

**Geneva Update
15th April 2008**

**IS THE TIME RIPE FOR A DOHA DEAL?
TIP/IATP**

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I. A BIG PUSH FROM GENEVA: will Trade Ministers meet in May?

Recent progress in the WTO's agriculture negotiations has spurred the Director-General, Pascal Lamy, to propose a date for a Ministerial Meeting in Geneva, starting 19th May. If the meeting goes ahead, it will be the first major meeting of Trade Ministers since the WTO's Hong Kong Ministerial Conference in December 2005. Since then, the Doha trade talks have suffered a series of setbacks as WTO members failed to bridge enormous divides over how far to liberalize trade in agricultural and manufactured goods, and services (including finance, telecommunications, energy, transportation, and more).

The recent progress concerns a small but significant mechanism in the agricultural market access negotiations called Sensitive Products. The mechanism was established at the insistence of the European Commission (EC), to shield a certain number of sensitive agricultural goods (typically goods that are heavily protected) from the tariff cuts for all agricultural products set out in the draft proposals. In exchange for a lower tariff cut on Sensitive Products, WTO members who use the mechanism agreed to increase their below-tariff import quotas on these goods.

The Sensitive Products negotiations are significant for three reasons. First, the agricultural goods that are expected to be shielded under this mechanism are also the products that are of most interest to agricultural exporters in countries like the U.S., Australia, New Zealand, Brazil, Argentina, Canada, Uruguay and Thailand. They include dairy products (milk, cheese and butter), sugar, meat (beef, pork and poultry), rice, and edible oils. Second, because the mechanism requires WTO members to increase below-tariff import quotas, the new deal on Sensitive Products will effectively guarantee exporters additional entry into markets. Some agricultural exporting WTO members, who believe the general level of proposed tariff cuts are too low, are now accepting the proposal because they see the expansion of quotas for Sensitive Products as a kind of guaranteed new market. Finally, the U.S. has been active in the most recent Sensitive Products negotiations, displaying a level of interest that has not been visible for several months. Without committed U.S. engagement, WTO members cannot hope to complete the Doha Agenda.

The manufactured goods negotiations, known as the non-agricultural market access (NAMA) negotiations, have not made any advances in the past few months. The current NAMA text remains strongly opposed by many larger developing countries including South Africa, Argentina, Brazil, Indonesia, the Philippines and Venezuela

who are being asked to make average tariff cuts of around 60 percent to their industrial goods. Developed countries are only looking at average tariff cuts of around 30 percent (because they have, on average, lower tariffs to start with). Despite the broad differences, there is little technical work remaining, and so it will be up to Ministers to decide if they can come to an agreement on a level of tariff cuts or reject the text altogether.

It is still unclear whether the May Ministerial meeting will go ahead but it looks more likely now than at any other time this year. Technical negotiations in agriculture have advanced, the mood in Geneva (among those who want the deal in 2008) is upbeat, negotiations are continuing on a daily basis, and new texts for agriculture and NAMA are expected towards the end of April. The Director-General of the WTO, the President of the World Bank and the U.S. business community are spinning the Doha Agenda as the global agreement that could revive confidence in the evidently failing global economy. This mix of factors could be enough to entice Ministers to come to Geneva on 19th May.

II. AN EXPLOSIVE GLOBAL CRISIS: financial instability, food riots, global warming

Against the backdrop of a possible Doha deal, the global economy is facing massive instability-most notably in the finance, food and agriculture sectors-and a climate in crisis resulting from human activity.

On April 9, the International Monetary Fund (IMF) released its World Economic Outlook, which said "the financial market crisis that erupted in August 2007 has developed into the largest financial shock since the Great Depression." The IMF has warned that the world's banking systems could suffer up to \$1 trillion in losses as a result of the credit crisis. One big financial institution, Bear Stearns, has collapsed. Wall Street has been shocked into a state of conservatism. So far, the public is paying for the irresponsible loans through tax-funded bail-outs. Financial institutions have dramatically reduced lending, which is causing a credit crunch that in turn chills the broader economy. (See below under "DOCUMENTS" for further explanation on the credit crisis)

At the same time, and to some extent linked to the financial crisis, food and agricultural commodity prices are soaring. The rapid price increases are causing enormous stress for the urban and rural poor in regions dependent on food imports. Food riots have already spread to over 14 countries, including Haiti, Ivory Coast, Cameroon, and Egypt. Dozens of people have already died in the rioting. The World Bank predicts that 33 countries face social unrest as a result of the high prices. Twelve countries have already taken emergency measures, for example food rationing in Pakistan, increased food subsidies in Egypt, a ban on certain rice exports in India, and a boost in government investment in rice production in the Philippines.

Climate change, the rising price of oil, the expansion of biofuels production and income growth in emerging economies such as China, India, Brazil and Russia, are some of the factors that have combined over the past two years to cause an unexpected and steep rise in commodity prices. Furthermore, the influence of financial investors in commodity markets has significantly increased since 2000. As other assets become less attractive, a growing part of the money in financial markets is investing in commodity markets. Both the FAO and UNCTAD identify financial investment in commodities as a major cause for the increasing volatility in

commodity markets. Finally, and most importantly for those trying to conclude the Doha Agenda, the result of the past two decades of deregulation and liberalization in agricultural markets has severely curtailed the tools available to governments to respond to the current food crisis. Not least of the problems has been the systematic dismantling of national and regional foodstocks.

Furthermore, the most recent assessment by the Intergovernmental Panel on Climate Change (IPCC) produced damning evidence on the likely impact of climate change. Climate change will mean more extreme weather events (droughts, floods, cyclones etc...), increased sea levels (threatening the existence of some island states), and higher average temperatures; further intensifying global instability. (see link below)

According to the IPCC, climate change will severely disrupt food and agriculture systems all over the world particularly in Southern Africa, South Asia and Brazil. Food and agriculture systems are predicted to change dramatically in the coming decades. Heavy rains will cause regular damage to crops, soil erosion and waterlogging. Increased droughts will cause lower yields, crop failures and increased livestock deaths. Droughts will also increase the rate of desertification in the U.S., Australia, Africa and parts of Asia. There will be increased agricultural yields in colder environments and decreased yields in warmer environments.

III. WILL DOHA SOLVE THE GLOBAL CRISES?

The WTO's Director-General, Pascal Lamy, has argued that the continuous expansion of multilateral trade is an insurance policy against market instabilities and financial turbulences. Mr. Lamy says concluding the Doha Agenda will provide "reassurance for world financial markets." The President of the World Bank and former U.S. Trade Representative, Robert Zoellick, argued in a speech at the Center for Global Development, that a key solution to the food crisis "is to break the Doha Development Agenda impasse." He said a Doha breakthrough "would also infuse confidence in an economic system stressed by financial anxiety." Mr. Zoellick added that the "trade talks are a critical test for the challenge of striking a global deal on climate change." In addition, an influential group of U.S. businesses wrote-in a letter to Pascal Lamy cited in the WTO Reporter-"with world markets currently facing economic and financial uncertainty, a positive outcome to the talks would send a much-needed 'positive signal'." (see links below)

The current proposals under the Doha Agenda are set to further liberalize and deregulate trade. The Ministerial meeting in May is designed to lock in tariff and subsidy cuts for agricultural and manufactured goods. There is also a strong push for commitments in May on further liberalizing and deregulating the services sector. Instead of strengthening the system of rules to govern international trade and finance, the current Doha Agenda is more likely to increase instability and volatility in world markets.

For starters, there are no plans to negotiate a set of rules to regulate financial markets under the Doha Agenda. To the contrary, the EU and U.S. have asked other WTO members to dismantle systems that regulate financial markets and the movement of capital. And yet, a number of key actors in the financial sector are calling for further government intervention and regulation. The head of the IMF,

Dominique Strauss-Kahn, said in an interview with the Financial Times, "I really think that the need for public intervention is becoming more evident, the crisis is global." The IMF's World Economic Outlook says the recent U.S. legislation to bail-out the financial sector was justified and encourages additional government spending in the housing and banking markets, if needed. The Chief Executive of Deutsche Bank, Joseph Ackermann, responded to the financial crisis saying, "I no longer believe in the market's self-healing power." The UK daily paper, The Guardian, cited the British Chancellor (equivalent to a finance minister), Alistair Darling, saying the international community had to urgently find ways of easing strains in financial markets and to strengthen resilience of financial systems for the future. (see link below)

In relation to the food crisis, the further opening up of agricultural markets under the Doha Agenda is likely to increase volatility of agricultural prices. At the national level, governments' ability to support agricultural production using direct interventions in markets has been significantly reduced over the past two decades of liberalization. Structural adjustment programs and international trade agreements (including the Uruguay Round Agreement on Agriculture and, more recently, bilateral and regional trade agreements) have significantly curtailed governments' ability to manage commodity production and trade. Tools previously available to help step up production in times of scarcity, to manage stocks to even out supply between good and less good years, or to help producers adapt to changing production constraints, are no longer permitted under existing trade and investment agreements. Farmers are now more directly affected by price changes and have to negotiate marketing and distribution of their crops. Before, public institutions were able to soften the effects of price volatility.

Rather than establishing fairer markets, many of the trade policy changes have strengthened the position of the most powerful players, particularly transnational companies. Transnational agri-businesses have thrived on market deregulation and in many places have pushed small and diversified growers out of their markets in a bid to establish stable and homogenous suppliers for the companies' processing needs.

Finally, in the climate arena, governments are urgently trying to increase efforts under the UN Framework Convention on Climate Change to curb the climate crisis. Sir Nicholas Stern, author of the Stern Review, called climate change "the greatest market failure the world has seen." The climate negotiations are likely to result in more government regulation in order to stabilize greenhouse gases in the environment, as well as significant international cooperation to ensure that all countries have the finance, technology and infrastructure they need to minimize the negative impacts of climate change on human life.

In a time where many governments, UN agencies and even the IMF are calling for increased government intervention and regulation to help solve the current global crises, the current Doha Agenda will not provide the tools necessary for governments to act.

IV. A WAY FORWARD FOR AGRICULTURE

In the current context, it seems more necessary than ever to allow governments to use a range of tools to address financial, economic and climatic challenges. In agriculture, for example, countries need more space to develop their agricultural

sector, using trade as a tool but not a substitute for local investment in local markets. Whether or not the different tools-including tariffs, export taxes, public stockholdings, and safeguard mechanisms-are used every year is less important than the confidence the tools provide. Local production and local jobs are necessary for development, and are more important than trade facilitation. The tools, if properly used, will not rule out trade, but they will provide the local producers and processors with a measure of certainty that the would-be exporters will have to factor into their business plan.

Agricultural economist, Daryll Ray, argues that the failure of governments to maintain public stocks is one of the reasons they are unable to deal with the current food crisis. Public stocks can be used to balance out supply in the event of production shortfalls (like the wheat shortfall) and/or a sudden increase in demand (like the growing demand for biofuels). "Adequate supplies would reduce the likelihood of food riots that have the potential to topple governments," he argues. (see link below)

Agricultural prices are high and will probably stay high for the next several years. After decades of low prices, this increase should be good news for farmers and countries that produce agricultural products. To some extent, higher prices will bring some benefits, although not necessarily in the short term; and not to those people dependent on food imports. Immediate steps must be taken, as some governments are already doing, to avert the current the humanitarian crises.

The volatility of agricultural markets must be addressed to avert food crises in the future and to ensure small producers a reliable and steady income. Food security requires some measure of predictability, both for poor consumers, who spend 50 percent and more of their resources on food, and for small producers, who have to take risks to get the credit to plant. Higher prices should stimulate more production, which many developing countries need after years of neglect when public investment was curtailed or ended under the World Bank's Structural Adjustment Programs. But they won't work if volatility undermines the signal that more production is needed. Tools that may create inefficiencies but which allow some measure of predictability have important advantages for poor producers and rural labourers.

Current agricultural practices are also part of the climate crisis. Agriculture is a major contributor to greenhouse gas emissions, contributing between 13.5 percent of global greenhouse gas emissions, according to the IPCC, and between 17 and 32 percent, according to Greenpeace (see link below). But, if managed right and given adequate support, agriculture and forestry can be a vital carbon sink. We need a different model for food and agriculture to be able to contribute to efforts to reduce greenhouse gas emissions, while at the same time providing sufficient, safe and nutritious food for all people at all times.

V. IMPORTANT DATES TO REMEMBER

17-20 April	UNCTAD XII Civil Society Forum
20-25 April	UNCTAD XII
End April/ Start May	Revised Agriculture and NAMA modalities texts
12 May	Lamy's Horizontal Process begins (negotiating Ag and NAMA combined)
19 May	Ministerial Meeting in Geneva

VI. DOCUMENTS

New York Times, "Can't Grasp the Credit Crunch? Join the Club, 19 March 2008

The credit crisis started in one part of the mortgage market-subprime loans-which are high risk loans to homebuyers. They are high risk because the borrowers are lent more money than they can comfortably repay. The asset is not just the house itself, but the assumption that the value of the house will appreciate, and that if the bank has to foreclose on the mortgage, the house can be sold for enough money to cover the costs and still make some profit. These mortgages were then bundled into different types of investments and sold to investors all over the world. They were very high risk investments, with high returns so long as house prices stayed buoyant and so long as not too many borrowers defaulted. The investors were betting on the strength of the U.S. housing market, but house prices eventually started to fall. By that stage, a large portion of the global financial system was affected because so many firms and investment funds owned a share of the U.S. housing market.

Sensitive Products Proposal, April 2008

<http://www.tradeobservatory.org/library.cfm?refID=102252>

U.S. et al Special Products Proposal

<http://www.tradeobservatory.org/library.cfm?refID=102251>

Lamy: Doha Round conclusion will reassure world financial markets

http://www.wto.org/english/news_e/sppl_e/sppl88_e.htm

Lamy: trade expansion is insurance against financial turbulence

http://www.wto.org/english/news_e/sppl_e/sppl85_e.htm

Robert Zoellick, "A Challenge of Economic Statecraft"

<http://web.worldbank.org/WBSITE/EXTERNAL/NEWS/0,,contentMDK:21711307~pagePK:34370~piPK:42770~theSitePK:4607,00.html>

"Large U.S. Business Delegation Heading To Geneva This Month to Push WTO Talks," WTO Reporter, 7 April 2008

IMF, World Economic Outlook, April 2008

<http://www.imf.org/external/pubs/ft/weo/2008/01/index.htm>

Policy-makers at odds over how to deal with 'worst crisis since the war'

<http://www.guardian.co.uk/business/2008/apr/08/creditcrunch.globaleconomy>

Intergovernmental Panel on Climate Change (IPCC) - Fourth Assessment Report

<http://www.ipcc.ch/pdf/assessment-report/ar4/wg1/ar4-wg1-spm.pdf>

Greenpeace, "Cool Farming", 2008

<http://www.greenpeace.org/international/press/reports/cool-farming-full-report>

Daryll Ray, One could say the cupboard is bare but actually there is no cupboard

<http://www.agpolicy.org/weekcol/401.html>

Alexandra Strickner and Christian Felber, "Is Free Trade and "Insurance" Against Financial Turbulence?"

<http://www.tradeobservatory.org/library.cfm?refid=101708>

Stern Review on the Economics of Climate Change

[http://www.hm-](http://www.hm-treasury.gov.uk/independent_reviews/stern_review_economics_climate_change/sterreview_index.cfm)

[treasury.gov.uk/independent_reviews/stern_review_economics_climate_change/sterreview_index.cfm](http://www.hm-treasury.gov.uk/independent_reviews/stern_review_economics_climate_change/sterreview_index.cfm)