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## THE DOHA ROUND - 2004 VERSION

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## *THE DOHA ROUND — 2004 VERSION*

*By Clayton Yeutter<sup>1</sup>*

Thank you, Sherman Katz. It is a pleasure always to participate in this CSIS Seminar, which is becoming an annual reunion for former USTRs.

Trade is always on the front burner of world affairs, but that burner is especially hot at the moment! And it is as hot here in the U.S. as it is anywhere. So let's turn to the Doha Round of World Trade Organization (WTO) negotiations, and see where we stand.

First, there is no need to rehash the not-so-successful ministerial meeting in Cancun, Mexico. I will have a few peripheral comments on that session, but I would much rather focus on the future of this negotiation than on what has or has not occurred in the past.

The happening that has received the most attention recently is Ambassador Zoellick's letter to his fellow trade ministers. As you know, in that communication he suggested it would be wise to try to accomplish something in the Doha Round in 2004, and not simply rationalize doing nothing since this is a presidential election year in the U.S. That was a very good letter, and it certainly was timely. We do need to breathe life into the Doha Round, and I commend Ambassador Zoellick for leading the effort. He is now on an around the world trip to embellish his views and persuade his fellow trade ministers to accelerate their level of multilateral activity.

Will this permit the negotiators to reach a final agreement by the end of 2004, the original deadline? No way. As a practical matter, no matter what emanates from Ambassador Zoellick's present trip, the Doha Round will not come to a successful conclusion by the end of this year. (The trade negotiators could simply declare victory and go home, of course, but that would be a minimalist outcome that most of the world would find unacceptable.)

The question then is why Ambassador Zoellick is now undertaking this effort? Why not simply wait until after the election? There are probably three or four basic reasons underlying this U.S. initiative. One is that Ambassador Zoellick undoubtedly senses, as do most of us, that the underlying tone for trade negotiations is far from ideal at the moment. We still have plenty of mercantilism in the world, and it surfaces at times like this. There is also considerable protectionism in most countries, including the U.S. It, too, surfaces in times like this. The huge trade deficit that we have today reminds me a lot of the situation that prevailed when I became U.S. Trade

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<sup>1</sup> Of Counsel, Hogan & Hartson L.L.P.; former U.S. Trade Representative; former U.S. Secretary of Agriculture. Address to Fourth Annual Seminar of Former USTRs, co-sponsored by CSIS and The Economist, Washington, D.C., February 13, 2004.

Representative in 1985. There was a strong tilt toward protectionism in the U.S. at that time, and one can feel some of those same pressures in this country today.

Secondly, the outsourcing issue has come to the fore in the U.S. recently, and that has challenged our policy makers even more than was the case in the mid-80s. What happens to jobs as a result of international commerce? Who wins? Who loses? Are most trade agreements a win-win proposition, or has this now become a zero sum game where there are both winners and losers and the latter are the most vocal? Will the huge trade deficit that we have today be followed by a remarkable economic performance, comparable to what occurred in the 90s on the heels of our huge trade deficit of the 80s? Or are things somehow different this time? I know Ambassador Hills will have much to say this morning on these questions.

One final factor, perhaps the most important of all, is that what we now call trade promotion authority will come up for renewal in the U.S. in 2005, a little more than a year from now. I suspect Ambassador Zoellick feels that if nothing much happens in the Doha Round between now and then many Members of Congress will question the merits of extending that authority. Their reaction will be, why go through the political pain of that exercise if there is nothing much of value happening on the multilateral trade front. I am sure that Ambassador Zoellick is now hoping that he and his fellow trade ministers can establish enough Doha Round momentum in 2004 and early 2005 to carry that trade promotion authority vote.

But if trade ministers are to breathe life into the Doha Round, what should they do in 2004? The first thing they need to do is agree on an agenda! It's mighty difficult to contemplate bringing an exercise such as this to a successful conclusion when we do not yet know what the negotiating agenda is! That is an issue that should have been resolved in Cancun, but was not. So the trade ministers had better figure out what the agenda is to be, and they ought to do so quickly. I am sure Ambassador Zoellick is counseling his colleagues that this is something that ought to be worked out by mid-year if at all possible.

We now have three issues that are definitively a part of the Doha Round agenda — industrial tariffs, agriculture and services. In industrial tariffs, it should not be difficult to establish negotiating parameters in the very near future. After all, there is a long history of negotiating such tariffs in both the GATT and the WTO. So by now we ought to know how to get this done. The more relevant question is how deep and how broad these tariff reductions should be on a worldwide basis. The U.S. position is that the world ought to rid itself of all industrial tariffs within a specified period of time. That may or may not turn out to be too ambitious for this round of negotiations, but it is a proposal worthy of serious consideration.

The second major issue is agriculture, and I will comment further on that subject shortly. There is, of course, no way to complete the Doha Round successfully without a meaningful agreement on agriculture.

It is imperative for services to remain on the agenda, too. After all, services negotiations were commenced within the GATT/WTO context for the first time in the Uruguay Round. Those negotiations basically laid the foundation for trade liberalization in this area of commerce, so we need now to build on that foundation during the Doha Round. Again, the question is how far, how fast, who participates and to what degree.

The next question is whether any of the so-called Singapore issues will ever make the Doha Round agenda. As you know, disagreement over these topics was one of the primary reasons for collapse of the Cancun ministerial. Can any or all of the four topics — trade facilitation, competition policy, investment and transparency in government procurement — now be resurrected?

In my view, two of these topics are at the far corners of the negotiating spectrum — trade facilitation at one corner, competition policy at the other. It seems to me that trade facilitation ought to be added to the Doha Round agenda, and achieving agreement to do so should be relatively easy. With terrorism being a threat today, trade facilitation is a subject that ought to be on the radar screen of all WTO member nations. Anything the WTO can do to facilitate the rapid, efficient, cost-effective movement of goods and services across borders will be a worthwhile contribution to the world. Everyone ought to be dedicated to that objective.

At the same time, for all the good things that one might say about competition policy, it seems to me that this is an issue that is not now ripe for negotiations. Continuing to discuss it within the WTO certainly would be worthwhile, but I see no way to get it on the multilateral negotiating agenda anytime soon. Were it to be added at this point, it would likely hold back the timely completion of negotiations on the other topics.

That leaves two topics in the middle of the negotiating spectrum. Personally, if I had my druthers, I'd put transparency of government procurement on the agenda, too. Why should anyone be opposed to greater transparency in government procurement? Or, for that matter, greater transparency in anything related to international commerce? As transparency is still a sensitive issue in many countries, trade ministers must decide how hard they wish to push if this issue is to be inserted into the Doha Round. Is it worth the political capital that will have to be expended in a substantial number of countries? Only ministers can answer that question.

Investment is a significant issue indeed, and one which merits careful deliberation as to how it should be handled. In contrast to competition policy, a lot of work has already been done on potential multilateral investment rules, particularly at the OECD. As you know, that exercise faltered because of opposition from anti-globalization forces, and it has not yet come back to life. Nevertheless, the world does need a multilateral investment agreement. There are a zillion bilateral investment agreements in the world, and they're making at least some contribution to improving the investment environment. But they are a poor substitute for a broader multilateral

agreement. The latter needs to be brought to fruition in the WTO, where both developed and developing countries are fully represented. As I have said on innumerable occasions, with investment being the flip side of trade it makes no sense to have more than half a century of experience with multilateral trade rules matched up with nothing comparable in the way of multilateral investment rules. The two should go hand in hand.

My personal view, however, is that we ought not include investment on the Doha Round agenda. It will inevitably be a highly contentious issue, and one that would likely make it much more difficult to bring the round to a successful conclusion. But I see no reason why the WTO should not soon commence a negotiation on investment separate from the Doha Round agenda. The WTO's focus need not be, and should not be, entirely on trade rounds. There is nothing to preclude separate negotiations on investment, or any other topic, and the WTO should engage in such negotiations when appropriate.

Trade ministers are going to have to sort this one out, too, but in the end I suspect that investment will not make the Doha Round agenda. If then the agenda were to encompass industrial tariffs, agriculture, services and trade facilitation, is that enough to make it a productive round? In my view, it certainly should be. That comes down to how much progress can be achieved in each of those four major areas. It would not be a terribly broad agenda, but if negotiators can accomplish a great deal in all four areas, the outcome can be tremendously beneficial to the world. In addition, of course, one can add activity in the rules area, through efforts to improve the operations of the WTO as an institution. This can encompass further work on dispute settlement, antidumping/countervailing duties, trade policy surveillance, etc. If one can add rules improvements to what is undertaken in the more traditional areas, the overall negotiating package can be a meaningful one.

Should the WTO also improve its governance procedures? Of course, but first things first. Trade ministers need now to focus on the Doha Round, and only on those governance issues that will contribute to a satisfactory outcome of that exercise. They can focus later on longer term governance issues. In other words, let's not disrupt the Doha Round negotiations in order to have an abstract discussion of issues that may or may not ever lead to tangible improvements in the functioning of the WTO.

How are we to make distinctions in that respect? I would offer the role of the Director General and the Secretariat as an example of governance with potential benefits in both the short run and the long run. As many of you will remember, Arthur Dunkel, then Director General of the GATT, made a major contribution to the Uruguay Round when he prepared and submitted what was called the Dunkel Text. We may well need something similar to that Text in order to narrow differences as we move toward conclusion of the Doha Round. That means that WTO member nations must be sensitive to what it is they wish the Director General to do as the negotiations proceed, and to how much support the Secretariat will be capable of providing to the Director General and to the negotiating groups and delegations in Geneva when crunch time

comes. Since it is unlikely that we will conclude the negotiations during the term of Director General Supachai, the selection of his replacement becomes a terribly important decision. Peter Sutherland provided superlative leadership as the DG during the final stages of the Uruguay Round, and the WTO will need an effort comparable to that in this round. So the selection of the next DG, the role that is given to him or her, and the support that is given through the Secretariat and in other ways, will be critically important to the final outcome. Hopefully, whatever evolution occurs in WTO governance during this transition period will also help lay the groundwork for the way the WTO is to function in the future.

Another governance issue with both short and long term implications is that of achieving consensus among the member nations. During the Uruguay Round, the WTO had approximately 100 members. That number is now approaching 150. Not surprisingly, it is not easy to achieve consensus among 150 nations on anything! If in the Doha Round 145 nations or so agree on a "final package", and only two or three recalcitrants are holdouts, what then is to occur? Will two or three nations be permitted to torpedo a negotiating result with potential benefits to several billion people in the world! I doubt it. I suspect that a creative way will be found to avoid what amounts to extortion of the majority by a minority.

Now just a few words about timetable. Ambassador Zoellick has suggested that it might be desirable to have another meeting of trade ministers in Hong Kong later this year. One can understand his motivations, both in moving the Doha Round forward and in building a case for extension of trade promotion authority. But the WTO cannot afford another Cancun. If there is to be another ministerial meeting anytime soon, anywhere, trade ministers had better make sure that there is a high probability of success, however that term is to be defined. Personally, I'm not enthused about high-profile ministerial meetings. Though it is important for ministers to provide leadership and guidance to their negotiators, and it is imperative for ministers to meet from time to time to resolve differences and establish priorities, that can easily be done in a more informal manner.

If all goes well, could the negotiations be finished by mid-2005 so that U.S. trade promotion authority would not have to be extended? Perhaps, but not likely. Conventional wisdom at the moment (with which I agree) is that the negotiations will more likely finish by mid-2007 when "extended U.S. trade promotion authority" is scheduled to expire. Some will say that's a long way off, but three years will go by in a hurry. If negotiators use those three years well, and are able to bring back to their home countries a package that is truly significant, that will make all of this effort worthwhile. This takes leadership, of course, and leadership at the very highest levels of government.

Now let me quickly turn to agriculture. Most people would conclude that the Cancun Ministerial was a failure on agriculture, and in many respects it was. But we must be careful not to overreact to what occurred in Cancun, on agriculture and on the Singapore topics. After all, we had a mid-term ministerial meeting in Montreal during

the Uruguay Round, and the outcome was not unlike that of Cancun. Negotiators recovered from that "failure" in a relatively short period of time.

In my judgment, the main difference between the outcomes in those two cities was that after Montreal everyone went home disappointed but not angry, whereas Cancun produced a lot of both. The level of acrimony was higher, which means it may be more difficult to get things back on track. But we've now had a cooling off period, and Ambassador Zoellick, to his credit, has seized the opportunity to move forward. Trade ministers throughout the world have come to the appropriate conclusion that there were no winners in Cancun, that in essence everyone was a loser, and that this was an experience that ought not be repeated. That should improve the negotiating atmosphere dramatically as the future unfolds.

Why was agriculture a problem in Cancun? Mostly because of the accord that the U.S. and the European Union worked out ahead of Cancun. I believe that both those entities firmly felt they would be advancing the Cancun agenda through their actions — but it didn't turn out that way. They seemed genuinely surprised by the evolution of the G-20 group in Cancun, and the vigorous opposition of those countries to the U.S.-EU position.

The U.S.-EU accord was perceived to be self-serving, and it was also perceived as the U.S. backing away from its earlier, praiseworthy submission on agriculture. Notwithstanding the harsh reaction of the G-20, considerable progress was made on agriculture at Cancun, and hopefully that progress can be sustained as negotiations are now reopened.

Where does that now leave us? The U.S. has returned to its initial submission, which provides substantial trade liberalization in agriculture. I was proud of the U.S. for producing that position paper, for it effectively countered harsh criticism of the 2002 farm bill. The U.S. seemingly regressed in Cancun, but has now returned to its initial position, which is where it should be.

In recent bilateral and regional free trade agreements the U.S. has evidenced little willingness to provide market access on politically sensitive agricultural products. That may well provide a credibility challenge in the context of the Doha Round. Nations interested in access to the U.S. marketplace may well say "If the U.S. can't deliver on agriculture in free trade agreements, how is it ever going to do so in the Doha Round?" That is a legitimate query, one which needs to be posed to U.S. government officials as the Doha Round proceeds. It is certainly an area in which the U.S. should be held accountable as a matter of principle, just as any other nation should be. But if the U.S. will demonstrate the political courage to support its present position on agriculture, it will certainly do its part in these negotiations.

The European Union, on the other hand, needs a much more flexible negotiating mandate on agriculture. The EU simply cannot sustain a position which says, "We're sorry, but this is all we can do on agriculture; our mandate will not permit us to go any

further.” Were the EU to hold to that position, the Doha Round will fail. Therefore, it is incumbent upon the EU to alter its negotiating mandate, and the sooner the better.

The other major “distorters” in agriculture will need to do their share, too. They’ve all been quiet so far, willing to let the U.S. and the EU be the primary targets in this negotiation. Countries such as Japan, Korea, Norway, Switzerland and a few others need also to be held fully accountable in agriculture. In many respects, the agricultural trade policies of those nations are far more troublesome than are those of the U.S. and the EU.

In addition, the developing world itself needs to be held accountable. Many developing countries seemingly went into the Doha Round, and into Cancun, not expecting to provide much in the way of agricultural trade liberalization. Their views seemed to be that a “development round” implies major concessions by developed countries, with few or any concessions by the developing world. They apparently were shocked in Cancun to discover that they, too, were expected to liberalize.

Developing countries will now have to reassess their positions in the Doha Round, recognizing that they must make their own fair share of contributions to trade liberalization if the round is to succeed. Not as much will be expected of them as of the developed countries, of course, but neither will this be a “freebie” exercise for them. Nor should it be, for it is in their own self interest to open up their agricultural markets to competition. One can debate the timing of that, of course, and that should and will be done in the context of the negotiations. But developing nations should by now realize that if domestic industries (agriculture or any other) are protected so that they do not have to compete internationally, they will never learn to compete. That is not in their long term self interest.

Let’s now quickly examine the three major issues in agriculture. The first is export subsidies. In light of the high profile that this topic received in Cancun, export subsidies need to “go away” in this round. The European Union, which is by far the largest user of such subsidies, will simply need to find a way to live with that outcome. The Doha Round debate needs to be on a timetable for the phase-out of all agricultural export subsidies, rather than on whether this is to occur. That will obviously be politically difficult for the EU, but I see no other viable outcome.

Everyone wants to push hard on market access. To me that is the highest priority in these agricultural negotiations. And negotiators should by no means exclude the politically sensitive products of any country. Those products have had essentially a free ride in multilateral negotiations for far too long. There are just too many tariff rate quotas in agriculture, most of which impede trade in a very significant way. We either need to get rid of such quotas, or expand them substantially in order to open up additional competitive opportunities.

Many people from other countries have said to me in recent months that their highest priority is obtaining major reductions in developed country domestic subsidies,



particularly those of the U.S. I would not debate the wisdom of that objective, but the U.S. and the European Union have both begun to move toward reforms in that area via decoupling. Decoupling reduces the trade distorting effect of domestic subsidy programs. That alone will be of considerable benefit to developing countries, totally aside from any relief that is obtained through the reduction of subsidy levels.

To me the major negotiating risk for the rest of the world is that developed countries may attempt to reclassify their subsidies in order to exclude them from WTO disciplines. In other words, if countries can shift a domestic subsidy from the amber box, where reductions are imperative, to the green box, where reductions are not required, reforms can be impeded if not avoided. Other WTO member nations will need to be alert to this prospect, and counter it if reclassification would be inappropriate.

Is there an achievable agricultural agreement in the Doha Round? Certainly, but it won't come easily. That should be obvious from recently completed regional and bilateral free trade negotiations. But impossible? Not at all. What is required is a lot of hard work, perhaps some good fortune on timing, and political courage. One cannot achieve change in a subject as contentious as agriculture in a very short period of time. But nothing lasts forever — even farm subsidies!

Sherman, thank you.