

World trade talks: how the EU is blocking progress

Next month, trade ministers from around the world will gather in Hong Kong for a World Trade Organisation meeting which economists estimate could boost the global economy by \$80 billion. Unfortunately, crucial preparatory talks broke down this week jeopardising the whole round. Many involved in the negotiations are holding the EU responsible over its refusal to reform the Common Agricultural Policy (CAP). In this analysis piece we look at what the EU offered in the talks and whether these allegations are justified.

Three main areas of dispute in the talks have been subsidies to farmers, farm tariffs, and access to non-agricultural markets (tariffs on all goods which are not agricultural).

Farm subsidies

Peter Mandelson has claimed that the EU has “offered a big cut in subsidies” and that the EU is prepared to slash “the most trade-distorting subsidies” to farmers by 70 percent. But the reality is, as Peter Mandelson’s spokesman has admitted, EU subsidies will not be reduced by “one cent”.

In 2003 the EU introduced a reform of the CAP. This was expressly designed to give the EU flexibility in the WTO negotiations. By exploiting a WTO loophole, the EU continues to fund its farmers, but by different means. Rather than link its subsidies to production as before the 2003 reform will gradually mean that farmers get paid based on historic levels of land farmed and cattle owned. This process is described in EU-speak as ‘decoupling’.

The EU claims that the introduction of decoupling means that it has already cut the most damaging farm subsidies by 70 percent since the last round of trade talks. However, even after the 2003 reform, Market Price Support (one of the most distortionary elements of the CAP) will still remain the dominant form of CAP spending, decreasing only slightly from 58% to 53% of the total CAP spend. So the overall reduction in distortion will be slight.

The bottom line is that subsidy levels as a proportion of agricultural output have hardly changed over the last fifteen years. The subsidy has fluctuated between 30-40% of total output depending on world prices. For example, the subsidy rate last year was roughly the same as in 1990. Oxfam have calculated that if its offer were accepted the EU would actually still be able to increase subsidies by \$17bn per year and stay within the limit it is proposing.

Farm tariffs

Similarly, because of the complexity of the WTO's rules, the amount which the EU is claiming that it will cut farm tariffs by is grossly exaggerated. Peter Mandelson described the cuts as "deep and real" and claimed that the offer would "drive down our tariffs across the board". It proposes to cut its highest agricultural tariffs by 60 percent and make "average" cuts of 46 percent.

However, Mandelson is actually talking about cutting the tariff ceilings (known as bound rates) which are roughly double the tariff level which is actually applied. On top of this, the EU is demanding 170 of its most important tariffs be classified as "sensitive" making them subject to much lower tariff cuts than the average. Accordingly, economists at the World Bank have calculated that the effect of EU's offer would result in an average reduction of **just 1 percent** of its farm tariffs.

Non- Agricultural Market Access (NAMA)

The negotiations on NAMA are another example of the EU working against the spirit of the Doha's intended emphasis on helping developing countries. The EU's offer on NAMA, like all its others, sounds reasonable. It proposes a cap of 10 percent on all developed country tariffs in this area and an upper limit of 15 percent for "advanced developing" countries. On paper it appears to be in line with the EU's own stipulation that developing countries only make two-thirds of the "effort" of their richer counterparts.

However, under closer inspection the EU's offer is clearly geared towards maintaining European barriers to trade while calling for others to lower theirs. Calculations by the Pakistani government show that a 15 percent cap on industrial tariffs would require developing countries to nearly halve their average 'bound' ceiling level, currently at 29.12 percent. The corresponding figure for average bound tariffs in developed countries is 5.48 percent. In other words the EU's cap for its own non-agricultural tariffs would be kept at twice the level of its current upper ceilings. In contrast, Brazilian officials argue that they would have to reduce their average bound tariff rate by 75 percent to meet the EU's demands.

What they said...

US Agriculture Secretary Mike Johanns: "Many countries have analysed the EU proposal on agricultural market access... and without exception they say there are so many opportunities for manoeuvre that they feel they are not being granted enough market access - if any at all." (EUpolitix, 9 November)

Indian trade minister Kamal Nath: "I welcome Peter Mandelson's proposal to say he will reduce by so much but then he says 'I want my pound of flesh'... it is a question of giving an inch and asking for a mile, not just asking for a foot but a mile." (Independent, 8 November)

Celso Amorim, Brazilian Foreign Minister: "Europe holds the key to negotiations. It has extraordinary requirements of market opening from its partners but is not able to provide the equivalent in agricultural matters. Peter Mandelson is not engaged in serious negotiations and the whole process is useless. The EU wants the moon."
(Agence Europe, 11 November)

Alfredo Chiaradia, Argentinian Deputy Trade Minister: "They made sure that we couldn't progress. The EU proposal was crafted... to ensure that the round stops in its tracks." (Times, 10 November)

The Cairns group: "The round is captive to the lack of political will in the European Union to deliver on the Doha mandate for agricultural market access... The European Union must accept its obligation of leadership." (Press Release, 9 November)

Conclusions

The current round of trade talks, known as the Doha Development Round, was launched after 9-11 and was primarily intended to help the poor in the developing world. Pascal Lamy, the current head of the WTO who used to have Mandelson's job, announced at the start of the round that developing countries would get "a round for free".

Instead the EU has allowed itself to become the main obstacle to a deal which according to the World Bank would lift over 6 million people out of poverty. Despite its claims, the EU offered very little, refused to reform the CAP and demanded concessions from poor countries in return.

By betraying its promise to give greater access to developing countries the EU risks undermining the WTO. If the current round of trade talks fail, it will be a long time before such an opportunity comes again.