

The Tariff War

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The World Trade Organisation suffered another blow last week to its Doha Round when the Ministerial meeting of the Group of 4—the United States, European Union, India and Brazil—collapsed on Day 3 of what was supposed to be a six-day marathon of talks.

It was not only one more failure in the troubled history of this Round, but probably a fatal one. It now seems impossible that the 'modalities' (key frameworks and figures) for agriculture and industrial products will take more time to get completed.

The G4 chose Potsdam as the venue of their talks. This is a small German town famous for hosting the meeting of the Allied victors to plan the post-Second World War world order, after the surrender of Germany.

Perhaps they thought the new Potsdam meeting would signal the start of a new WTO order. But it was not to be. Potsdam may instead come to symbolise the unravelling of the Doha Round, unless some miracle happens in the next few weeks.

There were many factors for the G4 failure.

First, the configuration in relations between the four changed. The US and EU agreed among themselves on agriculture, and united to press the two developing countries very hard to very steeply cut their industrial tariffs.

Before, the EU had been pushing the US to reduce its agricultural subsidies, while the US pushed the EU to cut its agricultural tariffs by more.

At Potsdam, the US offered US\$17 billion as the cap for its overall trade-distorting subsidies or OTDS (which is above the \$15 billion the EU had asked for and the \$12 billion demanded by the G20 developing countries). The EU offered an average tariff cut of 50% in farm tariffs (below the 54% demanded by the G20 and far below the 60% demanded by the US).

The EU and US were agreeable to each other's 'lowering of ambition', or to 'forgive each other's sins.' And then they combined to be tough on India and Brazil on industrial tariffs and specially on India to open the agricultural markets of developing countries.

It was a repeat of the past. At critical moments in trade talks (such as in the Uruguay Round and before the WTO's 2003 Cancun Ministerial meeting) the US and EU would get together, forgive each other's sins, and then together go after the developing countries.

Second, it became clear that with the US-EU rapprochement, the developing countries were going to benefit very little or nothing.

The heart of the Doha programme was supposed to be to do away with (or at least substantially reduce) the developed countries' agricultural subsidies.

At Potsdam, the US offered to cut its allowed level of OTDS to \$17 billion. This was found to be too low by Brazil and India. The Indian Minister Kamal Nath told the media that the US applied OTDS was only \$10.8 billion in 2006.

He remarked: "And the offer is \$17 billion, which is more than 50% of the current applied level. There is no equity, there is no logic in this. We can't correct the flaws."

Third, the US and EU are now wrongly portraying the G4 collapse as the fault of two inflexible developing countries that are not willing to give anything in return for their own generous offers.

But the EU and US offers are anything but generous. They had already claimed to have liberalised agriculture in the Uruguay Round, but this was bluff because the many

loopholes in the WTO's agriculture rules have allowed their domestic subsidies not only to continue but also increase.

One loophole is that they can continue to use so-called non-distorting subsidies without limit in a 'Green Box'. But many of these are now found to be trade-distorting after all.

"In effect, the EU and US are offering nothing, and for their offer of zero they are trying to extract blood from the developing countries in cutting their industrial and agricultural tariffs and also in services," said Chakravarthi Raghavan, a long-time analyst of WTO developments.

At Potsdam, the EU and US insisted on a formula that would cut industrial tariffs of developing countries by 60% or more on average. But the EU was only prepared to cut its own industrial tariffs by about 30%, and its agricultural tariffs by an average 50%.

The two developing countries were outraged by this demand, on top of the little or nothing that the two developed countries had offered to do on agricultural subsidies. As they put it: "The rate of exchange was unfair."

Fourth, the four parties were operating under two contrasting paradigms. The US officials insisted on 'new trade flows' as the main aim. By this they meant that the developing countries have to cut their bound duties so deeply that they go significantly below their present applied or actual rates.

What the US and EU want is expanded market access to developing countries for their firms in agriculture, industry and services.

But this cannot be equated with development or the Development Round. The developing countries are instead worried that deep tariff cuts would threaten the survival of local industries and farmers that cannot compete with cheaper imports. That would be anti-development and not development and would defeat the purpose of the 'Development Round'.

The Indian Commerce Minister Kamal Nath said that a Development Round implies new trade flows for developing countries, into markets of developed countries, and not the other way round.

"Development content clearly specifies who are the givers and takers in this Development Round. Now (with the demands of the rich countries), the givers become the takers and the takers have become the givers."

All the above leads to the conclusion that the developed countries were never interested in development or the interests of the developing countries when they launched the Doha Work Programme in 2001.

They had to call it a Development Round to entice the developing countries to join in its launch. Now the developing countries are calling their bluff, asking that the talks really have a development content.

And in answer the US and EU are saying that they want 'new trade flows' from developing countries in order for their offers in agriculture to stand.

The US Trade Representative Susan Schwab had to resort to saying that 'new trade flows' (read significant cuts to applied rates of developing countries) is what lifts poor countries out of poverty.

But the poor countries think otherwise, which is why the great majority of them are fighting to limit the degree of liberalisation they have to undertake.

In the end, the clash of perceptions of what is development and what is anti-development in the proposals of this 'Development Round' is what led to this new crisis and impasse in the Doha talks. □□□

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