

**The Current Doha Round: Another Free Fall of an American Industry
By Former Congressman Larry Combest (R-TX)**

November 2000: With great fanfare, the Doha Round is launched. An ambitious agenda, focused on achieving dramatic improvements in market access in agriculture, industry, and services, is set forth. With few exceptions, American agriculture applauds the new Round, filled with high hopes that this time the unfulfilled market-opening promises of past rounds of WTO trade negotiations will be achieved.

The markets of the newly emerging developing economies – where vibrant growth in demand for food and fiber is foreseen but which have largely evaded significant market access commitments in past WTO trade rounds – are thought to be of greatest importance.

Fast forward, past a junkyard of wrecked Ministerial meetings and missed deadlines, to July 2008: A meeting of some thirty Trade Ministers has been called in an effort to reach agreement on “modalities” – the parameters or guidelines which will determine what concessions countries must offer in the final stage of the negotiations. The goal is to complete this final stage by the end of 2008. A week-long impasse appears to be breaking when a July 25 compromise paper emerges from a select group of Ministers (termed the G-7: Australia, Brazil, China, the European Union, India, Japan, and the United States).

This paper calls for an exorbitant 70% reduction in U.S. farm support while allowing enormous leeway to developing countries. The latter would be permitted to make minimal tariff cuts for “special products” constituting 12% of their tariff lines (including zero cuts for 5%). Moreover, developing countries would be provided with a new special safeguard mechanism (SSM) that would allow them to impose additional duties on agricultural imports that would not only raise total charges above whatever reduced tariff levels are agreed to in the Doha Round, but could also result in the imposition of charges exceeding tariff commitments agreed to in the 1994 Uruguay Round or in WTO accession negotiations (such as those made by China and Taiwan).

Combined with the lengthy negotiating text compiled by Ambassador Falconer, the chairman of the agricultural negotiations, most of which has already been tacitly agreed to by delegates, this compromise would have accomplished two things: (1) it would put U.S. domestic support policies in a straight-jacket; (2) it would virtually ensure that no meaningful market access would be secured for U.S. agricultural exports to the all-important emerging developing economies – countries that will not only be our markets in the future but, in many cases, our major competitors.

The picture seems no rosier in the areas of NAMA (non-agricultural market access) and Services. The tariff formulas put forward in the July 25 paper were almost universally seen as offering little new access to the developing country markets for industrial products while cutting tariffs in the U.S. and other developed countries to the bone. Negotiations in Services seem hardly to have begun and agreement to commit even to what countries are already doing unilaterally is widely seen as a laudable but probably unattainable goal.

Despite some evident distaste, U.S. negotiators accepted the July 25 paper as a basis for negotiations. But it was still not enough for the developing countries. Led by India and China, they rejected this paper, calling, among other things, for even less discipline in applying the SSM and even more flexibility for special products as well as a further weakening of the NAMA text.

After the breakdown of the July Ministerial, it was widely expected that negotiations would languish through the remainder of this year. However, despite the Doha Round's seeming irrelevance to the world financial crisis, its devotees succeeded in inserting language into the communiqué of the just concluded Financial Summit instructing Trade Ministers to give it another try. As such, we will almost certainly see another Ministerial this year. And we can fully expect that, once again, the burden will be on the U.S. to make further concessions and to show "flexibility" in acceding to the demands of other WTO Members for ever weaker commitments.

How did we get in this position?

The Ministerial Declaration launching the Round – termed grandly and misleadingly the "Doha Development Agenda" – is littered with references to the need for "special and differential" treatment and "less than full reciprocity" for developing countries. This language and the rhetoric surrounding the launch gave rise to two notions that have ever since plagued the negotiations: (1) that these negotiations concerned concessions by developed countries – developing countries need to contribute little or nothing to the outcome; and (2) that developing countries had been greatly disadvantaged by the world trading system and were, in essence, victims of this system.

This latter notion, I would note, is a fiction totally unsupported by the long history of the WTO and its predecessor, the GATT, which has been characterized by tariff reductions and other trade commitments made predominantly among developed countries and extended with little recompense to developing country members of the WTO. Nonetheless, the above notions were reinforced at every stage of the negotiations and, not insignificantly, by the rhetoric by which developed countries sought always to cloak their commercial objectives as being in the interests of developing countries.

There are several peculiarities to the monolithic concept of developing countries entertained by the WTO. Strangely, developing country status in the WTO is a matter of self-designation and there are no provisions whatsoever for graduation from this status. Thus, highly advanced economies such as Singapore, Korea, Hong Kong, and Taiwan can and will claim this status whenever it suits them. And there is no differentiation between an industrial giant like China or an agricultural giant like Brazil and truly impoverished countries like Haiti, Ethiopia, or Bangladesh in terms of laying claim to any provisions for special and differential treatment for developing countries.

There is also the often ignored fact that the interests of the very diverse group of developing countries are quite different. Most of the poorest of these countries are net food importers and thus beneficiaries of the domestic support policies of the U.S., including U.S. food aid. Similarly, most of these countries benefit from trade preferences granted by developed countries, primarily the EU and the U.S, and tend to be more concerned with preventing the erosion of those preferences (which would result from reduction of the tariffs applying to all WTO members) than broader liberalization that will primarily benefit big, already successful exporters, like Brazil.

A deal that doesn't deliver for U.S. agriculture.

At the outset of the negotiations, the U.S. agricultural community generally accepted the central tenet of the Administration's negotiating stance: the U.S. was willing to make cuts in its farm support in return for commensurate improvements in market access for U.S. agricultural products – a trade-off that, given the competitiveness of our farm sector, was seen as potentially yielding net gains to U.S. farmers and ranchers. With this objective in mind, U.S. negotiators launched bold, ambitious proposals in both the domestic support and market access “pillars” of the negotiations – and thus began a steady slide to ever greater demands for concessions on our farm supports and steadily diminishing expectations on market access.

While the formulas for cutting agricultural tariffs now on the table would appear, superficially, to be quite substantial, there are numerous ways in which countries can avoid or minimize the opening of their markets to U.S. farm products. In the case of developed countries, the main tool for moderating the impact of the tariff formula is to designate products as “sensitive,” which they will be able to do for a certain number of their tariff lines (probably 4-6%). For such products, countries may take a lower than formula cut (1/3 to 2/3's of the formula) but must increase tariff rate quotas (TRQs) so as to provide additional market opportunities to exporters.

Now it must be admitted that this arrangement will provide a certain degree of new market access of potential interest to U.S. farmers and ranchers. The very laborious negotiations conducted on this issue give a reasonable idea of what products might be designated as sensitive by developed countries and how much additional access the increased TRQs will provide.

But these potential gains are diluted by several factors. Most importantly, the future growth in demand for agricultural products will come overwhelmingly from developing, not developed, countries. And imports already account for a very large share of food consumption in many key developed countries. In addition, the main obstacles to U.S. agricultural exports in many of these developed country markets, particularly that of the EU, are not tariffs but SPS (sanitary and phytosanitary) restrictions or measures preventing the importation of biotech products – measures that would be entirely unaffected by the Doha Round.

Finally, I would note that whatever economic gains might be achieved for U.S. agriculture by these market access commitments will be largely offset by the market access concessions that the U.S. will be required to make on its own sensitive products, such as dairy and sugar. The tariff reductions and TRQ increases being called for in these sectors will greatly complicate the operation of our farm support for these products, especially in the U.S. sugar market -- already over-supplied as a result of commitments made in previous trade negotiations.

For some or all of these reasons, the U.S. agricultural community seems markedly unexcited by the potential benefits that the Doha Round might yield in developed country markets.

The situation is far starker in regard to developing countries. They will be provided a panoply of measures by which they can easily avoid any real opening of their markets. Let us count the ways:

First of all, the negotiations are being conducted on the basis of “bound” tariffs – the levels that countries have agreed not to exceed in the WTO – rather than the tariffs actually applied. While for almost all developed countries tariffs are, in fact, applied at the bound rates, developing country applied rates are typically well below the rates actually applied. Because of this “water” in their tariff systems, even if the tariff formula cuts are made they will very often result in no real improvement in market access.

Second, the tariff formula to be applied by developing countries is much weaker than that which will be applied by developed countries. For example, a developed country tariff of 80% would be cut by about 70%, while the same tariff in a developing country would be cut by only 38%. In a November 2006 meeting with Indian Trade Minister Nath, then-Secretary of Agriculture Mike Johanns was

quoted as saying, “Even under the G-20 formula [closely comparable to the tariff formula now under consideration], only 14% of India’s tariff lines would fall below current applied rates. That leaves 86% with no new market access.”

Third, developing countries will also be able to make use of the sensitive product exception. However, they will be allowed to designate one-third more tariff lines than developed countries. And they will be required to expand TRQs by only two-thirds of the volume required of developed countries – or they can avoid any TRQ requirement at all and choose instead a longer than normal implementation period or a somewhat smaller than formula tariff cut.

Fourth, the exception provided for “special products,” which is available only to developing countries, will undoubtedly prove even more enticing. As noted above, the July 25 compromise paper proposed that developing countries be allowed to designate 12% of their tariff lines as special products, of which 5% of tariff lines could take a zero cut. The overall average cut required for these special products would be only 11% -- and, for these products, there is no TRQ requirement. I would also note that, unlike the situation with sensitive products, developing countries have not been required to give an indication what products they might designate as special. Furthermore, virtually all of the tariffs lines of interest to the U.S. in any given country could probably be encompassed within these limits on tariff lines for special products should that country so choose. Needless to say, this situation has created great uncertainty, and apprehension, in the U.S. agricultural community.

Fifth, if, in spite of the “special and differential” treatment outlined above, some new market access actually does result from the Doha Round, developing countries are also given a tool to deal with that eventuality: the SSM (Special Safeguard Mechanism). This very complicated mechanism provides for both a volume-based and a price-based safeguard, either of which could be invoked for any agricultural product. The volume-based safeguard would allow developing countries to impose additional charges where the volume of imports exceeds the average level of imports in the preceding three years. For example, a rather modest increase of over 10% of this average level would allow imposition of an additional duty of up to 25 percentage points. And higher duties could be imposed if import volumes were greater. The price-based SSM would be applied on a shipment-by-shipment basis and could be imposed whenever prices dropped below 85% of the preceding 3-year monthly average. One can easily imagine the chilling effect of this mechanism on any market access that might result from the Doha Round.

Sixth, the potential adverse effect of the SSM is even worse than that. It is envisaged that, under certain circumstances, additional duties imposed under the SSM could exceed “pre-Doha” tariff bindings (i.e., commitments made in the

Uruguay Round or in WTO accession negotiations). Thus, the SSM could result in an unraveling of the market access commitments in place at the start of the Doha Round. At the July meeting, U.S. negotiators accepted this concept in principle but were unwilling to accept the very lax conditions for imposition of the SSM demanded by most developing countries (led by India).

Seventh, I should note that most of the special provisions described above are extended on an even more generous basis to recently acceded Members (RAMs) of the WTO, which include in their ranks China and Taiwan.

What is on the table on domestic support forms a kind of perverse mirror image of the situation on market access: instead of the gift bag of special exceptions that developing countries enjoy, we find an array of provisions aimed at ham-stringing U.S. farm policy. These measures, moreover, are much more clearly articulated than those applying to market access.

Underlying the willingness of U.S. negotiators to accept these provisions is an assumption that the higher commodity prices of earlier this year would continue in perpetuity – an assumption strongly at odds with the historical record and already rebutted by turbulence now roiling the world economy – coupled with a willful ignorance of the severe run-up in farm input costs. Under more realistic assumptions, the provisions envisaged in Doha would almost certainly cause the dismantling of the farm policy just put into place by the new Farm Bill – after years of painstaking debate and negotiation by Congress and approval by the largest margin of votes in both the House and Senate that I can recall.

What are these provisions that so seriously threaten U.S. agriculture? First, there is to be a 60% decrease in the cap on so-called Amber Box support, which includes price support and most forms of benefits to farmers linked to production (e.g., marketing loans). Even if farm prices had remained high, this new cap could not likely have been abided by without making changes to U.S. farm policy. And, it almost certainly would be exceeded if the new ACRE program comes into play. The difficulties of meeting this new cap are compounded by WTO negotiators' rather inexplicable insistence on continuing to use 1986-88 world prices to calculate the amount of price support attributed to dairy and sugar—a method which greatly inflates this support.

Product-specific caps are also to be imposed on Amber Box support, which will greatly limit the flexibility of the U.S. government in dealing with the difficulties that might adversely affect a particular sector or commodity. Similarly, an overall cap (about \$5 billion) will be placed on “Blue Box” support (countercyclical payments) along with product-specific caps which will further impede U.S. flexibility in administering farm policy. De minimis provisions, which allow support below certain percentages of the value of production not to be counted

toward the Amber Box calculations, are to be halved. And finally, a new cap is to be set for overall trade-distorting support (OTDS), 70% below the caps in place for the various categories of domestic support. This new cap of about \$14.6 billion would almost certainly prevent the U.S. from making full use of the support allowed under the various categories described above.

This is not the first time the view has been held that improvements in world agriculture markets wrought by expanded trade and an ever-increasing demand from our export markets would keep U.S. agriculture on a new plateau of prosperity. The result was a decade of vanishing farm income and increasingly expensive ad hoc measures designed to relieve the disastrous conditions on the farm and in our rural communities.

Our farmers don't need to see this horror flick again. U.S. negotiators walked away from a bad agreement in July. But they are now back at it again in Geneva, pursuing the unenviable task of trying to transform a sow's ear into a silk purse. They should keep walking and allow a new Administration to take a hard look at what's on the table in the Doha Round and insist on the changes needed to deliver a deal that provides the real goods to U.S. agriculture.

As was the case earlier this decade when the U.S. manufacturing sector was reeling, U.S. agriculture is once again helping offset the adverse impacts other troubled U.S. sectors are having on the overall economy. Moving forward with the current direction of the Doha Round would critically injure an important sector of the U.S. economy, cost Americans jobs, and seriously undermine future support for trade agreements for a long time to come.

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