

## Suspension of Doha Round Talks *Reasons and the Possible After effects*

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### I. A Brief Background

Among all the General Agreement on Trade and Tariff (GATT)/World Trade Organisation (WTO) trade rounds, the current Doha Round has been the most eventful. Since its launch in November 2001 at the Qatari capital, Doha, it has seen many highs and lows, finally sliding into a deep freezer following failure of G-6<sup>1</sup> countries to reach a consensus on key issues of agriculture and industrial goods market access. The talks have been formally suspended without any new timetable for completing the Round. In the end, once again after more than five years of extensive negotiations the differences over farm subsidies proved insurmountable.

The launch of a new trade round (first one under the auspices of the WTO) with a very ambitious trade liberalisation agenda intended to meet the developmental needs of the poor countries, was itself a new high for the multilateral trading system. However, the euphoria created at the launch of a new round was short-lived. Soon WTO members started faltering on one deadline after another, which culminated in collapse of the Cancun Ministerial Conference in 2003. After the Cancun fiasco, the Doha Round went into an oblivion and it took almost a year to bring a new life into it. A new Framework Agreement called “July Package” was signed in July 2004, providing a new base for future trade negotiations under the Doha Round.

The July 2004 deal created some hope but none of the WTO members were too sure about the successful completion of the Round by the end of 2005, the new deadline as per the “July Package”. The serious differences between WTO members on farm trade liberalisation soon erupted into bumps on the way to finding a multilateral solution to discipline the highly distorted international agriculture trade market. This is evident from the fact that in the run up to the Hong Kong Ministerial Conference in December 2005, the WTO Director General Pascal Lamy struggled hard in releasing a draft text, which formed the basis of negotiation at the Ministerial. Consensus eluded WTO members till the very end of Hong Kong Ministerial, finally settling down for a very modest outcome.

#### Box 1: Suspension: What Does It Mean?

- The progress made to date on the various elements of the negotiating agenda has been put on hold, pending the resumption of the negotiations when the negotiating environment is right.
- In practical terms, this means that all work in all Negotiating Groups should now be suspended.
- The existing deadlines that various Negotiating Groups were facing are no more valid.

*Source: Taken from the Chairman's Introductory Remarks at an Informal TNC Meeting on July 24, 2006*

In order to avoid a consecutive collapse of Ministerial meetings, the WTO members agreed to discuss the contentious issues at a future date. So it was not surprising when these issues were taken up for negotiations differences cropped up resulting into an indefinite suspension of talks. In other words, the collapse of talks now indirectly proves that Hong Kong was a deferred success, which many people predicted at that time.

### II. What Led to Suspension?

It is not the first time that trade negotiations have landed into trouble resulting in a temporary pause in talks. In the past (after the establishment of the WTO) two Ministerial Meetings have collapsed – Seattle in 1999 and Cancun in 2003, though each happened due to different reasons and different outcomes. But officially suspending the talks is something which has perhaps happened for the first time. What does suspension mean? The immediate fallout is a halt of all negotiations currently underway at the WTO (Box 1). According to WTO Chief Pascal Lamy, “it is time-out to review the situation, examine available options and review positions”.

The formal announcement to suspend the Doha Round trade talks came after a 14-hour marathon meeting of the G-6 failed in a last-ditch attempt to overcome differences on farm subsidies and tariffs cut. The G-6, which has emerged as an inner negotiating forum, revealed a wide disparity in ambitions in farm trade liberalisation. The Ministers from G-6 countries assembled to find consensus on a “triangle” of issues comprising

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domestic farm support, market access in agriculture (tariff reduction) and non-agricultural market access (NAMA). However, the gaps in agriculture were so wide that the issue of NAMA was not even discussed during the two-day meeting.

### II.1 What Transpired in G-6 Meeting?

The G-6 meeting was called by WTO Chief Pascal Lamy with ministers from Australia, Brazil, the 25-nation EU, India, Japan and the US to resolve the main hurdles in the way of trade liberalisation in agriculture and manufacturing goods. Although, there were many other issues needed to be addressed, the discussions among the G-6 on a limited number of key issues have always been a precondition to further all round progress. In order to meet the end-2006 deadline of successful completion of the Doha Round, it was necessary for WTO members to agree on agriculture and industrial goods “modalities” (formulae and figures for tariff and subsidy cuts) by the end of July 2006. However, the talks collapsed over irreconcilable differences about farm trade liberalisation.

What is most unfortunate is that only a week before, the Group of Eight (G-8) major industrialised countries in their meeting at St. Petersburg had raised fresh hopes that the Round could be completed at least before the expiry of the US President Fast Track Authority in July 2007. The US President George Bush and President of the European Commission Jose Manuel Barroso, promised to give their negotiators more flexibility. Even the developing country heads of state, which included India and Brazil, who participated in G-8 summit, showed willingness to push harder for a breakthrough.

Following the St. Petersburg summit, G-6 ministers set up the two meetings in Geneva in an attempt to translate the promises of increased flexibility into a modalities deal. As already mentioned WTO DG Lamy convened this G-6 meeting to discuss the “triangle” of issues. Lamy has long held that unblocking the negotiations would require parallel progress on a ‘triangle’ of issues: the US would have to agree to deeper cuts to domestic farm support; the EU to increased agricultural market access, and developing countries such as Brazil and India to lower industrial tariffs. Each group has been urging the other to budge first.

However, the main blockage was in the two agricultural legs of the triangle of issues, market access and domestic support. The six ministers did not even move on to the third leg, i.e., NAMA. In the give-and-take of negotiations, the US and the EU were expected to concede ground on

domestic farm subsidies while pushing for the developing world to open both their agricultural and industrial goods market. But far from reducing its subsidies, the US came up with a proposal that would actually increase it. Lamy after realising that the gaps remain too wide, decided to recommend suspension of the negotiations. He did not indicate when the negotiations will resume but explained that movement towards a conclusion can only result from internal work within countries.

### II.2 The Major Differences

Out of the three legs of the “triangle”, only market access (tariff reduction) and domestic support were discussed in the G-6 meeting. Clearly agriculture was the main reason for breakdown. On the issue of domestic support the US’ proposal to cut trade-distorting farm subsidies by 53 percent is projected to slash its current spending limit from US\$48.2bn to roughly US\$22.5bn – which is still higher than the US\$19.7bn that it actually doled out in such payments last year. This offer of the US neither satisfied its fellow G-6 countries nor trade diplomats from other delegations.

Washington in exchange asked for tariff cuts of close to 66 percent from the EU. The EU, however, offered to go from its original proposal of a 39 percent average cut to farm tariffs to about 51 percent, close to the G-20 demand of 54 percent cut. The US was not impressed by this offer of the EU. The US claimed that the EU was willing to go for only 48 percent in cuts. The US wanted to see tariffs cut by at least 54 percent (the G-20 proposal).

Both Brazil and India recognised “movement” by the EU on market access, though it was still short of the G-20 proposal, especially in terms of the significantly lower cuts it was proposing for the highest tariffs. The two representatives of the developing countries in G-6 hinted that Washington’s refusal to move on domestic support was the principal reason behind the suspension of talks. They admitted that domestic support was the area in which there was no satisfactory movement.

## III. The After effects

### III.1 The Blame Game

Fourteen hours of talks between the six countries (the US, the EU, Brazil, Australia, Japan and India) yielded no breakthrough in slashing farm subsidies and lowering agricultural tariffs. Despite resolve of the countries concerned not to indulge in finger-pointing, the blame game went on unabated. After the suspension of Doha

#### Box 2: The Finger-Pointing

“What they’re saying is that for every dollar that they strip out of their trade-distorting farm subsidies, they want to be given a dollar’s worth of market access in developing country markets. That is not acceptable to developing countries and it’s a principle that I, on Europe’s behalf, certainly couldn’t sign up to either. This is not my definition of leadership”.

— *The EU Trade Commissioner Peter Mandelson on US (July 25, 2006)*

“[Monday’s] statement by the EU alleging that the US failed to show flexibility and attempting to divert the blame for the stalemate is false and misleading. The countries that have tended to be finger-pointing at this point are the ones that are reluctant to act in terms of market access. We are deeply disappointed that the EU failed to exhibit similar restraint and hope this will not jeopardize the few chances we have left to save the Doha round.”

— *USTR Susan Schwab on EU (July 25, 2006)*

Table 1: FTAs Involving Major Countries		
Country/Alliance	FTA Signed	FTA under negotiation
US	Chile, Singapore, Central America, Australia, Jordan, Bahrain, Israel, Morocco, Peru	Colombia, Malaysia, Panama, Korea, the Southern Africa Customs Union (SACU), UAE
EU	African, Caribbean and Pacific group of states (ACP)	Central America, Gulf Cooperation Council (GCC), Mercosur
India	Sri Lanka, Thailand, Singapore, MERCOSUR	ASEAN, GCC, Bangladesh, Mauritius, EU and Japan (proposed)
Australia	New Zealand, Singapore, Thailand, US	China, Malaysia, United Arab Emirates, ASEAN, Egypt
China	Thailand (Partial Agreement)	ASEAN, Australia, New Zealand, Pakistan, Chile, SACU, GCC
Japan	Singapore, Malaysia, Mexico	Korea, Thailand, Philippines, ASEAN, Indonesia

Round, the EU and the US have been pointing fingers at each other, arguing over who is most to blame for the failure to conclude a deal on global trade liberalisation.

India has blamed developed countries for not making substantial cuts in trade distorting farm subsidies. "It is best we tell the world that the talks have failed, and the negotiating process is suspended. Now, there is no roadmap for the future," said Commerce and Industry Minister Kamal Nath. He asserted, that the failure of the talks was solely due to the United States refusing to make cuts in the huge subsidies it provides to its farm sector, which the developing countries argue are trade-distorting.

The EU openly blamed US intransigence for the collapse. "Having been mandated by heads of government at the G8 to come together to indicate further flexibility, I felt that each of us did, except the US." EU Trade Commissioner Peter Mandelson told the press after the talks were halted.

US officials blamed other trading partners for the failure to bridge differences on other contentious issues of import duties on agricultural tariffs. US officials insist that they had come to Geneva prepared to offer further cuts to their domestic subsidies, but did not do so only because the EU and India failed to table meaningful improvements on agricultural market access. Schwab claimed that when she communicated the US' flexibilities privately to Lamy, he conceded that the differences between Members' positions remained irreconcilable. US agriculture secretary Mike Johanns blamed Brazil and India for being inflexible on their refusal to cut barriers to industrial imports and the EU for refusing to open up its farm markets.

Brazilian Foreign Minister Celso Amorim noted "there is always a risk of some unravelling of progress to date in the negotiations. The silver lining is that all those who spoke continue to be committed".

WTO chief Pascal Lamy urged WTO members to avoid playing "blame game" over the suspension of the Doha Round and focus on how to resume the talks. "This is the time of hard thinking and deep reflection. It is the time for quiet thinking as opposed to megaphone diplomacy," Lamy told a session of the General Council, WTO's highest decision-making body in Geneva. "I would urge all members to avoid the well-known blame game and instead use this period for serious and sober reflection on

what is at stake here," he added. According to him there were no "winners and losers" in such a situation, (and) actually all WTO members were losers.

### III.2 Fresh Surge in Bilateral Trade Agreements

The failure of the Doha Round is expected to spur a proliferation of bilateral or regional free trade agreements (FTAs). Major economies worldwide are officially and unofficially declaring that the collapse of the talks will prompt FTAs to eventually dominate the global trading landscape.

The US has signed nine of its 12 FTAs since George Bush became President in 2001. Another six accords are pending approval in Congress and 11 more are being negotiated. This push will continue until the fast track expires on July 1 next year. Trade deals become almost impossible to negotiate after that because Congress will be able to address specific provisions, rather than casting an up-and-down vote.

Meanwhile, EU experts say that reforms in trade policy strategies are inevitable with the collapse of the DDA talks. EU Trade Commissioner Peter Mandelson has mentioned that the economic bloc is aiming to strengthen regional FTAs with the larger markets of Asia. India too believes that FTAs will help stimulate collective trade pacts, and has announced its intention to aggressively pursue FTAs. India, in particular, is also looking at bilateral FTAs with the EU and Japan.

Brazilian Foreign Minister Celso Amorim also said that though efforts would be made to resuscitate the faltering WTO talks, this could be the time when FTA negotiations between MERCOSUR<sup>2</sup> and the EU, as well as talks for the Free Trade Area of the Americas (FTAA) could gain momentum. It may be recalled that Brazil had earlier strongly resisted US attempt to push for TRIPs plus provisions in the FTAA. The FTAA is a proposed agreement to eliminate or reduce trade barriers among all nations in the American continents, except Cuba and Venezuela.

From Asia the three big economies viz., China, Japan, Korea are actively engaged in bilateral FTA negotiations. Since Japan is increasingly suffering the loss of market shares as a result of FTAs between other countries, in the first instance it is trying to engage its Asian neighbours in bilateral trade deals. Australia, Switzerland, Brazil,

China and India are further targets creeping onto Japan's bilateral trade agenda.

China, which has been termed as the manufacturing powerhouse of the world is also moving into bilateral trade agreements with numerous countries, mainly in the Asia-Pacific region. Apart from the China-ASEAN arrangement, Beijing is in FTA discussions with Australia, New Zealand, Pakistan, Chile, SACU and GCC. China is further trying to open discussions with Brazil, Iceland, India, Japan and South Korea.

Asia's third-largest economy, South Korea, too has stepped up its pace for trade pacts. It is now in negotiations with Mexico, Canada, the United States and the EU. FTAs with Singapore and Chile have already taken effect.

### III.3 More Litigation

Trade experts from all over the world are apprehending about more trade disputes being brought to the WTO following the suspension of the Doha trade talks. WTO DG Pascal Lamy has also cautioned that "shifting priority away from negotiations and to litigation could damage the fragile balance that exists between interpreting existing rules and creating new and more relevant WTO agreements". A perceived collapse to reach a negotiated agreement on cutting farm subsidies and tariffs may give rise to a wave of litigation aimed at their reduction. Some trade experts fear that adverse rulings could ultimately weaken the support of the biggest economies for the WTO dispute settlement mechanism and the organisation in general.<sup>3</sup> We are already witnessing such dissenting voices in US when it lost series of cases in the WTO in recent years.

After the expiry of "peace clause" in the year 2004 the major developed countries were exposed to the risk of the other countries raising disputes on their farm subsidies. Peace clause prohibits action against agri subsidies under the WTO Agreement on Subsidies & Countervailing Measures. When the Peace Clause expired, many commodity-specific EC and US agricultural subsidies were vulnerable to legal challenge under Articles 6.3(a)-(c) and 6.4 of the Subsidies Agreement. The remedy to this requires that such subsidies be withdrawn or that appropriate steps be taken to remove their adverse effects. Brazil has already won some major cases on subsidies against the US over cotton and the EU over sugar.

There has been a rising trend of litigation in agriculture sector in the WTO. At present, agriculture sector has only nine percent share in total world merchandise trade. It means manufacturing constitutes almost 90 percent of the total world merchandise trade. However, in terms of

number of trade dispute cases brought to the WTO since its establishment in 1995, agriculture is not too far behind manufacturing. So far in the WTO, the total number of dispute cases related to agriculture is approximately 125 against 140 odd in case of manufacturing. And with this suspension there are more chances of litigation in the agriculture sector. Thus there is a need to have a significant breakthrough in Doha Round to achieve benefit of trade liberalization and counter the acceleration of disputes. A setback to Doha Round means the disputes settlement mechanism of the WTO may be overburdened.

### IV. Chances of Revival

The Doha Round has slipped into a deep freezer. No one seems optimistic of its revival in a few months time. Although Brazil and the US have promised to make efforts to revive Doha talks within five to eight months, the chances look bleak. Most of the experts believe that there is little hope of concluding the Doha Round before 2009, i.e., after the next US Presidential election in 2008. The breakdown at this crucial juncture means that there is virtually no chance of finishing an agreement before President Bush's negotiating authority expires in 2007, on which WTO members were pinning their hopes.

Fast track or trade promotion authority means that Congress must vote the deal 'up or down' (yes or no) as a whole, otherwise opponents could add wrecking amendments and force the US to renegotiate the whole deal. Given the current political climate in the US Congress, facing mid-term election and trade deals getting unpopular because of the huge trade deficit of US, an extension of "fast track" is unlikely to be agreed. Further, if Democrats win control of even one house of Congress; the chances for extending President's fast track authority may weaken considerably.

Another important factor which would not allow talks to progress is the French presidential election in 2007. It is already being alleged that the EU led by France, forced Pascal Lamy to suspend the negotiations indefinitely. France sees that the excessive focus on agricultural issues led to the suspension of the trade talks. According to the *Wall Street Journal*, the French agricultural Minister said, "I would prefer the negotiations fail rather than raise questions about agriculture".

In a nutshell, the US and Brazil's claim of reviving the talks in a few months' time sounds unrealistic. It is going to be difficult to get an agreement in the next two years because of the US political agenda and French election. Any trade deal without the participation of the world's largest economy would be meaningless<sup>4</sup>.

### Endnotes

1 Comprising of Australia, Brazil, EU, India, Japan and USA

2 The Southern Common Market, or MERCOSUR, was created by Argentina, Brazil and Paraguay and Uruguay in March 1991.

3 ICTSD Bridges Weekly Trade News Digest Vol.10, No.28

4 See Story from BBC News: <http://news.bbc.co.uk/1/hi/business/5209996.stm>

