Bridges

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Time for Parallel and Alternative Paths?

Despite ringing calls for a swift conclusion of the Doha Round from various high-level gatherings, a number of countries are looking for parallel and alternative venues to advance governance of trade.

Many trade negotiators say the main factor holding up progress at the WTO is the United States' lack of engagement. US negotiators and constituencies have repeatedly insisted that they need more clarity on market access gains post-Doha, but other parties to the negotiations contend that it is not clear precisely what Washington is seeking. More broadly, with healthcare reform and climate change topping the political debate there, combined with strong protectionist sentiment fuelled by the recession, it is evident that trade liberalisation is low on the administration's totem pole. For instance, at the time of writing the key post of chief US agriculture negotiator was still vacant.

President Obama is expected to unveil his long-awaited trade policy agenda before the G-20 major economies September summit in Pittsburgh, but this may not prove as detailed as some have hoped. US Trade Representative Ron Kirk said the statement was likely to be "more an illumination of how this president, this administration, see trade as an integral part of our overall economic strategy."

The administration faces strong pressure from congressional Democrats, who have proposed a Trade Reform, Accountability, Development and Employment (TRADE) Act, characterised as "a bill that would mandate trade pact reviews, establish standards, protect workers and help restore congressional oversight of future trade agreements." Among other things, the bill would require Congress to vote on any agreement before it can be signed. The draft bill has been endorsed by 114 Democrats and two Republicans in the House of Representatives.

What Can Pittsburgh Deliver?

Considering the scepticism expressed by many WTO delegates on the call to conclude Doha in 2010, it is somewhat ironic that they are now waiting for a signal from another summit: the G-20 leaders' meeting in Pittsburgh (see page 5). It may be difficult for the group to come up with something that will give the negotiations a decisive jolt, since no country appears to have changed its position on substance in recent months.

For example, this summer India's Commerce Minister Anand Sharma told journalists that the special safeguard mechanism (SSM) was "not for negotiation as it concerns the livelihoods of poor farmers." The last serious attempt to conclude a framework agreement on agriculture collapsed in part because India and the US could not agree on how much developing countries should be allowed to raise farm tariffs to ward off import surges under the SSM. Mr Sharma also said that developed countries would have to "revisit the subsidy dossier in the Doha agriculture package." EU Agriculture Commissioner Mariann Fischer Boel's response was unequivocal: "We have tried our very best and we can't move."

Growing Focus on Bilaterals and Other Alternatives

For many countries, including some of those that endorsed the G-8 statement on concluding Doha in 2010, Plan B consists of shifting attention to bilateral agreements. After signing such a pact with Panama in August, Canadian Prime Minister Stephen Harper said: "We've all recognised for some time that the future of the Doha Round is uncertain. That

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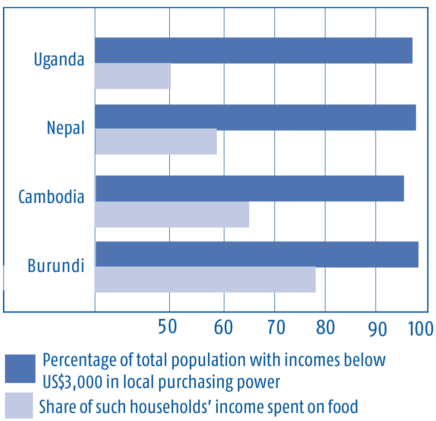
Facts and Figures

- The food import bill of least-developed countries soared from US$6.9 billion in 2000 to US$23 in 2008, and the number of LDCs where commercial food imports account for more than 20 percent of total merchandise imports is growing.
- Considering LDC agriculture as a whole, import-dependent countries have the highest rates of undernourishment.

Food expenditure shares of low-income households in selected LDCs



Source: The Least-developed Countries Report 2009. UNCTAD, July 2009

Bananas, Economic Partnership Agreements and the WTO

Giovanni Anania

The conclusion of the Doha Round or an agreement to end the banana dispute at the WTO would significantly reduce the preferential margins that African, Caribbean and Pacific banana exporters enjoy under their Economic Partnership Agreements with the European Union.

On 1 January 2008, the EU implemented the Economic Partnership Agreements (EPAs) it had negotiated with many African, Caribbean and Pacific (ACP) countries. All agricultural exports from ACP countries that had successfully concluded the negotiations – most on an interim basis – are now allowed duty- and quota-free access to the EU. Bananas, along with sugar and rice, are widely recognised as the three agricultural commodities that would bring the greatest export benefits to ACP countries under the EPAs (for sugar and rice, however, the agreements call for a progressive removal of EU market protection by 2010).

In July 2008, eleven Latin American countries, the US and the EU appeared to have reached a provisional agreement to bring to an end the long-standing banana dispute at the WTO. However, the failure of the Geneva mini-ministerial to conclude a Doha Round 'modalities' deal left the issue unresolved (Bridges Year 12 No.4 page 6). Since then, the EU and banana producers that export under the EU's €176 per tonne most-favoured-nation (MFN) tariff have continued to negotiate in order to try to find a solution to the dispute.

Market Access Simulations

Recent research commissioned by ICTSD assessed the expected benefits for ACP banana exporters from the elimination, as a result of the EPAs, of the EU preferential import quota for ACP banana exports in place until the end of 2007. The study also examined how these benefits would be affected due to the erosion of preferential margins deriving from the conclusion of current WTO negotiations.

Six different policy scenarios were modelled. All simulations were generated with respect to 2016 and include the implementation of the EPAs. Differences in the scenarios relate to assumptions made with regard to the conclusion of multilateral and 'bilateral' (EU, on one hand, and MFN banana exporters and the US, on the other) WTO negotiations and the consequent reductions in banana tariffs. The table below shows some of the key findings.

Selected simulation results for banana trade in 2016

	Base 2016 w/out EPAs	EPAs			
		No Doha Round Agreement		Doha Round Agreement	
		No EU-MFN Deal[1]	July 2008 EU-MFN Deal[2]	July 2008 EU-MFN Deal[3]	Trop. product tariff reduction[4]
Imports (1,000 tonnes)					
EU-27	4850,8	4893,2	5165,7	5126,3	5471,7
– from ACP countries	775,0	1784,1	1541,5	1576,6	1269,0
– from MFN countries	4075,8	3109,1	3624,2	3549,7	4202,7
US	4412,0	4475,0	4433,1	4388,4	4334,2
Rest of the world	4496,6	4620,2	4538,0	5170,7	5080,8
Exports (1,000 tonnes)					
Total ACP	967,1	1784,1	1541,5	1576,6	1269,0
Total MFN	12792,3	12204,3	12595,3	13108,9	13617,7
LDCs	0	0	0	0	0
Export revenue (US$1 million)					
– ACP countries	382,7	1213,0	918,4	958,4	636,0
– MFN countries	4703,3	4321,4	4573,6	4915,0	5266,0

[1] MFN tariffs would remain at their present levels: €176/tonne for the EU; 0.5 percent for the US, and 18.9 percent for the rest of the world. ACP countries would have duty- and quota-free access to the EU.
[2] If the tentative agreement of July 2008 is implemented without an overall Doha accord, the EU's MFN tariff would drop to €114/tonne, while other countries' tariffs would remain at their present levels.
[3] If the July 2008 agreement is implemented as part of an overall Doha deal, the EU's MFN tariff would come down to €114/tonne. Other countries would eliminate import duties below 20 percent and reduce those above 20 percent by 80 percent, as envisaged in the draft text on the liberalisation of tropical products.
[4] This scenario assumes that the July 2008 agreement is rejected by WTO Members. The EU, and others with tariffs exceeding 20 percent, would apply an 80-percent cut to their MFN duties.

Two scenarios were based on the hypothesis that no Doha Round agreement would be reached. The first of these also assumed that bilateral negotiations on the current WTO dispute would fail to achieve a mutually acceptable solution. This scenario thus simulates the impact of the implementation of the EPAs only (see the column on 'No EU-MFN deal' in the table below)

In contrast, the second projection assumed that the EU, MFN countries and the US would agree to implement the tentative agreement reached in July 2008, i.e. by 2016, the EU would replace its current applied €176/t MFN tariff by a €114/t import duty. Since there would be no Doha agreement, tariffs imposed by other net-importing countries would remain unchanged (see the first of the two columns on 'EU-MFN deal' in the table below).

The other projections were predicated on a Doha Round agreement and the completion of the implementation period by 2016.

One of the scenarios (second to last column in the table) assumed that the final deal on agriculture would include the tentative agreement reached by the EU and the MFN countries in July 2008. Bananas would be included in the list of 'tropical products'. Based on the convergence that seems to have emerged during the July 2008 meeting in Geneva, the simulation assumed (with the exception of the tariff imposed by the EU) that WTO Members would eliminate tariffs below 20 percent and reduce all those above 20 percent by 80 percent.

The last column in the table presents the implications of no separate agreement between the EU and MFN exporters. All bananas would be considered tropical 'tropical products', and the EU would have to cut the €176/tonne MFN tariff it introduced in 2006 by 80 percent, which would mean a post-Doha tariff of €35.2 per tonne.

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Two other, much less likely, possibilities were also modelled in the study (these are not included in the table on page 9).

The first would be a total liberalisation of banana trade by 2016, which would present the worst outcome for ACP countries and the best for MFN exporters. The other assumed no separate agreement on bananas. The EU would cut its scheduled €680/t MFN duty by 80 percent, resulting in a 2016 tariff of €136/tonne. Using the applied MFN tariff (€176/t) as a baseline would reduce the import duty to €35.2/t. These alternatives probably represent the boundaries for any decision on the EU MFN banana tariff in a Doha agreement.

Minor Effects on EU, but Major on ACP and MFN Exporters

Due to its current domestic policies, banana production within the EU is largely independent of changes in trade policies. However, producers' incomes will be affected by policy changes through the effect they could have on domestic prices.

The Economic Partnership Agreements are likely to have only a minor impact on the internal EU market, but a very significant one on ACP and MFN exports of bananas to the EU. As a result of the EPAs, ACP exports in 2016 are forecast to increase by 84 percent (from 970,000 tonnes to 1,800,000 tonnes) at the expense of MFN exports, which are expected to drop by 5 percent overall, but see a 24-percent decline in the EU. The EU's MFN tariff would have to be reduced to €60/tonne, everything else held constant, to leave MFN exports unchanged compared to level they would be likely to reach if the EPAs were not implemented.

Effects of the EU import regime for bananas extend to other markets as well. The more open to MFN imports the EU market becomes, the higher the price of bananas in other importing countries would climb, and thus the lower their imports. However, when import tariffs in importing countries other than the EU are reduced or set at zero as a result of the conclusion of the Doha Round and the implementation of its provisions on tropical products, then, everything else held constant, US imports are expected to decrease rather than increase. This is because the tariff the US imposes on its banana imports is much lower those of other major importers. For the US, the 'trade diversion' effect of tariff reductions in countries other than the EU prevails over 'trade creation'. MFN exports to the US (the second largest banana importer) decrease, while those directed to other net-importers, which currently impose larger tariffs, expand significantly.

If the July 2008 tentative agreement between the EU, MFN countries and the US were to be implemented, it would affect both the EU's imports of bananas and its domestic price. ACP banana exports would remain well above pre-EPA levels, while MFN exports (although they would increase by almost 400,000 tonnes) would remain below pre-EPA levels.

If the Doha Round is concluded and includes the tentative July 2008 agreement on bananas, it would not affect the EU market much with respect to the scenario in which only this agreement is implemented. Both MFN and ACP exporters would benefit from the liberalisation of banana trade in countries other than the EU.

MFN vs ACP Interests

For MFN exporters the issue is trade liberalisation: the more liberalised banana trade becomes, the higher will be export prices, exports and export revenue. The conclusion of the Doha Round is more beneficial to them than the July 2008 agreement with the EU, as long as the multilateral agreement includes the provisional July 2008 deal, or the provisions for tropical products are those on which consensus seems to have emerged in July 2008 in Geneva.

The most favourable scenario for ACP countries would be to retain quota- and duty-free access to the EU market without the conclusion of the Doha Round or the implementation of the tentative July 2008 agreement. Should the latter alternative occur, it would imply the erosion of one-third of the benefits resulting from the preferences granted by the EU within the EPA context. If the EU MFN tariff were to be reduced, it would be better for ACP countries if it takes place within the Doha Round framework since that would bring an increase in market access in non-EU countries and a partial diversion of MFN exports towards such markets, increasing ACP competitiveness in the EU market, as well as the EU import price.

MFN and ACP banana exporters thus share at least one common interest: if a WTO agreement is to be reached, this should be the conclusion of the Doha Round rather than a deal between MFN countries and the EU alone, along the lines of the tentative July 2008 accord.

The modelling exercise suggests that by 2016 least-developed countries (LDCs) will not be able to compete with MFN and ACP countries in the EU banana market. Moreover, this would be the case regardless of the trade policy regimes in place, i.e. even without the implementation of the EPAs. Nevertheless, the conclusion of the EPAs implies an erosion of the preferences granted to LDCs under the EU's Everything but Arms initiative. With regard to the possible outcomes of the Doha Round negotiations, the more open the EU becomes to MFN banana exports, the harder it will be for LDCs to compete in this profitable market.

Finally, while the results presented appear robust enough to withstand changes in a number of the assumptions made in the modelling exercise, they are relatively sensitive to the hypotheses regarding expected changes in yields. Because ACP exporters are, generally speaking, less efficient in producing and marketing bananas than their MFN rivals, this finding suggests that aid targeted at improving efficiency in banana production in ACP and LDC countries may be as beneficial as granting them preferential market access, and that the negative effects of preference erosion can be offset by providing financial and in-kind resources needed to improve the logistic infrastructure and technical efficiency of their banana industry. This result is consistent with ACP countries' request for additional technical and financial aid from the EU aimed at improving the market competitiveness of their bananas as a condition for their acceptance of the tentative July 2008 agreement.

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