

Comments on Falconer “Challenge” Papers

A Report to

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June 18, 2007

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A Report to Chairs of the House and Senate Trade and Agriculture Committees

The continuing impasse in the WTO negotiations is not being addressed through crisis management. Rather it is being driven by misplaced alarmism and crisis creation. Recent newspaper reports indicate the WTO is once again in a “make it or break it” situation. U.K. Prime Minister Tony Blair is a frequent spokesperson for the “Chicken Little” School of trade liberalization. His most recent prediction is a deal by the end of June. Google Mr. Blair and WTO and see how many times he has claimed that the negotiations are at a “make-it-or-break-it” stage. This warning has been repeated so often by Mr. Blair and his counterparts that it elicits little more than bored yawns.

There have been dozens of similar alarm bells rung in recent years. I am not sure if this can be characterized as crying wolf or crying sheep. Former WTO official Simon Lester provided the following sampling on his blog:

- From The Guardian in January 2001: “Make-or-break move for trade pact.” (“Pascal Lamy, the E.U.’s trade commissioner, said: ‘The multilateral trading system has a future but it is a future which will be decided this year.’”)
- The Age in June 2004: “Trade meeting could make or break.” (“Australia will join four of the world’s most important trading nations this weekend in a meeting that could make or break the current round of trade talks.”)
- Taipei Times in December 2005: “Hong Kong talks are make-or-break for both WTO and Lamy.” (“Global trade talks opening in Hong Kong next week will seriously test the credibility of the WTO and Pascal Lamy, its director-general.”)
- BusinessWorld in June 2006: “Trade body in make or break aggie deal.” (“It’s another make or break weekend as the World Trade Organization (WTO) firms up discussions in Geneva on tariffs for the controversial agriculture sector.”)

It is astounding that negotiations on agriculture are still on the runway after seven years of posturing and stork dances. The negotiators are still talking about approaches and the shape of the table on key issues. Chairman of the WTO Agriculture Negotiating Group, New Zealand

Ambassador Crawford Falconer recently issued two papers in an attempt to try to focus and catalyze WTO negotiations on agriculture. Probably no one was as frustrated as Ambassador Falconer with the misguided, engineered suspension of the negotiations.

What kind of a deal is possible by late June as P.M. Blair suggests or before the end of July if the intensive consultations generate enough political agreement about what to talk about and how to talk about it. Even optimistically there will be six months or more of very tough, detailed negotiations and many more make it or break it crises will emerge as the real implications of the cookie cutter approaches sink in.

The suspension of negotiations was a misguided and overly dramatic initiative. We support any move or initiative to try to revive the negotiations. The analyses and comments in this report are directed at Parliamentarians, trade negotiators and policymakers. We need to try to sharpen the focus of Canadian participation to ensure it serves the interests of Canadian ranchers and farmers.

Ambassador Falconer's challenge papers are not a negotiating text. Rather, he urges participants towards what he considers to be middle ground. Negotiators are narrowing differences. A new modalities text to replace the Chairman's June 2006 effort is expected soon.

The high drama of suspension did not generate the desired political will. The Chairman's 2006 modalities paper was left in limbo for 8 months.

Our general impression, and the judgement of many observers around the world, is that any modalities likely to emerge from Falconer's challenges will be underwhelming, supporting at best a lowest common denominator approach. For Canada, it will be worse; indeed, the net results will be negative. There will be serious costs to Canada – and few gains in export access. Canada will be a net-net loser in this exercise.

If Falconer's new modalities follow his challenges and ensuing debate have limited life expectancy, they cater to the big players and the new "managers" of the process. But it is a

different game – which risks coming up empty. The G-4, the new WTO steering group, considers that its discussions on the challenges have been “productive” but not in any measurable way. This is only the most recent in a series of diplo-speak euphemisms to mask the longest running serial failure in the global trading system. The progress is elusive – and even if it does emerge, it will likely be difficult to sell on a broad basis. “Take it or leave it” is not a solution.

The G-4 Ministers talk of “phantom numbers” which they cannot agree upon and feel they should be able to conclude negotiations by the end of 2007. Now we are led to believe that a lower equilibrium deal will emerge from Potsdam. This is new speak for a seriously watered down salvage job. These projections are the latest positioning for the very mobile “window of opportunity” which WTO DG Pascal Lamy unveiled last year. Even Mr. Lamy’s enthusiasm and ambition seem to be more tempered.

On most issues, Ambassador Falconer outlines the parameters of the issue and then points to where he feels that a solution will have to be found, if there is to be a solution. Because the challenge papers were not a negotiating text, they stop short of proposing any concrete solutions or results. This will come soon.

While we welcome the Chairman’s initiative as a much needed effort to create momentum, it has been criticized as unbalanced by all sides. In our view, it will not deliver net benefits to Canadian farmers and ranchers; it treats Canadian interests in an unfavourable way. Indeed, Canadian Agriculture negotiator Steve Verheul has referred to the papers as imbalanced. The G-20 shares this view.

The most serious imbalance for many countries is Falconer’s apparent readiness to accept U.S. positions or to go further towards accommodating the U.S. position than others. Sensitivity to the U.S. and to Congressional concerns has been in the WTO “Realpolitik”. Without the U.S. (or E.U.) there is no deal for agriculture or any other part of the negotiations.

However, the new reality of the WTO is that developing countries, singly or in groups, are now empowered, and know how to exercise this empowerment to achieve their objectives. Without

agreement from Botswana, or Vietnam or Belize, there cannot be a deal. But Falconer's approach does little for developing countries. They will not buy his view that special safeguards are to be used exceptionally.

Ambassador Falconer has taken account of the special needs of some but by no means all participants – like Japan and the Nordic countries. Japan and Korea have concerns about rice, beef and pork which will be accommodated. We understand that the E.U. will not cut its beef tariffs by more than 24%. There is no indication that the abuses and manipulations in Tariff Rate Quota administration will be addressed. All of these “carve outs” will continue to impede Canada's exports. There have been no special concessions for Canada.

Chairman Falconer is closer to U.S. thinking on several key issues than to others. Indeed, Falconer's papers appease both the E.U. and the U.S. in one way or another. But the political reality is that a deal won't get done without the U.S. or the E.U. One of the most serious problems, in our view, is that U.S. demands for a “Peace Clause” are still in play.

The WTO is not self-policing. And attempts to enforce even the minimal concessions made will be frustrated by the Peace Clause.

Falconer is not being very tough on the U.S. on trade distorting domestic support. His view of middle ground is below \$19 billion and above the very low teens. If the entitlement is \$17-\$19 billion, this will be a very significant increase over the \$10 billion the U.S. expended in 1995. While the coverage is different today, much of the cut in U.S. trade distorting support will be “water”.

Where do the negotiations go when G-20 and new French President Nicolas Sarkozy demand even deeper cuts in U.S. subsidies? The real problems have not changed.

We have not been able to detect what Falconer's challenges do for Canada. We have detected very little which is positive. North American farmers and ranchers will be sold short on beef,

pork, grains and oilseeds access. U.S. Commodity crop producers consider that Falconer's views are not a step forward.

Neither Canadian nor U.S. ranchers and farmers will secure significant additional markets for access to beef and pork markets. The E.U. is determined to protect these markets and their administrative practices. Existing E.U. TRQ Administration is a major deterrent for Canada's beef and pork exports. There is no suggestion that Falconer's new modalities paper will address these systemic problems.

While Falconer tries to accommodate E.U. demands for limits on the activities of State Trading Enterprises (STE), he stops short of re-defining STEs to make it clear that New Zealand dairy mega co-op Fonterra will be subject to these disciplines. Can the E.U., which is determined to address the perceived distorting effects of state trading enterprises, accept a "pass" for Fonterra? Not likely.

Falconer has not been deterred by the nearly universal objections to his middle ground proposals. He seems to be guided by the oft-cited view of first GATT Executive Secretary Sir Eric Wyndham White that the best type of agreement is the one which is mutually unsatisfactory.

The organization which Wyndham White oversaw, known as the General Agreement on Tariffs and Trade (GATT), was much different than the WTO – it had fewer members, few developing countries, less diverse interests and agriculture, by broad agreement, was not fully integrated. And in reality until the Kennedy Round, which ended in 1968, the GATT negotiations were a series of bilaterals, the results of which were multilateralized by application of the Most-Favoured Nation Principle.

Today's WTO has 150 members with very diverse and divergent interests. The consensus rule means one of them can withhold consent and block agreement. The standard is no longer "mutually unsatisfactory" – and one cannot hope to sell a deal which is universally unsatisfactory.

WHO WINS UNDER FALCONER MODALITIES? NOT CANADA

WTO Director General Pascal Lamy argues that Doha's goals on agriculture are more ambitious than the Uruguay Round. This offers little comfort to countries who were net losers in the Uruguay Round. The G-33 has many members in this situation. They want to ensure that history does not repeat itself. Their reaction to Falconer is that he sides with the rich against the poor.

Canadian farmers and ranchers will have little to look forward to in what is likely to emerge from the G-4 summit and Falconer's revised modalities; in fact, even at a time when the G-20 proposal was a basis for discussion we did not even register among major potential beneficiaries.

Which countries will benefit? The E.U. prepared an analysis which suggests:

- According to Carnegie and CEPII's studies, only a handful of big agro-food exporters would benefit from an increased agricultural market access, namely: Australia and New Zealand, Brazil, Argentina, Chile, Thailand and South-Africa.
- More than half the countries or regions in the developing world would be net losers in terms of their overall income if agriculture were the only sector to be liberalized.

In most developing countries, the agricultural sector is mostly made up of subsistence farmers without a major interest, or much ability to export to foreign markets. By contrast, only very organised and efficient exporters can fully exploit access to developed countries' markets.

- By contrast, in Carnegie and CEPII's studies, developing countries as a group gain substantially from the liberalisation of manufactured goods and individually this is the case for the vast majority of developing countries.
- However, in both studies, when agricultural market access is combined with NAMA, some countries would still lose in the aggregate. This is the case for Northern and Sub-Saharan Africa in CEPII's study, for Bangladesh, East and Sub-Saharan Africa in Carnegie's study.¹

¹ Comparison of Carnegie, World Bank and Centre d'Etudes Prospectives et d'Informations Internationales' (CEPII) studies regarding the potential DDA impact on poor developing countries, Brussels, June 1, 2006

The E.U. analysis also pointed out:

“The World Bank’s study is at the other extreme of the range regarding the underlying assumptions in terms of adjustment of production factor markets. In particular, two major assumptions artificially inflate the economic impact of increased agricultural market access compared, for instance, to NAMA:

1. perfect mobility of production factors across sectors combined with full flexibility in their prices;
2. higher trade elasticities for agricultural sectors.”²

They went on to explain that:

“When relaxing the assumption of perfect mobility of land, the DCs’ global gains from full liberalization are divided by 5, from \$10.6Bn to \$2Bn. As economic gains linked to NAMA are not much affected by this assumption, this implies that most of the DCs agricultural gains are dependent on the assumption of ability to grow every kind of crop on every kind of soil.”³

It should be clear too that the E.U. will benefit from an early deal. Brussels launched a major reform of the CAP in 2003. This reform was undertaken by the E.U. for urgent budgetary and enlargement reasons. The E.U. had to fix the CAP but the changes due to this Reform will be a large part of its payment in the Doha Round. As IATP (Institute for Agricultural Trade Policy) points out,⁴ the longer the negotiations drag on, the less this chip will bring to the E.U.

The alleged attractiveness of the Round for developing countries has been sold extensively on this type of flawed analysis which is based on assumptions which do not stand up to real world scrutiny.

Consumer benefits are illusory. The assumptions suggest that there is perfect transmission from reduced farm incomes to the grocery store shelf. At least for Canada, the consumer benefits appear more or less to offset the losses to farmers. And the consumer gains are based on flawed methodology. Lower cost imports and domestic products are not reflected in retail prices. Until very recently, grains and oilseed prices were severely depressed. Did consumer prices for bread

² Comparison of Carnegie, World Bank and CEPII’s studies regarding the potential DDA impact on poor developing countries, Brussels, June 1, 2006

³ Comparison of Carnegie, World Bank and CEPII’s studies regarding the potential DDA impact on poor developing countries, Brussels, June 1, 2006

⁴ Still no Confronting the Real Challenges, May 31, 2007, Sophia Murphy, IATP

decline? For beer? For spirits? Just how much of an agricultural commodity is reflected in the product cost on the grocery store shelf?

There are other reasons why consumer benefits should not drive agricultural trade policy. Carl Zulauf, an agricultural economist from Ohio State University told the U.S. House Committee on Agriculture that the share of consumer expenditures represented by farm products has declined from 11% in 1947-48 to less than 2% today. This is insignificant.

MARKET ACCESS

Some of Canada's principal concerns in export-oriented livestock /meat sectors will require modification of TRQ administration. For example E.U. access for pork represents about 0.2% of consumption. What do the formula increases mean here?

Tariff reductions and other market access concessions are multilateralized. They are available to all. Some gains, for beef and pork, have been lost to preferential access in FTAs.

There is no guarantee that Canada with its strong dollar and high costs will benefit from this liberalization. If Canadian legislatures want to understand costs and benefits to Canada, negotiators must be able to provide solid estimates of potential gains which take account of more than concessions by others. You must also know which countries are most likely to benefit.

Your committees need to know how access to markets will change after a Doha deal for specific commodities of export interest to Canada. For too long, Canadian positions have been based on an unquestioning blind faith in the trickle down benefits of multilateral trade liberalization. In this modern WTO world such blind faith is not only misplaced, it is dangerous.

There is no guarantee that Canada will benefit. Indeed, it seems to us that Canada's attachment to the process is based on an act of faith that trade liberalization benefits all.

Canada can no longer afford to base its trade policy on a “Field of Dreams” approach. The “Shoeless Joes” in the Doha tragedy are likely to be tens of thousands of Canadian farmers, ranchers and their families. The United States has a more competitive currency. Modifications to U.S. domestic support systems will likely insulate U.S. farmers from risk much better than Canada can or will.

The potential market access package appears to be significant but falls short of what Canada needs for their export-oriented sectors. Canadian pork exporters have been hamstrung (no pun intended) by manipulation of TRQs in major potential markets. Concerns about the E.U. system are greater because of the loss of exports to Romania when that formerly good market became part of the enlarged E.U. where access is severely restricted.

It is difficult to be optimistic about securing increased access for Canadian beef to the E.U., Japan and Korea. For political reasons, the real access blocking problems are unlikely to be addressed in those markets.

In addition, the potential for access to Korea and Japan is also limited by preferential access for beef and pork under their bilateral agreements. Canada is still too slow to lock up preferential deals. Recently concluded long overdue agreements are encouraging, but much more intensive priority activity is required.

Without a reasonable outcome to the Doha Round, will these much needed market gains be attainable? Failure or a niggardly result will require an urgent re-focus on Canada’s network expanding of bilaterals and preferential market access agreements.

Falconer does little to address the problems of tariff escalation which prevent upgrading in the country of production. Canada urgently needs a solution on tariff escalation. This is critical to Canada, particularly to the grains and oilseeds sector. Canada has proposed solutions on tariff escalation, which appear to be being falling on deaf ears.

EXPORT SUBSIDIES

The elimination of export subsidies by 2013 has not changed notwithstanding that commitment was made when an agreement was to be reached by the end of 2005. Falconer suggests that 50% of export subsidies by value be eliminated by the end of 2011 with the remainder gone by 2013. However, he states that by volume negotiators are far apart. And this was a goal set in 2005. How can it be delivered in a deal done in 2008?

While the E.U. is prepared to address export subsidies and open its markets, CAP reform lowers domestic prices to reduce the gap with world prices. The SFP safeguards farm incomes. It also makes even reduced E.U. tariffs more effective. In return, the E.U. seeks parallelism for its concession, thus pulling other wealthy countries into the tent to share the pain. Namely, the U.S. for its food aid and export credits.

Falconer tends to discount U.S. resistance to disciplines on export credits. Such disciplines would be beneficial to Canadian exporters if the middle ground which Falconer suggests should include a maximum 180 day re-payment period and that the export credit should be self-financing, i.e. there should be no government subsidy attached to the credit or credit guarantee. Falconer's suggestion that this discipline the credit disciplines should apply to STEs needs more work as there is a possible conflict with the proposed ban on underwriting STE losses.

Falconer appears to be trying to deal with food aid and export credits in a way which will meet U.S. concerns. This does not help Canada in food aid and envisaging more flexible disciplines on export credits provided to developing countries will seriously dilute potential benefits to Canadian exporters. On these important issues to Canada, Falconer's approach is not helpful.

Falconer interprets the Hong Kong text on STEs as meaning that monopoly powers would be disciplined but he also suggests that the negotiations will go further by eliminating the monopoly powers of exporting state trading enterprises by 2013. The E.U. proposed changing STE definition to ensure that New Zealand's mega dairy co-op Fonterra is captured.

However, Falconer resists changing existing WTO definition of STEs without proposing any solution regarding disciplines for government financing and underwriting of losses or monopoly powers.

Falconer asks whether a possible prohibition on monopoly powers would apply to all STEs or should it be “entity-based”. The latter would involve negotiating disciplines for each STE, i.e., Fonterra, CWB, AWB and Zespri. There has been no appetite for this type of micro discussion among negotiators.

The June 2006 draft modalities included in a list “government financing” and “underwriting of losses” which Falconer argues should be considered indicative rather than exhaustive. We believe a better solution for Canada would be an exhaustive list to provide certainty about what is prohibited. Imprecision, and wiggle room seriously reduced the benefits of the Uruguay Round. It also encourages dispute settlement which creates new obligations. This round should not compound the error.

SENSITIVE PRODUCTS

If Falconer’s perceptions on sensitive products find their way into the modalities paper, it could cause serious costs to affected Canadian dairy and poultry producer sectors. These groups are much better equipped to discuss specifics with you but it would appear that effective supply management systems would not be possible based on Falconer’s approach to sensitive products.

The most discouraging thing about the emerging modalities paper is the absence of gains for Canada’s export-oriented sectors. A deal which is bad for Canada’s supply managed sectors does not automatically translate into gains for other Canadian farmers or ranchers. Japan has similar concerns and Falconer attempts to wrap Norway in special provisions. Why is Canada left empty-handed?

It is unfortunate that some seem to delight in the miseries of others even though they do not gain from the concessions. Until Canadian farmers learn to work together, they will be divided, conquered and collect little more than crumbs from the multilateral system.

SPECIAL PRODUCTS

There has been much discussion about special products for developing countries – Falconer’s hope that this will not become a make it or break it issue for the negotiations. This type of thinking is at least a decade out of date and more than anything else could doom the talks to continuing impasse and failure.

This issue has captured the attention of the G-33⁵ who represent small, vulnerable and resource poor farmers of the developing countries. The group demands the inclusion of special products and special safeguard measure in any modalities text to effectively address their food and livelihood security as well as their rural development needs.

G-33 demands are not frivolous and cannot be dismissed as secondary or peripheral. A consensus negotiation cannot simply wish inconvenient positions away. G-33 demands on development, food security, livelihood security and rural development are real and they are important. Nor is India going to condemn its millions of small subsistence farmers to deeper distribution. Falconer gives very short shift to special safeguards at a time when many developing countries wish to use them more.

It is not possible simply to ignore developing country demands because they are not as easily quantifiable as the principal issues or because these countries are not in G-4. The quest for “one size fits all” arithmetic straight jackets simply does not work in a negotiation with so many players with such diverse interests. No, we do not have another solution but formula-based modalities do not fit the new WTO.

⁵ Antigua and Barbuda, Barbados, Bolivia, Belize, Benin, Botswana, China, Cote d’Ivoire, Congo, Cuba, Dominica, Dominican Republic, El Salvador, Grenada, Guatemala, Guyana, Haiti, Honduras, India, Indonesia, Jamaica, Kenya, Korea, Madagascar, Mauritius, Mongolia, Mozambique, Nicaragua, Nigeria, Pakistan, Panama, The Philippines, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Senegal, Sri Lanka, Suriname, Tanzania, Trinidad and Tobago, Turkey, Uganda, Venezuela, Zambia, and Zimbabwe

The G-33 links the need for special and differential treatment to the important role of agriculture in its member economies and the clear development goals of the Round which are being forgotten. The negotiators still seem to be far apart on special safeguards and the extent to which developing countries would need to agree to open their own markets.

And the U.S. is not pleased with the results. Special and differentiated treatment means little in the U.S. Congress. Foreigners do not vote – and all politics is local. While Falconer is trying to simplify demands on developing countries, the results fall short of what the U.S. wants. Nor is it likely that the middle ground would address the interests of Canadian grains and oilseeds exporters.

DOMESTIC SUPPORT

The unwillingness of the U.S. to go further on domestic support reductions for many countries has been the key stumbling block. Canada has already moved faster than most in this area. Imbalances in domestic support are also very important within NAFTA.

The U.S. considers that there is too much focus on an issue they claim is not trade distorting. Nor do they agree with the base periods selected as middle ground. We do not believe that including Brazil and India in the G-4 search for a solution will catalyze a common position on domestic support because they too are concerned about the trade-distorting effect of U.S. subsidies. They too must provide support to relieve their farmers from low prices. India has special concerns about not exacerbating the problems of their millions of subsistence farmers by exposing them to subsidized imports.

The “challenges” posed by Ambassador Falconer on domestic support do not appear to hold much promise. But look at the numbers. As noted above, in 1995 U.S. spending under AMS was \$10 billion. How low can their entitlement go without much more significant market access concessions than others are prepared to make? A limit to \$17 billion plus box-shuffling seems to be the best that can be done.

We have not analyzed the impacts of changes in domestic suppliers in a quantitative way because, for example the shift from trade distorting to allegedly decoupled support will not reduce overproduction. It will permit prices to fall particularly in the E.U., reducing the need for export support and making remaining tariffs more meaningful. This, in effect, negates potential market access gains.

Our concerns about Falconer's initiative are compounded by elements introduced into Congressional discussions of the 2007 Farm Bill. "Reforms" to the U.S. Farm Bill currently being discussed in Congress will continue to permit over production while finding new ways to manage and eliminate risk. The USDA has proposed a revenue-based Counter-Cyclical Payments (CCPs). These "reforms" will continue to insulate U.S. farmers from market risks to a much greater extent than Canadians.

Another dangerous threat to completion of negotiations on domestic support is the U.S. demand for a new "Peace Clause". The Uruguay Round Peace Clause contributed to abuses which catalyzed a widespread farm income crisis. Few countries will want to provide this carte blanche again.

The G-20 has issued several critiques of the challenge papers.⁶ A very basic and logical G-20 concern is that "middle ground" does not necessarily mean balance. They are also concerned that considers that on domestic support the paper does not reflect the initial Doha mandate. G-20 wants a U.S. cut in the "low teens". G-20 concerns about OTDS, AMS and Blue Box are not met.

Others too have criticized imbalances in the Domestic Support reduction plan. While China supports the initiative on some issues it has many grave concerns regarding the balance between cuts in domestic support and increase in market access. In our view, Falconer's challenges underline that negotiations have not progressed very much if at all since they were suspended

⁶ G-20, Declaration to the Special Session of the Committee on Agriculture, May 7, 2007, and G-20 Reaction on the Chairs Challenge Paper – Domestic Support, May 21, 2007

last year.⁷ How these challenges and middle grounds identified by Falconer and the reactions to them will be translated into an agreement on modalities is far from clear.

There are basic flaws in the Falconer approach which condemned it to failure from the outset. For example, not all members accept the underlying assumption that the negotiations must be finished by December 2007.

Some members will not be prepared to make the further concessions Falconer is demanding of all. China is only one example. Compromising for some is over. We have no reason to believe that the E.U. and U.S. do not have clear limits on what they can do to move towards middle ground. Falconer recognizes it may not be easy for the U.S. or the E.U. to move towards middle ground.

It is not at all clear that the U.S. and E.U. will be able to reach the proposed middle ground. French President Nicolas Sarkozy told President Bush at the G-8 meeting he needs more cuts in U.S. domestic support.

The U.S. considers that Falconer pays too much attention to subsidy reduction and too little to market access. Canadian livestock, grains and oilseeds producers face similar problems on market access. Indeed, given Canada's lacklustre performance on securing preferential access through FTAs, our already unsatisfactory access in markets like Korea and Japan continues to erode

The impasse on reductions in U.S. domestic support is not the only serious problem facing the negotiations. There is no evidence that the existing roadblocks are ready to disappear. Nor are there obvious acceptable compromises. And it sells developing countries' interests short.

⁷ Letter from Minister of Commerce and Agriculture of the People's Republic of China to Ambassador Noor Yacob, Pascal Lamy and Crawford Falconer, May 18, 2007

Developing countries want to structure their concessions to reflect:

- concern that they cannot compete with dumped and subsidized products from the USA and the E.U.
- the limited scope for their small and subsistence farmers to benefit.

While the U.S. positions on “special” products and special safeguards are less onerous than their demands on “sensitive” products market access demands appear to be unacceptable. The U.S. wants developing countries to make tariff reductions from “applied” rates, not bound rates, expand their TRQs and remove in-quota tariffs according to the demands of the U.S.⁸

Cutting from applied rates is a novel and over-reaching approach. It is in effect seeking a double concession from developing countries. That a country may apply lower rates than it is contractually entitled to does not mean that such temporary and voluntary reductions are worthless. The applied rates were a gift – they were not paid for. Beneficiaries have no right to expect them to continue without compensation.

The G-33 claims Falconer sides with the rich against the poor. The Developing countries lost in the Uruguay Round. The existing imbalance will be exacerbated if Falconer’s challenges do not result in a more balanced revised modalities paper.

CONCLUSIONS

There will be little in any saleable potential package to benefit Canadian farmers and ranchers. Canada needs to engage as a matter of the highest priority in preventing erosion of market access through negotiation of preferential arrangements with countries which have Canada outside looking in!

To expect disinterested enlightenment from the G-4 steering group is excessively optimistic. Much more likely is trading off each others’ interests – effectively a take-it-or-leave-it deal.

⁸ United States Communication on Special Products, JOB(06)/137, WTO Committee on Agriculture Special Session, May 3, 2006.

Such an unbalanced deal will be rejected by developing countries fed up to the teeth with their real needs being ignored.

The Agriculture negotiation is not the only stumbling block – there are deep differences on Non-Agricultural Market Access, Safeguards and Rules (including an attempt by the U.S. to re-legitimize zeroing). Any one of these could cause the negotiations to crash and burn.

The WTO is much different now than it was in 1994. If the deal is a bad one - and this “blinkered” approach would produce another one – developing country empowerment will kill it. This, and not individual positions of the USA or E.U. or other players, will be a deciding factor.

We saw at Doha that it takes only one country to block consensus on a bad deal. Where G-33 and G-90 interests have been ignored, the response to a take-it-or-leave-it deal could well be Hell no – we won't go.'

To think that Canada's positions will make or break the deal, given our attachment to the system and our blind faith in the benefits of multilateral liberalization, are a perplexing mix of self-flattery and self delusion.

Canada must abandon its blind faith approach to multilateral trade liberalization. It may have worked in the past, but in the new WTO is a prescription for disaster. In this 'Field of Dreams' approach, the 'Shoeless Joes' will be tens of thousands of Canadian farmers and ranchers.