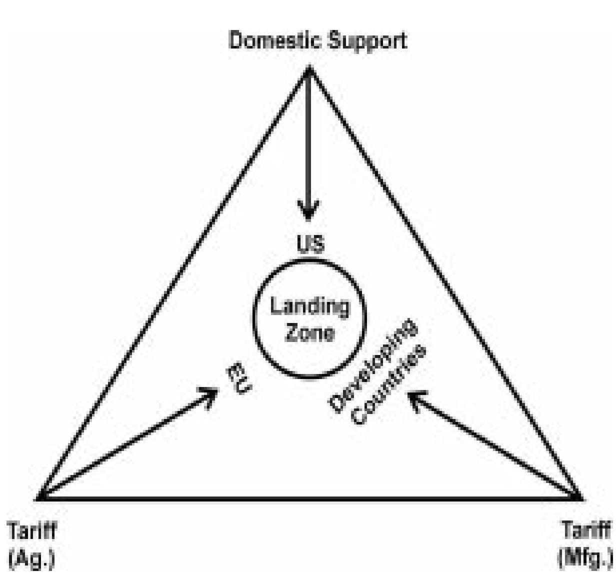
Australia, speaking for the Cairns Group of farm exporters, a bloc that includes both G-33 members and countries firmly opposed to the G-33's demands, said that the group it leads had been working to refine views on these flexibilities.

reaffirmed constantly across the board. New flexibilities have been announced by major players in general terms (See Box-1). The challenge is to translate this political will and flexibility signals into substantive changes in position, which are necessary in order to unblock the process."[1]

Restarting Negotiations: The Bottom line

Given the state of play described above, concluding the Doha round in 2007 looks difficult but not impossible. If countries come out with new flexibilities without diluting the basic development mandate, the Doha round can be concluded. In July 2006, when the talks were suspended, there were three contentious issues on which Lamy wanted members to narrow down their differences. They were: agriculture tariff cut that includes treatment of special and sensitive products, agriculture subsidies reduction and tariff reduction under non-agricultural market access (NAMA). This was also termed as Lamy's 'Triangle' (See Fig.1).

Fig.1 Lamy's 'Triangle' of Issues



As Lamy has long held that unblocking the negotiations would require parallel progress on a 'triangle' of issues - the US would have to agree on deeper cuts in domestic farm support; the EU to provide increased agricultural market access, and developing countries (DCs) such as Brazil and India to lower industrial tariffs. DCs are also faced with a demand to reduce their special products range/lines. The EU and the US also want the DCs to open their services market.

As already mentioned, there has not been any perceptible positive shift in the stance of key players since the suspension of talks in July 2006. However, at present much depends upon the outcome of the upcoming review of the US Farm Bill, due in early 2007. As regards the EU, the impression is that in principle they have agreed to accommodate G-20 demand on agriculture tariff cuts. But it would not be easy for DCs to satisfy their demand on sensitive products.

The US Farm Bill definitely holds the key of early conclusion of Doha round. From the mid-1980s through the 1990s, the US undertook major initiatives in domestic agricultural policy reform and global agricultural trade liberalisation. The 1996 Farm Bill moved the US farm policy far toward market-orientation. However, the 2002 Farm Bill reversed this course, increasing government spending and intervention levels in farm subsidies, making it difficult for the US to play a leadership role in the early stages of the Doha Development Round.[2] With the Doha Development Round, the 2007 Farm Bill provides the US another opportunity to reform its farm policy.

US farm subsidies in 2005 rose 68 percent to the highest level since 2001. Hurricanes in the Gulf Coast region and low commodity prices pushed subsidies to US$21.1bn, up from US$12.5bn in 2004. Government subsidies to corn and cotton farmers reached an all-time high last year. However, the US Department of Agriculture has adopted transparency in the area of subsidies that could lead to a saner farm policy. It has created, and is making available to the public, a database of who receives farm subsidies and how much.

The *Washington Post* looked at the USDA's numbers and reported that from 1989 to 2003 the share of federal subsidies going to the largest farms, those with revenues over US$500,000, climbed from 13 percent to 32 percent while the share going to farms with revenues under US$250,000 fell from 63 percent to 43 percent. And there is nothing to suggest those trends are not continuing. The agribiz lobby uses the image of the small, struggling family farm to pitch for subsidies to the Congress and the public, but the money increasingly goes to the largest business-owned farms. The practical effect is to squeeze out the small and medium size operations.

Another contentious issue is designation of Special Products (SPs) for DCs. The G-33 in its 2005 proposal states that at least 20 percent of agricultural tariff lines should be treated as special, with tariff bindings on half of these lines subject to no cuts, one quarter to cuts of 5 percent and the remainder to cuts of 10 percent. So far, G-33 has not shown any inclination to dilute its original demand on SPs. In their very recent statement before the General Council (December 14-15, 2006), the Group once again reiterated, "the food security, livelihood security and rural development needs of G33 Members in terms of flexibilities are not being sought as open ended opt-outs". These three concerns are the main criteria for designating SPs and Special safeguard Mechanism.

The G-33 has also strongly reacted and completely rejected the findings of the recent World Bank study on likely implications of SPs on poverty in low-income countries. The study using household data for four poor countries finds that if these flexibilities were used the poverty increases would be more frequent, and larger, than poverty reductions. The results highlight the need for caution in using the flexibility provided by this instrument and the need for other measures, such as improvements in technology, rural infrastructure and education, if poverty is to be successfully reduced.[3]

The degree of flexibility for SPs is very much linked to how Sensitive Products are treated. To designate a certain percentage of agricultural tariff lines as Sensitive Products is one of the major demands of the EU and G-10 countries. At present, the EU and G-10 countries respectively demand 8 and 10 percent of their tariff lines to be designated as sensitive products. G-33 countries, therefore, would definitely like to ensure that flexibility for SPs must be greater than those for sensitive products.

Another issue, which could also be a deal breaker, is renewal of the "peace clause"[4]. This could satisfy the US demands but for DCs it would be suicidal. Therefore, rightly so, India is strongly against its renewal, though some of the DCs are ready to concede.

Restarting Negotiations: The Realpolitik

From the above analysis it appears quite clearly that the US domestic farm subsidies are a major obstacle to wrapping up the Doha round of world trade talks. The current open-ended farm bill expires on September 30, 2007, and circumstances have changed. In January, the Bush administration is set to introduce ideas on what farm policies are desirable and WTO-compatible. The new lawmakers will also float various proposals. Conservation groups, fiscal conservatives and US trading partners will push for a move away from subsidised production, but the changed political environment following the November 2006 mid-term Congressional elections may prove an obstacle to reform

Agricultural reformers in US see farming as only one of a number of activities that are worthy of public support in rural areas, and would like to reorient farm policy toward the provision of ecological services and encouragement of better land stewardship. Along with those that advocate policies to benefit small farmers, environmental groups have articulated credible alternative programmes.

Further impetus has come from the deteriorating budget situation in the US. The widespread realisation that funds paid to growers of programme crops are distributed to a limited number of farmers reinforces this fiscal consideration. After five years of record budget deficits, the country cannot afford profligacy. The Democrats have taken over Congress and they too are preaching fiscal responsibility.

The third source of pressure comes from US trading partners, either through the medium of the Doha Round or as a result of challenge under existing WTO rules. In addition, the proliferation of bilateral and regional trade agreements is having a small but cumulative impact on the scope of farm policy. Moving away from price supports and payments that are coupled to output levels toward the use of "decoupled" subsidies would give the US more flexibility in trade talks. It will also help to avoid legal challenges from countries, which are at a disadvantage due to its subsidies.

Conclusions

As the situation stands today, it all depends upon the US – how far it would travel on cutting domestic farm subsidies. At present, the US is ready to freeze the total subsidy payment at US$19bn, which is marginally lower than US$21bn given in 2005. Peter Mandelson, Europe's trade commissioner, believes that the way to unblock the round would be for the US to put a ceiling of US$15bn (£7.6bn) on subsidies, compared to the current spending of US$19bn.[5] The developing countries – G-20 and G-33 – however, have demanded 75 percent cut in domestic subsidies by the US. It means, to satisfy this demand, the US needs to prune down its domestic subsidies to around US$5bn.

If the deal could be clinched at US agreeing to freeze its domestic support at US$15bn, then, it is a matter of US$4bn only and that too which benefits mostly big farmers/businesses of the US. Now, the big question is, should global welfare of billions of dollars, which is likely to result from successful conclusion of Doha round be mortgaged to the US resistance to reduce domestic subsidies by another US$4bn?

Anderson 2004[6], and BDB 2003[7], summarise the overall net benefits from halving subsidies and trade barriers (optimistic Doha) and for a pessimistic Doha outcome of a 25 percent liberalisation, assuming proportionately higher (lower) costs of adjustment when the reform is greater (smaller). While under the optimistic scenario (50 percent liberalisation of trade barriers and agricultural subsidies), the likely benefit would be US$23,040bn (net present value in 2005), in pessimistic Doha (25 percent liberalisation), the estimated benefit would be US$11,520bn. In the extreme case of 100 percent liberalisation, the likely benefit has been estimated at US$46,080bn.

These figures are based on certain assumptions and may be challenged. However, no one can disagree on the overall global welfare, which is bound to result from successful conclusion of Doha round.

The first three months of 2007 are extremely crucial for the Doha round. First, the US is likely to reveal their cards on what they have in mind about the upcoming review of US Farm Bill. Secondly, key WTO negotiators will enter into a higher gear of talks at Geneva, while Lamy and his team will push them harder to achieve the landing zone. So, we keep our fingers crossed and hope for positive outcomes very soon.

Endnotes

1 http://www.wto.org/english/news_e/news06_e/tnc_chair_report_14dec06_e.htm
2 The US Farm Bill and the Doha Negotiations: On Parallel Tracks or a Collision Course? An IPC Issue Brief, By Robert L. Thompson, September 2005
3 Potential Implications of Agricultural Special Products for Poverty in Low-Income Countries, by Maros Ivanic and Will Martin, The World Bank
4 A provision of the WTO's Agreement on Agriculture that protected WTO member countries from certain WTO legal action until January 1, 2004. Under the peace clause, a country could not be sued for utilizing subsidies otherwise inconsistent with the WTO Agreement on Subsidies and Countervailing Measures so long as the support levels for the commodity in question remain below a base period (1992).
5 "Britain joins international efforts to give a 'kiss of life' to stalled Doha trade talks", The Guardian, January 1, 2007.
6 Anderson, Kym 2004, "Subsidies and Trade Barriers", in Global Crises, Global Solutions, edited by B. Lomborg, Cambridge and New York,: Cambridge University Press (re-print of report for the Copenhagen Consensus)
7 Brown, D., A Deardorff and R.M. Stern, 2003, "Developing Countries' Stake in the Doha Round." Research Seminar in International Economics Discussion Paper 495. University of Michigan