
COTTON UPDATE – 25 June 2007

G4 is helpful, “but helpful does not mean indispensable”

The G4 is helpful, “but helpful does not mean indispensable”. In a nutshell, this is how WTO Director General Pascal Lamy reacted to the breakdown in the talks between the G4 members (USA, EU, Brazil and India) on Thursday, 21 June, more than 24 hours before discussions were scheduled to end. According to the EU Agriculture Commissioner, Marianne Fischer-Boel, the premature ending to the G4 meeting reflects “a historic lost opportunity”. Even though the G4’s failure is plain to see and optimism no longer seems appropriate, virtually no one has written Doha off once and for all. Now, Geneva holds practically all the cards.

So whose fault is it?

Reports of the first few hours of negotiations in Potsdam spoke of some progress, so no one predicted that the G4 discussions would grind to an early halt. Almost immediately, India, which was seen as intransigent and inflexible on NAMA and services, was singled out. Brazil, which was supposed to be more flexible, followed India’s lead, probably more out of solidarity than out of conviction. The Brazilians are blaming the Americans, deeming US offers to cut domestic support to be insufficient. Overall, it is the lack of convergence between the G4 in domestic support for agriculture, market access in agriculture and market access for non-agricultural products that really undermined the group’s efforts.

Back to Geneva

In his press release of last Thursday, Pascal Lamy shrewdly made a subtle distinction between “helpful” and “indispensable” in describing the role of the G4. Likewise, he took the opportunity to re-emphasize Geneva’s legitimate role in the

multilateral negotiations. After reiterating the importance of the other Member States, he reaffirmed the authority of the Chairs of the negotiating committees. Interestingly enough, once the G4 talks failed, the majority of the members returned to Geneva to see if there was one last chance for the multilateral process. Here, the Europeans seem less optimistic than the Americans.

Pascal Lamy chaired a session of the Trade Negotiations Committee on the afternoon of Friday, 22 June, where he reaffirmed that the goal was still the same and that the G4 representatives, despite their failure, had reaffirmed their desire to ensure the successful conclusion of the Doha Round. Lamy once again placed Geneva at the heart of the process, reminding all WTO Members that the negotiations were up to them and for them. Individual members were urged to shoulder their responsibilities and work to ensure the success of Doha. Lamy based his optimism on the fact that there seems to be more consensus on the figures going round over the past few days than on last year's figures. However, he has refused to set cut-off dates for the process.

Divide in order to rule better?

It is rare to see the US and the European Union, who are used to mutual recriminations, agree that others are to blame. By offloading the responsibility onto Brazil and India, the developed countries are no doubt seeking to force the developing countries' hand. Indeed, the small developing countries are more dependent on the multilateral system and have more to lose from a Doha failure than the large transition countries. By stressing the need to re-multilateralize the process, the US and the EU are hoping that the developing countries will put the screws on the transition countries, with the downside (or upside) that this may lead to a negotiating split between the developing countries as a whole. A group of countries (Chile, Columbia, Costa Rica, Hong Kong, Mexico, Peru, Singapore and Thailand) proposed on Monday a "middle ground" in talks to liberalize trade in manufactured goods. This means that these countries are standing back from India and Brazil.

A Chinese wild card?

At this stage, it's a bit hard to predict whether the G4 will resume its talks. However, some analysts have floated another somewhat unlikely proposal – a change in the G4's configuration. This option would consist of including China in the negotiations – China, which has steered clear of the negotiations but which, according to the Americans, is a source of concern to not only the developed countries. Many transition and developing countries may be refusing to cut their tariffs for manufactures because they are afraid that they will be flooded with Chinese products. The US has formally invited China to become more involved in the negotiations with a view to wrapping up the Doha Round. Ms Schwab has even asked China to give the developing countries assurances that their markets will not be flooded with Chinese products, a request that could seem to contradict the WTO's very principles.

The US problem

The US Administration is still expecting Congress to renew its Trade Promotion Authority. In Geneva, where negotiating partners have not waited for renewal to negotiate, it might become difficult to move forward without some assurances on this issue. It does not seem likely that TPA, which expires at the end of this week, will be renewed over the next few days. According to US Secretary of Commerce Gutierrez, the situation is even “more critical than ever”; he fears that without TPA the US will be left standing by the wayside. A number of Congressmen have expressed support for Ms Schwab, whom they feel has had the gumption not to accept a bad deal. Max Baucus, Chairman of the Senate Finance Committee, has reaffirmed that he would not support an agreement that did not “provide significant market access” for US exporters. For Senator Grassley, “no agreement on market access means no agreement at all”. For the Chairman of the Senate Agriculture Committee, Tom Harkin, US efforts to slash domestic subsidies have not been matched by serious market access proposals. All have blamed India and Brazil. Oxfam, on the other hand, has not hesitated to criticize America's half hearted efforts to lower domestic support levels and revamp the Farm Bill to make it more compatible with WTO rules.

There may have been a great many reactions on the US side, but the Europeans have been relatively close-mouthed. Apart from Commissioners Mandelson and Fischer-Boel, who have expressed their disappointment and recalled the EU's

efforts, the Heads of State met last Thursday and Friday in Brussels to try and relaunch European unity, a real priority for them. The final statement of the European Council session on 22 and 23 June made no reference to the current status of WTO negotiations. However, the European Finance Ministers were due to meet on Monday, 25 June in Luxembourg to talk things over.

Conclusion: “A little agreement is better than nothing at all?”

In any case, this is what a number of economic analysts seem to think. A Doha failure would certainly impact negatively on both international trade and the institution regulating such trade. The lack of an agreement would block overall tariff cuts and spawn a host of bilateral negotiations. The combination of multilateral rules and bilateral agreements would no doubt make the system unwieldy. WTO as an institution would also suffer from a failure. Its regulatory rule could be called into question and it could well be relegated to the position of a mere referee for trade disputes for years to come. Moreover, the absence of an agreement would spell the end of WTO's development aims and its desire to let the developing countries play a more important role within the system. As for cotton, the current challenge will be to retain the goal of preferential treatment for cotton within an overall agreement that will probably be revised downwards. What we have to do now is to wait for Chairpersons Falconer and Stephenson to produce texts and then see how member countries react.

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IDEAS Centre, 10, rue de l'Arquebuse, 1204 Geneva, Switzerland
T +41 22 807 17 40, F +41 22 807 17 41