



Moving Forward on Global Trade: Reviving Doha in the New Administration

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Preface and Acknowledgement

Since 2004 the Globalization Dialogues Project, a partnership between the Center for Global Studies (CGS) at George Mason University and the George and Trish Vradenburg Foundation, has sought to identify potential pathways for advancing the global trade process on an inclusive, multi-stakeholder basis. To this end we have held numerous consultation sessions with issue experts and conducted interviews with a wide range of NGO and advocacy voices around the world.

This report is based on a colloquium on the future of global trade held in Washington, D.C., in the spring of 2008. With the Doha process stalled, but a new U.S. administration around the corner, we invited several specialists representing a range of relevant voices to offer their perspectives on how global trade talks might be productively reanimated in the near to medium term. Skillfully overseen by CGS associate and Mason School of Public Policy professor Ken Reinert, this event—and now the resulting report—sought to identify the major obstacles to progress on global trade, a variety of ways to think past these policy blockages, and to provide an analysis of whether and how it might be possible to advance towards a more equitable global trade regime. Without Ken’s perspicacity and insight this final product would have been considerably more anemic. Instead we are able to offer a set of starting points and policy resources to enrich continuing debate.

Peter Mandaville & Agnieszka Paczynska
Globalization Dialogues Project Co-Directors

Food, Agriculture and Doha

STEVE SUPPAN, SENIOR POLICY ANALYST, INSTITUTE FOR AGRICULTURE AND TRADE POLICY

“Much of this price spiking and volatility has been caused by an enormous influx of speculative capital into commodity markets.”

Steve Suppan

The sharp price increases in retail food and agricultural commodities in 2007 and early 2008 have exacerbated decades of chronic food insecurity that now afflicts perhaps as much as a sixth of all people. As many studies and news articles have shown, these price increases have helped trigger food riots and even political instability in many poor import food dependent countries. The effect of retail food price spikes on the food insecure in developed countries, though less severe and widespread, should not be overlooked. For example, in the U.S. Farm Bill, legislators approved \$209 billion over five years for nutrition programs, including a record high level of federal food assistance,⁵ while U.S. government food stocks are at record low levels.⁶ Demand has overwhelmed supply in private food assistance pantries even in some suburbs, such as my home town of Minnetonka, Minnesota, the headquarters of Cargill, the global agribusiness giant.

Mitigating the “food crisis” requires us to understand its components. First, we need to understand the causes and effects of the global food financial (price, cost, volatility, risk management) crisis, for which there are short to medium term regulatory remedies. The longer

5 David M. Herszenhorn. “House Passes Farm Bill By a Veto-Proof Margin.” *The New York Times*. May 15, 2008.

6 Sue Kirchoff. “Surplus U.S. Food Supplies Dry Up.” *U.S.A. Today*. May 1, 2008.

term dilemma of how to achieve economically and environmentally sustainable global and household food security concerns factors more complex and numerous than what are depicted in the “food vs. [bio-]fuel” debate. Making agricultural trade sustainable is just one of these factors.

Factors in the Food Financial Crisis

Current commodities price volatility has made traditional risk management tools, such as contracting with a local grain elevator to sell crops in advance (forward contracting), too expensive for farmers and smaller agribusiness firms to use. The difference between cash prices and futures contract prices in commodities exchanges is too great and volatile to allow elevators to assess risks and write contracts.⁷ (Record high costs of production and weather volatility, very likely induced by climate change, have made price risk management all the more difficult.)

Much of this price spiking and volatility has been caused by an enormous influx of speculative capital into commodity markets, estimated to have increased from \$10 billion in 2005 to \$47 billion by March 2008 just in row crops alone (grains, oilseeds and cotton), according to an April 22 meet-

7 Jacqui Fatka, “Industry fights to prevent financial grain crisis.” *Feedstuffs*. April 7, 2008.

ing of the Commodities Futures Trading Commission.⁸ Proposals to regulate commodities markets, such as the Chicago Board of Trade, have been rebuffed by proponents of “free” capital flows, who have the financial and knowledge resources to “bet” successfully on both rising and falling prices. Both the United

emergency meeting of the United Nations Economic and Social Council, government delegates will be asked to consider whether the UN’s World Food Programme should use futures contracts for food aid procurement in the current unregulated markets.¹⁰ Though UN members will be asked to replenish



Stock of grain bags (Courtesy flickr, Stephan Geyer).

States and the European Union advocated capital liberalization in the current round of World Trade Organization negotiations. In the absence of international financial reform, and particularly, regulation of speculation in the commodity markets, more tariff reduction for food import dependent developing countries will expose them further to the current financial volatility and the resultant food insecurity.⁹ Nevertheless, at a May 20th

WFP grain stocks and cash reserves, it is unlikely that the WFP will ask UN members for negotiations to regulate the financial speculation in commodities that has made it too expensive for WFP to buy food stocks.

Mitigating Price Volatility and Food Insecurity through Supply Management

Longer term causes of recent price increases include use of crops as biofuels feedstocks; climate change related production shortfalls; increase in energy prices and resulting agricultural transportation and processing price increases; and

8 Keith Good. “Farm Policy; Prices; Biofuels.” FarmPolicy.com. May 5, 2008.

9 Alexandra Strickner and Christian Felber. “Is Free Trade an “Insurance” Against Financial Turmoil?” Institute for Agriculture and Trade Policy. February 21, 2008. < <http://www.tradeobservatory.org/library.cfm?refid=101708>>

“Seven Reasons Why The Doha Round Will Not Solve The Food Crisis.” Institute for Agriculture and Trade Policy. May 13, 2008. < <http://www.tradeobservatory.org/library.cfm?refID=102666>>

10 “Issues Note for Special Meeting of the Economic and Social Council on Global Food Crisis.” United Nations Economic and Social Council. 4. May 2008.

increased consumption of meat and dairy products that require more grain and oilseeds for their production.¹¹ These problems for sustainable agricultural production and consumption likely can be solved or mitigated only by medium to longer term measures. These problems predate the current price spikes and volatility. What is dismaying, if not surprising, is that the dismantling of public reserve stock programs and the failure of the private sector to manage stocks in the public interest have left the world, and particularly its poorest residents, exposed both to the food financial crisis and exacerbation of widespread food insecurity. There are only small public stocks to release to reduce prices and price volatility and to alleviate hunger.

IATP has supported the African WTO members' position in 2006 that discussions should begin on international supply management mechanisms to stabilize commodity prices and to release reserve stocks to reduce food insecurity.¹² IATP has supported those U.S. agricul-

11 Anne Laure Constantin. "A Time of High Prices: An Opportunity For The Rural Poor?" Institute for Agriculture and Trade Policy. April 2008. <<http://www.tradeobservatory.org/library.cfm?refid=102347>>

12 Carin Smaller and Sophia Murphy, "On the Right Path to Development: African Countries Lead the Way." Institute for Agriculture and Trade Policy. July 21, 2006. <<http://www.tradeobservatory.org/library.cfm?refid=88129>>

ture groups, such as the National Family Farm Coalition, which have called for Farm Bill legislation to create a Strategic Grain Reserve (SRG) for price moderation and food security purposes.¹³ However, the SRG has been left out of the just concluded Farm Bill. Congress will continue to rely on transnational grain traders and financial speculators to "manage" the market in everybody's interest. Nor does it appear that the UN Conference on Trade and Development (UNCTAD), politically and financially weakened by developed country



Since the 1960s containerization has revolutionized ship transport (Courtesy flickr, aktp).

free trade demands, will reassert its role as a forum for supply management research and negotiations.¹⁴ Trade-related policy discussions are to be the

exclusive purview of the WTO, while UNCTAD is to confine its mission to technical assistance for free trade initiatives.

Policies Towards Sustainable Trade and Food Security

IATP participated in the International Assessment on Agricultural Science and Technology for Development (IAASTD), which resulted

13 "Open Letter to Congress on the Need for Strategic Grain Reserves." April 28, 2008. <http://www.grassrootsonline.org/news-publications/articles_op-eds/an-open-letter-to-congress-need-strategic-grain-reserves>

14 Anne Laure Constantin, "UNCTAD XII: Hit or Miss?" Institute for Agriculture and Trade Policy. March 18, 2008. <<http://www.tradeobservatory.org/library.cfm?refid=102013>>

in a Global Report and sub-global reports incorporating the work of more than 400 authors, four meetings between authors and reviewers and three rounds of peer review (www.agassessment.org). The IAASTD Summaries for Decision-Makers and Synthetic Reports of crossing cutting subjects were approved by 57 governments on April 15th in Johannesburg, South Africa.¹⁵ IATP helped to draft the policy options chapter of the Global Report. Parts of that chapter reflect IATP's work on supply management, intellectual property and traditional knowledge for sustainable agriculture, and on food safety issues in sustainable market entry. This overview of IATP positions on the discussion topics suggested by the Center for Global Studies will conclude with some of our views on Aid for Trade.

IATP supports the developing country proposal to amend the WTO intellectual property agreement (TRIPs) to support biodiversity and protect traditional knowledge and biological resources used in patented products.¹⁶ The proposed amendment to Article 29 requires that patent applicants disclose to patent office examiners the source of biological resources and traditional knowledge used in patented products. Norway, to allay U.S. concerns that the amendment could lead to revocation of existing

patents, proposed a modification to the disclosure amendment so that disclosure would not apply retroactively, even in cases of bio-piracy, when a resource is expropriated from a WTO member and patented fraudulently.

The Norwegian amendment further calls for compatibility between TRIPs and the FAO Treaty on Plant Genetic Resources for Agriculture and Food. Without effective implementation of the Convention on Biological Diversity and the FAO treaty, combined with the protection of traditional knowledge about biological resources afforded by the disclosure amendment, it is difficult to imagine how agriculture can be environmentally or economically sustainable over the long term. As patented and bio-pirated crop varieties drive traditional plant breeding out of business by concentrating research dollars on the most commercially viable crops, genetic erosion will continue to accelerate as the stewards of biodiversity are driven off the land.

With regard to agricultural market access for developing countries, it has been said that developing country market access is the key to Doha Round success, and to mitigating, if not reversing, the deteriorating terms of trade (increasing import costs vs. declining export revenues) that have afflicted most non-oil exporting developing countries since before the Uruguay Round. IATP takes a different position. We believe that the market access formula, even if honored in letter as well spirit in Doha Round implementation, would provide at best an

“Without effective implementation of the convention on Biological Diversity and the FAO treaty,[...]it is difficult to imagine how agriculture can be environmentally or economically sustainable over the long term.”

Steve Suppan

15 “Will the International Assessment of Agriculture Bring A New Era?” April 28, 2008. <<http://iatp.typepad.com/thinkforward/2008/04/iatp-contribute.html>>

16 Steve Suppan. “Amending WTO patenting rules . . .” Institute for Agriculture and Trade Policy. July 2006. <<http://www.tradeobservatory.org/library.cfm?refID=88376>>

opportunity that must be converted into sustained market entry. Sustained market entry not only requires supply and logistical capacity to satisfy the needs of global supply chains. Market entry also requires capacity to meet sanitary-phytosanitary (SPS) requirements; technical requirements, such as packing; increasingly complex customs requirements; intellectual property protection certification (under the guise of import product safety); and protection against intentional contamination of products, e.g. under “food defense” rules of the U.S. Bioterrorism Act.

Fulfillment of all these requirements requires not only well resourced and well trained trade bureaucracies, but trade infrastructure, such as testing laboratories and integrated information technology data bases, that are not only lacking in developing countries, but are insufficient in developed countries, such as the United States. The recent Congressional testimony on the Food and Drug Administration’s “Food Protection Plan” and chronic violations and non-enforcement of Food Safety Inspection Service rules are indicative of a loss of effective government control over the safety and quality of the domestic and imported food supply. Industry’s call for more self-policing of food imports does not portend a reliable infrastructure for inspection and testing of imports, especially from new exporters in developing countries.¹⁷

17 Rod Leonard and Steve Suppan. “Losing Control of U.S. Food Safety.” November 2007. <<http://www.agobservatory.org/library.cfm?refID=100755>> Steve Suppan. “Import Safety In The Twilight Of The Bush Administra-

The failure to implement much of the WTO Uruguay Round to the benefit of developing country members resulted in the recognition that improving their supply capacity, trade infrastructure and training, and not just market access opportunities, were required to realize concrete benefits from trade and investment agreements. Aid for Trade includes the training of officials in trade policy and regulations; trade development services, such as marketing plans; trade related infrastructure, including roads and ports; building supply capacity; and assistance to meet trade related adjustment costs, e.g. employment loss, widely projected to be significant as a result of the Doha Round.

Aid for Trade, announced at the WTO Hong Kong Ministerial in 2005, is not, however, part of the Doha Round negotiations and is not binding on WTO members.¹⁸ IATP has been concerned that Aid for Trade could be the best endeavor carrot used to make developing countries make commitments that they would not otherwise make without promised aid. Some negotiators would have no difficulty in promising future aid in exchange for support now for developed country negotiating proposals.

Different agencies and donors use different definitions of what counts as Aid for Trade, so monitoring

tion.” Institute for Agriculture and Trade Policy. May 2008.

18 Carin Smaller. “Can Aid Fix Trade? Assessing the WTO’s Aid for Trade Agenda?” Institute for Agriculture and Trade Policy. September 2006. <<http://www.tradeobservatory.org/library.cfm?refID=89070>>

what counts as aid is difficult at best. In the Aid for Trade planning documents, IATP has not been able to identify new additional money. Rather money is diverted from other development assistance programs to trade-related assistance, as trade-related policy becomes the master matrix for development. The diversion is not small change. Recall, for example, the World Bank study, which estimated the cost for a Least Developed Country to implement bureaucratically the Uruguay Round SPS, TRIPs and Customs agreements at an average \$150 million, about the entire annual budget for all development programs in an LDC.¹⁹

Because most Aid for Trade priorities have been determined by the WTO and international financial institutions and because aid is often highly conditioned on use of donor country advisors and services, the much touted degree of “country ownership” of Aid for Trade is questionable. While the WTO has organized regional meetings with regional banks to seek sources of private financing for “country ownership” of Aid to Trade, private money is often risk adverse until public money takes the first and biggest risks.

While IATP agrees that there is a great need of Aid for Trade, we question whether the WTO is the right coordinating agency for this project. Doesn't the relatively small WTO Secretariat have enough

¹⁹ Michael Finger and Philip Schuler. “Implementation of Uruguay Round Commitments: the development challenge.” World Bank. Policy Working Paper No. 2215. 1999.

to do without coordinating Aid for Trade? When the Integrated Framework on Trade Related Financial Assistance was launched, the UN Food and Agricultural Organization was not involved in its founding. How could FAO, an international agency with deep technical assistance expertise in mitigating supply constraints and assessing infrastructural needs for meeting non-tariff trade requirements, be omitted from the IF? Having the right lead agency coordinate Aid for Trade is no guarantee of its success, if there is no new money and money has to be diverted from other programs for trade. But since exports from most LDC are agricultural, wouldn't it make sense for Aid for Trade to have FAO at least a co-leading agency, rather than as a technical advisor?

Conclusion

IATP does not believe that current trade policies pertaining to agriculture offer the right tools to reduce the ruinous financial volatility of agricultural markets and to make agricultural trade environmentally and economically sustainable, especially for developing countries. The argument that more developing country import liberalization and import dependency will remedy the food security crisis is unviable and disingenuous.²⁰

²⁰ Alexandra Spielfoch and R. Dennis Olson. “Will the Food Crisis Finally Get the Attention of the Presidential Candidates? Institute for Agriculture and Trade Policy. May 6, 2008. <<http://www.iatp.org/iatp/commentaries.cfm?refID=102588>>.

Author Biographies

Kimberly Ann Elliott, visiting fellow at the Peterson Institute for International Economics, has been associated with the Institute since 1982 and is a senior fellow at the Center for Global Development (CGD). She is the author and coauthor of numerous books and articles on a variety of trade policy and globalization issues. Much of her work focuses on the uses of economic leverage in international negotiations, including both economic sanctions for foreign policy goals and trade threats and sanctions in commercial disputes. Her most recent book is *Delivering on Doha: Farm Trade and the Poor*, which was copublished by CGD and the Institute in July 2006.

Christine A. McDaniel is the chief economist to Chairman Shara Aranoff at the U.S. International Trade Commission, providing economic expertise and advice on economic and industry issues and import injury cases. From March 2007 to January 2009 she served as deputy assistant secretary for economic policy at the U.S. Department of the Treasury. Prior to joining Treasury, Ms. McDaniel worked at several government institutions and taught a course on

the economics of innovation at Georgetown University. She has published articles in academic journals on topics including international trade, NAFTA, intellectual property rights, and economic modeling.

Kenneth A. Reinert is Professor of Public Policy at George Mason University where he received a Distinguished Teaching Award in 2003. He is also a Senior Fellow at Trade Partnership Worldwide. In the past he held the position of Senior International Economist at the U.S. International Trade Commission and consulted for various U.S. and international trade and economy-related organizations. He has published over 50 journal articles and book chapters in the areas of international trade, economic development, and environmental policy. His latest publications include a two-volume *Princeton Encyclopedia of the World Economy* (Princeton University Press, 2009) and a coauthored book, *Globalization for Development* (Palgrave MacMillan and World Bank, 2006 and 2007).

Devesh Roy, has been a Research Fellow at the International Food Policy Research Institute (IFPRI)

since 2004. His current research is on international economics with focus on product standards in international trade. His other areas of research are international migration, economic growth and development, economic geography and impact of trade liberalization on food security in poor countries. Before coming to IFPRI, he was a PhD student at the University of Maryland at College Park. Roy also holds a bachelor's degree in economics from Delhi University and a master's degree from the Delhi School of Economics.

Steve Suppan is senior policy analyst at the Institute for Agriculture and Trade Policy (IATP). Since 1998, he has been Director of Research and acted as IATP's liaison to several governmental and intergovernmental organizations. He has written extensively on food safety policy and on agricultural trade policy. Most recently, he has written a paper on structural reform in the Codex Alimentarius Commission for Consumers International's Decision Making in the Global Market project. Suppan has also represented IATP at meetings of diverse bodies and agencies of the United Nations.

