

THE DOHA ROUND AND AGRIFOOD: A QUESTION OF POLITICAL WILL

Michael Gifford, Alex F. McCalla and Karl D. Meilke

The Doha Round of multilateral trade negotiations may well fail or face a long postponement. Either outcome would have major negative implications for Canadian agriculture. Agriculture is a heavily protected and politically sensitive sector, but Canadian producers, processors and consumers stand to gain from agricultural trade reform. If the Doha Round does fail there are a number of policy options that Canada can follow, but none of them offers the advantages of a more open and less distorted multilateral trading system.

L'échec du cycle de Doha des négociations multilatérales sur le commerce aura des impacts négatifs importants sur l'agriculture canadienne, un secteur extrêmement protégé, de même que controversé sur le plan politique. Pourtant, les producteurs, les transformateurs et les consommateurs canadiens sortiraient gagnants d'une réforme du commerce de produits agricoles. Devant cet échec, le Canada pourrait choisir parmi différentes options de politiques, mais aucune n'offrirait autant d'avantages qu'un régime multilatéral de commerce plus ouvert et moins distordu.

Since the Doha Round was launched the agricultural negotiations have staggered from crisis to crisis, but recently the elements of a potential deal in the World Trade Organization have emerged. While a few difficult issues remain to be resolved, it appears a deal in agriculture could be finalized rather quickly if there is sufficient political will to do so. Unfortunately, it is not clear that this political will exists.

Canada has a huge stake in the WTO's Doha Round, with about 40 percent of our goods and services being sold to foreign buyers. This is equally true in agriculture, where our products compete for sale in markets around the globe. Outside agriculture the US is our dominant trading partner, accounting for over 80 percent of total merchandise exports, compared to less than 60 percent for agrifood exports.

As a result, many nonagricultural sectors view NAFTA as our key trade agreement, not the WTO. Given agriculture's heavier dependence on multilateral market access, we focus in this article on two key questions. First, what are the implications of a failure of the Doha Round for Canadian agriculture? Second, what are Canada's options if the Doha Round fails or confronts a lengthy postponement that could well last until 2011?

Some will argue that the failure of the Doha Round would be of little consequence to Canadian agriculture. This is wrong. The failure to conclude the Doha Round would represent a lost opportunity for Canadian agriculture.

Current high grain prices will not last forever, and the opportunity to lock in much-needed agricultural trade reforms should be a high priority of the Canadian government and the agrifood sector.

Some major trends that would follow from a Doha Round failure include the following:

The increasing proliferation of preferential trade agreements (PTAs). A substantial Doha Round result on tariffs would reduce the preference margins of existing or new PTAs and moderate to some extent the pressure for regional accords. A Doha Round failure would leave Canada at a competitive disadvantage, as other agricultural exporters seek to improve market access opportunities through bilateral or plurilateral free trade agreements. Agriculture is particularly vulnerable to being put at a competitive disadvantage in a world of proliferating PTAs. This is because non-NAFTA markets account for a much larger share of Canada's total exports of agrifood than of other sectors. Also, the Canadian market may not be attractive enough to capture the interests of the larger prospective PTA partners (e.g., India and China).

The increasing use of litigation. If the Doha Round fails, countries may seek to get through litigation what they could not get through negotiation. Increased WTO litigation runs the risk that the dispute settlement system will begin to buckle as governments become tired of losing panel cases and become more willing to ignore negative

panel findings. It is asking too much to expect the dispute settlement system to indefinitely shoulder the burden of failed negotiations. Moreover, a smaller country that retaliates under WTO authority inevitably hurts either its industries that depend on imported inputs or its consumers. There would also be no new disciplines on trade remedies, particularly anti-dumping duties, which are being increasingly used by importers to protect domestic markets. In addition, no longer is the use of administered protection confined to only a few developed countries; the use of these protectionist instruments is increasingly being embraced by developing countries.

The increasing abuse of sanitary and phytosanitary measures (SPS) and technical barriers to trade. A failure of the Doha Round might encourage and reinforce protectionist pressures, particularly in the area of technical regulations. The SPS Agreement provides a shield against pressures to use SPS measures for protectionist rather than legitimate, science-based reasons. However, a Doha Round failure that undermines the credibility of the WTO increases the risk that the “shield” will be unable to deflect protectionist pressures.

Less pressure to reform domestic agricultural policies. While some say that reform of the EU agriculture policy is irreversible, others argue that a failure of the Doha Round would hold back further reforms. Certainly, if there are no commitments to phase out export subsidies, the EU will be under pressure to use them in depressed market conditions (witness the recent reintroduction of EU export subsidies on pork). However, the EU may be less likely to backslide than the countries of North America, which have not undertaken anywhere near the same degree of domestic policy reform.

The United States, in writing its 2008 Farm Bill, has taken little notice of

any new WTO requirements on domestic support, except to say it will bring its programs into compliance if and when it is required. The present US ceiling on some forms of trade-distorting support would remain unchanged and other forms would remain undisciplined under a Doha Round failure; the US would continue to have the right to subsidize exports, and the trade-distorting elements of export credit subsidies, export credit guarantees and food aid would not be eliminated.

Canada’s ability to unilaterally reform domestic agricultural policies may be limited by the history of provinces operating their own price and income support policies. A Doha Round failure would result in less external pressure to adapt Canada’s agricultural policies so they are sustainable in a more open and less distorted trading environment — reforms that will eventually be required, and the costs of which will only increase over time.

In addition, Canadian policy-makers face political pressure to compensate producers for distortions caused by other countries’ policies. In recent years, the focus has been on support in

markets for Canadian agrifood producers. The proposed considerable reductions in their bound agricultural tariffs would be lost. Failure also implies no reductions in the gap between applied and bound tariffs, allowing unilateral increases in applied tariffs. The most import-sensitive products would see no doubling or tripling of tariff rate quota volumes entering at lower tariffs, mainly in developed country import markets. The positive impacts from the trade facilitation negotiations, which would reduce the red tape and transaction costs associated with imports, would also be lost.

Over the past two decades Canada’s export performance in the US has been strong and diversified — a result of the duty-free access for almost all our exports. There has been a dramatic increase in Canada’s exports of consumer-ready food products to the US since the signing of the Canada-US Free Trade Agreement, showing how improved access can result in more investment and production of value-added products. As recently as 1995, 52.5 percent (\$4.5 billion) of Canada’s agrifood exports to the US were con-

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the US, which is on average lower than in Canada but concentrated in fewer sectors, particularly grains and oilseeds. The absence of a Doha Round result would encourage Canadian grain and oilseed producers to continue to press for financial “compensation” for higher US support programs (already obtained in some provinces).

A loss of market access opportunities. Failure of the Doha Round would result in slower growth in import demand, particularly in export-led developing countries — the best future

consumer ready and 12.9 percent (\$1.1 billion) were bulk commodities. By 2006, 72.5 percent (\$11.5 billion) of our agrifood exports were consumer ready and only 6.4 percent (\$1 billion) were bulk commodities. Canada’s performance in offshore markets is relatively weak because of the continued existence of high tariffs and tariff escalation. It is not through luck that one of Canada’s best non-NAFTA export markets is China, which significantly reduced its agricultural tariffs when acceding to the WTO.

If the Doha Round negotiations break down completely or are effectively placed in the deep freeze for several years, what trade policy options are available to Canada? One option is to rely on the domestic market, NAFTA and a few other PTAs. This option reflects the trade policy status quo plus the completion of planned preferential agreements with Korea, CARICOM and several Latin American countries. It is a cautious, reactive trade policy that responds to the initiatives of others. This status quo scenario might please the supply-managed industries, but it will certainly not please the rest of the Canadian agrifood sector, since such a scenario would: 1) hamper the sector's offshore growth opportunities; 2) place it at a competitive disadvantage vis-à-vis competitors who are pursuing more aggressive PTA policies; and 3) generally retard the growth and competitiveness of any export-oriented sector. This scenario would continue to allow the international competitiveness of the supply-managed sectors to deteriorate.

Another trade policy option is to concentrate on deepening and broadening NAFTA. This is a long-standing goal of much of the Canadian business community but there is little support in the US for deeper economic integration. Nevertheless, the US might be interested in a very narrow negotiation which is limited, *inter alia*, to completing the agricultural chapter of NAFTA, which allows a limited number of exceptions to duty-free trade. There would be massive opposition from the supply-managed sectors to a phase-out of over-quota tariffs on NAFTA trade, which would imply a phase-out of supply management and a complete loss of marketing quota values. While an enhanced NAFTA agreement would permit Canada to pursue more aggressive trade liberalization internationally, the reality is that the political debate would centre on this being the end of supply management. The politics of this scenario are daunting, given the concentration of dairy and poultry production in Quebec and Ontario and its effective political influence throughout Canada. A more limited but more plausi-



Jason Ransom, PMO

Canada's new trade minister, Michael Fortier, at his swearing-in, at Rideau Hall in June. Governor-General Michaëlle Jean and Prime Minister Stephen Harper look on. Among the files on Fortier's desk: the Doha Round of trade talks.

ble scenario is for Canada to concentrate on limiting any "thickening" of the border, while intensifying the development of more harmonized technical regulations within NAFTA.

In the absence of a Doha result, Canada also has the option to aggressively pursue preferential trade agreements. Bilateral and regional free trade agreements offer the possibility of deeper and faster improvements in market access than are available through multilateral negotiations. Unfortunately, most free trade agreements treat agriculture as a sector requiring exceptions from the duty-free norm.

Still, a Doha Round failure would reinforce existing pressures in a number of countries to pursue preferential arrangements. It would be hard for a Canadian government to ignore pleas

to level the playing field in the face of existing or new preferential agreements by Canada's export competitors in third markets.

A more aggressive preferential trade agreement agenda could involve actively pursuing PTAs with prospective major markets individually (China and India especially) or as part of a larger plurilateral initiative. What Canada could bring to the table would include security of supply of a number of resources, but it would also likely involve negotiations aimed at minimizing restrictions on foreign investment in Canada's resource sectors.

Finally, Canada could press for a re-engagement of the WTO negotiations. If the Doha Round negotiations fail to conclude in 2008, it is unlikely that they

will conclude before 2011. There is no guarantee that negotiators can “freeze” what is on the table in 2008 and then simply pick up where they left off when the negotiations resume years later. Therefore if it appears that the negotiations will not conclude in 2008, the “friends” of the WTO will need to press for a “managed” disengagement rather than an acrimonious breakdown. This would involve Canada working with others to ensure that what is on the table in 2008 will not be reopened and that efforts are made to conclude the round soon. But if, instead, the Doha Round collapses with no further meetings scheduled, Canada should begin the analytical and bridge-building work that will be needed to launch a new round in 2011. A meltdown of the multilateral trading system is something Canada should exert every effort to avoid.

If Canada wants to be more influential in resuscitating and sustaining multilateral negotiations, it needs to more effectively reconcile its agricultural trade liberalization goals with the political sensitivities of supply management. In the Uruguay and Doha rounds, Canada’s defensive preoccupations with supply management have limited its ability to influence the negotiations. While regarded as a help to the Doha Round negotiations through the ideas it brings to the table in other negotiating areas in agriculture, Canada is regarded as part of the problem when it comes to market access.

If Canada wants to retain supply management as a domestic agricultural policy tool, it must articulate how it intends to do this in light of the global trend to reduce trade barriers and to move away from price support policies. The EU experience in reforming its agriculture policy provides some guidance on how to approach politically sensitive agricultural policy adjustments. The approach of the EU Commission of setting out the challenges and identifying possible ways to

meet these challenges in a White Paper, before entering into detailed consultations with stakeholders, has enabled its agriculture policy to evolve so that it is much more compatible with an open trading system. The focus of the supply management/trade policy conundrum

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also needs to be shifted away from the two extremes of maintaining the status quo or eliminating supply management — to a more centrist, pragmatic approach that recognizes the political realities of Canadian public policy. An informed debate arising from a realistic White Paper would allow for the development of a viable game plan for the future of supply management, while permitting Canada to pursue an aggressive trade policy aimed at concluding either a new or a resumed Doha Round.

Looking ahead, Canadian agricultural policy-makers need to recognize that suspension or failure of the Doha Round negotiations in 2008 would not mean the end of multilateral negotiations, and a likely scenario is the resumption of the negotiations or the start of a new round within the next several years. PTAs are expected to continue to proliferate, but they are not a substitute for multilateral agricultural trade reform, especially for smaller countries like Canada.

None of the four policy options explored are mutually exclusive. Elements of each of the four can be pursued concurrently. Agricultural trade reform is a means to an end, not an end in itself. For Canada, the reason why a rules-based, more open and less distorted multilateral trading system should continue to be an overriding goal is that it provides the best opportunity for ensuring a more sustainable, more competitive agricultural economy for all regions of Canada. Pursuit of

new preferential trade agreements is a defensive response to the initiatives of others, and for this reason it will be pursued. However, for an agricultural trading country such as Canada, multilateral trade reform should be paramount, and Canada should position

itself so it can more effectively help influence and shape the international trading system. The alternative is to be swept along by the current of globalization, whether we like it or not.

Clearly there are limits to what a medium-sized trading country can accomplish in influencing the future shape of the agricultural trading system. Moreover, as increasing numbers of developing countries are able to play active roles in the WTO, the number of influential players has increased. Nevertheless, Canada has shown in the past that it can effectively punch above its weight and has the potential to continue to play an influential role in the WTO. The challenge will be to position itself so that it can fully exploit this potential — a task that will require a comprehensive and credible negotiating position on agriculture. The alternative is to continue to muddle through and hope that problems will become more manageable if decisions are delayed long enough.

Michael Gifford is with the Centre for Trade Policy and Law at Carleton University. Alex F. McCalla is with the Department of Agricultural Economics at the University of California, Davis. Karl D. Meilke is with the Department of Food, Agricultural and Resource Economics at the University of Guelph. This paper is adapted from the Canadian Agricultural Trade Policy Research Network publication What If the Doha Round Fails? Implications for Canadian Agriculture.