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What if the Doha Round Fails? Implications for Canadian Agriculture

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Trade Policy Briefs are short summaries of studies funded by the CATPRN. As such, the briefs omit many of the details and most of the references contained in the longer reports. This brief is based on CATPRN Commissioned Paper CP 2008-01. This paper grew out of a workshop where a group of agricultural trade experts were invited to discuss the consequences of a failed Doha Round for Canadian agriculture. Although every member of the group contributed ideas that are reflected in this report, Mike Gifford, Alex McCalla and Karl Meilke assumed the responsibility for drafting the paper. The other participants in the workshop were: Karen Huff, University of Guelph; William Kerr, University of Saskatchewan; Kurt Klein, University of Lethbridge; James Rude, University of Alberta; and Robert Wolfe, Queens University. Funding for this project was provided by the Canadian Agricultural Trade Policy Research Network (CATPRN). The CATPRN is funded by Agriculture and Agri-Food Canada but the views expressed in this paper are those of the authors and should not be attributed to the funding agency.

1.0 INTRODUCTION

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

Canada has a huge stake in the negotiations 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 sales in markets around the globe. Outside of 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 non-agricultural sectors view NAFTA as our key trade agreement, not the WTO. Given agriculture's dependence on multilateral market access this brief is focused on two key issues: 1) what are the implications of a failure of the Doha Round for Canadian agriculture; and 2) what are Canada's options if the Doha Round does fail.ⁱⁱⁱ

2.0 CONSEQUENCES OF A DOHA ROUND FAILURE FOR AGRICULTURE

Some will argue that a failure of the Doha Round would be of little consequence to Canadian agriculture. We feel this viewpoint is incorrect, and 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.

First, 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.^{iv} A Doha Round failure leaves 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 for agrifood than for 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).

Second, the increasing use of litigation. If the Doha Round fails, countries may seek to get through litigation what they could not get through negotiation.^v Increased WTO litigation runs the risk that the dispute settlement system begins 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.

Third, 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.

Fourth, 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 subsidise 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 pressures 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 whose costs 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 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).

Fifth, loss of market access opportunities. Failure of the Doha Round will result in slower growth in import demand, particularly in export-led developing countries – the best future 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.^{vi} 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.^{vii} The positive impacts from the trade facilitation negotiations, which would reduce the red tape and transaction costs associated with imports, would also be lost.

Canada's export performance in the US has been strong and diversified - a result of the duty free access for almost all our exports. The dramatic increase in Canada's exports of processed potatoes to the US shows how improved access can result in more investment and production of a value-added product. Canada's performance in offshore markets is relatively weak because of the continued existence of high tariffs and tariff escalation. It is not by luck that Canada's best non-NAFTA export performance is in China, which significantly reduced its agricultural tariffs when acceding to the WTO.

3.0 OPTIONS FOR CANADA

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?

3.1 Reliance 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. The scenario would continue to allow the international competitiveness of the supply managed sectors to deteriorate.

3.2 Concentrate on Deepening and Broadening the NAFTA

While this is a longstanding goal of much of the Canadian business community, the reality is there is little support in the US for expanding and deepening NAFTA. 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 production quota values. While NAFTA free trade would permit Canada to pursue more aggressive trade liberalization internationally, the reality is that the political debate would center 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 plausible scenario is for Canada to concentrate on limiting any "thickening" of the border while intensifying the development of more harmonized technical regulations within NAFTA.

3.3 Pursue a More Aggressive Preferential Trade Agreement Agenda

Bilateral and regional free trade agreements offer the possibility of deeper and faster improvements in market access than 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.

3.4 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 early 2008 and then simply pick-up where they left off when the negotiations resume some 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. 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 the 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 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 which 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 resumed Doha Round.

4.0 CONCLUSIONS

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. Preferential trade agreements are expected to continue to proliferate but 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 which 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.

REFERENCES

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ⁱ Proposals have also been tabled by the Chair's of the other key negotiating groups on non-agricultural market access, services and rules. These proposals are not as fully developed as the one on agriculture, partly because members are waiting to gauge the degree of ambition in agriculture. An "ambitious" agricultural deal would make it easier to close the gaps in other areas of the negotiations where major differences still exist.

ⁱⁱ Gifford and McCalla (2008a) outline the reasons why an agreement has been so difficult to reach.

ⁱⁱⁱ An outcome more likely than failure is a long postponement with the negotiations resuming after the US presidential elections are over. This outcome is discussed in more detail in Gifford, McCalla and Meilke but it would likely postpone any potential deal until at least 2011.

^{iv} When countries are members of a free trade agreement products generally flow between member countries at zero tariffs, providing them with a competitive advantage over countries outside the agreement who still face positive tariffs, i.e., member countries enjoy a preference margin. Since multilateral tariff negotiations lower the tariffs faced by all countries they lower the preference margin of countries in the free trade area.

^v One of the major accomplishments of the Uruguay Round was the establishment of an improved dispute settlement system. Under the GATT, panels were prevented from being established or the results were blocked from being adopted because of the requirement for consensus on every decision. Under the WTO, countries have a right to a panel and the defending country cannot block the adoption of a dispute settlement finding.

^{vi} Reductions in bound tariffs are negotiated in the WTO, and if a country wants to raise its bound tariffs it must provide its trading partners compensation. However, the tariff actually applied in developing countries is often well below its bound rate. These applied rates can be increased up to the bound rate on the whims of the importer and with no compensation provided to exporters.

^{vii} The expected impacts of a Doha agreement on Canada's import sensitive products and supply management are discussed in Gifford and McCalla (2008b).