

**WTO Trade Talks Collapse After 5 Years of Negotiations  
Suspension of Negotiations May Delay Farm Bill 2007**

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The current Doha Round of free trade negotiations at the World Trade Organization (WTO) in Geneva collapsed on July 24 after 5 years of negotiations. Negotiations failed because the parties were very far apart in negotiating the reduction and or elimination of trade barriers and/or import tariffs, especially regarding the amount of tariff reductions in agriculture. For a while it appeared that some compromise was possible. The US wanted the European Union (EU) to cut agricultural tariffs by at least 54%. The EU was willing to only go to 48% cuts, with limitations for some products, such as beef, to remain at 61% tariffs. But, the EU had sent signals that they might be willing to meet the 54% cut.

While most of the participants agreed on minor trade issues, the heated, extended negotiations failed because: to reach an agreement would have required participants to give up on their main trade defensive negotiating goals, i.e., while participants' primary goal was market access to other countries, their primary defensive goal was to protect domestic production and some industries. Further, the special treatment afforded developing countries would allow for nearly 20% of all tariff lines to undergo much less reduction than the average-negotiating most market access for U.S. products.

According to WTO Director-General Pascal Lamy, what happened, quite simply, was a deadlock on agriculture, referring to an, over the weekend, marathon 14-hour negotiation session among the big Group of 6 (G-6) trading powers — the U.S., EU, Japan, Australia, Brazil and India.

Without overall WTO negotiation progress to reduce all trade distorting policies, trade and economic progress are stifled in all participating nations, but especially in developing and economically emerging nations. The World Bank estimates that more than 70% of the benefits from

tariff cuts will accrue to the developing countries. So, smaller, more fragile nations are the big losers from a WTO failure.

### **Farm Bill 2007**

Meanwhile Congress has been anxiously hoping for a successful completion of WTO negotiations before getting very serious about formulating specific policy provisions in the 2007 Farm Bill. Formulating subsidy provisions which may affect trade and have been challenged in the WTO are particularly difficult without completed trade negotiations. Renewed pressure to extend Farm Bill 2002 is likely since negotiations failed. Supporters for extending Farm Bill 2002 will argue that debating details of the provision to include in a new bill will be impossible without knowing what restrictions a WTO negotiated trade agreement might impose. Opponents to extending Farm Bill 2002 will argue that U.S. farm policy needs to be changed, with or without a WTO agreement. Agriculture Secretary Johanns has indicated that he wants Congress to draft farm policies that are "equitable, predictable and beyond legal challenge."

### **Negotiation Opposition**

It appears that the WTO talks bogged down and finally failed because major agricultural exporters, including some developing nations, wanted rich governments, such as the U.S., the EU, and Japan, to open their markets by cutting farm subsidies and tariffs. The U.S., EU, and other developed countries wanted developing nations, especially growing trade powers such as India and Brazil, to open their markets to imported agricultural products, industrial goods and services.

The "rich" countries could not agree on the amounts to cut trade distorting domestic support and the developing countries would not agree to major tariff cuts. EU Trade Commissioner Peter Mandelson expressed the "rich" countries position by saying, "We do not have in place the once and for all multilateral program of fundamental reform of farm subsidies in the rich world that should be the centerpiece of this round."

### **Three General Groups**

As negotiations continued, it appeared that the delegations were grouped into three main groups based on the three main topics to negotiate: agricultural tariffs, agricultural subsidies, and industrial tariffs. The three groups included the European Union, the United States, and the Group 20 (G20) of developing countries - which includes Brazil, India, South Africa, Thailand, Argentina and China.

While each of these groups of players has offensive trade negotiation goals, each also has defensive priorities. The problem is that each player's defensive priority is also the other two players' offensive priority. It appears that the EU wants to protect agricultural tariffs, the U.S. wants to protect agricultural subsidies and the G-20 group wants to protect industrial tariffs. While the EU and the U.S. attack the G-20 group's position on protecting industrial tariffs, the EU and the G-20 group attack the U.S. position on protecting farm subsidies. Conversely, the U.S. and the G-20 group attack the EU's position on protecting farm tariffs. And, so it goes without any signs of compromise on each participant's defensive position.

### **Potential Consequence**

The potential consequence of failure to negotiate a trade agreement is that the WTO will lose its legitimacy and its relevance as bilateral trade arrangements, such as NAFTA and CAFTA-DR, proliferate. Trade disputes and litigation will probably intensify, especially in agricultural trade. Protectionism policies will probably increase, costing U.S. farmers access to export markets.

In the case of the U.S, a policy of trade isolationism has proved very detrimental to the U.S. economy in the past. For example, what would be the effect of the over 70 percent of U.S. cotton production that is export bound? Brazil is considering up to \$1 billion worth of duties on U.S. imports in retaliation for U.S. cotton subsidies. Without an agreement, other countries may be tempted to impose similar duties on American products after lengthy and costly WTO litigation.