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# IMPLICATIONS OF THE DOHA ROUND FOR THE U.S. FARM BILL AND VICE VERSA

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# WHITHER THE DOHA ROUND?

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Trade ministers from member countries of the World Trade Organization (WTO) convened in Hong Kong in December 2005 in an effort to jump-start the flagging Doha Round of multilateral trade negotiations. The Hong Kong ministerial produced a number of minor decisions, including the elimination of agricultural export subsidies by the end of 2013. But it was most notable for what it didn't do. All the hard issues were deferred, including decisions on how to reduce domestic farm support and lower trade barriers. Ministers accomplished the minimum necessary to keep the Doha Round moving forward—but toward an undetermined and probably distant conclusion.

Concluding a substantive package of agreements in the Doha Round by the targeted deadline of yearend 2006 is now highly improbable. The negotiating gaps are just too great, and the sense of crisis is too far removed, to conclude the round on schedule. In this short presentation, I will try to explain why and then detail the possible scenarios for the WTO talks going forward.

## Doha Round: Current Status

The Doha Round has a comprehensive agenda covering agriculture, manufactures, and services. The United States has major export interests in all three areas. To reap these gains, however, US officials will have to offer reforms of US restrictions that have survived eight previous negotiating rounds over the past 50 years.

Therein lies the challenge for US trade officials: the remaining US trade negotiating chips are politically sensitive items and will require large concessions from US trading partners to convince the Congress to change existing practices. To get Congressional support for changes in longstanding US trade barriers, US negotiators need to bring home agreements that offer substantial new trading opportunities for US farmers, manufacturers and service industries.

Agriculture is the linchpin of a prospective Doha Round deal. Farm trade barriers remain high in both developed and developing countries, and many developing countries could reap large dividends from policy reform. Without agricultural reforms, developing countries probably will balk at liberalizing their own trade barriers in services and industrial products--which are generally much higher than those in the OECD area. Without contributions in those areas by at least the middle-income developing countries, it is hard to see how the OECD countries could agree on a deal to sharply reduce farm subsidies and border protection.

To date, the farm talks have lagged due to concerns that (1) the major industrial countries would not reduce their subsidies and/or import barriers, and (2) developing countries would not lower their own import barriers. Developing countries—some for tactical reasons, others because they face severe pressure from their own farm lobbies—have hesitated to table meaningful offers on industrial products and services absent hard-and-fast commitments on agricultural reform on the part of OECD nations.

US officials tried to unblock this negotiating impasse by proposing in October 2005 ambitious cuts in US subsidies and border barriers—contingent on *reciprocal* reforms by other countries. To be honest, US officials went out on a limb—albeit after extensive consultations with Congress--to catalyze the Geneva talks. That's what leadership requires and both USTR Portman and Secretary Johanns deserve enormous credit for taking this initiative. At present, however, they could not sell their proposed changes to the Congress with what is on the negotiating table in Geneva. The Doha Round deal will have to be much richer in agriculture, manufacturing, and services.

Unfortunately, the European Union—which should be sharing the leadership mantle in the WTO with the United States—has not been able to emulate the US initiative. To be sure, the EU already has committed to substantial reductions in the *bound* level of domestic farm support through the programmatic reforms adopted in 2003 that would shift many of the CAP payments into the blue or green boxes. But in the crucial area of market access, the European Union has offered average cuts in bound rates far below both the US and the G-20 proposals. The actual differences are difficult to calculate because the EU offer would permit a much larger number of exceptions (products not subject to the full cut or exempted outright) than proposed by the United States or G-20. Post–Hong Kong comments by EU officials suggest that the EU offer will not be improved anytime soon. Indeed, EU Trade Commissioner Peter Mandelson argued that other countries must improve offers on manufactures and services before the European Union considered augmenting its farm trade proposals.

Progress on agriculture has been insufficient to spur worthwhile offers on manufactures and services, especially from the handful of big emerging-market countries that will enjoy the most growth over the next decade—China, Brazil, India, Indonesia, South Africa, and Thailand. The Hong Kong meeting and the "mini-ministerial" that followed in Davos in late January 2006 did little to change the negotiating dynamics. Both sessions committed to advance other issues in parallel with work on agriculture, but also reconfirmed that new offers on agriculture were unlikely from the major industrialized countries.

Without substantive offers outside of agriculture, by both developed and developing countries, the United States, the European Union, and Japan will not be able to maintain—much less augment—their offers on farm reforms. While Brazil, India, and other developing countries may now step forward with new offers on manufactures and services, their proposals are likely to contain only minor reforms that fall well short of what could energize the farm talks. Those countries remain wary, and justifiably so, that key farm reforms will be excluded or subject to lengthy deferment in the Doha Round negotiations.

In short, the Doha Round continues to play out the old "Alphonse and Gaston" routine, in which each side waits for the other to move forward—and consequently neither side moves at all. As a result, the new negotiating deadlines set in Hong Kong likely will be missed—just like every other deadline so far in the Doha Round.

**Doha Round: What happens next?**

As you heard this morning, trade and agriculture ministers are hard at work trying to disprove my somber assessment. Such efforts are critical to the success of the Doha Round—whether it comes in 2006 or later.

Why do I discount prospects for success in 2006? Simply put, trade ministers do not have the requisite authority to surmount domestic opposition to reform of longstanding trade barriers and lucrative subsidy programs. That is true in the European Union, where several members of the European Council are seeking to constrain EU Trade Commissioner Peter Mandelson. But the US Congress and US farm lobbies also are firing warning shots at Portman and Johanns.

As a practical matter, WTO negotiators must operate under the assumption that the Doha Round can be successfully concluded before the expiration of US trade promotion authority (TPA) on June 30, 2007. There is no assurance that TPA would be extended—given how sharply divided the Congress is on trade issues--and much evidence that extending the horizon of the talks will undermine negotiating momentum. So ministers will engage in frenetic negotiations in an effort to craft a substantive package of trade reforms in all areas of the WTO agenda. Completing such a package by yearend would be an enormous feat, and is highly unlikely. But making progress to that end in 2006 is essential—because without such progress, it will be hard for US officials to justify an extension of TPA.

That said, the Doha Round can follow three paths:

The first scenario is outright failure. Under this scenario, countries allow the talks to drift aimlessly because of a lack of consensus. Diplomats go through the motions in Geneva for years to come—an exercise for which they are well experienced. Regional initiatives proliferate—particularly in East Asia—as an alternative to WTO liberalization. At the same time, failure feeds strong demands for new protectionism—especially against the "flood" of low-wage exports from China and India.

The second scenario is that countries agree on a minimalist deal that omits reform of key trade restrictions. Some observers believe that even a small deal would keep the multilateral process alive, and that sector negotiations (say, on services) could continue as part of another "built-in" negotiating agenda. But a small package would accomplish little and still provoke a new wave of regional trading arrangements and targeted protectionism. It is doubtful that developing countries would agree to postpone major trade reforms until the next round, a decade or more in the future—especially when there is no guarantee that there will be another round. And such a result would offer little political or economic gain for OECD countries either. This is the least likely scenario, in my view.

The third scenario is full-bore negotiations that extend through 2007, possibly longer. Most countries can easily agree to extend the talks. For the United States, however, extending the round requires two tough decisions by the Congress: (1) whether to reauthorize TPA (and, if so, for how long, and whether for WTO talks only or both the WTO and free trade agreements [FTAs]); and (2) whether to extend or rewrite the US farm bill, which expires at the end of the 2007 crop year.

White House officials and business lobbyists have been scarred by the fractious ratification vote on the Central American Free Trade Agreement (CAFTA) and fear that reauthorization of TPA would revisit the battle of summer 2005. The slim protrade majority in the House of Representatives could fall victim to the November 2006 mid-term elections. To legitimize the request for an extension of TPA, the Bush administration will have to demonstrate that large benefits are in the offing from both the Doha Round and big new FTAs under negotiation. To increase the chances of TPA renewal, the Doha Round will have to make significant progress in 2006, particularly in the areas of US export interest.

Deliberations on a new farm bill may be just as contentious. The administration went out on a limb in proposing major reforms in US farm subsidies. While supported by major farm groups (because the US offer was conditioned on reciprocity from US trading partners), some key members of Congress voiced concern. If the Doha Round is extended, Congress will have to decide whether to simply extend the 2002 farm bill (perhaps for the same period as the TPA extension) or rewrite the farm bill so as to constrain the US negotiating position in the talks.

For the third—and best—scenario to produce the desired result, the Doha Round will need a political “jolt”. Decisions by heads of state, perhaps encompassing issues that transcend the trade agenda, probably will be needed. Brazilian President Lula da Silva vetted this idea prematurely before the Hong Kong ministerial. The timing was wrong but the idea has merit. Before a Doha Round deal can be stitched together, look for a “trade summit”—involving the top 10-15 trading nations--to sign off on policy reforms crucial to the success of the WTO venture.