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Trade Policy Roundtable

Cancún – the Heavy Lifting Lies Ahead

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TRADE ministers representing nearly 150 countries will meet in Cancun, Mexico this week, their purpose being to breathe new life into the so-called Doha Round of multilateral trade negotiations. Their announced intent is to bring these negotiations to a successful conclusion by the end of next year, now only 16 months away. Yet, as they gather in Cancun, they will have missed essentially every interim deadline they've set for themselves. Hence, the foundation they've established pre-Cancun is shaky indeed!

The only good news for the ministers is that expectations for their meeting are modest. People who follow international trade policy closely know that they must judge a negotiation at its conclusion, not its mid-point. Since Cancun is more or less the mid-point, the major participants are not going to “show all their cards” now. That's why the heavy lifting lies ahead, post-Cancun.

Nevertheless, the major participants need to show a lot more cards than have been evident to date if Cancun is to be even a modest success, and if these negotiations are to have any realistic chance of finishing 16 months from now. If the major players continue to “spin their wheels,” waiting for each other to exert leadership, this is likely to be at least a six year negotiation, rather than the intended four years. There is only so much the WTO Director General and chairmen of the various negotiating groups can do to foster progress. Ultimately representatives of the WTO member nations must be prepared to confront these challenges, and Cancun is a welcome opportunity for them to do so. Their goal this week should be to find ways to move this negotiating exercise toward closure, on time and with a meaningful outcome. If they fail, their constituents can properly ask why the ministers even bothered to go to Cancun.

What should they attempt to achieve this week? Peter Allgeier, Deputy U.S. Trade Representative, expressed this well when he said recently: “...The bottom line is that we have the kinds of frameworks in the various negotiating areas that will give us the opportunity to have strong negotiations on those areas....The idea is to ensure that you've got the opportunity to negotiate high-ambition results.”

What Ambassador Allgeier was saying was that the trade ministers should not do anything in Cancun that would preclude the post-Cancun heavy lifting that will be necessary if the Doha Round is to succeed. To the contrary, they need to advance the process this week, as much as they can.

What does that mean? For starters, it means that ministers need to give the agricultural negotiations a push. This has been labeled a “Development Round,” and almost all developing countries are agrarian. That suggests that enhanced market access in agriculture should be one of the highest priorities of the Doha Round. But that can never happen if the agricultural segment of these negotiations continues in disarray. The developed countries have not yet shown any eagerness to open their markets appreciably in this area, and neither have the developing countries. The latter need to begin to realize that export opportunities among their fellow developing countries will often exceed those in the developed world. They severely limit those opportunities by concentrating all their negotiating efforts on developed countries.

When the Doha Round was launched one of the announced objectives was to phase out agricultural export subsidies. (Export subsidies on industrial products have long been prohibited under GATT/WTO rules.) Regrettably the European Union, by far the greatest subsidizer, now says only that it is willing to phase out such subsidies on “some products” of special interest to developing countries. That is a most disappointing proposal, especially to developing country exporters.

Neither the U.S. nor the European Union scored any points with the rest of the world when they made a joint proposal on domestic subsidy disciplines a couple of weeks ago. Both entities spend huge sums of money on such subsidies and their proposal would essentially maintain the status quo. To their credit, both have begun to “decouple” their subsidies, meaning they’ll be less trade distortive than in the past. But many of those programs can hardly be classified as non-distortive. Developed countries (the U.S., the EU and a number of other countries as well) need to reduce the level of these subsidies, not just shift them to “boxes” that are not subject to WTO disciplines.

In a nutshell, the agricultural exporting nations (and those who aspire to be exporters) need to deliver some candid messages in Cancun.

To the U.S., they need to say: “You’ve talked the talk on agriculture, now be prepared to walk the walk, and insist that the European Union do so as well.”

To the EU they need to say: “Stop trying to get developing country support by offering preferences and special arrangements on export subsidies. Your mandate in this area is grossly inadequate, so go back to Brussels and get one that is far more ambitious.”

To Japan they need to say: “Stop hiding behind the EU on these agricultural issues in order to protect your indefensible rice programs. Be constructive and provide leadership or we’ll never get to the issues that are important to you.”

And developing country exporters need to say to themselves: “Are we spending too much time trying to get ‘special and differential treatment’ in

agriculture? Should we not be careful about what we ask for, lest we get it and later rue the outcome?"

Turning to other Cancun issues, industrial market access has been at the heart of GATT/WTO negotiations for more than half a century, and this round is no exception. The U.S. has surfaced a proposal to phase out all industrial tariffs by 2015. That has generated lots of discussion, but not many endorsements. If other trade ministers have better ideas, Cancun would be a great time to hear them.

As a result of earlier negotiations, many of these tariffs are at such low levels they're simply a nuisance today. Others, however, are still high enough to significantly impede trade. So we ought to try to get rid of them all, and simply use safeguards provisions to protect against damaging import surges. If that proves unattainable in the Doha Round, serious attention should be given to the phase-out of tariffs in individual industry sectors. The Cancun ministerial is unlikely to decide these industrial issues, but it should provide relatively clear signals with respect to what might be attainable in this round.

Another pre-Cancun disappointment has been the lack of progress on services. This segment of the negotiations started even before the Doha Round was officially launched. Yet not much has happened even though growth in the services sector is critical to the overall growth of most economies in the world, including in the U.S. Offers made so far in the Doha Round can hardly be characterized even as "modest." The trade ministers at Cancun need to jump-start this effort in a major way.

Finally, everyone is awaiting Cancun guidance on the "Singapore issues" — investment, competition policy, trade facilitation, and transparency in government procurement. My own view is that the ministers should add the latter two issues to the Doha Round agenda. They should be able to do that without having to extend the December 2004 deadline. Everyone ought to support efforts to facilitate the cross-border movement of goods, services, and the people who are essential to those business endeavors. That's what trade facilitation is all about. And everyone ought to support greater transparency in government procurement throughout the world. In many countries such procurement practices have been far too secret for far too long.

So the Singapore issue debates in Cancun should focus principally on what, if anything, should be done with investment and competition policy. There is no doubt in my mind that the WTO can make worthwhile contributions in both these areas — and should do so. But the WTO is a consensus-based organization, and the probabilities of achieving consensus in Cancun to commence negotiations on either of these subjects would seem to be slim at best. If such negotiations were to be added to the Doha Round agenda, I see no chance whatsoever of completing the round by the end of next year.

Thus, the Cancun participants will have to decide whether to incorporate those subjects and extend the deadline, or exclude them and seek to maintain the present deadline. My guess is they'll choose the latter.

One should not, however, preclude a slightly altered option for one or more of the Singapore issues. There is nothing that says all WTO negotiations must be incorporated in a round. So if ministers wish to commence negotiations on investment or competition policy, but would rather not clutter the Doha Round agenda with these contentious subjects, they could initiate separate exercises for them. In other words, they could create a negotiating group for investment, and another for competition policy, both to function outside the context of the Doha Round. Assuming carefully circumscribed negotiating agendas consensus just might be achieved on the creation of such negotiating groups in Cancun.

In summary, if Cancun is to be judged a success, the attending trade ministers must create an improved negotiating environment for the heavy lifting that lies ahead. They need to decide with specificity just what is to be on the Doha Round agenda, and whether their present timetable is still realistic. If it is, they need to go home, obtain a lot more negotiating flexibility than they now have, and then dramatically accelerate the negotiations in Geneva. If they don't have the political will to do that, the Doha Round will be in serious jeopardy and could well collapse.

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