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Presents

Delivering on Doha

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Nancy Birdsall: Ladies and gentlemen, I think we'll start if everyone would take his or her seat. I'm Nancy Birdsall. I'm the president of the Center for Global Development and I'm very pleased to share the hosting today with my colleague Fred Bergsten who's the director of the newly named Peterson Institute for International Economics. I'd also like to give a special welcome, we have a few guests today that I'm very pleased to have some, some may not yet be here, but Ambassador Carlos de Icaza Gonzalez of Mexico is here. And the Ambassador of Argentina, Jose Octavio Bordon, we're expecting and we just had, I just had the pleasure of seeing our colleague, Mack McLarty who's the former Special Ambassador of President Clinton. For Latin America to come in, Mack is kind of the uh, trade negotiator in the background par excellence whom I got to know when I was at the Inter-American Development Bank.

What I'm going to do is give introductions for the speakers. Then Fred Bergsten, after the Kim Elliott, after President Zedillo and Kim Elliott speak, Fred Bergsten will kick off and moderate a discussion and uh, amongst a kind of informal panel of those of us up here and then he'll manage questions from the audience. So I hope we'll have time for some questions from you. Before I give up the podium, I do want to congratulate Kim Elliott, this is her book launch. It, it's an important book. I think it's an important book coming at a critical moment. Uh, the patient that she talks about, the Doha Development Round, has been in critical condition now for at least two years and I think unless the doctors can agree on a new strategy, the patient risks a quiet and untoward death maybe before the summer.

I think it's good that we're in Washington discussing this issue for a couple of reasons. From the point of view of the Center for Global Development, there would be a very high cost to some developing countries, some of the smaller economies and the weaker ones from uh, the collapse of Doha Round. It's those economies that benefit most um, or lose most, or most exposed without the kind of protection that multilaterally agreed rules provide. It's good to be in Washington because you could say that um, the only doctor that might come up with a good strategy at this point seems to be the U.S. itself but the U.S. is, there are difficulties here as well.

One of them of course is that uh, if, if it's Susan Schwab as the doctor, she risks losing a lot of credibility if Congress succumbs to the worst on the upcoming farm bill and this is an issue that Kim's book very nicely addresses all the issues around uh, the upcoming farm bill. It's also true that most of you, if you're here, probably know that there will have to be renewal of President Bush's fast track authority, now called trade promotion authority, some time before June and uh, that looks even more complicated it seems as though the Democrats might be even less willing to do that than the Republicans might have been. So, there's another issue that uh, Kim suggested I mention because in a very short PowerPoint she won't be able to allude to it, it's important at the Center and interesting for us which is Aid for Trade and there is an interesting question about whether the recent movement and greater discussion about the idea of Aid for Trade might be able to rescue at least one in some respects along with other rescues this Doha Round but there are of course a lot of questions and particularly for us at the Center about whether Aid for Trade can be at least as effective or hopefully much more effective than traditional aid has been. Well let me um, go now to introductions.

I'm particularly delighted to have today with us President Ernesto Zedillo, the former President of Mexico. He's now the director for the Yale Center for the Study of Globalization and he's a professor at Yale, but most important, he was in my micro and

macro theory classes in graduate school in economics at Yale, so I've uh, seen it as one of my claims to fame all these years that I knew Ernesto when he was a young man, indeed, a lot younger man than I was at the time. As you all know, Ernesto after being uh, working at the Central Bank which is what all the finest economists from Latin America do at some point in government. He as Secretary of Budget and Economic Planning, he was Secretary of Education in Mexico so he served his country very well before he became President in 1994 and for development economists in the room, you know that it was his leadership in Mexico that uh, ensured Mexico's continued allegiance to opening its economy during his Presidency and indeed, to a set of structural reforms. I think at the time, he was best known for that. Indeed, his contribution as an economist to economic reform in Mexico.

I think his lasting legacy, however, will be his contribution to the furtherance of democratic institutions in Mexico. I don't know if he actually has created or simply ensured a sound Federal Election Commission and he was in the face, if I'm sure, considerable pressure inside his own party. The first President in many, many decades that supported a fully open and transparent election process which led to the election of Vicente Fox from the opposition party. So, I think of Ernesto Zedillo as the father of real democracy in Mexico and we're very fortunate to have him here. He's thought about trade a lot. He's very insistent on the need for all the countries in Latin America to stay the course on touch economic reforms and he is certainly a multilateralist.

Kimberly N. Elliott is a joint senior Fellow at the Center for Global Development and the Peterson Institute. She has worked for many years on a set of issues all of have, all of which have to do with the problems that are faced in international negotiations. She's worked on sanctions and co-authored or co-authoring, I think, a book about to come out on sanctions and uh, a very wonderful book actually with Richard Freeman on trade and uh, international labor standards and what can be done to have the right sort of inclusion of labor standards in trade agreements. So let me see if I have completed my agenda. I think so, so I'm pleased to now welcome Ernesto Zedillo to the podium.

Ernesto Zedillo: Thank you Nancy. Finally, I got Nancy to confess that she's older than me. She's good, took me 30 years. Uh, thank you Nancy and Fred for your invitation. I'm really pleased to be part of this program. But uh, let me start by making a serious clarification. The invitation you got from Fred and Nancy is wrong. I read the invitation last night and I discovered that uh, we had a very serious mistake. I'm not here to deliver a keynote speech as your invitation says. I'm here just to praise Kim for her excellent book.

I sincerely believe that Kim's book constitutes the most updated and comprehensive uh, study of what has proven to be the multilateral trading system's hardest bone to chew: agricultural liberalization. This book is very important because in it, the reader will find everything that she or he always wanted to know and was afraid to ask about the onerous global and particularly the rich countries and the cultural protectionism. And by doing this, Kim's book also illustrates why the Doha Round is failing. Therefore, I beg you to take my introductory comments as an appetizer. In fact, a necessary one before you enjoy an excellent main course, the presentation of Kim's book.

To set the stage, I want to begin by recalling how difficult it was to launch the Round. The odds on holding a successful ministerial gathering at Doha that could initiate another Round where very small even as late as the summer of 2001. It is very useful to remember Mike Moore, the Director General of the WTO drew the conclusion in his late July 2001, what we

call reality check. A large number of players are not yet convened. And this situation is without regard and without generosity, good manners and good will, the process could implode and become unmanageable. The WTOTC was right to be worried. Based on the purely mercantilist logic which had driven the previous Rounds, some of the key players seemed to think that they had little reason to support a new Round. Some fear that they would end up giving more concessions than the ones that you probably received from others.

Given the much larger and diverse country composition of the WTO as compared to the GATT's in previous Rounds, it should have been evident that the pure logic of mercantilist organizations could not be the driving force that would launch the new Round and make it to succeed. The challenge of keeping the World Trade Organization had become much less of a traditional mercantilist undertaking and more a task of providing a global public good with all the severity and free rider complications that such an endeavor it takes.

As we all know, it took the 9/11 tragedy to bring into the picture the ingredients demanded by Mike Moore in his midsummer reality check and more importantly, to make the United States assume its leading role for initiating the tradition of global public goods that traditionally had plagued the United States.

The atrocity and the guise not only the military but also unfortunately only briefly the sub-power of the United States because of the latter of issue different from the mercantilist one uh, prevailing until then came into play the push for the new Round. A rather Kantian vision proposing freer trade "as an antidote to conflict, violence, rejectionism, and terrorism" was put at the center of the Bush Administration's strategy to convene the U.S. Congress of the need to pass the trade promotion authority and to launch a new Round of trade liberalization. Robert Zoellick, the USTR, best put this vision forward in a series of articles and speeches that he started to deliver just a few days after 9/11.

The new sense of urgency gave rise to a strong acceleration of trade diplomacy that in less than two months could have been made not without the much wrangling with the adoption of the Doha Ministerial Declaration on November 14, 2001. The leadership, generosity, good manners and good will, that converged at Doha well enough to launch the new Round but not enough to prevent an overloaded agenda which in the rush to strike a deal at Doha and avoid another Seattle had to accommodate all kinds of requests from the member countries.

The Doha Round encompasses a hazardous paradox. It was launched mainly because the geopolitical factors and global public goods considerations came into play. However, since the very beginning both the Rounds' agenda and the negotiations dynamics have obeyed the logic of mercantilist liberalization. The problem with the Doha Round is that as a global public good endeavor, framed in a broader strategy of international cooperation, it had a powerful *raison d'être*. As an enterprise or for 150 countries in which each with no exception acts on a strictly mercantilist logic and holds veto power under a single undertaking framework, it has a very weak one.

The vision and logic that had prepared the Round's launching to help prevail during the negotiations to make it successful. Unfortunately, that vision and logic seemed to vanish as soon as the lights were turned off in the huge conference room where the Doha Closing Ceremony took place. Were this factor acknowledged, the story of missed deadlines and lack of substantive agreements that the Round has produced so far should not be surprising at all.

That story has almost been, to paraphrase Gabriel Garcia Marquez, a chronicle of a failure foretold. It is interesting to list some of the facts that helped put together that chronicle.

Remember, just a few months, three months after the launching of the Round in March of 2002, the United States imposed tariffs on its steel imports, certainly not a good signal for the start of the negotiations. Even worse, in April of 2002, the U.S. Congress passed the Farm Bill which not only increased subsidies for American farmers significantly but, as Kim explains in her book, it reversed some of the decoupling of farm subsidies enacted in the mid-1990s. Then, in October of 2002, after a meeting between President Chirac and Chancellor ****, the European Union locked for many years the common and the cultural project as part of an agreement to enlarge the European Union and again this became a very negative signal and certainly eroded the credibility of the European's commitment to Doha.

Then it is also important to remember that countries have committed to Doha to solve the TRIPS problem of access to essential medicines of countries with no capacity to produce them domestically. They had said that the end of 2002 as the deadline for having a consensus agreement on this issue. After hard negotiations and agreement was achieved by which the TRIPS Agreement would be modified to allow for using compulsory licensing for all of the domestic market. In the last moment, the United States vetoed this Agreement, by the way after previously accepting it. It took eight more months before the United States finally accepted that solution. Interestingly, an intervening agreement to the best of my knowledge is still being used for lack of agreement on how to modify the corresponding WTO legal text.

Again this eroded U.S. leadership in the Round. Then, the first line for having the moralities for agriculture March 31, 2003 was Nice. In June of 2003, the European Council adopted the Luxembourg Reform of the Common Agricultural Policy. It was announced as a great reform. It has some positive elements like some progress in the decoupling of subsidies but not as much as it was hyped. Committed decoupling actually referred to only one-fourth of subsidies granted to be honest, the CAP Reform was never what the Europeans claim it to be and it was actually very short of what was needed to comply with Doha.

The worse shock came in August of 2003, on August 13, just a month before the WTO Ministerial Conference in Cancun, Mexico – when a joint United States-EU new proposal on agriculture, offered as a means of breaking the deadlocks of the WTO Round was announced with great fanfare. In a nutshell, the Americans and the Europeans were very imprecise in defining their commitment to lowering import barriers and were overly precise in shielding massive subsidies to their own farmers for meaningful reform. It would always be a mystery to me why American movers and shakers joined the Europeans on the eve of the Cancun meeting of what at the time I call the Transatlantic Alliance for Perpetual Agricultural Protectionism.

And that alliance was the fundamental cause of the tobacco addendum. That alliance immediately triggered the formation of an opposition coalition led by India, Brazil and also at the time by China, that not only produced its own agricultural proposal but also remained militant and admittedly inflexible on many other issues until the abrupt interruption of the Ministerial Commission in Cancun and actually afterwards too.

The atmosphere of acrimony and cynicism that prevailed before, during and after the Cancun meeting breakdown finally changed in early 2004. The first wind shift came in January when U.S.T.R. Zoellick sent a letter to all the WTO trade ministers to emit the signal and

auspicious departure from the famous U.S./Europe joint agricultural proposal. After that and for several months, there was very intense trade diplomacy and the objective of producing a framework for the negotiations by the end of July was established.

At the 11th hour of the July 31 deadline, a deal to reanimate the Round was clinched and the WTO headquarters in Geneva. The agreement was immediately hailed by its chief architects: U.S.T.R. Zoellick called it a milestone and the EU Trade Commissioner declared the Round to be back on track. Kamal Nath, India's Commerce and Industry Minister, affirmed that the agreement provided significant gains for his country and Celso Amorim, Brazil's foreign minister, went so far as proclaiming a combination of trade liberalization and social justice. I think my friend **** will regret all his life to have said that.

Well a quick look at the points agreed back then reveals that the July agreement was at best a timorous step toward the role that Doha in 2001.

And we could go through the agreements of the July framework and you can see that vagueness and definition and lack of commitment, of serious commitment, was the rule and not the exception. And in fact, some elements of that framework are now becoming some of the hardest points to solve if the negotiations ever are started again. One particularly difficult point was the question of designating some products or the capacity of countries to designate products essentially which evidently will give a mechanism to circumvent the general rule for dismantling farm protectionism. And let me also say that those who have been for real agricultural reform gained no peace of mind or at least that was my case from the statements made by certain officials. For example, Mr. Lamy himself praised the deal for locking the European Union's Common Agricultural Policy into the WTO's covenants. And I think this says a lot of what's going on.

After the July 2004 trade agreement was produced, nothing significant occurred in the negotiations for over a year. Only the inspector of another failure in failed trainees, there was enough to agree a declaration at the Cancun Ministerial of December 2005. Again, the declaration was of a scant substance and simply went ahead with providing a bunch of new 2006 deadlines.

Three months after the Cancun Ministerial, I did walking a little bit Mike Moore I did my own reality check at the conference in Columbia University and concluded that if not by April 30 when the crucial deadline for moratoriums would most likely be missed again, then certainly by mid-summer 2006, it would be conspicuously clear that it is not forcible to conclude a substantial Doha Round within the timeframe implied by the present TPA.

Well as we all know, April 30 came and nothing significant happened. A new deadline was set for the end of June and after various attempts to reach differences, the WTO Director General Pascal Lamy suspended the negotiations indefinitely on July 24. Nothing of positive significance has occurred since the suspension of the negotiations. In fact, things have not got better but probably they have got worse. Now, it is official policy of the European Union to restart negotiating regional agreements and we know this is the safest way to, to **** Doha and of course, some people say that the political situation in the United States is now less propitious for trade utilization.

At any rate, recently Mr. Lamy said that he had decided to resume negotiations at a technical level whereas the Swiss government announced that it will host a meeting of Ministers from key WTO members in Davos in January 27. Frankly, I don't read much into this analysis.

The problem with the Doha Round has never been a technical one nor has it been one of lack of meetings and agreement among the stubborn Ministers. The fiasco does not extend from the failure of the trade negotiators to do their job. These negotiators' capacities can never exceed the mandate received from the governments they represent. That is why it makes little sense to go back to the negotiating table. Even the highest authorities of the countries with the biggest responsibility do not have a serious commitment to reform. They don't understand that it is necessary to pay a political cost to accomplish real reform. If they are unwilling to put in place a consistent instructor to address seriously the respective domestic political economy issues. It's true that all parties have contributed to the disappointment produced by the Doha Round. It is questionable that the developing countries have adopted highly defensive positions on most issues. And India, I think, is the best of the worst example of that.

However, the biggest responsibility for its failure, for the Round's failure, lies with the biggest developed players, the United States, the European Union, and Japan. These have failed to honor the core commitment established in the Doha Declaration. Developing countries were told that the only way to solve satisfactorily their pending issues was to have a new Round and by far, the pending issue that looms largest is agricultural protectionism in rich countries. As long as this problem is not addressed seriously, it will impossible to make progress on the other important issues.

It is clear that the pertinent players have resisted serious agricultural reform to the utmost extent possible. In fact, even the consolidation of the best offers on market access and reductions of subsidies brought by each of those players to the negotiating table up to the very collapse of the talks, would have accomplished little to open up agricultural markets and to temper the huge distortions caused in those markets by the high subsidies granted by OECD countries to their farmers.

The Round will not be successful if the rich and biggest players don't recognize their responsibility to capitalize collective action. To play this politic role, they must move first with serious liberalizing offers and commitment of resources for their effective realization. This way, international leadership will be likely to emerge not as an imposition or domination but as a natural result of the assumption of responsibility. This is what the necessary leadership to trade global public goods is all about.

Certainly, leadership stems from power but the other crucial element is legitimacy grounded in clarity of purpose and that willingness to move forward that purpose without waiting for others to do so and some times also on the willingness to contribute with incentives that will entice others to follow.

Consequently, the Doha Round shall not succeed with such a process of catalytic leadership. The process entails first and foremost a transparent agreement between the United States and the European Union to commit at last to real agricultural reform, ambitious reduction in trade barriers and sharp abatement of trade distorting subsidies without the loopholes that both the United States and Europe have systematically pursued.

Next, they should persuade Japan and the non-EU European countries to come on board with the same farm trade deal. Rich countries should also take serious steps to constitute their own promises and aid for trade funds to compensate the poorest countries for their loss of preferences which a good Doha outcome would bring about and to support them to include their infrastructure and develop their export capacity.

Rich countries would not need to grant unilaterally farm reform and import trade. They could make their offers conditional upon satisfactory completion of the other key issues included the Doha agenda. Large developing countries that have had the rich countries farm protectionism, the perfect excuse for not moving in the negotiations would find compromise inescapable.

For the United States and the European Union to provide that kind of leadership, they would be well positioned to accomplish other countries willingness and contribution towards a Doha Round that truly constitutes one more solid step in the construction of a strong liberal and non-discriminatory, open, multilateral trading system. That kind of leadership would give a clear signal of the commitment of the largest economies to work towards globalization not only as an instrument for economic prosperity but as Zoellick proposed in 2001 also for the pursuit of peace and security.

Is that catalytic leadership likely to emerge any time soon? Unfortunately, that doesn't seem to be the case and this is a very bad thing because the failure in the Doha Round is not only the income opportunities for both developed and developing countries that a successful conclusion would provide. But more importantly, the losses that will occur if the system is allowed to deteriorate and eventually prove incapable of preventing countries from progressing into protectionism as has happened before in history. Despite its achievements, the multilateral trading system remains vulnerable to serious erosion by episodes of protectionism. It also has limited capacity to support the integration into the world economy of many countries that have been left on the sidelines of globalization despite formally belonging to the WTO.

Consequently, dear friends and I don't tire to say this, I believe that if the bad news are confirmed then the relevant question will be not how can the WTO save the Doha Round but rather how can the WTO be saved from the Doha Round. Meanwhile, all interested parties should read Kim's book to see either how the promise of Doha can be delivered or where that promise will be lost forever. Thank you.

Kim Elliott: President Zedillo, thank you so much for those very kind words, that was far more generous than I expected and I do appreciate it. I also appreciate your very insightful and very compelling remarks on, I think, the finest analysis I've heard of, of how and where the Doha Round has gone wrong and, and I really do, I hope we can get your prepared remarks to put on the website and I think it should be available. Um, uh, well it certainly sounded that way and in fact, I am, I am rather intimidated following on your eloquence but I will try to do, try to fill in some of the details in the agricultural negotiations um, that might help to deliver a decent Round if we can ever get things restarted.

I want to organize my remarks around the um, a puzzle, two myths and the three pillars of the negotiation itself. Um, and I think that you know, if you look at this chart, a puzzle might be why we're spending so much time on agriculture. Even though President Zedillo gave some good reasons, it's a very small and declining share of global trade and if I had services in

here, it would be smaller yet. And I think he's already previewed the answer which is for the most part, that's where and especially in the rich countries the highest remaining barriers are. And this shows you average tariffs. I mean, you can see that agriculture in the high-income countries, the average applied tariff is more than twice what it is for textiles and apparel which is another still fairly highly protected sector but there are more than eight times higher than for all other manufacturing goods.

And of course, it's not just about tariffs. Rich countries also provide a variety of different kind of subsidies to their farmers. I'm not sure, hopefully these lines show up. This is to give some idea of the degree of distortion across the major countries in the OECD, this shows the OECD's estimate of the value of producer support of support to producers as a share of gross farm receipts. So for example, if you look at the U.S. line which is down there at the bottom at 20 percent, what that says is that on average American farmers, \$1.00 out of \$5.00 that American farmers receive are as the result of government programs. Now, I said on average and it is important to understand in the U.S. context, that more than half of farmers receive no subsidies at all and that of those that do receive subsidies, they're not at all evenly distributed. Many receive far less than 20 percent, some, and, and a small number receive a lot more than 20 percent.

That's to give you sort of relative to other countries and if you go up the chart, we come next to the EU which is near the OECD average about \$1.00 in \$3.00 that European farmers receive come from government programs. For Japan and Korea, it's more than \$1.00 out of every \$2.00. Some of the northern Europeans are higher yet, Australia and New Zealand at the bottom, but I focus on these four because they account for almost 90 percent of the total value or volume of agricultural support across the OECD. So if that's where the distortions are that's also where the benefits are and this slide just shows results from two recent models, one by my colleague Bill Cline.

Another from the recent study by Will Manton and Kim Anderson at the World Bank and the key thing here although there are some other results but what I want to focus on is the second line from the bottom which shows the share of global gains from agricultural liberalization. I'm sorry, the, the share of total gains from the global free trade from agriculture would be roughly 60 percent. So even though it's a very small share of trade, the distortions are such that that's where the potential gains for further trade liberalization are. Again, I should say if Kathy Mann were here, she'd say what about services. We don't have very good data on services, she clearly has a point that that's a very important area, we just don't have the numbers to compare it.

So to get to sort of then where do we go and what, and what needs to happen and what are the effects for the developing countries and the poor be. I think there are two and this is probably a little bit strong because both of these things are rooted in reality, but they tend to be exaggerated and simplified into the debate. And the first is that subsidies are the main problem and I'm sure probably all of you have heard the, the claim that the rich countries pay their farmers a billion dollars a day. Um, and then the second thing that is very frequent in the debate is that if getting rid of these subsidies will help to pull subsistence farmers out of poverty. And I think both of those stories are more complex and that's the one I want to talk about.

This is a chart showing, and I'm not sure if you can read it, but I'll try and walk you through it, the OECD's estimates of total support to agriculture across all countries. So this is the

total for all OECD members and the first thing to notice is that not all agricultural support goes to producers. That first dark green bar there at the top are actually subsidies to consumers. This is things like food, the American, the food stamp program here in the United States, subsidized food, the people who buy it. The next one down are subsidies for things like research and development and rural infrastructure where producers may get some indirect benefit but lots of others get benefits as well and I think most of us would probably say there is some role for government in these two areas. That's not really what we're concerned about.

What we're really concerned about are the bottom four parts uh, which are support to producers and that comes to about 250 billion dollars but of that, only a fraction is subsidies. If you look at that big bright yellow chunk on the bottom there, that's um, support that goes to farmers through cropped up prices, prices that are supported primarily through trade barriers, tariffs and quotas. And the key point here is that the market access part of the agricultural negotiations are even more important than the domestic subsidy piece. Not that the subsidies aren't important but we can't forget about market access.

And just you know, there, I've tried to sort of color code this, these do not match up exactly with the infamous colored boxes and the WT agricultural negotiations but just to remind you, it's the yellow or the amber box that are the most trade distorting. The blue are sort of somewhat less trade distorting because they have some production limiting features, and the green box subsidies at the top are ones that at least in theory are minimally or non-trade distorting so therefore, they're acceptable, they're not capped, they're not disciplined. They won't be in the negotiations.

So what about the nexus then between this agricultural liberalization and the poor? The basic story is rooted in the fact that 70 percent of the population in low-income countries reside in rural areas and a slightly larger percentage of the poor live in rural areas. Agricultural value added is 31 percent of total GDP in the low-income countries so clearly agriculture is an important sector and clearly there will be gains to some countries and some producers in these countries. But the story is more complicated than that and we have to, to be aware of the negotiations and be aware in terms of what's being sought in the negotiations of what some of those complexities are.

So agricultural liberalization would be expected to help poor farmers in developing countries if their net sellers of food. If the price change actually gets to them in remote rural areas and if they can get their goods to markets. It could harm them if they have preferential access to markets where they are currently selling their goods at above world market prices, the preference erosion of presidency you all mentioned, or if they're net buyers of food. Because it's expected that uh, a reduction in subsidies and in import barriers in the rich countries will lead to increased demand for imports and therefore, higher world prices which again is good if you're a net seller but not necessarily so good if you're a net buyer. And having looked at a lot of the data and the research, I don't think those last two problems are as serious as a lot of people fear. The preference erosion is limited to a relatively small number of countries and a relatively small number of commodities chiefly sugar and bananas. So a manageable problem I think.

Similarly, when you get to food importers or net buyers of food among the poor, a limited Doha outcome which is what we're going to get if we get one at all will have small effects on farm prices which is for both good and for ill. It means the benefits are less than we might

hope but also that the costs will be less than we hear and just to give you some idea of that, this table shows some World Bank estimates of what the impact again going global free trade would be on some key food items. And you can see that they range from a little over 3 percent to around 12 percent. Well under a partial liberalization, under a Doha Round, you'd expect those price changes for these key food commodities to be much lower. Um, okay, sorry lost my picture here. You expect the price changes to be lower and just as a sort of a reference, the average annual volatility in the key food products of the last 20 years has been in the range of 15 percent.

So much less sort of the normal annual volatility in prices, they'll be phased in for a probably very long time giving more time for adjustment. And in fact, many developing countries maintain tariffs on food imports that could be lowered if, in fact, liberalization in the rich countries creates problems for their consumers at home. So I'm not trying to say these problems aren't real, that they shouldn't be addressed including through Aid for Trade but that they are manageable and shouldn't prevent an agreement.

What I think are more serious and again President Zedillo mentioned this at the end of his remarks are the supply side constraints and challenges. This just gives you a few indicators on the infrastructural side of the challenge that poor countries face in trying to engage in global markets. Road networks in many of these countries are inadequate to start with and only 25 percent of roads on average are paved in low-income countries. Twenty-one low-income countries most of them is **** and Africa are landlocked. So there are many issues there in terms of helping again and Nancy also mentioned Aid for Trade to ensure that especially the poorest countries are able to grasp any opportunities that do arise out of a Doha Round agreement.

So let me move now to the agreement, to the negotiations themselves and sort of what's going on and what we might expect and what would be needed at a minimum to go to an agreement. Export subsidies is the first pillar. There is a condition agreement to eliminate them by 2013, there are still some issues around uh, food aid. I assume Julie Howard is here so maybe during the Q&A, she'll say something about food aid. There, there, but I think that basically export subsidies are on their way out. It's not going to be an easy negotiation but I think that is more or less the really contentious areas are the domestic support and subsidies and the tariffs, quotas and other market access issues.

And we start on the domestic support side and I keep saying domestic support instead of subsidies because under the WTO framework, it can get a little complicated but it includes both subsidies and some elements of market price support, some effects of the, the tariffs and quotas. I don't want to go into the details here but if you, if somebody wants to bring it up in Q&A, okay. But on the most trade distorting forms of support um, it seems as though negotiations are moving to cuts uh, in EU support of between 70 to 75 percent and I should start by saying all of these cuts that you see up here are from existing ceilings. These are not cuts in what governments are currently providing to farmers, okay. So that they are this large because that's what you need just to get down from the ceilings to close to, or maybe, a little under where current levels are. Anything less than this would probably mean you have no impact on, on, on programs at all.

So 70 to 75 percent in the European Union would basically lock in what they've already done with their cap reform which as President Zedillo said, you know, did move in the right direction in some areas, could go further um, but the point here is that that reform moved

most of their subsidies into the blue and green boxes so that what really needs to be done in the EU is more on market access. It really all the market access. Same thing with Japan. They're going to take a cut probably of around 60 percent which is the same as the U.S. and which is less than the EU because the EU provides so much more support than any other of the major players. But again in the Japanese case, they made a technical change to their rice program several years ago that didn't change levels of protection at rice at all. It maintained a very tight tariff rate quota. But it again through sort of this technical maneuver, removed it from this, the domestic support pillar. So that a 60 percent cut will again basically bring the ceiling down close to where they currently are but will have no impact um, on what they're actually doing on agriculture. So again with Japan, it's all about market access particularly on rice.

For the U.S. a 60 percent cut in these most trade distorting categories would in fact have some impact on U.S. programs and that's what I want to talk about here and this is a little bit of a complicated chart but I'm trying to illustrate what the U.S. proposal would do and where the weaknesses are. So let me walk you through it. The red line up there at the top, these here I'm talking about the, the moving lines, not the straight lines. The red line is the actual, these are estimates based on USDA data because the U.S. is not reported to the WTO as it's supposed to do after the Uruguay Round since 2001. But I think they're pretty close.

The red line is an estimate of overall trade distorting support in the U.S. The blue line, just under that the AMS, this is the aggregate measurement of support is the technical WTO term for the most trade distorting category in the amber box. The pink line, there, there are three components to this amber box. This aggregate measurement of support and then there are two de minimus categories which are trade distorting subsidies but as long as they're de minimus, which is defined as less than 5 percent of production, they're allowed. So what I've shown here is non-product specific de minimus which are things like irrigation subsidies, uh, and, and disaster payments. I haven't bothered to show product-specific de minimus, because the U.S. doesn't use it. The last time they reported the value in, in 2001 it was around \$200 million. The cap is under the current ceiling is around \$9 billion or so, a little over \$9 billion, so it's not basically being used. Because of the way it's defined, the U.S. can't use it, and I'll come back to that in a second.

The bottom line, I've labeled it the blue box. The U.S. has not actually claimed anything in the blue box, but wants to put the so-called countercyclical payments into the blue box, and so that's what I've put in that green line are the countercyclical payments as an indicator of what U.S. blue box spending would look like. The black lines are the ceilings that the U.S. has proposed that it would meet in the new agricultural agreement, so at the top you can see immediately the first problem, which is that the U.S. proposal for overall trade-distorting support would have no impact on any U.S. support. It's above actual spending in every single year.

Now if you go down to the next line, the aggregate measure of support, the year that's where the U.S. is proposing the 60 percent cut, that would bring it down from about \$19 billion to under \$8 billion, and you can see that blue line is above the new proposed line in most years, so there actually would be some bite on the most trade-distorting forms of support, and that is important. That is something to be gained, something to try and, and hold onto. The problem is, what other of our trading partners are concerned about, is that when you go then to the next line, for de minimus and blue box dealings, a couple of things to understand here. One

is that it's set at \$5 billion, but that's \$5 billion each for product-specific de minimus, non-product specific de minimus and blue box, so \$15 billion total.

Okay, and if you look at the line, remember that the, the non-product isn't even on here, because it's, it truly is de minimus, it's so small. But it's, but that line is pretty, is well above non-product, my estimate, this is, this is the most rough estimate of non-product specific de minimus. Um, it's also above the, what we have spent in the past on the countercyclical payments, although it came close maybe in 2006. I should note that both 2006, these are midsummer estimates and 2007 could be revised further down. They've already been revised down several times because of the high commodity prices right now.

So the theorem on trading partners is that the U.S. will take some of the subsidies that would be squeezed on that blue line, and put them into the pink and green lines. And that's where the U.S. proposal needs to be improved, I think. And so the first thing that I would do if I were U.S. **** Schwab and I would do it early next year as to sort of play this catalyzing role that President Zedillo mentioned, is to offer to simply get rid of the product-specific de minimus. That immediately lops off \$5 billion, brings down the overall U.S. trade-distorting support level to below at least some of those points on the red line, and provide some credibility that, that that box, now empty box, couldn't somehow be used to manipulate and, and create new subsidies.

Similarly, I would reduce the, the non-product-specific de minimus and blue box levels from the current \$5 billions in U.S. proposal to somewhere between \$2 billion and \$3 billion. That would have some effect in curbing the countercyclical payments, and it would keep the U.S. from shifting any of the existing, uh, payments in the AMS category into those other categories, and I think that would go a long way towards addressing some of the concerns, at least.

Now, let me quickly, because I want to wrap up the tariff cutting, it's a little bit harder to know what will happen because there's so many variables and obviously so many tariff lines but this is just to give you, these, this summarizes the three key proposals from the U.S., the G20, uh, and the EU, and just to give you an idea how far apart the negotiators are, the U.S. wants the highest tariffs that will be cut the most to be defined as those over 60 percent and to cut them by up to 90 percent. The EU only wants to cut, wants to define high tariffs, the highest tariffs, as those over 90 percent and only cut them 60 percent, so that's a huge gap. So that's the first thing that's got to be resolved.

The two other key elements in this negotiation are, uh, setting a tariff cap. All three of these major players have, have made proposals on this. Japan, Korea and the other members of the so-called G10 are opposed to any tariff cap, but I suspect they're gonna have to give on that one with, with the, the big players in favor. And then the question is where is it set? The proposals are somewhere between 75 percent and 100 percent. But the really key issue of the tariff cap is whether or not it's going to apply to the so-called sensitive products, the ones that are cut by less than what the formula would say they should be cut, and whatever tier they fall into, they wouldn't have to take that cut. And, and the U.S. stance is that the, the, all the sensitive products should come under the cap. I think that's going to be a big issue of debate, and then of course there's the issue of how many sensitive products countries will be allowed to have. Again, with a fairly wide divergence between the U.S. at 1 percent, which would be roughly 20 tariff lines out of 8,000, or the EU's 8 percent, which would be around 150 tariff lines. So big difference there.

I think where we're headed in the market access is probably that the average tariff, um, should be cut by more than 50 percent, probably not a lot more than 50 percent, but in that range. The number of sensitive products, um, less than half of the EU proposal, so probably somewhere in the 2 to 3 percent range. The tariff cap hopefully will be applied to all products, but that's going to be particularly tough negotiation with Japan and Korea over rice and some of their products that have tariffs in the 100s. Then even for the sensitive products that are subject to lesser cuts, there has to be some – most of them are subject to tariff rate quotas, meaning that there's a quota level with a low tariff up to that and a higher tariff over it, if the high tariff remains prohibitive even after the cuts, as it is in many cases, then the quota level needs to be increased so that there's some improvement in access for all products, without exception.

And let me just say quickly a word on special and deferential treatment for the developing countries. It's more or less agreed that they'll do roughly two thirds of whatever the rich countries do. That would be an average tariff cut of about a third. I should also note that these numbers on the formula, the average tariff cuts, are much more than what was achieved in the Uruguay Round on two grounds: One, that they're just bigger numbers, 30, 50 percent versus 36 for the rich countries, but also that the fact of having the tiers means that the highest tariffs will get cut.

In the previous Round, because it was done as an average, just an across-the-board unweighted average, countries that wanted to continue protecting sensitive products cut low ones a lot and high ones a little, and we had very little increase in access. Having the tiers addresses that problem. So roughly a third. In addition to the sensitive products, there's also agreement, this is sort of one of those unfortunate areas of the Geneva framework that President Zedillo mentioned is that they can also designate special products, and there have been some proposals to make that as high as 20 percent of tariff lines, which in some cases would be basically all trade, and so I think from, from the research that the combined sensitive and special products should be, you know, under 10 percent, you know, in the, somewhere in the single digits.

There was also a lot of developing countries, because they can't afford it, don't currently provide subsidies to agriculture, and I think that they would do well by locking, basically preventing themselves, this is sort of the rich countries saying, Do as I say, not as I do, but I think it would be in the developing countries' own interest to commit not to introduce trade-distorting subsidies if they don't already have them in place.

And then finally, just to bring the whole thing together, this is focused on what the rich countries need to do in agriculture, because basically that's what they have to give in this mercantilist model that we're unfortunately stuck with, but obviously to get an overall deal done, the larger markets are also gonna have to come through in areas of non-agricultural market access, um, and services. It does have to be, at the end of the day, a reciprocal package, and I would also hope that Aid for Trade is part of that. Thank you.

Fred Bergsten: As advertised, I will chair the Q&A session. I will start it with four very brief remarks. Only brief remarks are needed because President Zedillo and Kim have laid out the picture so well, and just to underline points they made. First, if Doha fails, it will be the first global trade negotiation to fail since the 1930s. That would be ominous in light of

the history of the previous failures. It would obviously be a very worrisome development for the global trading system as a whole.

Secondly, if Doha were to fail, there would inevitably be substantial erosion of the global trading system. The WTO would still be there, dispute settlement mechanisms would continue, but the blow to the credibility and forward movement of the system would be severe, and it would be hard not to assume the countries would be increasingly reluctant to, uh, fulfill their previous obligations, would probably promote a further explosion of bilateral and subregional preferential agreements deviating still further from the global nature of the system. That risk, I think, might well be exacerbated by the recent changes in domestic politics here, which are already raising additional questions for U.S. policy toward trade and so the stakes for Doha are indeed very, very high, both for U.S. trade policy and for the global trading system as a whole.

Third, a mini-package will not do. Some of you were in this room last February when Pascal Lamy, in the wake of Hong Kong, the Hong Kong ministerial, essentially said we should declare victory and go home. We should pocket the concessions that have already been offered, present that as an important progress in the global trading system, not really try very hard to get much more because it may not be there, and hope that that will avoid the difficulties that I've mentioned. I think it just wouldn't work. It certainly wouldn't work now a year later. I don't think it would have worked then, in part because the gains that are on the table now are so modest, and because some of the offers that have been made probably would not be sustained if the package remained at current level, and so a mini-package of kind of declaring victory and going home with what's already been proposed simply would not do.

Fourth and finally, I think therefore the time has clearly come for the United States to make a big new offer to try to get the Round back on track. A lot of people tend to blame the United States for the demise of the Round. I think that's unfair. Indeed, I think the U.S. has taken the most progressive lead of any of the big players in the negotiation. In fact, the Round wouldn't be where it is now if it hadn't been for the United States in terms of forward progress and least some things being teed up. Parenthetically, my major blame would go to India, and that, I think is one of the great paradoxes of the Round. This was supposed to be the development Round. The one developing poor country at the heart of the negotiations has in my view been the least constructive and most harmful in blocking the negotiations from going forward. That's probably debatable. That's my own personal view.

But there is blame to go around, and whatever the blame, the fact is the world inevitably looks to the United States to make proposals, to get things back on track. I think the United States should do it, for reasons of its own economic interest, for reasons of preserving the global trading system, for which it has worked so hard for 60 years, and for reasons of domestic politics. As I said, I worry that the future of U.S. trade politics may not be so rosy and may decline, even from where they are now.

That means that the current administration, which is clearly committed to the success of the Round, should in my view now try to go that last lap, take a big initiative to get it back on track. They obviously would make, have to make further offers along the lines that Kim has indicated. She has shown in her charts how there's actually a lot of water even in the current U.S. offer. More could easily be done without really severely cutting into U.S. agricultural support programs. The nature of the programs could be changed in the ways that Kim

described and lays out in more detail in the book, so you could get both a cut in the total level of U.S. supports and an alteration in the nature of U.S. support to make them less trade-distorting, that would, taken together, amount to a really significant effort to get the round back on track.

Now, the U.S. would obviously do that only with the clear caveat that the other countries had to reciprocate and make for a deal that was equitably balanced, but if everybody waits for the other guy to come along at the same time, the process may never get off the dime, and time is wasting. U.S. negotiating authority runs out on July 1. Unless there is at least substantial promise of a major outcome from the Round, it looks very unlikely that the negotiating authority can be extended, and therefore the whole Round could literally, literally come to an explicit crashing halt within the next six months unless significant progress is made.

So I think the bottom line is that based on Kim's work, uh, the work that's been done here and elsewhere, we are clearly now in the end game. There is not much more time for delay. It is incumbent, I think, on the United States as the systemic leader, to make a new initiative, make new proposals of the type that Kim has suggested. That, of course, will not be a sufficient condition to bring the Round to a successful conclusion. Very little has been done on services. Much more needs to be done on non-agricultural market access, and there are bits and pieces of the rules, mechanisms and other aspects of the negotiation that will need some very intense work over these next six months or possibly longer with the promise of bringing them to a successful conclusion, to put the Round in final shape.

But it seems to me at this point, it clearly is a necessary condition for the United States to make a big new offer, to do so primarily on agriculture, to try to break the logjam that Kim has talked about. I think her book points the way to a successful outcome, and I surely hope that our government will take that initiative no later than over the next month. Ernesto, you want to react to that? Kim and Nancy, and then maybe we'll open it up.

Ernesto Zedillo: Well, I agree with you, Fred, on, on most of the things you said. I could perhaps have some difference on the role played by India, and even the role played by the United States so far. I think, as I mentioned, the United States has had very good moments throughout the Round. When the Round was launched, I think it was really a victory of leadership from the part of the United States, but then the performance has been terribly erratic. I think the only other moment was when, ****, a few months after Cancun, got the thing moving again, but after that and before that, the vacuum of leadership from the part of the United States has been terrible.

Probably it's understandable, because your foreign policy has been dominated by one issue, and little space and capital has been paid to other important issues, not only the multilateral trading system, but other global and regional issues have not been, uh, paid sufficient attention. The case of India, well, you know, the case of India, you were right, they have sort of been the naysayers. But, I'm not so sure that India can do much to move the Round forward.

I think my sequence, at least my, my implicit sequence, for the Round to succeed is very clear. The U.S. and the European Union must come to an agreement to be serious about agriculture, and for that the United States has to come with a serious offer on subsidies, and corner the Europeans so that they have no longer excuses to say what they are saying. And then the Europeans have to be serious about market access and once they are serious

about these two things, they have to go to Japan and say, Listen, you are a grown-up, so play in these games. And then Japan or the U.S. has to go to Korea and once you have this bloc, you have to go to the other non, to the other European, there are unknown members of the European, that aren't members of the European Union like Switzerland and some northern countries, and say, You have to come on board, and once you have this group, then you really are in the position to start talking seriously with countries like India or Brazil.

I would go first with Brazil, by the way, because Brazil has, I would say, an offensive proposition on agricultural ****. It is in their great interests to get market access, and subsidies reduction, so I would go first with Brazil. That would break the G20, and then India. I mean, India is now in that grey zone in which the speech is still the old 1967 **** protection speech, but the reality of India's changing dramatically underground, so I would say that India eventually, if the big guys do their job, India will not be, uh, a serious problem. Meanwhile, I don't see what they have to win by saying, Yes, I will open up, without you being serious. I don't think India has that responsibility yet. India is a big country, by its sheer size, but it's still a very poor country. So don't expect India, not even China, to play a leading role in these negotiations. I think it is still up to the United States to do it.

Fred Bergsten: Kim?

Kim Elliott: I'm just add one thing on India, which is that it, I think part of the problem with India is that they don't see that they have too much to gain from the Round as it's currently structured, and I suspect to really get India enthusiastic about the Round, the U.S. is, in addition to figuring out very difficult issues around agriculture, going to have to figure out a way to deal with the move to foreign services that is temporary movement of people, and that would get Indian really engaged, and that's another real political problem for the United States.

Fred Bergsten: Nancy?

Nancy Birdsall: Well, I was struck very much by President Zedillo's emphasis on the global trading system, which you referred to, Fred, as a global public good. I think you said, Fred, the U.S. has invested 60 years in that global public good, so I agree very much with your sequencing mostly because I think the internal politics, as difficult as they are in the U.S., are not as difficult as they are in Europe. So it seems to me that the U.S. has to seize the leadership. I also thought it was really interesting – it's the same point that President Zedillo mentioned. Zoellick's series of articles and speeches after 9/11, which emphasized just that point.

The problem we face today is that I think that whole spirit of the U.S. taking leadership on multilateral issues really has been lost in the quagmire of, of Iraq. And an example of that is the one that, uh, the president also raised, which was the position on TRIPS, where the U.S. was the holdout. I mean, it was a relatively small issue in the whole set of discussions, but for the developing countries, and particularly some of the middle income and poorest developing countries where the AIDS pandemic has taken off, this really was, uh, uh, you know, a blow to the spirit, that, uh, the position, the resistance and the stubbornness of the U.S. and the exposure in that domain of the influence of domestic politics here, and the lobbying power of the pharmaceutical industry.

I think the other thing you said interesting, Fred, yourself, was this idea that a mini-package will not do, because, um, it seems to me that it's worth thinking about if the, if the French elections were to produce someone who took leadership in, the French elections, I think, are in March or April, there might be time for something to be precooked that would then, by some miracle, allow for extension of TPA before, at least for six months or a year, before the end of June, and, you know, that's one possibility.

The second possibility is the descent, further descent into bilateral and plurilateral agreements, and the third is the mini-package. Maybe it shouldn't be taken, would, maybe it shouldn't completely be taken off the table. But I'm surprised that you mentioned it just because you've been a supporter in some respects of the competitive mobilization, going ahead with the bilateral and plurilateral agreements. And that does seem to be the more real alternative and, perhaps, much worse alternative to declaring some sort of mini-victory on Doha and then keeping the process alive.

Fred Bergsten: Let me just come back with three quick comments, then open it up. One is to say that when President Zedillo talks about the trade system as a global public good, he knows whereof he speaks, because he has just chaired and internal commission on global public goods, which has put out a very interesting and very provocative report on the whole question of global public goods. I'll give that a plug right now. Uh, that's a very thoughtful and useful addition to the literature. Second –

Next Speaker: And it was a struggle, I suspect.

Next Speaker: Hmm?

Next Speaker: It was a struggle to –

Next Speaker: Well, every international report is a struggle.

Next Speaker: All right, *****

Next Speaker: Except financing for development, which was written by John Williams so beautifully.

Fred Bergsten: John can take us out. The second thing I wanted to pick up just again. President Zedillo mentioned in passing China. Um, and I think that needs to be underlined. My view, as I implied in my opening remarks, is that the biggest cost to a failure of Doha would not be the absence of the Doha benefits, significant as they are, but the risk of backsliding in the global trading system as a whole. If you ask what countries would lose most from that backsliding, China would be pretty close to the top of the list.

Next Speaker: Hmm.

Fred Bergsten: After all, China is now getting more than one third of its annual economic growth from the expansion of its trade surpluses. That raises problems of currency and other things that we're not talking about today. But China has generated an incredibly open economy, a trade to GDP ratio twice that of the United States, three times that of Japan. It has cast its development lot heavily on an export-oriented and trade-oriented strategy, and it would be a huge loser if the global system were to start to retract. In China's case, the

global system might retract not just for one reason, but for two reasons. One would be reaction against its grossly undervalued currency and the misalignment problem we know about, but secondly, if the entire system began to weaken because of a failure of the Doha Round. China can sit back and complacently say, We gave at the office when we entered five years ago, but that doesn't deal with the practical problem of avoiding a backsliding in the system that could hurt China very severely.

And I have been puzzled why China has not understood that, since its trade policy has been both very open and very strategically based for the last 20 years, why it hasn't seen the desirability from its purely national development-oriented standpoint of helping to move the Round forward rather than sitting in the background and failing to take any initiative whatsoever. It's not too late. They should jump on that bandwagon, but I think it would greatly behoove them to do so. The third and final point – I don't want to get into a debate with President Zedillo about relative blame and all that, and I certainly [dictation ends here]

**** kind of strategy of the type the US has had in the past when there was much broader bilateral and deeper public support for an open trading policy. Okay. With that speech let me stop and ask ah a question. Ah we'll start right here. Let me ask everybody to introduce themselves. Sherman Katz right here. He'll start, announce himself and then we'll go back to John Sewell and other **** as they appear. Sherman –

Next Speaker: Thanks very much. Ah congratulations Kim. Looks like an excellent book and I think it'll help ah, ah **** think about ****. Picking up from Fred's last comment ah can we talk a little bit about whether the fact that the farm bill is up for renewal now is, is it a plus or is it a minus? Ah you have a new chairman of the House Committee on Agriculture, Collin Peterson, who says we ought to continue this bill for two years and if and when the negotiators in Geneva can come back with something better perhaps we'll consider ah whether ah it ought to be ah changed and beyond that, Kim, do you have anything you can share with us about what you think Mike Johan, Secretary of Agriculture is considering as the opening shot if you will in the bargaining on this ah farm bill? Thank you.

Next Speaker: Yeah. Go ahead.

Kim Elliott: Thanks Sherman. I think there are, are both pluses and minuses to the farm bill this year. I think it would clearly be better if we had a trade agreement or at least a good outline of a trade agreement that would work in concert with those who want to reform the farm bill so that you wouldn't have people like Congressman Peterson saying well we don't want to give up any negotiating chips so let's just extend it or keep doing what we're doing. I think if you could do a short-term extension of the farm bill in conjunction with an extension of trade promotion authority – not ideal but maybe the best we could get in terms of getting both things going.

In terms of prospects for the farm bill sort of um on its own there are a, there's a wide range of NGOs and advocacy groups that are coming to get, together this year and making reform of the farm bill their No. 1 priority. Bread for the World has focused its hunger report for this year on reforming the farm bill focusing on how it does not do very much actually for most farmers in this country. There's a lot of dissatisfaction among the farms who are not getting subsidies. Fruit and vegetable farmers have been in the forefront saying they're not benefiting from the current system and they want to see some changes and that could be a force for reform from within the farm community because what they're talking about are

things like more research and development on pests, more market promotion, more getting healthy fruit and vegetable snacks into schools. All of those things you know done right – i.e. not discriminating against imports – um I think would have a lot of win-win aspects.

They would, you would have to shift money given the budget environment from the traditional commodity programs to these new programs ah including the environment. Senator Harkin who will be the chair of the Ag Committee on the Senate side is very interested in, in improving the environmental parts of the farm bill. Um, so I think there are lots of pressures there that suggest that ah while again it would be much better if we had a DOHA agreement to push in the same direction reasons to think that maybe we can actually get ah some reform on the farm bill this year my expectation would be not a major overhaul but you can actually go a fair way towards where we need to be by simply tinkering under the existing system lowering the, the target prices for commodities.

The fact that we've shifted from two southeastern representatives ah being the chairs of the Ag Committees to Midwestern means that you don't have any particular interest at the top of those committees in cotton and rice which have been two of the, the biggest beneficiaries of subsidies in recent years. So I think there are some reasons to be hopeful. I wish we could get the DOHA going though to have that extra push behind it.

Next Speaker: John?

Next Speaker: Thanks Fred. Ah let me second ah what an excellent study this is and Kim thank you. Ah could you pursue this a bit more with the panel and perhaps the other people here? Ah it's, the more I go into with looking at US foreign policy and development ah the more it becomes clear that you're not gonna get a very sustained US response ah unless there's a new domestic social compact in this country and ah the kinds of measures you were just talking about in changing the farm bill are part of that but there's a much larger issue and when you and I grew up, Fred, there was a domestic social compact in this country built around employment by corporations and things like the minimum wage which were then real. Ah some of this is gonna change in the new democratic package but it seems to me what in others forums will be called a US competitive, a very broad US competitive package is the counterpart to hoping for any real trade liberalization in the politics of the United States.

Next Speaker: You want to respond to that? Do you want me to?

Next Speaker: Why don't you go ahead?

Fred Bergsten: Well ah I mentioned in my last remark a moment ago the roughly 50/50 split in the basic politics of US attitudes toward globalization and therefore toward trade policy and so every major trade bill in the last 12 years has been a cliffhanger. Some have gone down, some have gone up but every major one has been decided by literally a tiny handful of votes. So you don't have a stable basis for any kind of trade policy one way or the other and that'll be I think actively debated the next few years.

Certainly a crucial element of any sustainable future policy to maintain an open approach towards markets and ah US trade policy itself will be substantial improvements in our own domestic safety nets to deal with the transitional ah adverse effects – the costs, the losers – from the globalization process and a better series of education and training programs to enable our workers to take advantage of globalization rather than feel victimized by it. Those

two aspects of domestic policy are clearly going to have to change in major ways I think if we are to have any chance of restoring a viable domestic majority for trade policy. Gary Hufbauer did a wonderful study we published a year ago showing that the US is a trillion dollars per year richer as a result of the trade globalization of the last 60 years. That's 10 percent of GDP, \$10,000.00 per household, and he went on to show that if we eliminated all barriers, went to global free trade the US could gain another \$500 billion per year, huge, huge national benefits. He then went on to quantify that the annual adjustments costs of all this are \$50 billion. So the benefit cost ratio is 20 to 1. You'd say that's a no-brainer. Why don't we just keep going? Well of course the answer is the \$50 billion includes a fair number of people, those are concentrated costs and there are many others who say there but for the grace of God go I.

All our studies on the politics of trade policies show that the half of the labor force who are high school graduates or below still don't feel they have the capability to take advantage of globalization and they may be right and so there's a lot of domestic adjustment, domestic policy reform the US is going to have to do to overcome the fundamental split in the body politic on all issues surrounding globalization and certainly whether we can move forward on trade liberalizing deals. That's why the domestic votes are so close and I'm afraid they will continue to be until we do a better job on that domestic front. In the meanwhile you try to get through and ah keep the bicycle moving forward but it's increasingly difficult to do so. I don't know if any of my colleagues ****.

Next Speaker: Well I, I think we should be a little bit more analytic than this about the political economy issues.

Next Speaker: Mmm.

Next Speaker: Eh we are talking about here about agriculture I think first ah a stumbling block that you have to remove to have a successful go around. So let's talk about agriculture in the United States. No. 1 nobody's saying that all subsidies eh should ah disappear. From the main **** we are talking about trade distorting subsidies. So that's one point and you show very well eh the numbers. No. 2 eh – and that is very nicely eh put in your book – eh there's a question of who is taking home those subsidies.

Are we really speaking about large numbers of farmers in this country or are we talking about as more percentage of farmers that are taking the bulk eh and some of them are not actually not even farmers. They are just taking the bulk of subsidies. I think rather than speaking and I think for a general purposes of fostering globalization yes we do need that social contact but if we really want to tackle the stumbling block of ah, of DOHA at least in what is ah the serious problem in this country and in Europe I think we are talking more about electoral politics eh because here we are talking about money that is being contributed to electoral politics and that make a big difference in how members of Congress take decisions. Just tell me how many people are receiving the **** subsidies. How many people are receiving the bulk of the money for **** subsidies, the sugar daddies, and we can make a list and I don't think when you say we need to address this problem you are talking about a social compact. I think you are talking about an electoral compact.

Next Speaker: Mmm.

Next Speaker: And political leadership is about that, confronting that kind of problems, recognizing them and have a proper strategy to address those problems but if we dress up this as a big social you know rhetoric then I think we are in serious trouble because for one eh big eh piece of rhetoric produced in this country well I can tell you the European eh –

Next Speaker: ****.

Next Speaker: - rhetorical pieces and they are impressive and at the end of the day 80 percent of the subsidies granted in Europe are getting by less than 20 percent of these so-called farmers and then when you seek to see who the farmers are you find eh famous politicians eh, ah industrialists and members of the nobility who are the, the recipients of those subsidies and for those I don't think you need a social compact. You need a political agreement.

Next Speaker: Yeah.

Next Speaker: Well and, and, and **** –

Next Speaker: Maybe we can have Kim um –

Next Speaker: Yeah. But I, I **** -

Next Speaker: I don't remember the number on ah –

Next Speaker: **** just on the sugar subsidy, subsidies that you –

Next Speaker: ****.

Next Speaker: - wrote about? What's the, it's the 10 farmers that gather –

Next Speaker: I don't remember the commodity numbers but overall it's 10 percent of farmers of farm operations receive 70 percent of the subsidies.

Next Speaker: I mean we're talking –

Next Speaker: ****.

Next Speaker: - over two or three hundred thousand a year for, from –

Next Speaker: For farmers.

Next Speaker: - individuals.

Next Speaker: But, by analytical construct Ernesto is to recall that even if everybody bought everything you just said – and I certainly do – that this reform of agricultural policy will be embedded in a trade bill which requires support for the aggregate package of the DOHA rally. Well we can get everything you and Kim and I want on agriculture and if there's nothing in the package that's gonna bring out the business community to support the round because NAMA doesn't have much and because there's no real services liberalization you're not gonna get it through the Congress anyway. So we can point out – and Kim's book does it and that's why we publish it – ah how agricultural policy ought to be reformed but we're not

dealing with agriculture in a vacuum here. It's in the context of a trade bill and the trade bill – like all trade bills – has many parts and there're gonna be some other parts of the trade bill ah the DOHA bill that are gonna be opposed and you have to therefore mobilize enough supporters who gain from it to override all that.

That includes the agricultural folks who gain – and there certainly will be some – but it has to be people from other parts of the economy and therefore I put it in a broader context and that's why I argue for a broader approach. Remember again trade promotion authority only got through the Congress in 2002 in the Senate because the Senate democrats who were in majority for 14 months at that time put in a whole bunch of reforms of trade adjustment assistance. That's the only thing that got it through the democratically controlled Senate in 2002 and indeed enable it to pass the House when it came back because a bunch of republicans on textiles fell off the wagon. So to, to even get authority to get into the round you had to address very marginally the problems I'm talking about today. What I'm saying is those problems have to be addressed more than marginally if we're gonna get much progress. All right –

Next Speaker: ****.

Next Speaker: - Jeff, Jeff Schott –

Next Speaker: I love –

Next Speaker: Jeff Schott can clear it up.

Next Speaker: I, I love having an argument with you. Can I make one brief point um –

Next Speaker: Sure.

Next Speaker: - on this point?

Next Speaker: Even if you are arguing with me you can make one great ****.

Next Speaker: Right. That's the, that's the –

Next Speaker: ****.

Next Speaker: Yeah.

Next Speaker: **** it has to be briefer.

Next Speaker: That's the idea and I'll pretend that it's ah taking the side of President Zedillo. I think the problem with the question that John raised is a key one about globalization and the potential backlash and the problem with thinking of it in those large, vague terms is that I think we're losing the race in this country between you, you know a race on one side convincing people of these aggregate benefits, the global public good including for the US of ah securing the system, the trading system and the sense that a lot of people are not benefiting at all and so the point about John's question to me is even if the DOHA ram fails better get back to rebuilding the social compact or there will not be, there will be further retrogression um in, on the trading system not only because of the failure of the DOHA ram but because

there's a growing, there's this growing risk of a backlash that isn't being dealt with in each domestic system effectively because who's benefiting often a fairly narrow ****.

Next Speaker: And here I thought you were gonna disagree with me.

Next Speaker: Yeah. But I, I don't think that supports ****.

Next Speaker: It sounded like you agreed with me. Anyway Jeff Schott has laid out a blueprint for how to bring this thing to success. Jeff –

Next Speaker: Well I'm not going to build on what Kim put out in her book. I wanted to just add to the discussion that you've been pursuing here and it seems you've left out one important ingredient when talking about agriculture and the DOHA round and how you get deals passed through the Congress and that is foreign policy. Most trade agreements, most major trade agreements are sold in large measure for foreign policy reasons and we have an interesting confluence of events likely to **** ah occur in 2007 which would argue for many of the things that you have been talking about. Ah one is problems with our own sugar program which will become unviable in their current legislative form when Mexico is granted free access to the US market in January of 2008. Another is the concern about ah energy and fuels and the question about alternative fuels and ethanol and bio fuels where Brazil would be a very –

Next Speaker: Mmm.

Next Speaker: - viable partner of the United States. Mack has done a lot of work on this ah which argue against many of the protections that some members of Congress want to continue but others want to eliminate so that we can have a broader trade and energy program and a third is a small island off the coast of Florida which is likely to see, begin to see an evolution of its leadership change in the coming months which used to produce a lot of sugar which will only complicate and provide additional opportunities for the United States ah in working with its, with its neighbors. So some of this involves territory President Zedillo used to ah worry quite a bit about. Ah some of it involves how you integrate foreign policy into the construction and selling of a broader trade pact and it'd be interesting to hear the views –

Next Speaker: Mmm.

Next Speaker: - of the panel on, on these ah set of issues. Thank you.

Next Speaker: All right. We've got a few more questions. I'd like to get some other folks. Ah Steve –

Next Speaker: Ah Steve Beckman from the UAW. Ah since my objective in ah, ah in this discussion isn't to ah preserve the ah trading system and to pass the DOHA agreement but to improve the ah, ah living standards of farmers ah around the world ah one question I have is whether ah it can, this system that's being constructed in the DOHA negotiations is in fact an effective way of improving conditions for farmers – particular subsistence farmers in the third world – or is some kind of regional integration a much more effective way than creating global markets and ah forcing ah farmers into ****, ah into a system where price fluctuations are huge on an annual basis and don't necessarily result in their ability to you know maintain their ah, ah production and ah prices on any sustained basis.

So isn't something more modest really the, the way to effect ah development and then ah – I mean they, the broad ranging discussion ah I **** ah **** pass on it. I obviously have ah firmly held views on um, ah what's, what's necessary to make this system appeal to people but ah the, the absence of ah tangible benefits to too many people ah is going to make it very difficult to use foreign policy as the trump card that has, that has been used in the past to get the kind of support in Congress that has been traditionally ah, ah available.

I think it's gonna have to be sold to the extent that it's possible on the economic benefits to the majority of Americans and I think in the, in the political, in the discussion of political influence the ****, the political influence of the pharmaceutical industry for instance to set the agenda for trade negotiators in the United States is not an issue that's ah currently that receives a lot of criticism but the ability of works to influence the political ah agenda for the trade negotiations is terrible because that's –

Next Speaker: Mmm.

Next Speaker: - you know that's protectionist but aren't we protecting a whole range of other industries that ah seem to be ah, ah international ah that are international players but have their own interests that, that are being protected by the ah, ah agenda of the United States Government?

Next Speaker: Ernie –

Next Speaker: Ah Ernie Preeg, Manufactured Lines. Fred, I'm a little uneasy with a, a package where we would go further on agriculture but then would get benefits in non-agriculture services because in recent years the only members of Congress that have been coming to Cancun Hong Kong is from the ag committees and the question is don't they need a balance and where are they because my understanding is they say very clearly we would oppose the agreement unless there's reciprocity and if the ag com, if the ag committees are **** oppose it ah I don't just see how it's gonna get anywhere in, in the rest of the Congress.

Next Speaker: Ah just to clarify I certainly had in mind US benefits in ag too but when we come back to Kim why don't you spell out where those would be?

Next Speaker: ****.

Next Speaker: Yeah. One or two more – Bill Cline. I think that'll have to be it because we're close to our witching hour and I want to come back to the panelist for final remarks.

Next Speaker: Ah Bill Cline here at the Center and the Institute. I want to congratulate Kim on the book. I'll make two basic comments. The first is I think they, the tone that the potential for ah impact on the forum may be less than has been thought because of things you numerate. First I'd emphasize the dynamic gains which are not in that chart that you showed. Ah secondly I would say on the specific question of the poorest being food importers um it, I think the solution to that is not don't worry because there's not gonna be liberalization so food prices won't go up.

That's, I would not say that's the right way to look at it but I think the way to look at it is that if you don't have increased global inflation then higher ag prices must mean lower manufactured prices because you shift resources in the industrial countries to producing

manufacturers because these countries have a comparative advantage in ag that means they save more from lower manufacture prices and they lose from higher food prices. Ah and the third point I'd make in the same first concept is that the gains may be somewhat greater than the tone of the book. Yes these countries need roads, they need dams, they need all kinds of things ah but the per, percentage response to the new opportunities ah is working on a very small base. So they can have ah sizable gains from that small base and those gains could be even greater if you did some of the physical things.

Now the one specific thing I want to say on the proposal. I wonder if it isn't time to just radically scrap the approach that's been used on agriculture in, instead of trying to come up with ah you know different colored boxes and different colored definitions. Just say that the ah industrial counties will cut the actual level of coupled – in other words output affecting subsidies – by 50 percent from the, what they've been getting in the last say five years average because if you stay within this framework where you've got the aggregate nature of, of support which has this wonderful thing where you use the price of agriculture in 1985.

I mean it's just totally a fiction and as you showed it makes it possible – say you've got this huge **** and oh by the way there's no change. So what you want to do is to strip away that ah that charade and say in order to get this thing moving again we're gonna talk about the US and the EU ah both cutting their output distorting subsidies by 50 percent from what they've been doing. It seems to me that that could, that could maybe move things ah off, off of the impasse.

Fred Bergsten: Okay. Kim most of the questions were to you. Why don't you answer them all in three or four minutes?

Kim Elliott: There's 15 minutes. Ah well **** let's see. Start with Jeff on I didn't, I couldn't go obviously into all the detail but I think that the NAFTA agreement on, on sugar is, is going to be helpful in trying to get to get us where we need to go, that, that finally I think sugar is going to have to come to the reality that that program has to change because of NAFTA and therefore it can change for other things and so I think that is an important one. Ah bio energy potentially very useful. Ah obviously it raises the prices of commodities. That has some also, also negative effects again in terms of food prices, in terms of land use but, I ah there's some benefits there. I'm a little more skeptical – I don't quite yet see us getting to the point where we're going to scrap our, our barriers to importing Brazilian ethanol but I agree that that, that would be a useful way to go if we could again get the politics right.

Cuba's going ****, Cuba I think is a little further down the road I suspect no matter what happens this year but um just on Steve's question focusing, I'll focus on the ag piece of it. Whether regional agreements would do better ah for poorer countries than the DOHA round you know I, I think definitely that ah more south-south trade would be very helpful for a lot of developing countries and poor farmers and then right now where things are not very much of that is going to happen, certainly not enough um and um and regional agreements might be one way to go on that but the history though of regional agreements among developing countries is not one of great success and so I **** I mean there'd have to be some reason that those are going to be more effective and more successful than they have been in the past and I do think – I didn't you know at all mean to suggest sort of going to, to some of Bill's things that there aren't gains for the developing countries but that there just need to be complimentary policies and financial and technical assistance to make sure that countries are

able to grasp those opportunities and, and I, I think that for the developing countries I mean the rich country markets are not growing very fast but they are very big and so I don't think that they can ignore those opportunities um and the rich countries I think that there are ways to reform US foreign policy both here and in Europe that would do much better for farmers than current policies are doing and that's the theme.

I encourage you to look at Bread for the World's hunger report on exactly what some of those things would be and how poorly the current farm bill is performing for the majority of farmers in this country. To Ernie's question, yes agriculture exporters in the US need something as well and hopefully that's what we get in terms of increased market access in Europe, ah in Japan and, and in other words in the other rich countries. Those are again are, are, the big markets. I think the larger emerging markets um hopefully will step forward and go beyond sort of the minimum – especially the ones that are competitive – um go beyond the minimum formula. I don't expect India to do that frankly because they simply, they do have too many very poor subsistence farmers. I hope that India will step forward on that non-ag, ag market access and other issues but I, I just don't see them giving um on the ag ****. So I think that's gonna have to come –

Next Speaker: **** China?

Kim Elliott: China um this is the problem that's sort of the next round I think. In China it gave quite a lot in its succession agreement. So far it's taking a very low profile. Its formal barriers are fairly low. It's the implementation stuff. It's the standard sanitary and **** sanitary standards. Um things that we're going to have to find ways to address I think bilaterally that it's difficult to address under international rules or at least so far have proved difficult to address. I really don't have a lot to add to Bill's comments. He's added some very useful amendments um on from his book um on the new approach to agriculture. Absolutely it would be better if we could move to transparent negotiations over applied, with applied tariffs and applied subsidies. I, I'd like it too. I don't think I see it happening in the real world unfortunately so –

Next Speaker: Nancy anything final?

Nancy Birdsall: I think we should just go back to this first point. Well first I want to congratulate Kim also on this book and I hope that this discussion has inspired many of you to read it carefully. I think at the same time we, we have to go back to the point that President Zedillo made. It may be that we're at a kind of watershed in terms of the illogic of reciprocity, the end of mercantilism and that we've got to look – if not in the next year over the next three, four, five years – we have to press for a return to the, the tradition of US leadership on creation and maintenance of this global public good and here I think if you think of it as a global public good the US can take a position that is much more about ensuring sharing of the benefits of globalization both here and abroad.

My point on ah my argument with you Fred on bringing that altogether in the grand social contract is about the timing. There really, it's hard to imagine that all that happens in time to renew um TPA. The most we could hope for is a big push for a leadership from this administration on the farm bill on saying that this farm bill should be thought of and shaped keeping in mind the role that the US could and should take on the grander issue of the multilateral trading system.

Next Speaker: No and further reforms also of the domestic safety net ah, ah –

Next Speaker: Yeah.

Next Speaker: - element.

Next Speaker: And this **** -

Next Speaker: Ah it, sure it takes a while for all that to play through and be implemented but movement in that direction I think is a ****. Now for the grand finale, President Zedillo –

Ernesto Zedillo: Mmm? Why me? Well no I, I would like to go back to something very interesting you said about China. So while you know China should be a more active player not because of what China has to win but because of China has to lose and I think that's really the, the most powerful argument certainly for China but I would say more importantly in this country. I think the United States has built really in a substantial part this global economy and this global economy has been benefited, has benefited, the whole world – or not the whole world but the little people – but ah first and foremost it's a big asset for the prosperity and the security of this country.

So I think eh that's a very powerful argument that should be used more. When I see this logic okay agriculture but what is for the services or for the industry people? Well perhaps not much because already the US is very open and other stuff open a lot like China and other developing countries and even Europe but I think what is at stake is what we can lose if the system derails.

Next Speaker: ****.

Next Speaker: Do we go back to perfectionism? I think the world is too complacent about what's going on in international economy. I think the international economy eh has gone extremely well. Even the shocks to which it has been subjected –

Next Speaker: Yeah.

Next Speaker: - in the last five or six years. If you had told me in 2000 in my **** that you will have 9/11, a synchronized slow down, an oil and commodity shock, this and that I would have said well the international economy is going to be a disaster by 2006 and that hasn't happened.

Next Speaker: Mmm.

Next Speaker: I think that we have had healthy growth despite the global imbalances and despite many other negative aspects and what is the answer? Well I don't think that the answer was that eh Mr. Greenspan was brilliant or the Governor of the Center of Bank of England to order the European Center Bank. I think the Center Bankers are taking too much merit in that. I think the answer is globalization –

Next Speaker: Mmm.

Next Speaker: - integration, interdependence that has been achieved the last 50 years and more importantly over the 20 years and you know what? We are disregarding eh that achievement and ah as an international community we are not paying enough attention to the threats that that globalization is under and certainly the risk of deterioration of the trading system is a very ser, serious threat to, to globalization that is not being addressed in any way by political leaders. I think they are riding free on the benefits of globalization –

Next Speaker: Mmm.

Next Speaker: - and they are playing too much rhetoric, eh not only political leaders but the media and even the society. I don't see him frequently but I am told that there is an individual **** that every night you know he's coming with all these ****ism, some kind of bigotry you know and nobody or very few people are saying wait a minute you know. What? My job in a way depends on this eh interaction with the rest of the world eh and I think that ah that silence is, is something that we should be very worried about and this eh DOHA program is just a manifestation of that complacency that I think is very risky and very dangerous.

Fred Bergsten: With that eloquent conclusion let me thank you President Zedillo for having led off and, and indeed keynoted our presentation today.

Next Speaker: Whether you like it or –

Fred Bergsten: Let me thank Nancy for co-hosting but particularly let me thank Kim for having made a really major contribution. Thank you all for coming.