Martin Wolf: The need for intelligent discrimination

By Martin Wolf
Published: July 13 2004 20:55 | Last Updated: July 13 2004 20:55

The Doha round of multilateral trade negotiations is, yet again, on the brink of failure. In response, Supachai Panitchpakdi, the World Trade Organisation's director-general, has pleaded with developing countries not to strike intransigent negotiating positions. He is right to be concerned. The round is in serious trouble.

The current aim is to agree on how to conduct negotiations by the end of this month. If this fails, no progress will have been made since the Doha ministerial meeting almost three years ago. Confronted with this possibility, Peter Sutherland, a distinguished former director-general, wrote in the FT last week: "I am not confident that the [WTO] and, indeed, multilateralism in international trade relations will survive unharmed a failure to relaunch the Doha trade negotiations that foundered in Cancún last year."

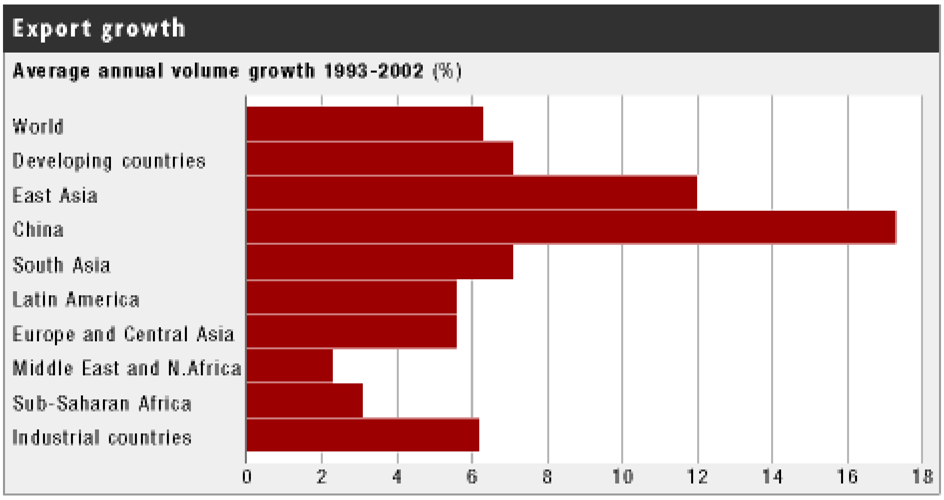
One result could be grave damage to the institution. The alternative to the WTO's adjudication of trade disputes must be greater reliance on bilateral diplomacy. Not only would this put small countries at a disadvantage but it would also turn disputes between big powers into trials of strength. Between the European Union and the US such disputes would be harmful. Between these powers and a rising China they could be shattering.

Yet another consequence would be the loss of the potential gains from trade liberalisation. A World Bank study has assessed the gains from free trade for developing countries at $349bn a year by 2015, of which $265bn would come from their own liberalisation (see chart). William Cline, the American economist, has recently argued, on quite similar lines, that global free trade would confer about $200bn annually on developing countries and lift more than 500m people out of poverty.*

The argument that completion of the Doha round would deliver huge gains to developing countries is open to attack. One obvious point is that no one is offering free trade. In recent co-authored work, Joe Stiglitz, the Nobel laureate, goes rather further. He argues that the development focus of the Doha round is a myth. He wrote in the FT on June 21: "Recent negotiations have not only failed to push an agenda that would promote development; they have included a host of issues that are of tangential interest, or even detrimental, to developing countries."

A "true" development agenda, argue Prof Stiglitz and Andrew Charlton, the Oxford economist, would be very different from the one on offer. Above all, they argue, "trade negotiations must begin from the premise that the less developed countries are deserving of special and differential treatment, both because they have been disadvantaged in the past and because of differences in their current circumstances. This will entail a movement away from the principles of reciprocity and bargaining . . . It will entail unilateral concessions by the developed countries, both to redress the imbalances of the past and to further the development of the poorest countries of the world."**

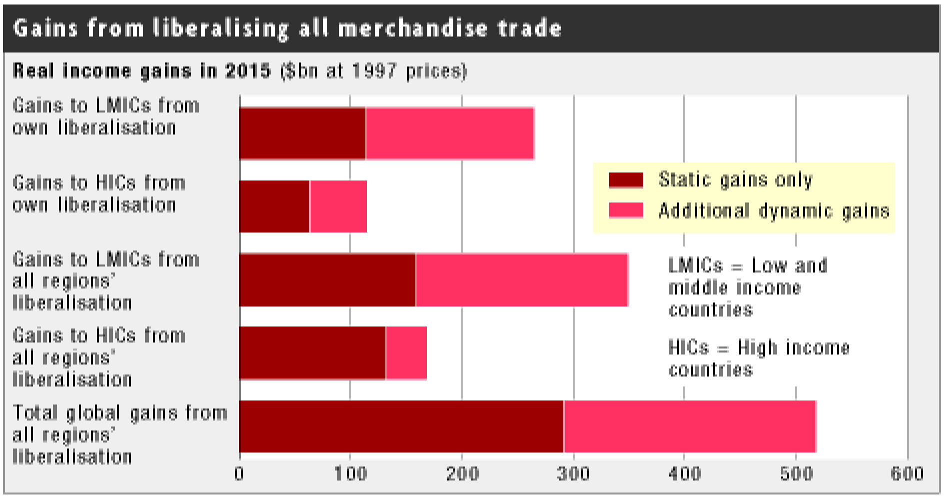
In an ideal world I would support many (though not all) of the specific suggestions these two authors offer. But in making what they see as the best the enemy of the good, they are making two serious errors.



The first is that the WTO is not a development agency. Nor is it an instrument of universal benevolence. It is a contract among countries, grounded in political realities, but infused with a sense of the wider interest in a liberal world economy. Mercantilist ideas about the benefits of exports and the cost of imports are hard-wired into the institution. This is why it falls so far short of what economists, as Platonic guardians of the global welfare, would propose.

The second error is the assumption that demands for liberalisation by developing countries are economically harmful. Yet we know that the barriers of developing countries are far higher than those of the developed countries, thereby creating a big obstacle to the exports of other developing countries. More important, estimates by the World Bank and others demonstrate that the developing countries would receive bigger gains from their own liberalisation than from the liberalisation of the rich countries.

On one point, however, I agree with Prof Stiglitz, though for somewhat different reasons. It is, indeed, open to question whether small, poor trading countries need to participate actively in WTO rounds or even be bound by its disciplines. Negotiations among close to 150 countries are unimaginably complex. They are also unnecessary. If the EU is counted as one country, just 30 economies accounted for 90 per cent of world merchandise imports in 2003. And 30 countries - with all the EU members counted separately this time - received 85 per cent of world imports of commercial services. The developing countries whose involvement is essential in the WTO are not Mali or Uganda but China, Mexico, Russia, Malaysia, Thailand, Brazil, Indonesia, India, Turkey, the Philippines, South Africa, Iran, Argentina and Vietnam.



The Doha round must now be completed, even if the outcome ends up rather more limited than many would hope. But a longer term rethink of the WTO is also in order. The sensible way to proceed is to focus efforts on limited negotiations among a smaller number of significant trading entities, many of which will also be developing countries. Meanwhile, liberalisation should be extended, without demanding reciprocity, to the host of very small and poor members. The trade policies of the latter should be more a matter for the World Bank than for the WTO. Equally, these countries should be freed from the full range of WTO rules on intellectual property, investment incentives and so forth.

What is needed is not special and differential treatment of developing countries but intelligent differentiation among them. The WTO cannot work on the basis of universal participation of all its members, however small and weak, in all areas and disciplines. But its rules and principles can also no longer bind only the rich countries. The way forward is to avoid both these evidently unworkable and undesirable extremes.

** Trade Policy and Global Poverty (Washington: Center for Global Development and Institute for International Economics, 2004)*

*** The Development Round of Trade Negotiations in the Aftermath of Cancún, Commonwealth Secretariat 2004, www.thecommonwealth.org*

Sources for charts: WTO; World Bank; HMT; DTI

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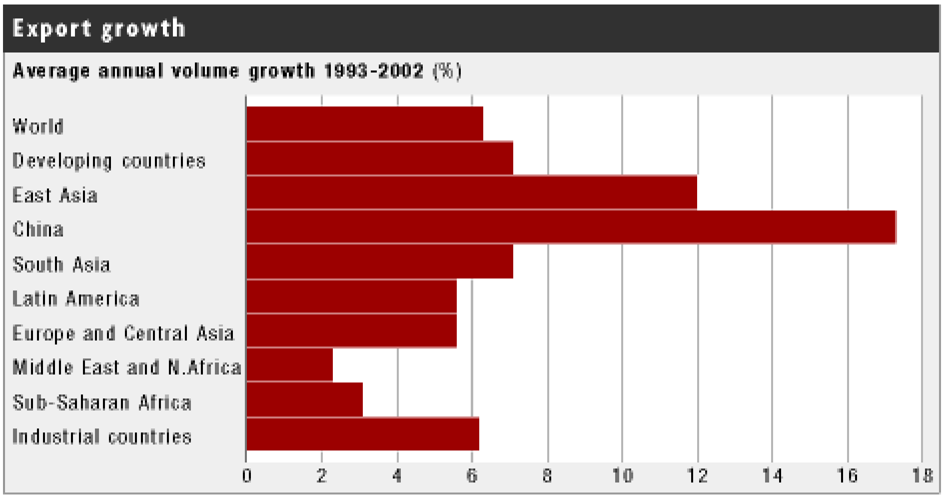

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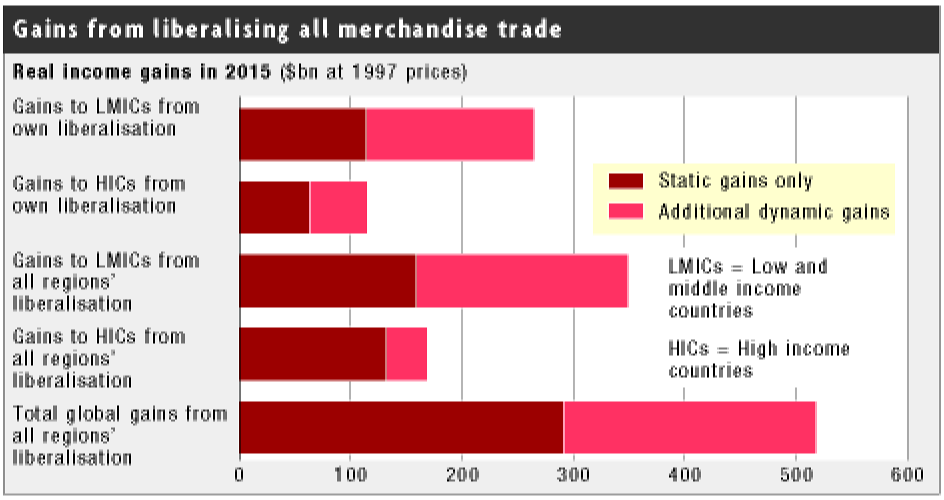

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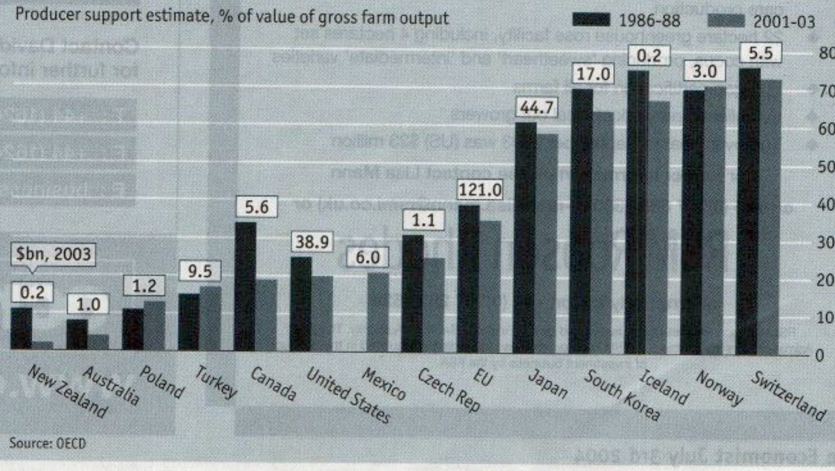
Agricultural subsidies

Farm subsidies, measured as a percentage of the value of farm output, have been declining in most places since the late 1980s. But they remain enormous. The European Union spent $121 billion supporting agriculture in 2003, while America lavished $39 billion on its farmers. Japan, South Korea, Iceland, Norway and Switzerland all provide farm subsidies that are worth well over half of national farm output.



Source: OECD

EU faces bitter battle over sugar subsidies

By Tobias Buck in Brussels
Published: June 23 2004 18:41 | Last Updated: June 23 2004 18:41

Franz Fischler, the European Union farm commissioner, will next month propose an overhaul of the Union's controversial sugar subsidy regime that will force a steep drop in European sugar production and significantly reduce the dumping of EU sugar on to world markets.

The proposals, which will need to be confirmed by other Commissioners and later approved by EU member states, seek to tackle one of the few unreformed bastions of the EU's farm support regime.

Widely seen as the most fiercely protected farm sector in Europe, the system combines artificially high prices, production quotas and high tariffs to block out cheap imports.

These measures mean that the price of sugar in the EU is three times as high as on the world market. However, thanks to generous export subsidies, EU farmers still manage to export several million tonnes of sugar every year - to the detriment of low-cost sugar producers in developing countries.

By attacking the cornerstones of this system, Mr Fischler faces a bruising fight with the powerful sugar lobby and many EU member states. They stand to lose out if Mr Fischler's plans are implemented, because they are certain to end sugar production in many European regions.

The reform would also inflict severe economic hardship on those developing countries that currently export sugar into the EU and benefit from the high guaranteed prices. Some of these countries rely on export to the EU for a large share of their foreign earnings, and the drop in prices is likely to hit them hard.

However, the overhaul will strengthen the EU's position in trade negotiations, where Brussels is under strong pressure to curb the excesses of its ?43bn ($52bn, £29bn) farm subsidy regime. It will also benefit consumers and the sugar-consuming industries by driving down prices.

And finally, the reform also goes some way towards pre-empting a legal challenge against the sugar regime that is currently pending at the World Trade Organisation. Brought by Brazil, Australia and Thailand, the case could result in the World Trade Organisation declaring the EU's sugar export regime illegal - which would then force the EU to reform the sector anyway.

According to documents seen by the Financial Times and comments by senior Commission officials, Mr Fischler will propose cutting the guaranteed sugar price by one-third between 2005 and 2007. He will also reduce sugar quotas (the amount of sugar EU farmers are allowed to produce) from the current 17.4m tonnes to 14.6m tonnes a year.

Farmers will be compensated through direct financial payments, though these will cover no more than 50 to 60 per cent of their losses. For the first time, they will also be allowed to trade their production quotas - a move that the Commission hopes will result in more and more production moving to the most competitive areas such as northern Germany, the Paris basin and Britain.

The flipside to this development, according to a senior Commission official, is that non-competitive sugar-growing areas in southern Europe, Finland and some eastern European regions will most likely see production disappear.

Talks on farm subsidies enter final phase

By Frances Williams in Geneva
Published: Financial Times June 22 2004 21:44 | Last Updated: June 22 2004 21:44

Agricultural trade negotiators enter the home straight on Wednesday in their race to reach an outline deal by the end of July that will commit World Trade Organisation members to cutting farm subsidies and opening their markets further to imported produce.

By the end of this week, diplomats say they need to have resolved their differences sufficiently to allow Tim Groser, the experienced New Zealander chairing the farm trade talks, to start drafting what he has called a "template" to guide future negotiations in the Doha global trade round.

"We don't have much time left," says one Latin American WTO ambassador, noting that negotiators are also committed to forging preliminary accords by the end of July on industrial tariffs, services and easing customs procedures.

Negotiators say they have been given more flexibility by informal discussions among trade ministers last week in São Paulo, Brazil, on the sidelines of the United Nations Conference on Trade and Development meeting.

Confirmation last Friday of a WTO panel ruling declaring US cotton subsidies illegal in a case brought by Brazil - and an expected win for Brazil later this year in its challenge to European Union sugar subsidies - have also given the talks a nudge.

Still, WTO members look some way from accord on the crucial details needed for all countries to be satisfied that the future negotiations are set to go in the right direction.

Five of the key players - the US, the EU, Brazil, India and Australia - were meeting on Tuesday ahead of the three-day Geneva talks in a bid to narrow divergences on each of the three "pillars" of the negotiations, which cover export competition, domestic farm subsidies and market access for imports.

Brazil and India represent the Group of 20 developing countries formed last year ahead of the ill-fated WTO ministerial meeting in Cancún, Mexico, to press for big reductions in rich-country farm subsidies.

Australia heads the Cairns Group of agricultural exporting countries. Though agreement among the five is no guarantee of acceptance by all 148 WTO members - there is no representation of small poor countries and protectionist rich nations such as Japan and Switzerland, for instance - without such agreement no deal is possible, trade officials note.

The broad thrust of a deal on two of the three pillars, relating to export competition and domestic subsidies, is already clear, though the details remain to be worked out. Discussions last week in São Paulo also appear to have made progress on market access, which has emerged as the most difficult and technically complex area of the talks. On export competition, the EU now says it is prepared to negotiate an end date (or dates) for the elimination of the $3bn (?2.5bn, £1.65bn) a year it pays out in export subsidies.

However, this depends on what it calls "parallelism" in eliminating export aids channelled in other ways.

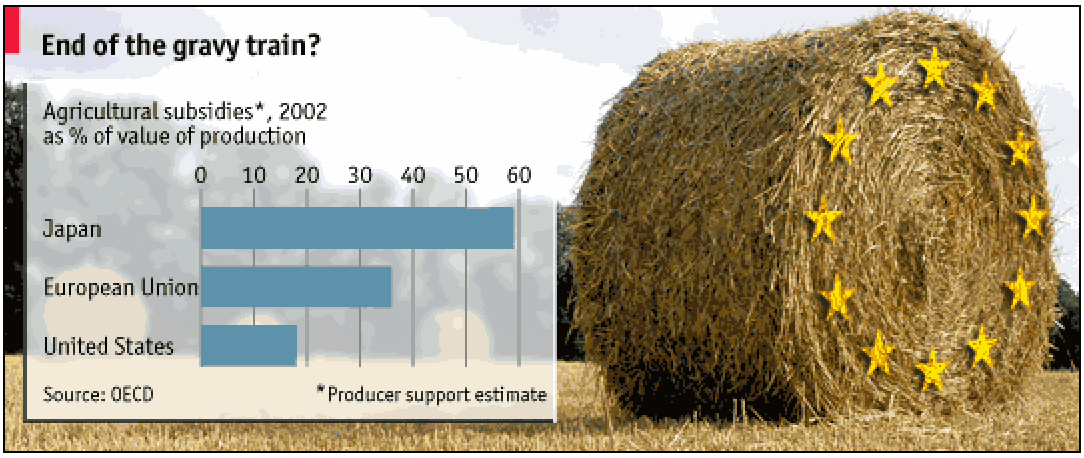
On domestic subsidies, the July framework deal is likely to envisage further cuts in the most trade-distorting subsidies but will allow some farm-support programmes to continue provided they take a less harmful form. As for market access, negotiators appear to be converging on a broad formulation that would cut high tariffs more than low ones but allow the EU, Japan and others granting high protection to their farmers to shield certain sensitive products.

There would also be more lenient rules for developing countries, though the extent to which these should apply to competitive agricultural exporters such as Brazil remains one of the most difficult issues to resolve.

The devil in the details

Jun 26th 2003
From The Economist Global Agenda

European farm ministers have ended three weeks of negotiations with a deal which they claim represents genuine reform of the common agricultural policy. Will it be enough to kickstart the Doha world trade negotiations?



"THE beginning of a new era," said Franz Fischler, the European Union's agricultural commissioner. "An excellent agreement," said Margaret Beckett, Britain's farm minister. Those involved in the tortuous negotiations aimed at reforming Europe's expensive common agricultural policy (CAP) have been quick to take credit for their work. And they may have a point. After three weeks of haggling, Europe's farm ministers do appear to have accepted the need for radical change, albeit with little enthusiasm in some cases. But it is not yet clear if the reforms they have now embraced will be enough to break the deadlock in the Doha round of world trade talks.

On the face of it, the deal agreed in the early hours of Thursday June 26th looks promising. Most subsidies linked to specific farm products are, at last, to be broken—the idea is to replace these with a direct payment to farmers, unconnected to particular products. Support prices for several key products, including milk and butter, are to be cut—that should mean European prices eventually falling towards the world market level. Cutting the link between subsidy and production was the main objective of proposals put forward by Mr Fischler, which had formed the starting point for the negotiations. The challenge for the Europeans was simple enough. The CAP costs around *euro*43 billion ($50 billion) a year, around half the total budget of the European Union. Some countries, like Britain, the Netherlands and the Nordic members of the EU, have long campaigned for reforms that would curb this expense and put an end to subsidies that, in effect, pay farmers to produce unwanted food. The prospect of ten new members joining the EU next year, many of them with large agricultural sectors of their own, helped concentrate minds. Without change, the costs of farm support would soar.

The CAP is hugely unpopular around the world. It subsidises European farmers to such an extent that they can undercut farmers from poor countries, who also face trade barriers that largely exclude them from the potentially lucrative European market. Farm trade is also a key feature of the Doha round of trade talks, launched under the auspices of the World Trade Organisation (WTO) in November 2001. Developing countries have lined up alongside a number of industrial countries to demand an end to the massive subsidies Europe pays its farmers. Several Doha deadlines have already been missed because of the EU's intransigence, and the survival of the talks will be at risk if no progress is made by September, when the world's trade ministers meet in Cancùn, Mexico.

Those familiar with the story know exactly where the problem lies: France, one of the biggest beneficiaries and strongest supporters of the CAP. The French have for years blocked any talk of significant reform. French farmers are a powerful lobby and French politicians are loth to cross them. Jacques Chirac, the French president and a former farm minister himself, stymied one attempt to reform the CAP last year, when he appeared to pull the wool over the eyes of the German chancellor, Gerhard Schröder. Mr Schröder backed Mr Chirac in his attempt to hold off reform until 2007 or later; some said the German leader was not fully aware of what he was agreeing to.

But the numbers no longer add up and now even the French seem to have gone along with the deal hammered out in Luxembourg. Up to a point, anyway. The package of measures gives the green light for the most eager reformers to move fast to implement the changes within their own countries. But there is an escape clause of sorts for the French and other reform-averse nations. They can delay implementation for up to two years. There is also a suggestion that the reforms might not apply where there is a chance that they would lead to a reduction in land under cultivation.

These let-outs are potentially damaging for Europe's negotiators in the Doha round. They could significantly reduce the cost savings that the reforms might otherwise generate and, in turn, keep European expenditure on farm support unacceptably high by world standards. More generally, the escape clauses could undermine the reforms by encouraging the suspicion that the new package will not deliver the changes that its supporters claim. Close analysis of what is inevitably a very complicated package might confirm the sceptics' fears.

Any deal among 15 countries, all with different interests, is bound to be a messy compromise—and any deal at Doha will, similarly, represent a trade-off between a host of national interests. Europe is not the only large-scale supporter of farmers—America passed a generous farm bill last year, and the Japanese spend even more than the Europeans do, though they tend to do it quietly. But America has tabled an offer that would involve big cuts in its own as well as other countries' agricultural-support measures.

The Europeans have now, belatedly, made a start, and Supachai Panitchpakdi, the WTO director general, welcomed the deal, saying that it should give a boost to the Doha talks. But by dragging their feet for so long, the Europeans have ended up on the defensive. Now they will have to prove that while their reform package is a compromise, it is not a fudge.

Testing time for talks on Doha trade round

By Guy de Jonquieres
Published: Financial Times June 1 2004 5:00 | Last Updated: June 1 2004 5:00

Ever since the World Trade Organisation's Cancún meeting collapsed in September, negotiators have urged a bigger investment of political will in restarting the Doha trade round.

Recently, governments seem to have discovered fresh reserves of that commodity and talks beginning in Geneva tomorrow will test their depth. They will seek to set parameters this month for planned negotiations on dismantling farm trade barriers, the toughest obstacle to agreeing a negotiating framework for the round by the end of July.

Unless that deadline is met, the Doha round risks being sidelined by US presidential elections in November.

If that happens, the US Congress may feel less inclined to extend the new president's authority to negotiate international trade agreements into next year.

That unsettling prospect has spurred other governments to rally behind efforts by Robert Zoellick, US trade representative, to put the round back on track. Meetings this year are said to have cleared the air and renewed commitment to making progress.

The European Union last month signalled readiness in principle to eliminate its much-criticised farm export subsidies and toned down its demands for new trade rules. Even Japan is taking a more positive approach.

But though this month's meetings aim only to define the scope of future liberalisation talks, the task looks daunting. The biggest challenge will be to bridge the widely divergent positions of the US and the EU while satisfying both the Group of 20 developing countries pressing for freer farm trade and agricultural arch-protectionists such as Japan, Norway and Switzerland.

Mr Zoellick needs to hold out the prospect of lower farm trade barriers worldwide if Congress and US farm lobbies are to go along with G20 demands that the US cut subsidies and open its market to "sensitive" imports such as sugar.

The EU, on the other hand, lacks the political manoeuvring room to make big cuts in its agricultural import barriers and insists it will end its export subsidies only if the US curbs its farm export credits and food aid.

Under US and EU pressure, the G20 last week set out broad principles for this month's talks, but offered no specific proposals for narrowing gaps between the WTO protagonists. Indeed some leading G20 members now say WTO members should shelve ambitions for big improvements in agricultural market access and settle for agreements to cut subsidies.

The shift appears dictated by the reluctance of India and China, key G20 members, to open their farm markets. Brazil is thought to have concluded that compromising on its agricultural liberalisation goals was necessary to preserve G20 unity.

Brazil and its partners in Mercosur, the four-nation South American customs union, may also believe they are as likely to gain access to the EU market through a trade deal with Brussels as through talks in the WTO.

Some negotiators think that is a serious miscalculation. Unless other countries agree to open their farm markets in the Doha round, they say, the US and EU will refuse to cut their subsidies, undermining the central elements necessary for any WTO deal.

Tim Groser, who chairs the agriculture talks, hopes agreement can be reached once negotiations begin in earnest. "I have been given all the political elements I need to put this deal together," he said.

But even optimists believe breakthroughs will come only at the last minute, perhaps leaving too little time for deals on other vital elements of the talks, such as industrial tariff cuts and services, on which many developing countries are holding back until they know whether the agriculture stalemate can be broken.

Some veteran negotiators hope that fear of political embarrassment will finally force WTO members to compromise. "Governments around the world have pinned their colours to the mast," says one. "If this ship sinks, they will go down with it."