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The WTO: What next?

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The collapse of the World Trade Organization (WTO) negotiations under the Doha Work Programme has caused widespread concern. News reports and editorials have declared the talks virtually dead.

Though the governing General Council of the WTO did not take a formal decision on the talks, there is a de facto suspension. But the multilateral trading system has produced surprises in the past and it is more than likely that the negotiations may start once again in full steam soon.

The developing countries will be well advised not to be complacent with the suspension but to be prepared for an early resumption. This paper gives reasons for this anticipation and also gives some suggestions on what the developing countries should do.

CRESCENDO TO COLLAPSE

This latest collapse of the WTO negotiations was not totally unexpected. The negotiating process had been accelerated by raising a crescendo of expectations and creating an air of crisis and tension. Unreal targets were fixed from time to time and mini-ministerial meetings of various sizes were held too frequently.

Perhaps the strategy was to push the ministers into tight schedules so that they would hurriedly soften their positions. But the stakes and interests are too complex and diverse for such tactics to be effective. What is needed is a meeting of minds in a cool atmosphere rather than the crashing of heads in artificially created turmoil.

The process generated frustration among those that had assumed the role of prime movers: the ministers of Australia, Brazil, Japan, India and the US, and the trade commissioner of the European Commission representing the European Union (EU) (these six member states are jointly called the G6 in WTO parlance).

They decided to suspend their joint deliberations. Other countries appear to have accepted this position, though not approving it formally. And yet it is very likely that the negotiations may be resurrected in not too distant a future, maybe even in the early northern autumn. There are three reasons for this assessment.

EARLY REVIVAL LIKELY

Firstly, the major developed countries, particularly the US and the EU, have within their grip some significant concessions from the

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developing countries that they would not like to slip away.

The developing countries are agreeable to the near-total binding coverage of industrial tariffs, implying that they will put an obligatory and enforceable tariff ceiling on almost all their industrial products.

A coefficient of 20 for the developing countries in the "Swiss formula" for cutting tariffs on industrial products (with the consequence of capping the industrial tariffs at 20%) and 35-45% reduction in their tariffs on agricultural products on average are within the reach of the developed countries, in their calculation. Besides, liberalization in several services sectors through sectoral plurilateral negotiations is very much on the cards.

The resulting opportunities for enhanced market access in the goods and services sectors in the developing countries may be too tempting for the major developed countries to sit back in sullen inaction after the recent collapse of talks.

Secondly, the "fast-track" negotiating authority given by the US Congress to the US executive expires at the end of June 2007 and it is unlikely to be extended. Hence the motivating factor mentioned above is likely to spur the major developed countries to restart the talks in such a way as to catch this deadline. And the following brief examination of the timetable indicates that it is practicable.

The US executive is required to present any agreement resulting from the negotiations to Congress at least 90 days before end-June 2007. Assuming that the executive would take about a month to prepare the presentation, the agreement along with various schedules should be ready in its final form by end-February 2007.

The preparation of schedules of commitments by governments and their mutual verification will be an arduous task, but, presuming intense work under time pressure, a period of three months can be considered adequate for this exercise.

This brings us to end-November 2006 for a complete agreement on modalities in the agriculture and NAMA (industrial tariffs) negotiations. Other substantive subjects of negotiations under the Doha Work Programme can go on concurrently until end-November 2006. And some remaining subjects can be handled even later, until end-February 2007. To achieve the end-November deadline, the talks should be resumed early in autumn.

Thirdly, the gaps in positions among the G6 countries on the three priority issues that they took up for resolution are really not so large as to be totally unbridgeable, as will be explained below.

PRIORITY ISSUES

We may recall that the focus in the recent negotiations within the G6 was the priority resolution of three elements: (i) total trade-distorting support (TDS), i.e., the sum of Amber Box, Blue Box and *de minimis* subsidies, in agriculture in the US; (ii) tariffs on agricultural products in the EU; and (iii) industrial tariffs in the developing countries.

Though the differences within the G6 had considerably narrowed down, an agreement could not be reached and the talks collapsed. The differing positions, as reported, are briefly given below.

The US reportedly offered to reduce its total TDS to the level of US$23 billion. The G20 developing-country grouping (of which Brazil and India are influential members) had wanted it to go down to $12 billion, while the EU would have expressed satisfaction if the level was brought down to $15 billion.

On agricultural tariffs, the EU reportedly offered to reduce its average tariff by 51 percent. The G20 and the US had asked for 54% and 66% reduction respectively.

With regard to industrial tariffs, the EU has reportedly suggested a coefficient of 15 for the developing countries in the Swiss formula. The US wanted a lower coefficient, while Brazil and India appeared to be agreeable to 30.

Among these subjects, agricultural tariffs do not appear to have been the main bone of contention. Even though France had openly opposed going beyond the offer of 39% reduction that the EU made earlier in October 2005, the EU Trade Commissioner appears to have sensed the overall mood in the other EU member countries and offered 51% reduction. Perhaps the EU might not have found it too difficult to move slightly higher to match the G20 expectation of 54 percent.

The really hard issues were the other two: domestic agricultural subsidies in the US and industrial tariffs in the developing countries.

In the area of domestic subsidies, the G20 had asked for 70-80% reduction in the total TDS in the developed countries. With the levels in the US and EU of respectively $48 billion and 110 billion euro (year 2000, the last year of notification), the G20's expectations of the reduced values (i.e., after reduction by 70-80%) were respectively $12 billion and 27 billion euro.

For their part, the US and EU offered to reduce the levels to $23 billion and 33 billion euro. Perhaps there was some indication that the EU might be finally willing to go down to the level suggested by the G20. Hence, the main target in this respect was the US, which refused to offer any further reduction.

In respect of industrial tariffs, Brazil and India (members of a coalition of 11 developing countries commonly called the NAMA-11) perhaps appeared to be moving towards a coefficient of 25 in the Swiss formula, but the demand from developed countries was for 15.

After the protracted course of negotiations since their launch in 2001, passing through various vicissitudes, these differences would not appear to be such as to cause a total breakdown.

For example, there was scope for the US to come down slightly lower with regard to its TDS, say $19 billion, which is near its current applied rate. The freedom to raise subsidies in the Green Box category and thus neutralize the effect of any reduction in the TDS would have tempered its hesitation. Similarly, considering the current trends in the negotiating positions of Brazil and India, going slightly lower in the coefficient in the Swiss formula in the NAMA negotiations does not appear impossible.

Indeed, the differences among the G6 did not really appear unbridgeable. But the environment was not propitious. Also, the whole exercise had been given a high profile and visibility that partly contributed to the hesitation of the ministers to appear too soft.

With some reflections in the summer and following some informal contact among the main actors, which has already started, it is likely that the corridors of the WTO will not remain quiet very long. And that is the scenario for which the developing countries must remain fully prepared.

POINTS OF CAUTION
Domestic subsidies in agriculture

The developing countries have got some time now to reflect on the implications of the various figures that were proposed in the recent negotiations and that had some chance of acceptance in the G6. There are grave risks if these proposals are adopted.

Let us first take the case of domestic agricultural subsidies in the US and EU. Even if the EU reduces its total TDS to 27 billion euro and the US to, say, $15 billion, will it be an effective safeguard against the possible damage to the developing countries' farmers caused by subsidized agricultural imports from the US and EU? And will it expand developing countries' market access in the US and EU?

The answer is a clear "no" because of two factors: (i) the Green Box subsidies and (ii) the possible concentration of the reduced total TDS on a limited number of products.

Green Box: There is a massive escape route for the US and EU through the Green Box subsidies, i.e., those given under the cover of Annex 2 to the WTO Agreement on Agriculture (AoA).

These subsidies are not under discipline so far, on the presumption that they are not trade-distorting. But enough evidence is now available to indicate that the Green Box subsidies can distort production and trade. These subsidies have wealth effects and also improve the risk-taking tendency of the recipient farmers. They enhance the staying capacity of the farmers in agriculture and support their unviable agricultural production.

Some forms of Green Box subsidy cause serious concern, particularly decoupled income support, insurance against income loss and investment aid, given respectively under paragraphs 6, 7 and 11 of Annex 2 to the AoA. Any amount can be given through these routes without limit, resulting in unrestricted distortion of production and, thereby, of trade.

These open and unrestrained provisions have been variously used by the US and EU from year to year. For example, the amount for decoupled income support in the US was $4 billion in 2001 and that for investment aid in the EU was $5.7 billion in 2001-2.

After reducing their total TDS to an agreed level, the US and EU can easily enhance the amount given under these provisions of the Green Box, thus nullifying the effect of the TDS reduction. All they have to do is make changes in their legislation and that will be entirely their internal process. Thus, obtaining a commitment for reduction of total TDS without closing the escape route afforded by the Green Box can be very much an infructuous exercise.

We have the past experience of implementation of the agreements emerging from the Uruguay Round negotiations, where the major developed countries utilized escape routes in agriculture and textiles. In agriculture, they fulfilled their commitment of reducing their Amber Box subsidies but enhanced their total subsidies. In textiles, they fulfilled their obligation of liberalizing the sector over four phases without actually bringing about any effective liberalization until the end of 2004.

They used the escape routes that had found their way into the respective agreements. There is no assurance that they will not do the same once again. An effective safeguard can come only by disciplining the criteria of the Green Box, which is already mandated by the July 2004 negotiating framework. The G20 has already given some proposals, which need to be further amplified and specified, as suggested below.

Product concentration of TDS: The second risk relates to the concentration of the TDS on a limited number of products. The total TDS in the US and EU, even if reduced, can be highly injurious to the developing countries if the subsidies are concentrated on a small number of products. It can infuse high competitive strength to the particular products.

Hence it is necessary to prescribe product ceilings for the total TDS. The US and EU have been giving very high subsidies for some products in the past and there will be a natural tendency to prescribe ceilings based on such a historical period. This will not be proper as now the objective is to have effective reduction in subsidies.

Industrial tariffs (NAMA)

In the NAMA negotiations, the current figures under consideration for the coefficient in the Swiss formula are: 20-30 for the developing countries and around 10 for the developed countries.

Taking the highest figure, 30, as the coefficient for the developing countries, their average tariff of 28% will be reduced to 14%, i.e., by 50 percent. Taking a coefficient of 10 for the developed countries, their average tariff of 4% will be reduced to 3%, i.e., by only 25 percent. This will be a clear reversal of the agreed principle of "less than full reciprocity" for the developing countries and will be extremely unfair.

The WTO's Hong Kong Ministerial Conference, which convened last year, decided to use the Swiss formula for tariff reduction in industrial products and now one has to work within this frame. The choice of the coefficient in this formula is crucial in determining the extent of tariff reduction. Hence it is necessary that the selected coefficients are such that they result in "less than full reciprocity" by the developing countries.

The most appropriate manner in which the principle of "less than full reciprocity" can be followed is for the developing countries to open their market to the developed countries to a lesser extent than the market-opening undertaken by the developed countries for the developing countries.

One way of achieving this is for the developing countries to effect lesser reduction in their absolute tariff numbers than the developed countries. For example, if the developed countries reduce their tariff from 10% to 4% (thus having a reduction of 6 percentage points in absolute terms), the developing countries can reduce their tariff from 35% to 31% (a smaller reduction of 4 percentage points). The respective coefficients in the Swiss formula for the developed countries and the developing countries could then be worked out accordingly.

If the developing countries are more accommodating, "less than full reciprocity" could be realized by means of different percentage reductions in tariffs. For example, the developed countries could reduce their tariffs by, say, 60%, while the developing countries reduce their tariffs by 40 percent. Again, the respective coefficients in the Swiss formula could then be worked out suitably.

In any case, considering simple numerical parity between the coefficients applicable to the developed countries and the developing countries (for example, 10 for the former and even 30 for the latter) will not conform to the agreed principle of "less than full reciprocity".

SOME SUGGESTIONS
Domestic subsidies in agriculture

Green Box subsidies: Any agreement for reduction of the total TDS will be ineffectual if there is no discipline on the Green Box by defining specific criteria.

An effective way to stop Green Box subsidies from being trade-distorting is to prohibit these payments altogether. If that is not possible, these payments should be kept at a minimal level in order to minimize the trade distortion.

Some criteria concerning the eligibility of farmers for the payments and some ceiling on the payments are therefore called for. For example, as an initial step to ensure that the Green Box subsidies are non-trade-distorting or minimally trade-distorting, the following criteria may be established:

(i) Payment should be made only to individual farmers. Corporate entities should be totally excluded from such payment.

(ii) Even among the individual farmers, there should be some criterion of eligibility that could be based on income, in recognition of the fact that comparatively richer farmers do not need this support. For example, only those farmers having an annual income from all sources of up to 10% of the average annual income in the country should be eligible for the payment.

(iii) There should be a ceiling on the amount of annual payment to an individual farmer, say, $5,000 to 10,000.

Product-specific ceiling: In order that the total TDS is not concentrated on a small number of products resulting in high subsidization of such products, it is necessary to fix product-specific ceilings.

As the subsidies on some products have been high in the past and the objective now is to have low subsidies, the past levels of subsidies must not be the basis for fixing the ceiling. It will be more rational to fix the product-specific ceiling on the basis of a certain percentage of the annual production of the particular product, say, 10% of production.

Industrial tariffs (NAMA)

The primary focus here should not be the coefficients in the Swiss formula but the percentage reduction in tariffs. The appropriate coefficients to bring about such tariff reduction can then be worked out accordingly.

For example, let us assume that the developed countries and the developing countries are to reduce their tariffs respectively by 60% and 40 percent. For such reduction in their respective tariffs of 4% and 30%, which are close to their respective averages, the coefficient for the developed countries works out to 2.7 (or 3, after rounding off) and that for the developing countries is 45.

Taking another example, if the developed countries and the developing countries are to reduce their tariffs respectively by 30% and 20% from the current levels of 4% and 30%, the respective coefficients for the developed countries and the developing countries will be 9.3 (or 10, after rounding off) and 120.

These examples show that the coefficients of 10 and 20 (for developed and developing countries respectively) which were under consideration in the G6 are totally out of place. If the coefficient for the developed countries is 10, that for the developing countries will need to be 120 to effect a two-thirds reduction by the developing countries as compared to the developed countries.

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