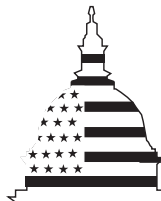


March 2007

WORLD TRADE  
ORGANIZATION

Congress Faces Key  
Decisions as Efforts  
to Reach Doha  
Agreement Intensify



G A O

Accountability \* Integrity \* Reliability



Highlights of [GAO-07-379](#), a report to congressional requesters

## Why GAO Did This Study

President Bush has identified the success of global trade talks launched in Doha, Qatar, in November 2001 as one of the United States' top trade policy priorities. Known as the Doha Development Agenda, the talks are an important means of spurring global growth and development. Completing the talks in 2006 was considered essential for an agreement to qualify for streamlined congressional consideration under the U.S. Trade Promotion Authority. However, the talks collapsed in late July 2006 in the face of wide differences over the extent of agricultural reform and how best to promote economic development in poor countries. Efforts to break the deadlock continue.

Given the tenuous state of this central plank of U.S. trade policy, GAO updated its series of prior reports. In this report, we assess (1) the overall status of the Doha Round negotiations now and the progress that had been made prior to and since the breakdown of the talks, (2) the substantive divisions among key World Trade Organization (WTO) members that led to an environment of deadlock and the eventual suspension of the negotiations, and (3) the possible economic and other ramifications if the round is not concluded satisfactorily.

[www.gao.gov/cgi-bin/getrpt?GAO-07-379](http://www.gao.gov/cgi-bin/getrpt?GAO-07-379).

To view the full product, including the scope and methodology, click on the link above. For more information, contact Loren Yager at (202) 512-4347 or [yagerl@gao.gov](mailto:yagerl@gao.gov).

## WORLD TRADE ORGANIZATION

### Congress Faces Key Decisions as Efforts to Reach Doha Agreement Intensify

#### What GAO Found

The Doha talks remain deadlocked, and their ultimate success is uncertain. However, the recent resumption in negotiations and renewal decisions facing Congress in 2007 create a window for breaking the deadlock.

- Regarding agriculture, WTO members differ sharply over how much to reduce barriers that distort production and trade, namely import restrictions such as tariffs (import taxes) and government payments and other “domestic support” to farmers. As the world’s largest agricultural exporter, the United States is seeking to sharply reduce foreign barriers to U.S. exports and has insisted on attaining greater promise of commensurate market access gains before agreeing to further cut its trade-distorting payments to U.S. farmers. The European Union (EU) is among the major agricultural players that have resisted this, and it has joined forces with developing countries in demanding U.S. subsidy cuts far beyond those already offered. In particular, the EU and developing countries have pressed the United States to cut subsidies below current spending and to disavow certain programs that could lead to future increases.
- Regarding development, members remain divided over how the WTO can best promote economic growth and reduce poverty in the developing countries. Despite their diverse interests, developing countries maintain solidarity in pressing myriad demands for special treatment that would shield them from liberalizing their own imports. The United States believes such liberalization is not only critical to fostering development, but needed for WTO members to maximize the likely economic gains to both developed and developing countries, and to offset anticipated losses for some countries.

Participants and observers offer mixed views on the implications if Doha is not successfully concluded. Some warn of forgone economic gains, a weakened global trading system, and a more difficult U.S. trade policy environment. Others suggest that the ramifications are much more limited. Congress faces renewal decisions in 2007 on two key pieces of legislation—Trade Promotion Authority and the Farm Bill—that could spur a breakthrough and be pivotal to the trading system and the future U.S. role in it.

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## Abbreviations

CAP	Common Agricultural Policy
CRS	Congressional Research Service
EU	European Union
FAPRI	Food and Agricultural Policy Research Institute
FTA	free trade agreement
GATT	General Agreement on Tariffs and Trade
G-6	Group of 6
G-8	Group of 8
G-10	Group of 10
G-20	Group of 20
G-33	Group of 33
G-110	Group of 110
LDC	least-developed country
SSG	special safeguard
SSM	special safeguard mechanism
TPA	U.S. Trade Promotion Authority
TRQ	tariff-rate quota
UNCTAD	United Nations Conference on Trade and Development
USTR	Office of the U.S. Trade Representative
USDA	U.S. Department of Agriculture
WTO	World Trade Organization

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United States Government Accountability Office  
Washington, DC 20548

March 5, 2007

The Honorable Jim McCrery  
Ranking Minority Member  
Committee on Ways and Means  
House of Representatives

The Honorable Wally Herger  
Ranking Minority Member  
Subcommittee on Trade  
Committee on Ways and Means  
House of Representatives

In November 2001, the World Trade Organization (WTO) launched a new round of global trade negotiations at Doha, Qatar. The negotiations cover a broad range of issues, including agriculture, nonagricultural (industrial) market access, and services. Officially known as the Doha Development Agenda, the talks are the latest in a series of negotiating “rounds” among WTO members, which now number 150 nations and customs territories. President Bush identified completing the talks as a major U.S. trade policy priority for 2006. On July 24, 2006, after 5 years of negotiations and a deadlock on issues of agriculture reform and on how best to support development by the WTO’s poorest members, WTO Director-General Pascal Lamy called for an indefinite suspension of the negotiations in spite of the July 1, 2007, expiration of the U.S. Trade Promotion Authority (TPA). TPA streamlines congressional approval of trade agreements, and its expiration has served as a *de facto* deadline for the WTO talks.

Considering the tenuous state of this central plank of U.S. trade policy and the possible implications for the global trading system, we updated our series of reports on the WTO negotiations.<sup>1</sup> In this report, we assess (1) the overall status of the Doha Round negotiations now and the progress that had been made prior to and since the breakdown of the talks, (2) the

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<sup>1</sup>GAO, *World Trade Organization: Limited Progress at Hong Kong Ministerial Clouds Prospects for Doha Agreement*, [GAO-06-596](#) (Washington, D.C.: Apr. 26, 2006); *World Trade Organization: Global Trade Talks Back on Track, but Considerable Work Needed to Fulfill Ambitious Objectives*, [GAO-05-538](#) (Washington, D.C.: May 31, 2005); *World Trade Organization: Cancún Ministerial Fails to Move Global Trade Negotiations Forward; Next Steps Uncertain*, [GAO-04-250](#) (Washington, D.C.: Jan. 15, 2004); and *World Trade Organization: Early Decisions Are Vital to Progress in Ongoing Negotiations*, [GAO-02-879](#) (Washington, D.C.: Sept. 4, 2002).

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substantive divisions among key WTO members that led to an environment of deadlock and the eventual suspension of the negotiations, and (3) the possible economic and other ramifications if the round is not concluded satisfactorily.

To address these objectives, we met with and obtained documents from a wide range of WTO, U.S., and foreign government officials as well as a cross section of selected academic experts and private sector groups (including agricultural commodity groups, business associations, and civil society groups) in Washington, D.C., and Geneva, Switzerland. We also attended the September 2006 WTO Public Forum in Geneva. We conducted our work from June 2006 through February 2007 in accordance with generally accepted government auditing standards.

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## Results in Brief

A successful conclusion of the global trade talks remains uncertain, although resumption of the talks was recently achieved after a 6-month hiatus in the negotiations. WTO Director-General Lamy decided to suspend negotiations in late July 2006 after key members proved unable to break the impasse over agriculture. In the months after the December 2005 Hong Kong ministerial meeting, WTO members had made headway on issues such as trade facilitation and reforming WTO “rules” on regional trade agreements and antidumping. However, there was no breakthrough on the key decisions needed to produce market access schedules to liberalize trade in agriculture, manufactured goods, and services—where most of Doha’s trade-creating gains were expected. Eleventh-hour involvement by world leaders proved insufficient to overcome resistance to reform and satisfy key players’ demands for a balanced, mutually beneficial outcome. A series of high-level pronouncements of commitment to a full resumption of the talks were made since the July suspension finally culminating in formal across-the-board resumption of the talks in February 2007. However, changes in position have yet to materialize.

Substantive differences over agriculture and philosophical differences over development precipitated the negotiations’ collapse. The talks broke down in July due to persistent disagreement over agricultural market access and levels of domestic support for agriculture among key players, such as the United States, the European Union (EU), and developing countries led by Brazil and India. The United States is insisting on sizable market access gains through larger overall cuts in tariffs than the EU or developing countries are willing to accept. It also wants to sharply limit the percentage of specific agricultural products that the EU and developing countries can shield from full tariff liberalization. The United

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States insists that only ambitious market access gains will permit it to offer further reductions in domestic support. The EU and developing countries believe that U.S. support levels should be reduced below current spending, and they have bristled at perceived U.S. pressure that they reciprocate for support cuts with “dollar-for-dollar” gains in market access. In addition, behind the deadlock on agriculture lies a perhaps more fundamental conflict among WTO members about what a “development round” means and how best to spur development in less-developed countries. The disagreement centers on how trade liberalization contributes to development and to what extent developing countries should be expected to open their markets. U.S. negotiators emphasize the development benefits of removing trade barriers, while many developing countries reject the idea of paying for U.S. subsidy reform and fear the potential social and economic consequences to poor populations of lowering their own barriers to imports. As a result, agreement on how to satisfy developing countries’ demands for protection without codifying exceptions that would sharply limit market access gains has thus far eluded negotiators. Nevertheless, WTO members have moved forward with plans to provide additional trade-related assistance to developing countries.

Participants and experts express varying views on the ramifications of Doha’s possible failure for the global and WTO member economies, the world trading system, and U.S. trade policy. Some participants and experts warn of forgone economic gains, a weakened multilateral trading system, and dimmed prospects for congressional renewal of TPA and reform of U.S. farm programs. First, they warn, the economic gains projected to result from a Doha agreement, for both the world overall and the U.S. economy in particular, would not be realized. Second, the multilateral trading system could face intense pressures if WTO members’ frustrated expectations and ill will spill over into regular WTO work, result in more trade disputes, or divert energies toward more exclusive regional trade deals. Finally, they argue that the leadership the United States has historically shown in the global trading system is being questioned and could be tested if poor Doha prospects cause Congress to balk at renewing TPA and reforming U.S. farm programs. Yet, others suggest that the ramifications in all three areas may be much more limited. First, some of the desired economic gains, which are relatively modest to begin with, could still be secured by other means, such as unilateral liberalization. Second, some of the countries most resistant to liberalization at the WTO showed some willingness to cut barriers in other contexts since July. Third, in the United States, debate is already occurring over the terms of extension of TPA and whether to proactively reform or continue subsidies

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associated with the 2002 Farm Bill. Nevertheless, the on-going impasse of the Doha talks has effectively placed Congress at the center of the controversy because what the United States does in 2007 on TPA and Farm Bill renewal is widely seen as pivotal to the WTO and its role in the trading system.

We provided a draft of this report to the Office of the U.S. Trade Representative (USTR) and the Departments of Agriculture (USDA), Commerce, and State. USTR and USDA provided technical comments, which we incorporated where appropriate. State and Commerce had no comments on the draft report.

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## Background

The WTO was established as a result of the Uruguay Round of trade negotiations on January 1, 1995, as the successor to the General Agreement on Tariffs and Trade (GATT). Based in Geneva, Switzerland, the WTO is led by a Director-General and administers agreed-upon rules for international trade, provides a mechanism for settling disputes, and serves as a forum for conducting trade negotiations. WTO membership has increased since 1995, and there are currently 150 WTO member nations and customs territories with widely diverse levels of economic development. Global trade negotiations occur in periodic comprehensive “rounds,” in which a large package of trade concessions among members is developed and ultimately agreed on as a single package; this process requires simultaneous agreement on all issues. Countries often negotiate as members of groups loosely named after the size of their membership,<sup>2</sup> such as the Group of 10 (G-10),<sup>3</sup> the Group of 20 (G-20),<sup>4</sup> the Group of 33

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<sup>2</sup>For example, the G-20 now has more than 20 members and the G-33 has more than 40 members.

<sup>3</sup>G-10 members are Bulgaria, Iceland, Israel, Japan, Liechtenstein, Mauritius, Norway, South Korea, Switzerland, and Chinese Taipei.

<sup>4</sup>G-20 members are Argentina, Bolivia, Brazil, Chile, China, Cuba, Egypt, Guatemala, India, Indonesia, Mexico, Nigeria, Pakistan, Paraguay, the Philippines, South Africa, Tanzania, Thailand, Uruguay, Venezuela, and Zimbabwe.



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(G-33),<sup>5</sup> and the Cairns Group<sup>6</sup>—groups that represent key negotiating positions on agriculture issues. Moreover, the EU negotiates on behalf of all of its member nations. USTR negotiates on behalf of the United States, in regular consultation with Congress, executive branch agencies, and official private sector advisors, among others.

At Doha, Qatar, in November 2001, WTO members reached consensus to launch the Doha Development Agenda or Doha Round,<sup>7</sup> the ninth round of trade liberalizing negotiations since the trading system's founding in 1947. The Doha ministerial declaration established a work program with a number of negotiating areas, and members set specific goals for each area and negotiating groups to achieve them.<sup>8</sup> The Doha declaration also put a special emphasis on addressing the needs and interests of developing countries in the negotiations. Of the Doha negotiating areas, agriculture remains the top issue for many participants and has been described as the lynchpin of the Doha negotiations. Reform of agriculture was first added to the trading system in the last (Uruguay) round, but domestic and export subsidies and tariff barriers remained. In July 2004, WTO members reached a framework agreement that established certain principles and agreed means for reform in agriculture as well as other Doha work areas.

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<sup>5</sup>G-33 members are Antigua and Barbuda, Barbados, Belize, Benin, Botswana, China, Cote d'Ivoire, Cuba, Democratic Republic of Congo, Dominican Republic, Grenada, Guyana, Haiti, Honduras, India, Indonesia, Jamaica, Kenya, Madagascar, Mauritius, Mongolia, Mozambique, Nicaragua, Nigeria, Pakistan, Panama, Peru, the Philippines, Senegal, South Korea, Sri Lanka, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname, Tanzania, Trinidad and Tobago, Turkey, Uganda, Venezuela, Zambia, and Zimbabwe.

<sup>6</sup>Cairns Group members are Argentina, Australia, Bolivia, Brazil, Canada, Chile, Colombia, Costa Rica, Guatemala, Indonesia, Malaysia, New Zealand, Paraguay, the Philippines, South Africa, Thailand, and Uruguay.

<sup>7</sup>For additional information on the fourth ministerial conference and the Doha Development Agenda, see [GAO-02-879](#).

<sup>8</sup>There are currently 16 negotiating areas in the Doha work program: implementation-related issues and concerns; agriculture; services; market access for nonagricultural products; trade-related aspects of intellectual property rights; trade facilitation; WTO rules; dispute settlement understanding; trade and environment; electronic commerce; small economies; trade, debt, and finance; trade and transfer of technology; technical cooperation and capacity building; least-developed countries; and special and differential treatment. Originally, the Doha declaration set forth 3 other potential negotiating areas (that is, transparency of government procurement, interaction between trade and competition policy, and relationship between trade and investment).

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The Doha Round for agriculture commits countries to lower barriers in world agricultural markets and sets forth three “pillars” for agricultural trade reform related to (1) export competition programs (export subsidies), (2) domestic support (subsidies and other assistance to farmers), and (3) market access (including tariffs and tariff-rate quota (TRQ) levels that limit imports).<sup>9</sup> Regarding domestic support, one of the main premises of the existing WTO Agreement on Agriculture is whether government programs that support agriculture are trade distorting: Does the program affect trade by changing production levels, market prices, and/or export or import levels? In general, under the WTO agreement, domestic support programs that distort trade were limited and reduced, while programs that do not distort trade were exempt from alteration. Domestic support programs have been classified into categories called “boxes” based, in part, on the extent to which the programs are thought to be trade distorting. These boxes are called Green Box, Amber Box, and Blue Box. The Doha negotiations aim to lower levels of trade-distorting support in the Amber and Blue Boxes. Figure 1 provides a summary of the boxes.

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<sup>9</sup>Under a TRQ, a lower “in-quota” tariff applies to a limited quantity of imports, while a higher, often prohibitive, “over-quota” tariff applies to any imports that exceed the quota.

**Figure 1: Summary of WTO Agriculture Agreement Boxes**

Nontrade distorting	Trade distorting			
	Amber Box	De minimis		Blue Box
		Product specific	Nonproduct specific	
Green Box				
Support programs in this category have no or minimal trade-distorting effects.	Support programs in this category are evaluated not to meet Green Box criteria and, therefore, are classified as trade distorting.	Programs in this category are not counted against the Amber Box if they are below a minimal level, even though they may be trade distorting.	Programs in this category are not counted against the Amber Box limits.	
No limits are set on support for these kinds of programs.	Support is limited by trade agreement.	Support is determined by trade agreement.	Under the Uruguay Round, presently in effect, there is no cap on Blue Box support; in the Doha framework agreement, there would be a cap based on a percentage of the value of production.	

Source: GAO analysis of WTO commitments on agriculture.

Agriculture reforms were an important issue at the most recent WTO ministerial conference, held in Hong Kong, China, in December 2005, where ministers sought to make progress in the negotiations.<sup>10</sup> However, as we noted in our April 2006 report,<sup>11</sup> limited progress in the negotiations since mid-2004 and missed milestones in 2005 caused WTO members to lower expectations for the Hong Kong ministerial. New agriculture proposals were made in October 2005 in an effort to reinvigorate the talks, but the proposals revealed wide gaps in the positions of the United States, the EU, and other key players. The agenda at the Hong Kong ministerial shifted from making decisions on core areas<sup>12</sup> of the negotiations to focusing on narrower initiatives, particularly in agriculture and development, that could help the talks move forward, if only marginally. Members made the following commitments and also set new deadlines for needed decisions at the Hong Kong ministerial. Notably, they agreed to

<sup>10</sup>The Hong Kong ministerial was the sixth since the establishment of the WTO in 1995. Ministerial conferences are convened at least every 2 years, and the outcome is reflected in a fully agreed-upon ministerial declaration.

<sup>11</sup>GAO-06-596.

<sup>12</sup>The six core areas are agriculture, development, nonagricultural market access, rules, services, and trade facilitation.

- 
- eliminate all forms of agricultural export subsidies by 2013;
  - eliminate, for developed countries, all forms of export subsidies for cotton in 2006;
  - establish duty-free and quota-free access for at least 97 percent of the tariff lines of developed countries' imports from least-developed countries (LDC)<sup>13</sup> by 2008 or by the start of implementation of the Doha agreements;
  - complete the round in 2006;
  - reach “modalities”—the formulas, thresholds, dates, and other numerical benchmarks that members will commit to meet when they revise their WTO schedules of subsidy and tariff commitments—for cutting tariffs and subsidies for agricultural and industrial goods and set disciplines on food aid, export credits, state trading, and other aspects of export competition by April 30, 2006; and
  - submit national schedules of commitments embodying the modalities for agriculture and industrial goods and present revised offers for liberalizing trade in services by July 31, 2006.

Nevertheless, with nearly all tough decisions put off until 2006, the tension between members' original high ambitions and the TPA<sup>14</sup> time frame had

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<sup>13</sup>The WTO recognizes as LDCs those countries that have been designated as such by the United Nations. Since 1971, the United Nations has denominated LDCs as “a category of States that are deemed highly disadvantaged in their development process...facing more than other countries the risk of failing to come out of poverty.” In its 2003 review of LDCs, the United Nations identified LDCs as countries with a 3-year average estimate of gross national income per capita under \$900, among other criteria.

<sup>14</sup>Title XXI of the Trade Promotion Authority (TPA) Act of 2002 (Pub. L. No. 107-210) gives the president the authority to conclude trade deals around the world and to submit legislation approving and implementing the agreement subject to an up-or-down vote by Congress, using expedited procedures within a fixed time period. To qualify, the President must notify Congress of his intent to enter a Doha agreement and request the U.S. International Trade Commission to provide him and Congress with an assessment of its likely effect by April 1, 2007, and any agreement resulting from the Doha negotiations must be entered into by the President before July 1, 2007. Expedited consideration is also contingent on the President's compliance with requirements for consultations with and notices and reports to Congress before, during, and after negotiation of the agreement. In negotiating the Doha Round on behalf of the United States, the Office of the USTR is guided by the goals outlined by TPA, including overall and principal objectives and promotion of certain priorities.

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become acute, as we noted in our last report on this matter.<sup>15</sup> The expiration of TPA on July 1, 2007, which enables the President to present a final Doha agreement to Congress for an “up-or-down” vote within a fixed period of time, has served as the de facto deadline for the round. Due to various U.S. TPA-related notification and consultation requirements, concluding the negotiations in 2006 was essential for a Doha agreement to qualify for streamlined congressional consideration under TPA.

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## Doha Talks Resumed after Months of Suspension, but No Breakthrough Is in Sight

On July 24, 2006, WTO Director-General Pascal Lamy suspended the global trade talks over an impasse in the agriculture negotiations, despite some progress before the July 2006 suspension. Prior to the suspension, world leaders made an appeal for flexibility and movement, but it proved insufficient to overcome the deadlock. During the suspension, countries professed commitment to the talks and urged their resumption, but these failed to bridge their differences. Nevertheless, as a result of these pronouncements, WTO Director-General Lamy announced a “soft re-launch” of the negotiations at the working level in mid-November. An informal ministerial meeting among some WTO members was held on January 27, 2007, on the margins of the World Economic Forum meetings held in Davos, Switzerland. Although no breakthrough was announced, key participants emerged more hopeful for progress in the near term. On February 7, 2007, Director-General Lamy announced in his report to the WTO General Council that talks had resumed fully.

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## Lack of Progress in Negotiations Prompted Director-General Lamy to Suspend Talks in Late July 2006

On July 24, 2006, Director-General Lamy announced the indefinite suspension of the Doha negotiations after the Group of 6 (G-6)<sup>16</sup> key WTO players failed to break a deadlock over agriculture that had prevailed, largely unabated, since prior to the Hong Kong ministerial. According to Lamy, unblocking the negotiations would require parallel movement by key players on what he refers to as the “triangle of issues”:<sup>17</sup> that is, the United States would have to agree to further cut its payments to domestic

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<sup>15</sup>GAO-06-596.

<sup>16</sup>G-6 members are Australia, Brazil, the EU, India, Japan, and the United States.

<sup>17</sup>The “triangle of issues” refers to the balance between agricultural market access, agricultural domestic support, and nonagricultural market access. The third side of the triangle is developing country tariff cuts for nonagricultural goods. The idea is to achieve some sort of “balanced ambition” within and across key issues in the round that involve preparation of binding country-specific schedules of commitments.

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farmers; the EU<sup>18</sup> would have to agree to increase other countries' access to its agricultural markets; and advanced developing countries, such as Brazil and India, would have to agree to lower tariffs on manufactured goods. This would enable WTO members to reach an agreement on modalities. Lamy said such movement could only occur in concert, but each group continued to insist that others move first. Lamy classified the suspension period as a "time out to review the situation, time out to examine available options, and time out to review positions."

Following the December 2005 Hong Kong ministerial, members made important progress on some issues. For example, at Hong Kong, WTO members authorized the chair of the negotiating group on rules to produce a draft text to serve as the basis for final negotiations. Negotiators reviewed numerous proposals in an attempt to narrow members' positions in these areas. However, although the chair reported that he could meet this mandate, he was not able to do so because of the suspension. In addition, the negotiating group on trade facilitation continued to make good progress in reviewing proposals for expediting the movement of traded goods. However, due to the lack of agreement over agriculture that persisted despite intense efforts at both the political and technical level, WTO members have not been able to move forward on key decisions in other areas of the negotiations that would lead to market access schedules to liberalize trade in agriculture, manufacturing goods, and services—where the bulk of Doha's trade gains are anticipated.

Before the suspension of the talks, trade negotiators met in Geneva in late June 2006 for high-level meetings that failed to unlock the negotiations. However, it was agreed at these meetings that Director-General Lamy would take a more proactive role as a catalyst "to conduct intensive and wide-ranging consultations" to achieve agricultural and nonagricultural modalities. Prior to these meetings, Lamy had publicly suggested a "20-20-20" formula as a possible resolution to the impasse that called for (1) the United States to accept a ceiling on domestic farm subsidies under \$20 billion; (2) the use of the G-20 proposal of 54 percent as the minimum average cut to developed country agricultural tariffs; and (3) a tariff ceiling of 20 for developing country industrial tariffs—in other words, a "Swiss" formula with a coefficient of 20 for reducing developing country industrial

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<sup>18</sup>EU members are Austria, Belgium, Bulgaria, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovak Republic, Slovenia, Spain, Sweden, and the United Kingdom.

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tariffs by cutting higher tariffs more than lower ones.<sup>19</sup> This proposal was criticized by all sides and was not officially discussed or adopted.

Days before Director-General Lamy suspended the talks, he made an eleventh-hour appeal directly to world leaders at the G-8 summit at St. Petersburg, Russia.<sup>20</sup> Lamy said the leaders needed to act to avert a “failure” in the nearly 5-year-old negotiations by providing their trade negotiators “further room for negotiation” to finalize figures for subsidy and tariff cuts in agriculture and industrial products. He also told the leaders that, in his estimation, the differences between members were not insurmountable—on the order of a few percentage points more than the concessions already proposed. “The problem is not technical, but political,” he said—members were asking too high a price for the additional benefits demanded. In response to Lamy’s appeal, the G-8 leaders stated that they were in favor of a trade deal and would give the necessary flexibility to their trade negotiators to secure a deal. The G-8 leaders also issued a statement calling for WTO members to work with “utmost urgency for conclusion of the Round by the end of 2006” and promising “renewed commitment to pursue a high level of ambition in all areas of the negotiations with a view to reaching a meaningful and balanced outcome.” However, the leaders’ involvement proved unsuccessful in overcoming the differences on trade issues; the flexibility some had pledged and others had apparently expected to be forthcoming did not materialize. Instead, less than 1 week later, a short, acrimonious G-6 meeting quickly dissolved into a collapse that prompted Lamy to

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<sup>19</sup>The “Swiss formula” is a nonlinear mathematical formula that (1) produces a narrow range of final tariff rates from a wider set of initial tariffs and (2) specifies a maximum final rate, no matter how high the original tariff. A key feature is a number (the coefficient) that is negotiated and plugged into the formula to determine the maximum final tariff rate. The formula is so-named because it was first proposed by Switzerland in the 1970s in the Tokyo Round of trade negotiations.

<sup>20</sup>In addition to leaders of the G-8 nations (i.e., Canada, France, Germany, Italy, Japan, Russia, the United Kingdom, and the United States), leaders from Brazil, China, the EU, India, Mexico, and South Africa, as well as the heads of the African Union and the Commonwealth of Independent States, were present.

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suspend the talks.<sup>21</sup> Despite the talks' February 2007 resumption, the suspension all but ensured that any eventual agreement will not be reached in time for consideration under the current TPA.

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### Although Enthusiasm for Resuming Talks Varied during the Suspension, Talks Resumed in February 2007

After the July suspension, numerous countries declared their commitment to the round and desire for a resumption. These statements largely did not go beyond reiterating commitment and blaming one another for the breakdown. Nevertheless, it could be argued that the statements clarified to some extent what a desirable Doha agreement would entail in practice.

In our interviews with various WTO members and officials in Geneva and Washington, D.C., we noted disagreement over whether a near-term resumption of talks was likely or desirable. At our late September meetings in Geneva, country officials said that while the impasse was regrettable, they expected that the talks could be resumed in the near future. However, they also universally expressed a sense that reengaging prior to the November 2006 U.S. election was fruitless because U.S. political commitments to agriculture reform and to leadership at the WTO were seen as vital to closing a Doha deal. Several foreign government officials were adamant that more must be put on the table regarding agriculture and development to make Doha worthwhile. Nevertheless, there was a sense that technical work on certain knotty issues would be productive in the interim. Upon our return to Washington, however, we found officials and business persons less optimistic that talks would resume soon and not always convinced that they should resume.

A growing sense that prolonging the suspension was not desirable and members' pronouncements of commitment prompted WTO Director-General Lamy to announce a "soft re-launch" of the negotiations at the working level in mid-November. This informal restart of the talks

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<sup>21</sup>Our understanding is that the talks collapsed after expectations from all sides were not fulfilled. According to observers and officials, during the last formal negotiating meeting in Geneva last July, many countries had come to the table expecting that the United States would announce an improved offer on domestic subsidy cuts. However, they were very surprised, and reportedly some countries were even offended, when the United States did not produce the expected offer. The United States for its part, however, apparently decided not to improve its offer because, on the basis of the limited flexibility for movement other members had signaled, it felt that its negotiating partners were unwilling or not ready to reciprocate with meaningful market access concessions. In addition, there was a sense among U.S. negotiators that they had effectively run out of time under TPA, given its various notification and consultation requirements.



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consisted of quiet diplomacy in capitals and chair-centered informal meetings in Geneva. Lamy also encouraged chairs of negotiating groups to carry out contacts and consultations as they judged most appropriate, to increase the opportunities for participants to begin to test each other's positions again and explore possible options to take the negotiations ahead. Lamy warned members that the "window of opportunity" to negotiate is limited—"there must be significant progress by the early spring if we are to have a chance of finishing the round next year." An informal ministerial meeting among some WTO members was held on January 27, 2007, on the margins of the World Economic Forum meetings being held in Davos, Switzerland. Although no breakthrough was announced, key participants emerged more hopeful for progress in the near term. U.S. Trade Representative Schwab reported "a new sense of optimism and momentum" and hope that, with hard work and good faith, WTO members would find the will and the way to produce results that alleviate poverty and stimulate growth through new trade flows. On February 7, 2007, Lamy announced that the Doha talks had resumed fully, across the board.

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## Persistent Disagreements on Agriculture and Development Contribute to the Impasse

Underlying the breakdown in July 2006 were fundamental and persistent differences on agriculture between the United States, the EU, and developing country groups. As the world's largest exporter of agricultural products, the United States insists on obtaining greater access to markets in the EU and other leading agricultural trading partners than have been offered to date. Behind this issue is a significant disagreement over how much countries can shield "sensitive" or "special" products from tariff reduction. At the same time, key negotiating partners, particularly the EU and the G-20 developing country group, argue that the United States must improve on its October 2005 offer to cut its agricultural subsidies (domestic support) for them to commit to greater market access. Specifically, countries contend that certain domestic support provided by the United States distorts trade, and that the U.S. proposal does not translate into real cuts in program spending. Beyond the deadlock on agriculture, WTO members are divided by an underlying conflict about what a "development round," as the Doha Round is characterized, should accomplish.

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## The United States Calls for the EU and Developing Countries to Increase Market Access to Balance Further Domestic Support Reductions in Agriculture

With forecasted agricultural exports of over \$77 billion in 2007, the United States seeks greater market access for farm products in the current Doha Round from both developed and developing countries. The United States considers increased market access an essential factor in balancing its proposed reductions in domestic support programs. Increased access into developing countries is especially significant since these markets, characterized by high growth in income, population, and urbanization, are the fastest growing U.S. markets for agricultural products such as livestock products and feeds, fruits, vegetables, and processed products. Moreover, market access barriers such as tariffs account for the largest share of agricultural policy distortions worldwide<sup>22</sup>—they are the trade barriers most widely used by countries, directly affecting market prices for both consumers and producers.<sup>23</sup> Agricultural products still face significant tariff barriers in both developed and developing countries. Until the Uruguay Round negotiations, agriculture had not been a part of the multilateral trade negotiations, so it has not had the same opportunity for liberalization as manufactured products. As a result, the Doha declaration and July 2004 framework agreement called for significant cuts in agricultural tariffs so that meaningful trade liberalization could be realized. The prevalence of high tariff barriers in agriculture can be characterized as consisting of (1) a small number of tariff lines protecting the bulk of domestic production in certain countries, particularly developed countries (known as tariff peaks); (2) processed or higher value products that have higher tariffs (known as tariff escalation) as compared to bulk products; and (3) a large proportion of tariff lines that have much larger WTO “bound” tariffs than the tariffs countries actually apply (or

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<sup>22</sup>USDA estimated that agricultural tariffs accounted for 52 percent of world price distortions, compared with 31 percent due to domestic subsidies, 13 percent due to export subsidies, and 4 percent due to the interaction among these policies.

<sup>23</sup>Although most economists believe that liberalizing market access barriers would provide the most gains from trade, some recent studies show that domestic subsidies can be quite trade distorting by way of cross-subsidization, exit deterrence (i.e., keeping otherwise uncompetitive or unprofitable farmers in production), risk reduction, and wealth effects such as higher land prices.

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“applied tariffs”), especially in developing countries.<sup>24,25</sup> This difference is often referred to by negotiators as “water” in the tariff. Moreover, U.S. officials say U.S. exporters face high tariffs on numerous products in key markets such as the EU, Japan, and India.

Currently, the United States has lower bound agricultural tariffs than the EU and much lower bound tariffs than the advanced developing countries. For example, the U.S. average bound agricultural tariff is 12 percent, compared with 16 percent for the original 15 EU countries, a 105 percent average among South Asian countries, and a global average of 62 percent.<sup>26, 27</sup> The worldwide applied tariff average is much lower (19 percent), and because tariff cuts are negotiated from the bound rates, fairly significant cuts may be required to achieve actual tariff reductions in the Doha Round. Figure 2 illustrates the large differences between bound and applied agricultural tariff rates in developing countries compared with developed countries.

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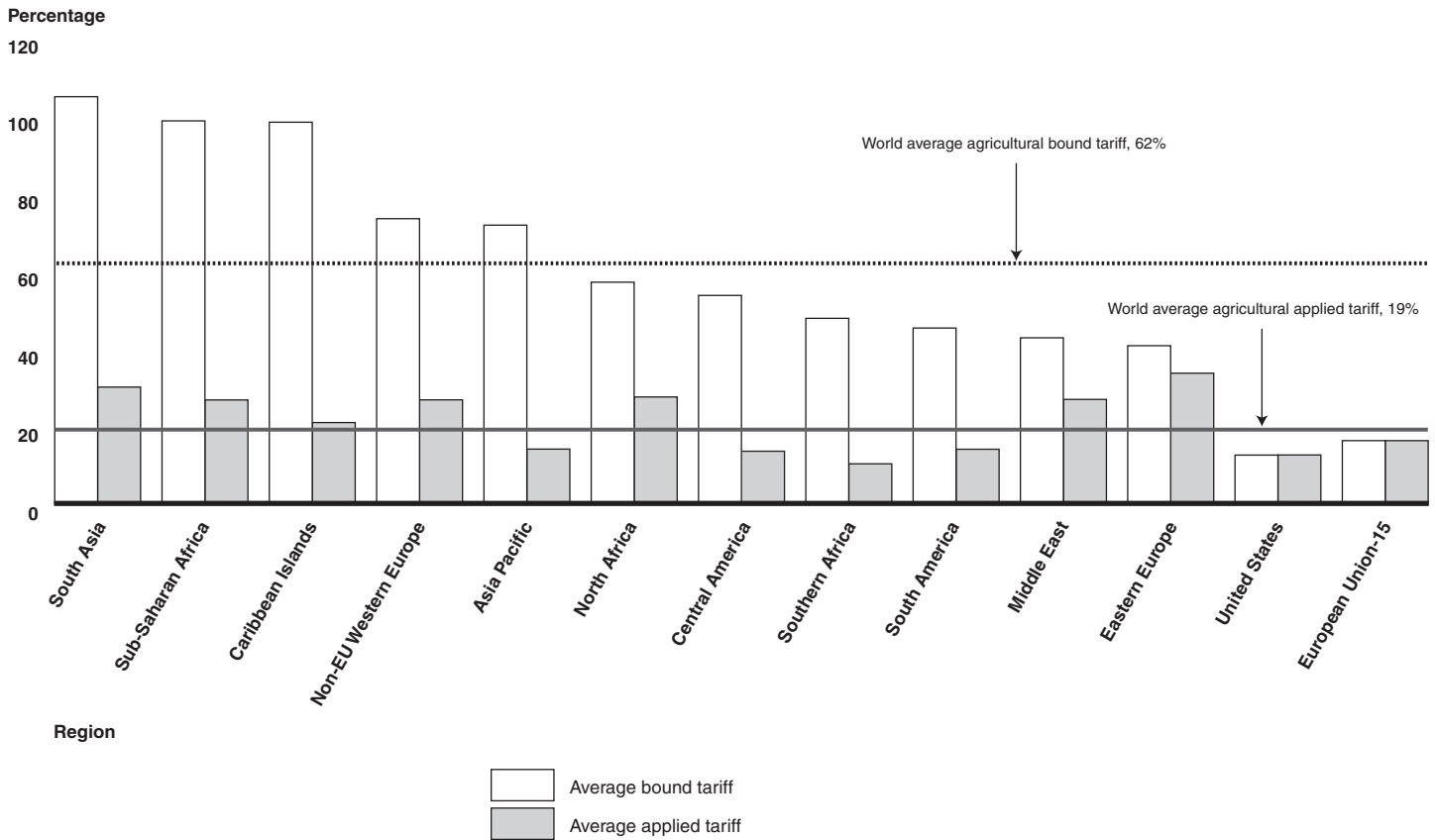
<sup>24</sup>Kym Anderson, Harry de Gorter, and Will Martin, “Market Access Barriers in Agriculture and Options for Reform,” *Trade, Doha, and Development: A Window into the Issues*, Richard Newfarmer (ed.), World Bank (2006), chapter 6.

<sup>25</sup>WTO bound tariffs are the maximum tariff rates that WTO members may impose on imports, as agreed to in the Uruguay Round Agreement on Agriculture. Applied tariffs are the rates countries actually charged on imports and typically are the annual tariff rates published by national customs authorities for duty administration purposes. Applied tariffs may be below or equal to bound tariffs, but may not exceed them.

<sup>26</sup>USTR reports that the EU-25 average bound tariff rate is 24 percent.

<sup>27</sup>It should be noted that, in fact, members’ tariffs are only bound at the WTO at the detailed, product-specific or “tariff line” level and not all tariffs are “ad valorem” or set as a percentage of import value. As a result, data on average bound tariffs are indicative in nature and may differ, depending on such factors as how the averages are calculated (e.g., a simple average of the rates over the number of lines or a trade-weighted basis) and whether any attempt is made to estimate tariffs that would be charged for those lines subject to “specific” rates, such as 2 cents per pound.

**Figure 2: Differences between Bound and Applied Tariffs in Developing and Developed Countries**



Source: Anita Regmi and John Wainio, "Varying Tariff Profiles Illustrate Difficulties in Negotiating Cuts," *Amber Waves*, vol. 4, no. 4 (September 2006), 27.

**The United States and the EU Remain Divided on Overall Agricultural Tariffs Cuts**

Compared with other key negotiating proposals, the U.S. proposal of October 2005 offered the largest overall reductions in the central component of market access, the overall tariff reduction formula. WTO members have agreed to cut agriculture tariffs by use of a tiered approach, whereby members' tariffs will be divided into tiers and then cut by agreed percentages, with the higher percentage cuts in the higher tiers. The negotiating parties, however, still need to agree on the thresholds for the tiers, the cuts that will apply, and the number of tariff lines or products that will be shielded from the formula cuts. Specifically, the United States proposed tariff cuts in the tiers for developed countries of 55 to 90

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percent, compared with a 35 to 60 percent cut proposed by the EU and a 45 to 75 percent cut proposed by the G-20.<sup>28</sup> According to USTR, these represent a 66 percent average cut by developed countries for the U.S. proposal, a 54 percent average cut for the G-20 proposal, and a 39 percent average cut for the EU proposal. Since the Hong Kong ministerial, the EU has signaled a willingness to move closer to the G-20 position on tariff cuts. Press articles that GAO corroborated with several official sources cite this movement in average tariff cut by the EU as about 10 percentage points more than its previous offer, or about a 50 percent average cut. Nevertheless, the United States did not consider this movement to be adequate, since the signaled offer came less than halfway between the U.S. and the EU offers and was achieved through cutting tariffs on goods that the United States does not export, such as tropical products. Moreover, U.S. officials did not consider the G-20 proposal to be a true middle ground because, among other things, it envisaged higher tariff thresholds for each tier, which translates into lower cuts overall. For example, the G-20 set the threshold of the “highest tier,” which will undergo the greatest liberalization, at more than 70 percent (with a 75 percent tariff reduction), whereas the United States set it at more than 60 percent (with an 85 to 90 percent tariff reduction). The tariff cuts for developed countries are important in their own right, and they are also important because they will be the base from which developing countries will cut their tariffs. In general, it is assumed that developing countries’ tariff cuts will be two-thirds those of developed countries, so the higher the developed country tariff cuts, the higher the developing country cuts.<sup>29</sup>

### Number and Treatment of Sensitive and Special Products Remain Major Points of Contention

Unlike the EU and certain developing country groups, the United States seeks to sharply limit the number of both sensitive and special products and calls for greater liberalization of these products. Sensitive products are ones that all countries can designate to face tariff cuts that would be lower than the overall tariff reduction, in return for TRQ expansion. The special product category is only for developing countries and would be

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<sup>28</sup>The United States also has offered the lowest tariff cap of 75 percent, compared with the higher cap of 100 percent offered by the EU and the G-20.

<sup>29</sup>According to some U.S. negotiators that we spoke with, while it is a working assumption in the negotiations that developing country tariff cuts will be roughly two-thirds of developed countries, this has not been formally agreed to, nor is there agreement on how it would work in practice. They warn that with more complex modalities and subelements of the tiers, some proposals would mean this fraction could be reduced to something much smaller, or, for example, two-thirds of two-thirds or four-ninths of the original developed country tariff cut.

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subject to lower cuts or possibly exempt from tariff reductions. WTO members agreed in principle to these exemptions as part of the July 2004 framework, but are still discussing the scope of these exemptions. At the Hong Kong ministerial, members agreed that developing country members will have the flexibility to self-designate an “appropriate” number of tariff lines as special products guided by indicators based on the criteria of food security, livelihood security, and rural development needs.

The issue of sensitive products has set the EU, the G-10, and certain developing countries against countries that want expanded market access, such as the United States and members of the Cairns Group. Members differ over the number of sensitive products and their treatment. Regarding the number, the current U.S. proposal offers a 1 percent exemption for sensitive products, while the EU has proposed up to 8 percent of tariff lines as sensitive. In the run-up to the July 2006 meetings, however, there were some indications that the EU could move to an offer of 4 to 5 percent as sensitive products. However, studies have shown that exempting sensitive products from some or all trade liberalization could severely limit the overall level of market access into a country. For instance, the World Bank estimated that if even 2 percent of tariff lines avoided meaningful new access, about 75 percent of the gains from the Doha Round could be lost.<sup>30</sup> As for their treatment, while WTO members have agreed that some liberalization through TRQ expansion will be required, the United States proposes a methodology or modality that would expand TRQs to a greater extent than proposed by the EU. Notably, the United States is proposing to use domestic consumption rather than imports (which the EU advocates) as the base for TRQ expansions. The EU maintains that consumption fails to account for a product’s “sensitivity”; the United States and others counter that the level of imports is artificially depressed due to trade restrictions. Recently, some parties, particularly the G-10 and the EU, have come forward with “hybrid” approaches, basing these levels on both consumption and existing TRQ levels.

Similarly, there is currently a wide gap between countries’ proposals on the number and treatment of “special” products—products that developing countries can self-designate for more lenient tariff cuts guided by

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<sup>30</sup>Kym Anderson and Will Martin, World Bank, “Agricultural Trade Reform and the Doha Development Agenda,” *World Economy*, vol. 28, no. 9 (September 2005). However, the study also states that much of this could be recouped if WTO members agreed to caps on tariffs.

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indicators based on the criteria of food security, livelihood security, and rural development needs. Developing countries consider special-product flexibility essential to the success of their poverty-reduction and rural development strategies. The United States would prefer to see very few special products allowed—specifically, about 5 tariff lines—and would prefer that these be subject to greater liberalization through tariff reductions or TRQs than proposed by developing country members. Developing countries argue, however, that 5 tariff lines may not even allow countries to designate one product as “special.” For example, milk products cover from 8 to 37 tariff lines, depending upon which country’s tariff schedule is used. The G-33 developing countries are proposing at least 20 percent of their tariff lines designated as special products, which could range from 130 to 300 tariff lines in key exporting countries. The U.S. Secretary of Agriculture has termed this a “nonstarter” for the United States, and WTO officials we spoke with suggested it is unacceptable to many other members. The G-33 also proposed that tariffs for half of these products would not be reduced at all, and the other half would be liberalized little (by 10 percent). The United States, on the other hand, would like to see increases in market access over time for special products. According to several stakeholders, one of the major problems in the negotiations was that very little attention or analysis was devoted to this issue until just before the process broke down last July. Moreover, emotions have run high: demanders have insisted that the livelihood of their large, rural populations is an important social and development issue that is not negotiable, while exporting nations have termed these commercially significant “loopholes” that could easily be abused.

Further complicating these issues is uncertainty about which products of export interest to the United States would be selected as sensitive or special by countries. Negotiations have been sequenced in such a way that WTO members would not know which products would be designated “special” until after the modalities were agreed upon and then applied by countries to their detailed tariff schedules. Yet, knowing these designations is critical to determining the likely U.S. gains from liberalization. Nevertheless, several studies have attempted to identify potential sensitive or special products in key markets, confirming the importance of product selection:

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- On sensitive products, an analysis by the Food and Agricultural Policy Research Institute (FAPRI)<sup>31</sup> used the following three criteria for identifying “sensitive” products: (1) commodities with high levels of protection, (2) commodities of high economic value, and (3) situations where implementing tariff reductions, such as those required for nonsensitive products, results in larger increases in imports and reductions in prices than the additional amount of imports resulting from the required TRQ expansion for sensitive products. The authors concluded that the following products were likely to be designated as sensitive: rice in Japan, South Korea, and the Philippines; sugar in the United States and the EU; and butter in the United States. The authors explained that the impact on U.S. agricultural production, trade, and prices was strongly affected by the choices made regarding sensitive products and the rules regarding TRQ increases for these products.
  - For special products, while certain broad criteria have been agreed to, such as food and livelihood security, the indicators or basis for the designation of these products are broad, hard to measure, and only indicative rather than binding in nature.<sup>32</sup> Since the top U.S. exports into developing markets are concentrated in a relatively few products, an analysis done by USDA found that having only 5 percent of tariff lines designated as special and exempted from tariff cuts could mean that 90 percent or more of U.S. exports to these countries would not be liberalized. The WTO Secretariat came up with similar results in an analysis for the negotiating group chair. While not directly addressing their trade relevance to the United States, a series of independent country studies, done by the International Centre for Trade and Sustainable Development in collaboration with local researchers, suggests that an “appropriate” number of special products would probably range from 6 to 20, and on average represent about 10 percent of a country’s agricultural tariff lines. In these studies, the products most commonly selected as

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<sup>31</sup>FAPRI, “U.S. Proposal for WTO Agriculture Negotiations: Its Impact on U.S. and World Agriculture,” Center for Agricultural and Rural Development, CARD Working Paper 05-WP 417 (December 2005).

<sup>32</sup>For example, according to a proposal by the G-33 on special products, an indicator may be that “a significant proportion of the domestic production is produced by vulnerable populations such as tribal communities, ethnic groups, women, aged people, or disadvantaged producers.”



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special products were beef, chicken, corn, milk and dairy products, onions, pork, potatoes, rice, tomatoes, and some vegetable oils.<sup>33</sup>

In addition to the issues of sensitive and special products, the United States is equally concerned about the special safeguard mechanism (SSM)—designed to allow countries to temporarily increase import duties to deal with surges in import volumes or rapid declines in import prices. Under the Uruguay Round, the special safeguard (SSG) pertains to countries, primarily developed countries, that opted for tariffication (where quotas were converted to tariffs).<sup>34</sup> In the Doha Round, developing countries have insisted that they need access to a similar mechanism, or the SSM, on the basis of their particular food and livelihood security and rural development needs. Other WTO members have accepted this in principle, but believe that there should be a link between these provisions and the extent of liberalization already undertaken. More specifically, the G-33 group believes that all products, including special products, should be eligible for the SSM, while the United States, Canada, Australia, and others argue that only products that are liberalized should be eligible. Other major differences between the proponents of the SSM and other countries include the remedy or the additional tariff allowed, the safeguard's duration, and the trigger that would enable the special safeguard. According to one U.S. official that we spoke with, the United States is primarily concerned that the price- and volume-based triggers for the SSM could too easily be set off and that conditions giving rise to them are hard to predict. There also is disagreement between negotiating parties about the status of the present SSG. While most of the G-33, the Cairns Group, and the United States agree that it should be eliminated, other groups, such as the EU and the G-10, do not want to see the present SSG eliminated. In other words, the latter groups think both developed and developing countries should have access to the SSG.

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<sup>33</sup>These 11 country studies and their methodologies are available at <http://www.ictsd.org> and include the countries of Barbados, Ecuador, Fiji Islands, Honduras, Papua New Guinea, Pakistan, Peru, the Philippines, Sri Lanka, and Vietnam. These studies used a set of food security, livelihood security, and rural development indicators similar to those proposed by the G-33 and took into account variables such as the current levels of protection, including the difference between the bound and applied tariff rates, as well as import vulnerability.

<sup>34</sup>However, the present SSG is available to all WTO members (both developing and developed) that have them listed in their country schedules.

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## The EU and Developing Country Groups Say the U.S. Offer Does Not Cut Domestic Support Sufficiently

In contrast to market access, the United States is on the defensive on domestic support for agriculture. The United States proposed reductions in domestic support in its October 2005 offer, but the EU and developing countries believe that U.S. support levels should be further reduced below current spending.<sup>35</sup> They are also concerned that the proposal contains “water” that could enable the United States to increase spending in the future. Moreover, there is contention over whether there is a “dollar-for-dollar” trade-off being demanded between market access and domestic support by the United States in the negotiations.

While many believe agriculture is a unique sector that requires certain safety nets, economic studies have shown that production and trade-distorting subsidies can depress commodity prices on world markets.<sup>36</sup> In the WTO, these policies are categorized according to the extent to which they are considered to distort trade, with Amber Box (as measured by the so-called aggregate measure of support) being the most trade distorting, Blue Box trade distorting to a lesser extent, and Green Box minimally or not trade distorting. The Uruguay Round capped and reduced spending in the Amber Box below the level spent in the base period of 1986 through 1988 (a period of relatively high supports resulting from depressed market prices), but permitted unlimited spending on policies that meet the Blue Box and Green Box criteria. In addition, members were given a “buffer” to provide product- and nonproduct-specific subsidies equal to 5 percent or less of the value of production (for developed countries) that was deemed “de minimis” and thus not counted against the Amber Box ceiling.<sup>37</sup> However, if product- or nonproduct-specific de minimis support exceeds this threshold level by even one dollar, it all must be accounted for as Amber Box. Because of the large differences between the level of support permitted by the Uruguay Round Agreement on Agriculture and the actual spending since then, a gap called “water” has emerged that means even fairly large reductions in proposed ceilings may have little to no actual impact on policy. Moreover, as part of the July 2004 framework agreement,

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<sup>35</sup>In this report, we refer to spending and domestic support similarly. However, both of these, including the term “spending,” do not necessarily translate into taxpayer-financed support to farmers, but may be due to the difference between an administered price and a market price.

<sup>36</sup>World Bank, *Global Economic Prospects: Realizing the Development Progress of the Doha Agenda 2004* (2003), chapter 3.

<sup>37</sup>The de minimis level for developing countries is 10 percent of the value of production under the Uruguay Round. In the United States, examples of nonproduct-specific de minimis support include programs for crop insurance subsidies and grazing subsidies.

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the United States secured WTO members' commitment to expand the new Blue Box to include "programs that do not require production," such as the countercyclical payments established by the 2002 Farm Bill, and to set its ceiling at 5 percent of the value of production.<sup>38</sup> Another innovation of the Doha Round is the widening of support that would be disciplined in the concept of the "overall trade-distorting support," which is the sum of the Amber Box, the permitted de minimis, and the Blue Box support.

During the last several years that they notified to the WTO,<sup>39</sup> the Congressional Budget Office estimated the total levels of average annual domestic support to agriculture (Amber Box, Amber Box de minimis, Blue Box, and Green Box) for the United States, the EU, and Japan were \$71 billion, \$87 billion, and \$29 billion, respectively, amounting to about 84 percent of world domestic support.<sup>40,41</sup> However, mainly because their agricultural sectors are very large, the EU, the United States, and Japan

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<sup>38</sup>In the current Blue Box (as with the Green Box), as set forth in the Uruguay Round Agreement on Agriculture, the amount of permissible subsidies is not limited. However, in the Doha July 2004 framework agreement, it was decided that these payments would be capped at less than 5 percent of a country's total value of agricultural production based on a historical period to be determined. Also, as part of the Agreement on Agriculture, subsidies that would otherwise qualify as Amber Box are classified as Blue Box when they require farmers to limit production, such as in a marketing quota or land set-aside. However, in the 2004 framework agreement, the definition of the Blue Box was broadened to include "direct payments that do not require production" if, for example, such payments are based on fixed or unchanging bases or yields. This would allow the United States to include countercyclical payments in this classification.

<sup>39</sup>Member countries are required to notify or submit documents to the WTO each year that detail their expenditures on domestic government support to their agriculture sectors. The notifications, submitted annually, include the aggregate measure of support, an index of the monetary value of a country's support to its commodity- and noncommodity-specific support policies that are considered trade distorting. In addition, these notifications also include Green Box and Blue Box support policies, which are not presently subject to reduction commitments.

<sup>40</sup>The averages for the United States and the EU are estimates from 1998 through 2001, whereas Japan's estimate of average domestic support is for 1998 through 2002. The United States has not notified its annual levels of domestic support to the WTO since 2001, and Japan has not done so since 2002. Recently, according to USDA, the EU has notified its levels of domestic support for 2002-03 and 2003-04. The Congressional Budget Office notes that a caveat to these estimates is that most countries report their subsidies in currencies other than dollars, and the office converted to dollars using exchange rates so that the numbers from different countries could be compared in a common unit of measure. However, over time, exchange rates can fluctuate, and using dollars for other countries' support levels could be misleading because of exchange rate changes.

<sup>41</sup>Congressional Budget Office, *Policies That Distort World Agricultural Trade: Prevalence and Magnitude* (August 2005), 22, table 12.

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individually provide smaller rates of domestic support than some other countries as a percentage of the value of their total agricultural output, each averaging a rate of about 37 percent from 1998 through 2002.<sup>42</sup> Under the Uruguay Round, the final bound ceiling for Amber Box support to be reached when its results were fully phased in by year-end 2001 was substantially higher for the EU—about \$82.9 billion compared with \$19.1 billion for the United States. However, since this period, a comparison of the amounts and composition of domestic support has become much more complex because of a variety of factors, including (1) the United States has not notified domestic support to the WTO since 2001, and the EU has only recently notified its support for years 2002-03 and 2003-04 (see footnote 40); (2) recent changes in domestic farm policies by both the United States and the EU; and (3) EU enlargement—that is, the addition of 10 new member countries in 2004. For instance, the 2002 U.S. Farm Bill added to program spending in the Amber and Green Boxes, including, among other things, higher marketing loan rates; the countercyclical program; fixed direct payments; and increased environmental program spending, such as the Conservation Security Program. In the EU, with the Common Agricultural Policy (CAP) reforms of 2003 and 2004, the trend has been away from Amber Box price support programs and Blue Box programs (in this case, direct payments that are commodity-specific) and more toward Green Box supports, such as the introduction of “single-farm” payments. However, the CAP reforms would leave import barriers unchanged and export subsidies would be reduced only in response to limited support price reductions and lower export levels.

The major criticism of the October 2005 U.S. offer on domestic support was that the level of overall trade-distorting support—which includes the sum of Amber Box, Amber Box de minimis, and Blue Box support—did not represent a “real” cut in actual program spending and should be reduced. Specifically, while the reduction in the Amber Box limit would probably require certain program changes under the current U.S. proposal, trading partners believe that the cut proposed for U.S. overall trade-distorting support does not represent a “real” cut from current levels. Per the U.S. proposal, this support would be reduced 53 percent, while the EU and the G-20 countries proposed reductions of 60 and 75 percent, respectively. As table 1 shows, the U.S. offer would bring this level to about \$22.5 billion after 5 years. However, in 2005, actual support for these programs was estimated at about \$19.7 billion. Allowing higher U.S. trade-

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<sup>42</sup>*Policies That Distort World Agricultural Trade*, 18.

distorting domestic support ceilings after the Doha Round is implemented than is presently spent is not acceptable to many WTO members. Key U.S. stakeholders in the negotiations, however, argue that the ceiling should not be set at or below the level of support in 2005 (or any one year) because the nature of the programs is such that payments vary from year to year, depending on market conditions. Moreover, the de minimis ceilings themselves fluctuate annually with the value of production. Finally, the United States and other WTO members disagreed on the base period to be used for setting the new product-specific caps for Amber Box—the United States would prefer 1999 to 2001 as the base (when U.S. support was higher due to lower U.S. crop prices), whereas other negotiating parties prefer 1995 to 2000 as the base (which includes both low and high support years).

**Table 1: U.S. Reform Proposal on Domestic Support and Estimated Domestic Spending Outlays for 2005**

Dollars in billions				
Support component	Present ceiling	October 2005 U.S. proposal		Actual 2005 spending
		Percentage cut	Ceiling	
Amber Box ceiling (Uruguay Round final bound total)	\$19.1	(60%)	\$7.6	\$12.5
Blue Box ceiling (per July 2004 framework agreement; based on 2005 U.S. production value)	9.6	(50)	4.8	5.0
Product-specific de minimis	9.6	(50)	4.8	0.2
Nonproduct-specific de minimis	9.6	(50)	4.8	2.0
<b>Overall trade-distorting support</b>	<b>\$47.9</b>	<b>(53%)</b>	<b>\$22.5</b>	<b>\$19.7</b>

Source: GAO analysis of USDA data.

Note: Data analysis using information on bound levels and base levels of Amber Box, Blue Box, and de minimis; October 2005 percentage cuts and proposed ceiling levels from the U.S. proposal; and unofficial USDA estimates for 2005 outlays.

Members also are concerned that the U.S. proposal would enable it to increase “de minimis” support. As seen in table 1, there is significant “water” between bound levels of support and actual support in both the product-specific and nonproduct-specific de minimis categories. Other countries are quick to point out that the United States could potentially expand programs under this category in the future. But U.S. officials say that this category is the least used, and since it is based on year-to-year production value, it is a risky category to rely upon. Moreover, the de minimis level may be higher in the U.S. proposal because Congress wants

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flexibility to decide what to do with U.S. farm programs in the 2007 Farm Bill.

While welcoming proposed U.S. cuts in spending under the new Blue Box, other key players want additional disciplines. The October 2005 U.S. proposal would reduce the cap on Blue Box spending from 5.0 to 2.5 percent of the total value of agricultural production based on a historical period to be determined. This reduction translates into about a \$5 billion ceiling, whereas the 2002 Farm Bill allows as much as \$7.6 billion in countercyclical payments. Recent spending on countercyclical payments suggests that the proposal on Blue Box would not constrain spending in most years, but would provide a cap in low-priced years.<sup>43</sup> Nevertheless, other member countries continue to press for disciplines (i.e., product-specific caps) to ensure that Blue Box payments actually have minimally trade-distorting effects.

As shown in table 1, the U.S. offer would reduce the ceiling for Amber Box, the most trade-distorting support, by 60 percent—from about \$19.1 billion to \$7.6 billion. These cuts are significant and would require some changes to present U.S. programs, since unofficial estimates of Amber Box support in the United States was about \$12.5 billion in 2005. Examples of Amber Box programs include marketing loan benefits and milk and sugar price supports. However, the extent to which these programs would have to change depends on future commodity prices. If prices were high, the programs may require only small changes. However, larger changes might be required if prices were lower because current programs would lead to greater spending. A recent study by FAPRI estimating the effects of the U.S. offer on U.S. farm programs demonstrated that the offer would require some significant cuts or changes to the 2002 Farm Bill provisions for Amber Box and Blue Box support. Specifically, this study suggests that these reductions to the Amber Box and new Blue Box could translate into

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<sup>43</sup>Countercyclical payments are made to participating producers when the marketing year average price received by farmers for a covered commodity is less than the target price. Target prices are set in legislation and apply only to the covered commodities of barley, corn, grain sorghum, oats, peanuts, rice, soybeans and other oil seeds, upland cotton, and wheat. After being eliminated in the 1996 Farm Bill, target prices were restored under the 2002 Farm Bill.

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about an 11 percent cut in loan rates (reducing loan deficiency payments)<sup>44</sup> and a 7 percent cut in target prices (reducing countercyclical payments). However, in both scenarios of the FAPRI models, most farmers would experience increased overall crop and livestock receipts due to higher demand and prices caused by lower tariffs, the expansion of TRQs, and the removal of export subsidies worldwide.

Although not officially supported by the United States, the EU and developing countries have complained that the United States would like to see “dollar-for-dollar” compensation in market access (tariff cuts) in exchange for further reducing its domestic support levels. The EU trade commissioner did so publicly at the time of the July breakdown, and various foreign government officials did so in our September meetings in Geneva. Moreover, according to a recent United Nations Conference on Trade and Development (UNCTAD) report, which covered the suspension of the Doha talks, other WTO members from developing countries do not believe that this “dollar-for-dollar” equivalence between domestic subsidy reductions and market access is acceptable.<sup>45</sup> The UNCTAD report noted that some countries believe that since domestic support is inherently trade distorting, a “dollar-for-dollar” exchange is not possible, and greater reductions in domestic support are required.

However, both U.S. officials and the Farm Bureau deny that they are insisting on a strict “dollar-for-dollar” trade-off. A USDA official explained that the United States is seeking rough parity among the three pillars of agricultural reform and needs to see broadly commensurate U.S. market access gains. According to this U.S. official, the notion of a “conversion rate” between the pillars of market access and domestic support came about as a result of an analysis by the American Farm Bureau Federation. An August 2006 article by the Farm Bureau’s chief economist indicated that the federation had analyzed the extent to which market access gains

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<sup>44</sup>A loan deficiency payment is the amount by which the loan rate (the price per unit at which the government provides nonrecourse or recourse loans to farmers by the Commodity Credit Corporation) exceeds the posted county price or prevailing world market price, and thus is equivalent to the marketing loan gain that could alternatively be obtained for crops under loan. Loan deficiency payments are available for barley, corn, dry beans, grain sorghum, honey, lentils, mohair, oats, rice, small chickpeas, soybeans and other oilseeds, upland cotton, and wool.

<sup>45</sup>UNCTAD, *Report of the Trade and Development Board on Its Fifty-Third Session*, Volume I, Trade and Development Board, Fifty-Third Session (Geneva, Switzerland: Oct. 11, 2006).

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could be used to offset the adverse effects on U.S. producers of domestic support reductions and found that trade gains from a 50 percent reduction in tariffs would offset a 50 percent reduction in domestic support.<sup>46</sup> The article further indicated that the United States' October 2005 proposal appears to meet the criteria of generating enough trade gains to offset the proposed reductions in domestic support. Farm Bureau officials told us that the bureau's position is that it has to see a positive balance—or at least not a negative balance—between cuts in domestic support versus gains from market access. Specifically, the net impact on U.S. farm income of losses from cuts in U.S. domestic support should be fully offset by gains in U.S. farm income driven by cuts in foreign tariffs or other improvements in foreign market access, but would depend on the specific products involved.

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### WTO Members Are Divided by Underlying Conflict on Expectations from a “Development Round”

Another issue facing WTO members is an underlying conflict about their fundamental expectations from the Doha Round—a round that originated with the intention of focusing on the interests and needs of developing countries. Despite this shared objective, the views of developed and developing country members often diverge on the desired outcome of a “development round.” Developing countries are playing a more pivotal role than in past rounds and have maintained a show of solidarity at critical moments, despite their diverse interests. Two developing countries that have informally led the developing country camp—Brazil and India—are now included in the inner circle of the Doha negotiations because of their major role in world trade as well as their leadership roles. Recent economic studies generally confirm that some developing countries face particular challenges in trade liberalization related to worker displacement, and that a few are likely to lose overall from a Doha agreement. The United States and other developed countries tend to emphasize the benefits of opening markets, while generally developing countries tend to be wary of the economic and social effects of lowering their own trade barriers. All agree that developing countries should receive assistance to adjust to and benefit from trade liberalization.

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<sup>46</sup>Robert E. Young, “The Coming Tug of War: Forces Moving the 2007 Farm Bill,” *Journal of Agriculture and Applied Economics* (August 2006).



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Intent of the Doha  
Development Agenda Was to  
Help Developing Countries  
Benefit from Trade

WTO members began the Doha talks with the intention of helping developing countries benefit from international trade. Although the Doha ministerial declaration did not define specific outcomes from the negotiations for developing countries, it referred often to addressing issues of interest to developing countries and providing assistance to them. The preamble to the Doha declaration explicitly addressed the development objective of the round, as follows:

“We recognize the need for all our peoples to benefit from the increased opportunities and welfare gains that the multilateral trading system generates. The majority of WTO Members are developing countries. We seek to place their needs and interests at the heart of the Work Programme adopted in this Declaration. ... We shall continue to make positive efforts designed to ensure that developing countries, and especially the least-developed among them, secure a share in the growth of world trade commensurate with the needs of their economic development.”

Without this emphasis, several foreign officials we met with in Geneva told us, the round might never have been started, because many developing countries had ongoing difficulties in implementing the Uruguay Round agreements and said they were not prepared to make new commitments.

WTO members mean different things when they refer to the “development dimension” of the Doha negotiations. Many developing countries express a concern about ensuring that trade rules are applied fairly to all countries. They see the Doha Round as an opportunity, even a promise, to redress trade rules that they believe particularly harm poor countries. For example, at the Hong Kong ministerial, Pakistan’s Commerce Minister defined development as “synonymous with the end of discrimination against developing countries.” This concern is focused on trade barriers imposed by developed countries in sectors of particular interest to developing countries, such as agriculture and textiles and apparel.

Developing Countries Have  
Diverse Trade Interests, Yet  
Maintain Solidarity in the Doha  
Negotiations

Developing countries—which now make up some two-thirds of WTO’s membership and a growing share (over one-quarter) of world trade—have diverse trade interests in the Doha negotiations. Some countries have strong offensive interests in gaining more access to world markets for their exports in certain sectors, such as Brazil in agriculture and China in manufactured goods; while others express primarily defensive interests in protecting their industries and markets from imports, such as the island countries that consider themselves part of the “small and vulnerable economies” group. Some countries have a combination of interests, such as India, which has offensive interests in services and defensive interests in agriculture.

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Despite their different trade interests, developing countries have organized into a newly assertive force since they precipitated the collapse of WTO's Cancun Ministerial in 2003 and have displayed public solidarity at key points in the negotiations. Their common link is the demand for a development focus in the talks. They also insist that agriculture be negotiated first before they are willing to resolve other issues of interest to developed countries—that is, manufactured goods and services. They have demonstrated relative unity in the Doha Round by adopting elements of various groups' key concerns in joint public statements. For example, at the Hong Kong ministerial, several developing country coalitions came together as the informally named "G-110" to draw attention to a number of shared, general demands, such as the removal or reduction of trade-distorting subsidies and the extension of duty-free, quota-free access to LDCs.<sup>47</sup> In September 2006, G-20 ministers and officials met with the coordinators of the G-110 coalitions, plus others, to discuss the suspension of the negotiations. Their joint statement described the suspension as "an unacceptable situation for all developing countries," reiterated their "shared interest in a pro-development outcome" for the round, and highlighted "the indivisibility of such a development agenda." Developing countries have largely avoided divisiveness so far by not jointly addressing issues on which there is dissension, such as the details of special-product designation. As the architect of these gatherings, Brazil has modified its aggressive agricultural negotiating stance in the talks to accommodate the defensive interests of other developing countries, primarily because it highly values its role as the G-20 leader. China also has stood with the developing countries in the G-20 and the G-33, despite urging by the United States and others for it to step away from the pack and assert its interests in market access.

### Trade Liberalization Poses Particular Challenges for Some Developing Countries

A primary rationale driving the Doha liberalization agenda is the belief that international trade can benefit a country's overall growth and development. International trade increases competition and specialization, provides greater access to technology, and expands export markets, enabling some producers to achieve economies of scale. Over time, a more liberal trading regime may reduce costs on both imported manufacturing inputs and exported final products, creating incentives to invest in new production. Greater integration with the global economy may also spur

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<sup>47</sup>This statement was made on behalf of the G-20; the G-33; LDCs; the African Group; the Small Economies; and the African, Caribbean, and Pacific Group of States.

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foreign investment, providing additional capital for development and growth of the local economy.

However, trade liberalization also can involve significant adjustment costs. These costs may include unemployment in sectors that are not internationally competitive, may include fiscal reform as governments heavily dependent on trade taxes shift toward income or production taxes, and may contribute to worsening of inequality. Developing countries also may face some specific challenges, such as greater instability due to volatile export markets and an increased reliance on international debt to finance trade deficits. Finally, trade is not the only factor affecting a country's economy or the only means of increasing its growth. For example, human capital development through education and the strengthening of institutions and the rule of law also play important roles in a country's economic development.<sup>48</sup>

Economic models of the potential effects of a Doha agreement generally predict overall benefits for most developing countries. However, these models find that some developing countries in sub-Saharan Africa and the Mediterranean region may actually lose overall from a Doha agreement, due to several factors (see the discussion of these models in the next section of this report). First, developing countries in these regions generally benefit already from preferential access into the U.S. and the EU markets that could be eroded under a Doha agreement. Second, U.S. and EU agricultural subsidies tend to reduce the price of certain agricultural products on the world market. While this can harm domestic agricultural producers in developing countries, it benefits those countries that import more food than they export. Many of these net-food importers are in sub-Saharan Africa. Third, potential special and sensitive product exemptions previously discussed in this report would limit the scope of liberalization. When these exemptions are factored in, the gains from Doha that otherwise would have been possible and that would have offset some of the other losses, do not materialize.

### Many Developing Countries Are Wary of Opening Markets

In part for these reasons, many developing countries are wary of undertaking broad liberalization for imports. While they want to share in the growth of global trade by increasing their exports, they fear the

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<sup>48</sup>For more discussion of the potential benefits and challenges of trade liberalization for developing countries, see GAO, *Foreign Assistance: U.S. Trade Capacity Building Extensive, but Its Effectiveness Has Yet to Be Evaluated*, [GAO-05-150](#) (Washington, D.C.: Feb. 11, 2005), appendix IV.

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negative economic and social effects of relaxing their own trade barriers. They hold that their development needs would best be met by limiting the degree and speed with which they open their markets in the Doha Round.

Protecting large numbers of poor people who make a living in industries that may have difficulty competing internationally is a priority for many developing countries. India, with over 600 million poor rural farmers, has been one of the most vocal countries on this issue. India has defended special and differential measures and the G-33's demand to allow developing countries to protect a relatively large percentage of agricultural products through special-product designation. The African, Caribbean, and Pacific Group of countries, which receive preferential access to the EU and are often dependent on a few export products, have repeatedly called for the negotiations to soften the impact of erosion of preferences. Specifically, they would like to preserve "a commercially meaningful preference margin" by identifying products potentially affected and having countries that provide preferences apply smaller tariff cuts over a longer time. However, some developing countries are vigorous advocates of trade liberalization to achieve development goals and have objected to such efforts to limit market access in developing countries. Costa Rica and Colombia, for example, spoke out to WTO members at the time of the July collapse, criticizing both developed and developing countries for a lack of flexibility.

Some trade experts agree that developing countries should be given the latitude (or "policy space") to develop their economies before being expected to remove their trade protections. They maintain that each country's development needs are specific and trade rules need to be flexible. They also point out that most developed and advanced developing countries achieved economic growth by using strategic trade barriers at certain points in their history. These experts, and most developing countries, advocate for trade liberalization to be undertaken over years, or even decades, in phases that allow their economies to grow before opening markets fully.

### United States Is a Strong Advocate for Trade Liberalization

In contrast, the United States is one of the most outspoken advocates for trade liberalization. U.S. negotiators emphasize that lifting trade barriers and opening markets is essential to making economic gains from trade agreements. They point out that about half of the estimated benefits to developing countries from a Doha agreement come from liberalization by other developing countries. Thus, aside from its own commercial interests in more open markets overseas, the United States maintains that developing countries would benefit from an ambitious Doha agreement

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that leads to significant market opening by all parties, except LDCs. U.S. officials acknowledge that liberalization involves adjustment costs, but they state that these costs are typically short term and can be mitigated through social safety nets. They agree that developing countries should receive assistance to address transition issues and take advantage of trade opportunities.

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### Members Agree to Help Developing Countries Adjust to and Benefit from Trade Liberalization

WTO members already plan to give developing countries flexibility in complying with WTO agreements, through what are called special and differential treatment provisions. While the full extent of these flexibilities has yet to be decided, these provisions would apply to most aspects of an agreement, including agriculture, manufactured goods, and services. For example, the flexibilities are likely to allow developing countries to make smaller tariff cuts and phase them in over a longer time. WTO members also have decided that WTO's poorest members—LDCs—would be exempted from most liberalization commitments in a Doha agreement.

Although the future of the Doha Round is uncertain, WTO members also have decided to move ahead with providing increased “Aid for Trade” to help developing countries take advantage of trade opportunities, regardless of the outcome of the current negotiations. The WTO Secretariat, individual members, and international organizations have provided technical and financial assistance for years to help developing countries and LDCs meet existing WTO obligations; participate in the negotiations; and build institutional, human, and physical capacity to benefit from the trading system. The level of such assistance has increased since the start of the Doha Round, but international consensus has recently arisen that these resources need to grow and become better coordinated.

During 2006, WTO members endorsed recommendations from two task forces on improving assistance. One task force, charged at Hong Kong with developing ways to “operationalize” Aid for Trade, outlined policies for identifying and fulfilling trade-related needs of developing countries. Its report recommendations focused on coordinating resources and activities at the national, regional, and global levels and strengthening monitoring and evaluation to ensure effectiveness and accountability by both donors and recipients. The task force and Director-General Lamy urged WTO members and other stakeholders to carry out the recommendations as soon as possible, underscoring that Aid for Trade was not tied to the Doha Round and should be considered a complement to, and not a substitute for, a multilateral trade agreement. The report

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stressed that additional, predictable sources of funding were necessary and urged Lamy to “clarify” the Aid for Trade pledges made at the Hong Kong ministerial. The United States had pledged to double its trade-related assistance for developing countries to \$2.7 billion a year by 2010, the EU had said it would commit 2.0 billion euros a year by 2010, and Japan offered to provide \$10.0 billion from 2006 through 2008.

The second task force recommended strengthening a program called the “Integrated Framework” that provides assistance specifically to LDCs in the early stages of building trade capacity.<sup>49</sup> Earlier evaluations of this program showed it had generally failed in integrating trade into countries’ development plans and in providing adequate resources. The task force estimated that about \$400 million would be needed over 5 years to finance the recommended actions.

USTR officials hope to make the Aid for Trade and Integrated Framework recommendations more concrete and workable. Some major decisions on the enhanced Integrated Framework, such as clarifying the legal status of a new executive secretariat and trust fund and their relationship with the WTO, are still pending. Regarding Aid for Trade, the WTO will provide only limited assistance, but Director-General Lamy would like it to play an important—and new—role in coordinating and monitoring assistance provided by bilateral and multilateral donors. U.S. officials said there is a high level of commitment among WTO members to move forward on both initiatives and, in particular, to make the enhanced Integrated Framework operational early in 2007. They said that making progress on these efforts is important to maintaining credibility with developing countries and ensuring that these countries begin to see more benefits from the trading system.

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<sup>49</sup>The Integrated Framework for Trade-Related Technical Assistance to Least-Developed Countries, launched in 1997, is sponsored by six multilateral agencies: the International Monetary Fund, the World Bank, the WTO, the International Trade Center, UNCTAD, and the United Nations Development Program. Its goals are to help LDCs integrate trade priorities into their national development plans and encourage coordination of assistance to LDCs for these priorities.

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## Participants Have Contrasting Views on Implications of Doha's Impasse

Participants and experts express varying views on the ramifications of Doha's possible failure for the global and WTO member economies, the world trading system, and U.S. trade policy. Some participants and experts warn of forgone economic gains, a weakened multilateral trading system, and dimmed prospects for both congressional renewal of TPA and reform of U.S. farm subsidies. Others say the ramifications on all three fronts may be much more limited. What the United States does in 2007 is expected to prove pivotal for the WTO and U.S. trade leadership.

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## Without a Doha Agreement, Potential Economic Gains Might Not Be Realized

The Doha Round has the potential to break new ground in the liberalization of agriculture trade, while opening up new areas of services and goods trade. A range of economic studies predict that both the global economy as a whole and the United States as a nation would gain overall from the multilateral trade agreement envisaged. However, if the Doha Round fails, these potential economic gains would not be realized. Some of these benefits could be achieved through unilateral actions, such as a reduction in domestic subsidies or through regional free trade agreements (FTA). But the resulting gains would likely be more limited for the United States than the already relatively modest gains estimated from a Doha agreement.

## Doha Focused on Largest Remaining Barriers to World Trade

Some officials and observers of the Doha Round point out that the negotiations have included significant groundbreaking liberalization in agriculture and could potentially expand market access significantly in other areas. WTO Director-General Lamy is not alone in arguing that what has already been notionally agreed to in the Doha Round is significant in terms of reform and liberalization and in some areas would go beyond what was achieved in the last (Uruguay) round of global trade talks. By the December 2005 Hong Kong ministerial, WTO members had agreed to phase out export subsidies altogether and to provide duty-free, quota-free access to LDCs for at least 97 percent of tariff lines. The Uruguay Round resulted in some liberalization of agriculture and services markets, and set a baseline of rules as well as subsidy and market access levels. In the Doha Round, across-the-board "formula" cuts are being discussed for both agriculture and manufactured goods that would apply to most WTO members and most tariff lines, although the depth of these cuts is still under debate. This approach to cutting barriers is more encompassing than that employed in the Uruguay Round and means more trade will be secured by WTO disciplines. Increased market access in core services such as financial services and telecommunications, as well as steps to streamline the transit and clearance of goods, are also expected to produce tangible gains.

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**Extent of Potential Economic Gains May Not Be Realized without a Doha Agreement**

An international trade agreement reducing trade barriers and subsidies would economically benefit the United States and the world economy, overall, according to economic models.<sup>50</sup> Although some individuals and groups within countries could be made worse off (such as farmers who lose their subsidies), the net effect on the world economy and the United States individually would likely be positive.<sup>51</sup> For example, a recent World Bank study estimated that a potential Doha agreement could (under a certain scenario) increase worldwide real income by about \$96 billion annually by 2015 and increase U.S. real income by about \$5 billion annually. Other models offer similar predictions on the overall positive effect on the world and the United States, although the benefit magnitude varies. Table 2 shows the results of four recent studies that rely on the most recent tariff and trade data available and model likely Doha outcomes.<sup>52</sup>

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<sup>50</sup>This means that the resulting changes in the production, prices and wages, and trade would result in greater economic welfare than without these changes. The economic studies discussed below generally measure increased economic welfare in terms of real (i.e., inflation-adjusted) income gains for the economy, as a whole.

<sup>51</sup>In addition, not all countries are predicted to gain from a potential Doha agreement. In a previous section of this report, we discuss some of the developing countries and regions that could potentially lose economically and the reasons that this may occur.

<sup>52</sup>For additional discussion on economic models of trade negotiations and a list of previous economic studies, see our prior study, [GAO-05-538](#), appendix V.



**Table 2: Estimated Economic Effect of a Potential Doha Multilateral Trade Agreement**

U.S. dollars in billions

Economic study	Annual change in real income after an agreement is implemented			
	World	United States	Developed countries	Developing countries
Carnegie Endowment, 2006 <sup>a</sup>	\$58.6	\$6.5	\$28.5	\$30.1
Centre d'Etudes Prospectives et d'Informations Internationales, 2004 (trade liberalization in agriculture only) <sup>b</sup>	23.2	4.0	18.3	(0.8)
International Food Policy Research Institute, 2006 <sup>c</sup>	54.7	Not available	32.0	22.7
World Bank, 2006 <sup>d</sup>	96.1	4.9	79.2	16.1

Source: GAO analysis of studies listed in notes a through d.

Note: Since the final results of a Doha agreement are not known, modelers estimate the degree of liberalization they think is likely. We chose, for illustration purposes in this table, those scenarios that represented the modelers' baseline scenario for a likely Doha agreement. However, many times modelers include multiple scenarios that represent different potential scenarios (e.g., tariff cuts of 20 percent versus 40 percent) to show how different agreements affect each economy. For details on the exact specification used by each model, as well as a comparison of other scenarios, refer to the original studies.

<sup>a</sup>Sandra Polaski, *Winners and Losers: Impact of the Doha Round on Developing Countries* (Washington, D.C.: Carnegie Endowment for International Peace, 2006).

<sup>b</sup>Antoine Bouet, Jean-Christophe Bureau, Yvan Decreaux, and Sebastien Jean, "Multilateral Agricultural Trade Liberalization: The Contrasting Fortunes of Developing Countries in the Doha Round," Paper 2004-18 (Paris, France: Centre d'Etudes Prospectives et d'Informations Internationales, November 2004). "Developing countries" in this table combines "developing countries" and the "poorest countries" from this model.

<sup>c</sup>Antoine Bouet, Simon Mevel, and David Orden, "Two Opportunities to Deliver on the Doha Development Pledge," Research Brief No. 6 (Washington, D.C.: International Food Policy Research Institute, July 2006).

<sup>d</sup>Kym Anderson, Will Martin, and Dominique van der Mensbrugge, "Market and Welfare Implications of Doha Reform Scenarios," in Kym Anderson and Will Martin (eds.), *Agricultural Trade Reform and the Doha Development Agenda* (Washington, D.C.: World Bank, 2006).

These estimated gains, although positive, are relatively modest relative to the size of the U.S. and world economies. For example, the increase of \$4.9 billion annually for the U.S. economy estimated by the World Bank represents only 0.03 percent of the U.S. economy, and the estimated gains globally represent less than one-quarter of 1 percent of the world economy. However, as we noted in our last report, real income gains of \$50 billion to \$90 billion annually are roughly comparable to global aid flows in recent years.<sup>53</sup> Countries might gain additional benefits from trade

<sup>53</sup>Kimberly Ann Elliot, "Can Doha Still Deliver on the Development Agenda?" Policy Brief No. PB06-5 (Washington, D.C.: Institute for International Economics, June 2006).

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liberalization due to productivity improvements and increased investment as the economy becomes more efficient and competitive. These “dynamic” gains from trade liberalization are modeled in some studies and can double or triple the estimated economic gains over time.<sup>54</sup>

The estimated gains also are not uniform within and across countries. As is well known, trade liberalization creates winners and losers. The studies we reviewed suggest the following:

- For developed economies such as the United States, the EU, and Japan, some of the largest expected benefits from a Doha agreement come from liberalization of their domestic agriculture markets. However, these changes can create challenges for the producers of the specific agricultural products that lose protection and subsidies. Outside of agriculture, there has been concern in the United States and other developed economies over the effect of competition from large developing economies, such as China and India, on domestic manufacturing and services workers.<sup>55</sup> A Doha agreement may increase this competition; however, it also may help to create relatively better access for U.S. producers in these markets.
- For developing economies, the expected benefits and costs of a potential Doha agreement vary widely. For example, in the World Bank and Carnegie studies, both Brazil and China are expected to gain from Doha overall, but for different reasons. Brazil benefits from greater market access in agriculture, while China benefits largely from greater access in manufacturing. On the other hand, both studies show that Mexico is likely to lose somewhat from a Doha agreement due to the erosion of its preferential access to the U.S. market under the North American Free Trade Agreement. Some lesser developed countries in Sub-Saharan Africa and the Mediterranean region also could be made worse off overall by a

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<sup>54</sup>Economic models of international trade agreements have inherent limitations. Although they are useful to compare the relative magnitude of various policy changes (such as trade liberalization) and identify the likely winners and losers from such changes, they are not intended to forecast the actual economic situation in the future since other changes (e.g., technology) will occur. In addition, models vary in the degree to which they account for adjustment costs, institutional and market structures in individual countries, and other details that can affect the outcomes for specific groups and regions. For more discussion of the strengths and limitations of these models, see [GAO-05-538](#), appendix V.

<sup>55</sup>For more discussion of these issues, see recent GAO work on the issue of offshoring, including *Offshoring: U.S. Semiconductor and Software Industries Increasingly Produce in China and India*, [GAO-06-423](#) (Washington, D.C.: Sept. 7, 2006), which includes a list of all GAO work on the subject.

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Doha agreement due to preference erosion and higher imported food prices.

- Studies by international economists show that global poverty is likely to be reduced overall after a Doha agreement, but some countries may actually experience an increase in poverty.<sup>56</sup>

The most recent economic models, such as those highlighted in table 2, generally estimate lower benefits from trade liberalization than previous models. Earlier economic models relied on tariff and trade regime data that did not fully include benefits that many countries already received through preferential trade programs (such as the U.S. African Growth and Opportunity Act) and FTAs. Thus, the models overestimated liberalization benefits resulting from trade liberalization since they include some liberalization that had already occurred. For example, a 2002 World Bank study estimated real income gains from a Doha agreement that were significantly larger than a similar scenario estimated in the previously mentioned 2006 study. Although the models had similar assumptions and methodology, they differed in their underlying data on current trade protections that countries faced.<sup>57</sup>

### Some Economic Gains Could Be achieved without a Doha Agreement

Some of the economic gains expected from a Doha agreement could be achieved unilaterally or through regional FTAs. However, these gains may be difficult to implement outside of a comprehensive agreement like Doha and would probably result in lower benefits. For example, the majority of economic gains for the United States (about \$3 billion of the \$5 billion) are due to the reduction in export subsidies and domestic support payments to farmers, on the basis of the World Bank model.<sup>58</sup> Although certain U.S. farmers benefit from these federal government payments, overall they

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<sup>56</sup>For example, see Ann Harrison (ed.), *Globalization and Poverty* (Chicago, IL: University of Chicago Press, 2006); and Thomas Hertel and L. Alan Winters, *Poverty and the WTO: Impacts of the Doha Development Agenda* (Washington, D.C.: World Bank, 2006).

<sup>57</sup>World Bank, *Global Economic Prospects 2002: Making Trade Work for the Poor* (Washington, D.C.: World Bank, 2002).

<sup>58</sup>However, other models find that greater benefits come from other sectors. For example, in the Carnegie Endowment model, the United States gains relatively more from various trade liberalization scenarios due to manufacturing liberalization than from agricultural liberalization. Also, studies that include services liberalization (although difficult to model) generally show large gains from greater services market access abroad for the United States and other developed countries. This is consistent with the U.S. service industry's own analysis.

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cause distortions and cost the federal government and taxpayers more than the benefits received by those particular farmers. The United States could unilaterally reduce its own subsidies and achieve some of the expected gains. However, politically it may be difficult for the United States to reduce these programs without similar reductions by the EU and other major subsidizers that often compete with U.S. producers.

The United States also would derive gains from greater market access abroad—whether agricultural products, manufactured goods, or services—but this depends on other countries’ willingness to lower trade barriers. Regional agreements such as FTAs continue to be vigorously pursued and may provide some of the same market access that could be achieved at the WTO, but by their nature involve fewer benefits because they cover fewer countries and less trade.<sup>59</sup> In addition, negotiations with larger U.S. trade partners under the Free Trade Area of the Americas, which includes Brazil, have not advanced recently, and the United States does not have current negotiations under way with Japan and the EU.

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**Some Warn That WTO’s Role Could Be Undermined by Prolonged Doha Delay, but Others See July Offer as a “Bad Deal”**

Some participants and observers said the impact of the July negotiations’ collapse on the WTO would depend on the length of the suspension. A short pause was seen as inevitable and possibly useful. A prolonged lapse was seen by many as likely to harm the WTO as an institution and the global trading system generally.

The consequences of failing are considerable, some fear. Seeking to stress this, Director-General Lamy likened Doha’s precarious state to a disease putting the WTO’s “economic lungs, political heart, and systemic bone structure” at risk. Specifically, he explained, failure to conclude the talks would deprive WTO members of the economic stimulus created by trade liberalization; the WTO’s political legitimacy would be questioned if it is unable to address issues of fairness that concern many members; and the WTO’s value and functioning would be weakened if bedrock principles of nondiscrimination are eroded and the system bears the brunt of resolving conflicts among members. More recently, Lamy warned that Doha’s failure

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<sup>59</sup>Regional agreements tend to be customs unions or FTAs, which either eliminate tariffs among partners completely or on substantially all trade among them, thereby reducing tariffs among partner countries more than is likely under a multilateral Doha agreement. However, regional agreements also can divert trade to less-efficient suppliers and may still exclude sensitive sectors.

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could fuel a political backlash by developing countries against the United States and other developed nations.

Others share the concern that WTO's authority and integrity could be weakened. In a recent business-sponsored poll, more than 70 percent of 1,060 economic experts surveyed said they were "concerned" or "very concerned" about Doha's collapse in July. Among other things, these experts predicted rising protectionism and diminished export opportunities at a time when global economic growth prospects are "clouded."<sup>60</sup> Others warn that:

- The number and intensity of trade disputes could rise.
- Frustration could spill over into regular WTO work.
- Regional deals such as FTAs could proliferate, which may create trade, but they carry risks—such as discriminatorily distorting trade against nonparticipants and further marginalizing the poorest WTO nations.

Already, since June, nine new disputes have been initiated at the WTO; several ongoing disputes have intensified; and more disputes, particularly on agriculture, are considered likely. For example, Canada just initiated the first stage of WTO dispute settlement against U.S. corn subsidies. Regionally, the EU has shifted its stance from focusing primarily on the WTO to renewed pursuit of bilateral free trade deals. India also has actively pursued bilateral agreements, despite its professed fears over significant liberalization in the WTO context.

Some U.S. and foreign officials and other observers are less concerned about adverse effects on the trading system from Doha's collapse. Among other things, they argue that:

- The WTO will remain central regardless.
- The WTO can withstand the uncertainty of the present deadlock.
- Waiting for a better package and political timing is sensible.

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<sup>60</sup>The poll was sponsored by the International Chamber of Commerce and the Ifo Institute for Economic Research at the University of Munich and reported on Dec. 5, 2006.

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- Other options for liberalization, such as unilateral liberalization, FTAs, and WTO accessions, are available, if second best.
  - A bad deal would have been worse for the trade system.

In general, U.S. government officials, congressional leaders, and business representatives we consulted remain convinced that what was on offer by others in July 2006 was a “bad deal” that would have been detrimental to U.S. interests and to the trading system. Certain foreign officials we spoke with also expressed somewhat similar sentiments, in that they said holding fast to Doha’s ideals and holding out for more significant results was preferable to accepting existing offers. Indeed, some see insistence on more liberalization as a welcome sign of determination to ensure the WTO’s continued relevance and promoting growth potential.

Breaking the Doha impasse, many participants and trade experts agree, depends on political will and timing. The desire by key WTO members to move forward with liberalization without a Doha agreement is seen by some as a good sign. For example, UNCTAD’s long-standing, but elusive, goal of liberalizing trade among developing countries moved somewhat closer to realization with a recent announcement that developing countries had agreed to cut applied tariffs up to 30 percent.<sup>61</sup> Yet, as some commentators have pointed out, agriculture is politically sensitive in virtually all countries, large and small, developed and developing. In the United States, for example, the sensitivity involves reducing payment support to farmers or large agricultural interests that have come to rely on these payments. In other countries, just increasing market access to other countries is of social and political concern. In France, for example, in addition to the economic implications, farming has special social and cultural dimensions that make liberalization of the sector a particularly sensitive issue. As a result, observers believe that it may be difficult for the EU to offer market access concessions given the French presidential elections in mid-2007. In developing countries, moreover, rural farming populations are typically the poorest and have the least access to other types of jobs and income.

Creating a healthier negotiating dynamic also is considered key to breaking the Doha impasse. A noticeable lack of trust among key WTO players appears to be contributing to the difficulty in striking a

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<sup>61</sup>This is known as the Global System of Trade Preferences or GSTP.

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compromise. This may help explain why developing countries have refused to break ranks and insisted that the agriculture issue must be resolved first, before industrial goods and services are negotiated. Unlike past times when Doha breakthroughs have occurred, the United States and the EU have been at odds since before the Hong Kong ministerial. A number of countries say they are unwilling to “go first” in making offers or concessions, for fear that the other members will “pocket” these offers without providing enough in return. Since the July collapse, U.S. Trade Representative Schwab has sought to establish a better basis for progress with counterparts, yet stressed that “you first” tactics and artificial deadlines have not worked and should not be repeated.

Other groups with an interest in the negotiations said that the pause provided a welcome opportunity to refocus. For example, the United Nations’ Food and Agriculture Organization stated “the Doha Round collapsed because of a fundamental lack of fairness in its vision, its process, and its projected outcomes.” It urged that “when negotiations restart, the Doha Round should truly be a development round approached in a broader and participatory way...that deals seriously with supply side capacity and related investment needs for the least-developed countries.” Despite predicting that a Doha agreement may not be completed until 2009 or after, one of the Carnegie Endowment’s trade specialists suggests relief, rather than alarm, is appropriate.<sup>62</sup> She argues that rebuilding a bipartisan consensus in the United States in favor of trade liberalization and reorienting WTO talks to deal with what she believes are well-founded demands for flexibility by developing countries and with worldwide fears of job loss will provide a better foundation for an eventual Doha deal.

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### Congress Faces Pivotal Decisions in 2007 on Whether to Renew Trade Promotion Authority and the 2002 Farm Bill

The uncertainty over whether the WTO talks will progress is occurring at a time when Congress faces key decisions. Two of these decisions in 2007 are seen as bellwethers of U.S. intentions at the WTO: that is, TPA and the Farm Bill.

### TPA Renewal Considered Vital for Concluding Doha Deal

Congressional renewal of TPA is considered essential to finalizing a Doha deal. U.S. trade officials argue that TPA is vital to keep the United States

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<sup>62</sup>Sandra Polaski, “The Future of the WTO,” Carnegie Endowment for International Peace Policy Outlook (September 2006).

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“in the game” at global talks and to conclude bilateral and regional FTAs. Such agreements are negotiated on the United States’ behalf by the President and USTR. Under TPA, Congress must vote up or down on any negotiated trade agreement within a fixed period of time. Present authority expires on July 1, 2007, and without TPA, U.S. trade partners may be reluctant to seal “their best deal” if there is a concern that Congress would avoid acting on the legislation or demand that parts of the agreement be renegotiated. However, President Bush formally asked Congress to renew TPA on January 31, stating that “the only way America can complete Doha and make headway on other agreements is to extend Trade Promotion Authority.” Such renewal will require congressional passage of new legislation. Key congressional leaders are now debating the terms and goals for renewal.

Prospects for passing new TPA legislation remain uncertain, but are considered stronger if a Doha agreement is in sight. U.S. Trade Representative Susan Schwab has stressed that bipartisanship on trade has prevailed in the past and is possible in the future. Several leading U.S. agriculture and business groups say they will fight for TPA renewal. To this end, an umbrella group called Trade for America was launched in February 2007 to represent the interests of U.S. companies and trade associations that want TPA renewal. Among the concerns expressed about present TPA by current Chairs of the House Ways and Means and Senate Finance Committees, for example, is that Congress has not always been sufficiently consulted by the executive branch in recent trade negotiations. Other concerns include fears over U.S. job losses and inadequate worker adjustment mechanisms; laxness in recent approaches to enforcing trade agreements and managing currency imbalances; and the need to do more to prevent a race to the bottom in terms of U.S. wages and labor and environmental protections. Still, having more hope for success at the WTO—and tangible gains for U.S. interests—is considered key to mobilizing support for TPA.

#### Shape of the 2007 Farm Bill Could Affect (and Be Affected by) Doha’s Prospects

The lack of progress of the Doha negotiations could affect the likelihood of U.S. agricultural subsidy reform in 2007. Several aspects of the Farm Bill expiring in September 2007 pertain to subsidies covered by the WTO that are being discussed in the Doha Round. The administration and some farm groups are among those urging reform despite Doha’s collapse. They say reform is needed to make U.S. programs less vulnerable to challenge under existing WTO rules and could help the United States in Doha negotiations. Others, including several influential farm groups, think renewing the 2002 Farm Bill largely intact is desirable in its own right or



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advisable until the United States secures a more level playing field with key partners in terms of subsidies and trade barriers.

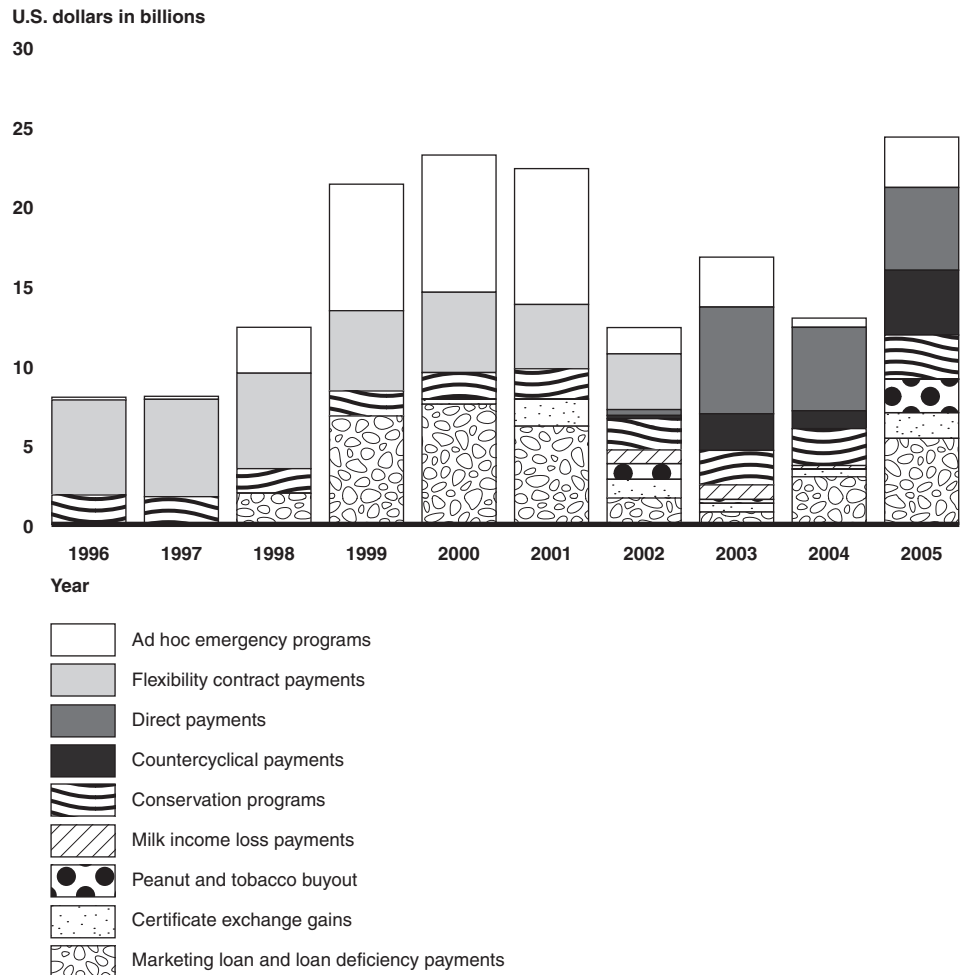
The United States is already obligated under existing WTO agreements to ensure that its farm programs conform with agreed-upon restrictions.<sup>63</sup> The 2002 Farm Bill was considered by some to be a setback to global agricultural reform because, among other things, it reestablished the link between income support payments and market prices. In part as a result, the present Farm Bill is projected by the Congressional Research Service (CRS) to result in \$21.975 billion in commodity-specific support in fiscal year 2006.<sup>64</sup> The amount and distribution of government expenditures for all U.S. farm programs, from the introduction of the 1996 Farm Bill that implemented U.S. Uruguay Round commitments until the present, are shown in figure 3. The general depiction is of payments in subsequent years that were higher than 1996 and 1997. Ad hoc emergency payments contributed to increases from 1999 to 2001, with the largest payments for all programs occurring in 2005.

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<sup>63</sup>The United States is already obligated at the WTO to keep its farm spending within limits negotiated as part of the Uruguay Round Agreement on Agriculture that became effective January 1, 1995. Specifically, WTO rules state that domestic support programs that do not meet specified criteria intended to ensure that they have “no, or at most minimal, trade-distorting effects or effects on production” are to be measured and then reduced and capped. The current U.S. ceiling for such Amber Box programs is \$19.1 billion, but the U.S. potentially has about another \$20.0 billion in allowed spending if it qualifies for de minimis exemptions. Regarding export subsidies, the United States is only allowed to provide them if they were properly notified and do not exceed specified levels. Should another WTO member choose to challenge it, U.S. farm support spending in excess of these limits could be found to constitute a violation of WTO obligations of the Agreement on Agriculture. Moreover, with the expiration of the “peace clause” in 2004, if another WTO member demonstrated that such spending was causing or threatening serious prejudice to its interests, it would violate WTO obligations under the Subsidies and Countervailing Measures Agreement, regardless of whether it falls within or below the established spending caps. The peace clause refers to Article 13 of the Agreement on Agriculture, which protects countries using subsidies that comply with the agreement from challenges under other WTO agreements.

<sup>64</sup>Randy Schnepf and Jasper Womach, *Potential Challenges to U.S. Farm Subsidies in the WTO: A Brief Overview*, CRS (Oct. 25, 2006), 5, table 2.

**Figure 3: Government Payments for U.S. Farm Programs, 1996-2005**



Source: GAO analysis of USDA/ERS data.

Note: Data do not include miscellaneous payments; payments for peanuts and tobacco have been combined; and marketing loan and loan deficiency payments have been combined. Also, note that these are all government payments, irrespective of the “boxes” that they may be related to within the WTO context.

As explained in a previous section, official U.S. proposals tabled in the Doha Round would, if ultimately agreed to by WTO members, involve substantial change in some U.S. agricultural policies that would require

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## Some Advocate Agricultural Reform Despite Doha Delay

statutory changes to the Farm Bill.<sup>65</sup> While the President was in a position to make such proposals at the WTO in 2005 and seeks to influence the legislative debate in 2007, it is Congress that writes the Farm Bill.

Since July's suspension, the Secretary of Agriculture has continued to emphasize the administration's commitment to reforming U.S. farm programs in 2007 to ensure that they are "equitable, predictable, and beyond challenge." The Secretary disagrees with those who say the breakdown of the Doha negotiations makes it advisable for the United States to stick with its present policies, saying policies encouraging free trade and market access will be of benefit to U.S. farmers, regardless.

Five of the reasons offered involve trade or trade agreements, as follows:

- Trade is important to U.S. agriculture. Exports of high-value products, such as hides, nuts, and dried fruit, have been outpacing domestic demand for two decades.<sup>66</sup> Regarding bulk commodities, three-fourths of U.S. cotton production, nearly one-half of U.S. wheat and rice crops, and one-third of U.S. soybean and tobacco production are exported.
- WTO rules are important to this trade's continuation and growth. A former USDA official recently noted that "as the largest agricultural exporter, the United States benefits most from a rules-based trading system," and that "the WTO provides the only rules applying to agricultural products adhered to worldwide." Although U.S. farm interests have made known their frustration about ongoing difficulties in selling to foreign markets for products ranging from poultry to rice, these WTO rules and the WTO's binding dispute settlement system have been used to successfully challenge some barriers to U.S. exports, such as unjustified bans on beef, apples, and biotechnology crops, and duties on high-fructose corn syrup.
- Key aspects of the current U.S. agriculture subsidies have already been successfully challenged at the WTO, and more challenges are likely. In September 2006, Brazil secured a formal WTO review of U.S. compliance with the WTO's adverse ruling in the Brazil cotton dispute and said it will seek up to \$3 billion in retaliation regarding prohibited subsidies and

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<sup>65</sup>For a discussion of the possible need for changes to U.S. export subsidy, food aid, and domestic support programs as a result of proposals under discussion in Doha talks, see Charles E. Hanrahan and Randy Schnepf, *WTO Doha Round: The Agricultural Negotiations*, CRS (Sept. 12, 2006), 26-28.

<sup>66</sup>USDA FAS Fact Sheet, *The Importance of Agricultural Trade* (February 2006).

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\$1.037 billion in retaliation regarding actionable subsidies if noncompliance is found. Some of the needed changes to the marketing loan and countercyclical payment programs were expected to be dealt with in the 2007 Farm Bill.<sup>67</sup> In late October, CRS concluded that all major U.S. commodity program crops are potentially vulnerable to challenge at the WTO, after analyzing existing U.S. WTO obligations, the criteria applied in the WTO's cotton ruling, and U.S. spending under the 2002 Farm Bill and other legislation.<sup>68</sup> Oxfam and others suggest that more cases are being readied, with rice among the U.S. products targeted by other nations. If these prove successful, the United States would be obligated to change or face retaliation, without offsetting concessions from others.

- Market-opening commitments the United States has made under the North American Free Trade Agreement and the Central American–Dominican Republic Free Trade Agreement may make the present U.S. sugar program—which relies on import restrictions to keep domestic price levels above world prices—unworkable, USDA suggests.
- A former USDA official and U.S. agriculture negotiator said “the best hope for an eventual WTO agreement may be changes in U.S. domestic farm policy for the 2007 Farm Bill.” For example, some argue that shifting toward Green Box spending, which does not distort prices, production, and trade, would give U.S. negotiators more room for maneuver on domestic supports at the WTO.

A number of farm groups and other agricultural policy experts also see an immediate need for change. They support reforming the Farm Bill in 2007, rather than extending it in its current form, despite Doha's delay. In addition to echoing the Secretary's views, specific reasons for reform include the need to (1) address the distortions that our current policies may cause in production and trade and (2) establish agricultural policy that allows farmers to make long-term economic decisions. The commodity title is the focus of many proposals for change, with some farm

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<sup>67</sup>According to CRS, although Congress passed legislation authorizing elimination of the Step 2 program, which was found to be a prohibited export subsidy, Brazil has pressed for further reductions in U.S. cotton support in response to the panel ruling. As a result, according to CRS, additional permanent modifications to U.S. farm programs may still be needed to fully comply with the “actionable subsidies” portion of the WTO ruling, most likely in the context of the 2007 farm bill. See Ralph M. Chite, *Agricultural Issues in the 109th Congress*, CRS (Oct. 6, 2006).

<sup>68</sup>Randy Schnepf and Jasper Womach, *Potential Challenges to U.S. Farm Subsidies in the WTO*, CRS (Oct. 25, 2006).

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groups seeking expanded support and others seeking less. Groups such as the National Corn Growers Association, National Association of Wheat Growers, and American Soybean Association believe adjustments to commodity programs are needed to make them more beneficial to their producers and, in some cases, more compliant with current WTO provisions. Other farm groups, academics, and agricultural experts seek to minimize the farm sector's reliance on product-specific, trade-distorting (Amber Box) programs, such as price supports or loan deficiency payments, with proposals that include, among other approaches, (1) environmental and land stewardship programs that reward farmers for the environmental services they provide;<sup>69</sup> (2) direct payment programs that would not be linked to specific types of production, so as to comply with Green Box standards;<sup>70</sup> (3) whole farm, revenue insurance approaches to a farm safety net that would cover all commodities;<sup>71</sup> and (4) buy-out programs, similar to the present buy-out programs for tobacco and peanuts.<sup>72</sup> Moreover, there are calls for reductions or alterations in the marketing loan programs and countercyclical payments to make them less susceptible to WTO challenge.

As this report was going to publication, USDA offered a new proposal for the 2007 Farm Bill. The administration has proposed several changes that, according to USDA, could, on balance, make farm programs potentially less market distorting and less likely to face WTO challenge. For a number of commodities, the proposal lowers or shifts payments away from those that are linked to present market prices and toward greater fixed payments. Major portions of the administration's proposal include:

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<sup>69</sup>American Farmland Trust, *Agenda 2007: A New Framework and Direction for U.S. Farm Policy* (Washington, D.C.: May 8, 2006).

<sup>70</sup>The Chicago Council on Global Affairs, *Modernizing America's Food and Farm Policy: Vision for a New Direction*, Report of the Agricultural Task Force, Catherine Bertini, August Schumacher Jr., and Robert L. Thompson, Co-chairs (2006).

<sup>71</sup>"Whole-farm revenue" programs have been proposed as a new form of income stabilization that would not be linked to production of particular commodities and, thus, less production and trade distorting. One such example of a whole-farm revenue program, revenue insurance, is an insurance program offered to farmers that pays indemnities on the basis of revenue shortfalls.

<sup>72</sup>David Orden, "Feasibility of Farm Program Buyouts: Is It a Possibility for U.S. Sugar?" Presented at the third annual North American Agrifood Market Integration Workshop, "Achieving NAFTA Plus," Calgary, Canada (May 31–June 2, 2006).

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- Basing marketing loan rates on actual commodity market prices in recent years; specifically, by setting loan rates equal to 85 percent of a 5-year Olympic average (the last 5 years minus the high and low prices), which has the effect of reducing them. In addition, they would also be subject to a maximum level. This would particularly affect cotton loan rates, which have come under a great deal of scrutiny at the WTO.
  - Continuing support of the sugar and dairy programs, counted as part of the Amber Box at the WTO, in a similar manner as in the current Farm Bill. Specifically, for dairy, the proposal maintains the current support price of milk at \$9.90 per hundredweight and reauthorizes the Milk Income Loss Contract Program, a countercyclical program for dairy, while basing it on reduced and historical payment rates. For sugar, the proposal continues price supports for raw and refined sugar at their current levels through the use of the sugar TRQ as well as the reinstatement of domestic marketing allotments when imports exceed 1.532 million short tons.
  - Increasing the amount of direct payments by \$5.5 billion, which are potentially classified at the WTO as Green Box. Along with this change is a proposal to remove the “fruit and vegetable” planting restriction on program crop acres that are considered base acres for determining a farmer’s direct payments—in response to the WTO cotton ruling’s discussion of direct payments’ compliance with WTO rules.
  - Changing the current countercyclical payment program to a revenue-based program that would pay out when market revenue (commodity yield times market price) falls below a target level. However, revenue would not be based on the individual farmer’s revenue, but would be calculated from a national average yield for the crop times the higher of the national season-average market price or the marketing loan rate.
  - Ending the “three-entity rule,” which permits farmers to establish corporations and other entities that allow the amount of payments received to exceed statutory limits. In contrast to the current Farm Bill, the proposal links the payments to an individual and sets the payment limit at \$360,000. To receive commodity program payments, a farmer must meet a new bound on Adjusted Gross Income (wages and other income minus farm expenses and depreciation), which has been reduced from \$2.5 million to a new limit of \$200,000.
  - Including an additional \$7.8 billion for conservation programs—to simplify and consolidate conservation programs, and to create a new Environmental Quality Incentives Program and a Regional Water Enhancement Program.

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While USDA's Farm Bill proposal has been welcomed in some quarters and accepted as a contribution to the congressional debate, trading partners have generally urged even more ambitious reform, and some U.S. farm groups continue to prefer programs in the 2002 Farm Bill.

GAO reports concerning 21st century challenges and commodities highlight other reasons to consider certain reforms in 2007.<sup>73</sup> For example, we have reported extensively on the U.S. cotton program, which is one of the most highly supported farm programs, and added to the policy debate on dairy, peanuts, rice, and sugar. We also have reported on U.S. food aid, payment limitations, crop insurance, revenue insurance, and conservation programs. (For a list of these reports, see the Related GAO Products section at the end of this report.) In a November 17, 2006, letter, the Comptroller General of the United States identified the integrity and equity of federal farm programs as one of several suggested areas for oversight for the incoming 110th Congress. Among other things, the Comptroller General noted that more than \$25 billion is spent annually by the federal government on subsidies and on disaster and conservation payments for farmers, but just 10 percent of the recipients collect 70 percent of the benefits. Moreover, we have found that each year thousands of producers falsely collect crop insurance, while individuals with limited involvement in farming qualify for subsidy payments and evade payment limits.<sup>74</sup>

## Opponents of Reform

Nevertheless, many groups want to extend the present Farm Bill largely "as is" or with minor changes. The program is popular, and keeping U.S. leverage could better position it to pursue future cuts in foreign barriers, some say. Farm groups such as the American Farm Bureau Federation, the National Farmers Union, the National Cotton Council, and the USA Rice Federation, among others, have proposed extending the 2002 Farm Bill in its current form. These groups' reasons are diverse, although two common arguments for extending the bill have emerged: (1) the bill's current farm programs are beneficial to producers and merit extension and (2) delays in the Doha negotiations make Farm Bill reform impractical. Several groups recognize the level of support the current Farm Bill enjoys among farmers

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<sup>73</sup>GAO, *21st Century Challenges: Re-examining the Base of the Federal Government*, GAO-05-325SP (Washington, D.C.: February 2005).

<sup>74</sup>As previously noted, agriculture is one of the most heavily protected and distorted economic sectors across the globe, and the United States is by no means the only country facing challenges in designing and managing efficient and fair programs. Indeed, earlier GAO work on trade topics, such as export credits and the role of foreign state-trading enterprises in undermining U.S. exports, highlighted such issues.

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and cited the benefits of current farm policy as a reason for extension. USDA notes that debate over U.S. farm support typically involves diverse stakeholders with varying goals, such as price and income support and higher or more stable prices. Given the limited progress in the Doha talks, a number of organizations have asserted that U.S. lawmakers cannot accurately predict the outcome of trade negotiations and, therefore, are not in a position to make appropriate changes to the Farm Bill. Such groups generally believed an extension of the 2002 Farm Bill would maintain the United States' negotiating leverage and increase its probability of achieving reductions in other nation's agricultural subsidies and tariffs, notably in key markets like the EU. Nevertheless, some farm groups said they would support minor changes to the bill to comply with current trade rules or would support additional changes at a more appropriate future date.

The view that it would be unwise to "get ahead" of WTO was echoed in our meetings with some U.S. officials. In addition, some U.S. industrial manufacturing interests and agriculture interests that do not receive subsidies under the Farm Bill told us that they see cuts in U.S. farm subsidies as the major bargaining chip the United States has to play in the Doha Round. Thus, they advised holding onto this leverage until there is greater certainty of U.S. export gains, especially since active support by U.S. agriculture interests has been key to congressional passage of any trade legislation.

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## Conclusions

Despite calls from a variety of voices around the world to successfully resolve the remaining issues in the negotiations, the future of the Doha Development Round remains highly uncertain. Our research suggests that the breakdown in the talks in 2006 had both political and practical dimensions, which was perhaps not surprising given the sensitivity of the issues involved; the building tension between members' original ambitions; their overall lack of progress in achieving them; and the tight, unmovable timetable associated with the U.S. Trade Promotion Authority. Agricultural trade has proven highly sensitive, in part because it is one of the last remaining areas of protection to be tackled by the WTO. Developed nations such as the United States, the EU, and Japan have complex programs that provide different combinations of domestic support, export subsidies, and import restrictions such as tariffs and quotas. While these programs may well be costly to these nations' overall welfare, they have proven to be beneficial to powerful interests and are strongly supported by those groups. Moreover, key players are seeking not only to reduce the barriers left during the last round, but to redress perceived disparities



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among them. An even more fundamental disagreement between developed and developing nations surrounds the relationship between trade and development. While the Doha Development Agenda recognizes the benefits and welfare gains from a more open multilateral trading system, certain developing nations remain unconvinced by research showing that a large share of projected benefits from a more open trading environment would come from opening markets in other developing countries, as well as in removing their own trade barriers.

Given the sensitive and complex nature of the issues and the fundamental disagreements between major groups within the negotiations, WTO deadlines have proven to be ineffective in moving negotiations to closure. External events are potentially more meaningful, but they sometimes add further complexity to the process. The end of TPA in July 2007 creates uncertainty about the prospects of any WTO agreement that might be achieved, as well as potentially closes out the series of bilateral negotiations the United States has under way. Congressional action on the Farm Bill also complicates the WTO negotiations, as many resist major changes to the Farm Bill or are unwilling to do so in advance of a global WTO agreement. As a result, a successful negotiation now not only requires an agreement that creates sufficient gains to be distributed among 150 diverse nations, but also requires a willingness by Congress to actively support those talks through renewed TPA and in the details of a new Farm Bill.

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## Agency Comments and Our Evaluation

USTR and USDA broadly agreed with our draft report, but provided us with several technical comments and issue characterizations, which we incorporated in the report as appropriate. Overall, USTR asked us to reflect somewhat more diversity of developing countries' demands and positions, based on their experience in negotiating with them on both agriculture and nonagricultural market access issues. We added some material to reflect this. The Departments of Commerce and State had no comments.

We are sending copies of this report to interested congressional committees; the U.S. Trade Representative; and the Secretaries of Agriculture, Commerce, and State. We will also make copies available to others upon request. In addition, this report will be available at no charge on the GAO Web site at <http://www.gao.gov>.

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If you or your staffs have any questions about this report, please contact me at (202) 512-4347 or [yagerl@gao.gov](mailto:yagerl@gao.gov). Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made major contributions to this report are listed in appendix II.

A handwritten signature in black ink that reads "Loren Yager". The signature is written in a cursive style with a large, stylized initial "L".

Loren Yager  
Director, International Affairs and Trade

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# Appendix I: Objectives, Scope, and Methodology

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In this report, we assess (1) the overall status of the Doha Development Round now and the progress that had been made prior to and since the breakdown of the talks, (2) the factors and substantive divisions among key World Trade Organization (WTO) members that led to an environment of deadlock and the eventual suspension of the negotiations, and (3) the possible economic and other ramifications if the round is not concluded satisfactorily. We conducted this work upon specific request by Congress. GAO is not a policymaking agency of the U.S. government and thus is not authorized to take a position on the Doha Round overall or on specific issues related to the round.

We followed the same overall methodology to complete all three of our objectives. We obtained, reviewed, and analyzed documents from a variety of sources. From the WTO, we analyzed the 2001 Doha ministerial declaration; the Doha work program decision adopted by the General Council on August 1, 2004, known as the “July framework agreement”; the Hong Kong ministerial conference declaration from December 2005; statements by the WTO Director-General and negotiating group chairs; and negotiating proposals and other documents from WTO member countries. From U.S. government agencies and foreign country officials, we obtained background information regarding negotiating proposals and positions. A variety of international organizations, experts, former officials, private sector interests, and other actors have commented on Doha’s difficulties, and we have monitored scholarly journals and other sources for these perspectives. We also obtained information on day-to-day developments from reputable trade publications.

To assess the status of the Doha negotiations, we met with officials from various U.S. government agencies, including the Office of the U.S. Trade Representative and the Departments of Agriculture, Commerce, and State, to obtain information on progress in the negotiations and on specific issues and factors affecting the negotiations. Furthermore, we attended conferences and seminars that discussed these issues, such as those sponsored by the Carnegie Endowment for International Peace, the German Marshall Fund of the United States, the Global Business Dialogue, and the Washington International Trade Association.

To assess what led to the environment of deadlock and the eventual suspension of the negotiations, we talked with more than 35 officials from the major negotiating parties in Geneva, Switzerland, and Washington, D.C., including officials from the United States; the European Union; and the developing countries of Bangladesh, Benin, Brazil, China, India, Indonesia, Kenya, South Africa, and Zambia, about their respective

proposals and views regarding why the negotiations collapsed. Second, since the negotiations broke down over agriculture, we interviewed agricultural economists who are experts in international trade and domestic farm policy, and who are familiar with the issues of market access and domestic support. In addition, we met with officials from U.S. industry groups such as the National Corn Growers Association, the American Farm Bureau Federation, the National Cattlemen's Beef Association, and the National Association of Manufacturers. Third, we surveyed current research on major proposals in the negotiations, including analyses contained in academic journal articles, government reports, nongovernmental organization reports, and press releases. Finally, we attended several conferences that pertained to the economic analyses of agriculture and development aspects of the negotiations.

To assess the possible economic and other ramifications if the round was not resumed in a short period of time or if the talks could not be successfully concluded, we discussed these potential effects with the range of officials and experts previously mentioned. For the economic effects, specifically, we reviewed the economics literature and identified specific studies that calculated the estimated effects of potential Doha agreements. Building on our analysis from prior reports, we identified specific recent studies that included both (1) likely liberalization scenarios based on the status of the negotiations at the time (rather than studies that just examined the potential effects from complete liberalization of all trade barriers) and (2) the most recent tariff and other trade regime data that take into account the range of preferential trade programs that currently exist. We then compared these studies and the range of potential economic effects from various Doha scenarios. To examine the other ramifications, including the potential effects on the stature of the world trading system and the implications for domestic legislation, including the Trade Promotion Authority and the 2007 Farm Bill, we discussed the relationship of Doha and the implications of its failure with country representatives, WTO officials, and other trade experts (previously mentioned). We also reviewed documents and studies that discuss these implications. However, because the actual effects of a Doha failure are unknown and determined by a wide range of factors, we do not predict or measure the full ramifications of a collapse in the negotiations. Rather, we identify those areas indicated by our analysis that could potentially be affected.

With the assistance of the Office of the United States Trade Representative and the State Department, we traveled in September 2006 to WTO headquarters in Geneva. We met with WTO member country officials,

including those from Australia, Bangladesh, Benin, Brazil, China, the European Union, India, Indonesia, Japan, Kenya, South Africa, and Zambia. We also met with WTO officials, including a Deputy Director-General and the Director of Agriculture. At the U.S. mission, we met with officials overseeing the agriculture, industrial (nonagricultural) market access, and service negotiations, as well as with the Deputy Chief of Mission. We also met with organizations and groups following the negotiations, such as the International Centre for Trade and Sustainable Development and Oxfam. During our trip, we also attended the WTO Public Forum. Upon returning from our trip, in October 2006, we briefed House Ways and Means Committee staff on the status of the Doha negotiations.

We performed our work from June 2006 through February 2007 in accordance with generally accepted government auditing standards.

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# Appendix II: GAO Contact and Staff Acknowledgments

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## GAO Contact

Loren Yager, (202) 512-4347 or [yagerl@gao.gov](mailto:yagerl@gao.gov)

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## Staff Acknowledgments

In addition to the individual named above, the following persons made major contributions to this report: Kim Frankena, Assistant Director, and Venecia Rojas Kenah, Analyst-in-Charge, as well as Ann Baker, Karen Deans, Barbara El Osta, Marisela Perez, and Timothy Wedding. The team benefited from the expert advice and assistance of Ron Maxon, Paige Gilbreath, and Carol Bray as well as Martin de Alteriis and Ernie Jackson.

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# Related GAO Products

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## Commodities

*Dairy Industry: Information on Milk Prices, Factors Affecting Prices, and Dairy Policy Options.* [GAO-05-50](#). Washington, D.C.: December 29, 2004.

*Peanut Program: Potential Effects of Proposed Farm Bill on Producers, Consumers, Government, and Peanut Imports and Exports.* [GAO-01-1135R](#). Washington, D.C.: September 26, 2001.

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