

I am very pleased to be part of this program. Let me start by making a serious clarification: the invitation you got from Fred and Nancy is wrong.

I am not here to deliver a keynote speech.

I am here just to praise Kim Elliott for her excellent book.

I sincerely believe that Kim's book constitutes the most updated and comprehensive 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' -agricultural protectionism. And by doing this, Kim's book also elucidates why the Doha Round is failing.

Therefore, I beg you to take my introductory comments as an appetizer –in fact, a rather unnecessary 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 a new Round were very small even as late as the summer of 2001.

It's useful to remember Mike Moore's gloomy conclusion in his late July, 2001 *reality-check*: "a large number of players are not yet convinced" and "the situation is fragile, and without generosity, good manners and good will, the process could implode and become unmanageable".

The WTO Director General 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 feared that they would end up yielding more “concessions” than the ones they would probably receive from others.

In the case of the US, the reason for not pushing strongly for the new round was that it saw more promise in extracting “concessions” through the expedient of RTAs which offered as well a lesser risk to be forced to negotiate politically touchy issues.

For their part, many developing countries were rejecting the idea of a new round on the grounds either that developed countries had failed to deliver on commitments they had made under the previous Uruguay Round or that certain WTO provisions had, in practice, proved to be counterproductive.

Then there were those, like the EU, that said it would agree to a new Round but, in practice, would do the utmost to resist a firm commitment to undertake seriously the indispensable issue of agriculture.

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 negotiations could not be the driving force that would launch the new round and make it succeed. The challenge of deepening global trade liberalization had become much less of a traditional mercantilist undertaking and more a task of providing a global public good, with all the sovereignty issues and free rider complications that such an endeavor entails.

As we all know, it took the 9/11 tragedy to bring into the picture the ingredients demanded by Mike Moore in his mid-summer reality-check and, more importantly, to make the U.S. assume again its leading role for initiating the provision of global public goods.

The atrocity energized not only the military but also (unfortunately, only briefly) the soft power of the U.S. Because of the latter, a vision different from the mercantilist one prevalent until then came into play to 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 convince the US 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 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 culminated –not without 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 were 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 geopolitical factors and global public goods considerations came into play; however, since the very beginning both the Round's agenda and negotiation 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 of 150 countries in which each, with no exceptions, 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 propelled the Round's launching should have prevailed 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.

Once this fact is 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 García Márquez, a chronicle of a failure foretold.

It's interesting to list some facts of that chronicle:

1. A few months after the launching of the Round, in March of 2002, the US imposed tariffs on steel imports, a decision certainly not consistent with the liberalization commitment enshrined in the Doha declaration.
2. Even worse, in April of 2002, the US 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-1990's. The adoption of the 2002 Farm Bill made it hard to take seriously the ambitious Doha proposal in agriculture put forward by the U.S. in June 2002.
3. In October of 2002, the EU locked for many years the CAP budget as part of the agreements to enlarge the EU, a decision that clearly undermined the credibility of their Doha commitment to reform farm trade.
4. Countries had committed at Doha to solve the TRIPS problem of access to essential medicines of countries with no capacity to produce them domestically. They set the end of 2002 as the deadline for having a consensus agreement on this issue. After arduous negotiations, an agreement was achieved by which the TRIPS agreement would be modified to allow for using compulsory licensing for other than the domestic market. In the last moment the US vetoed this agreement –after having previously accepted it. It took eight more months before the US finally accepted that solution.
5. The first deadline for having the modalities for agriculture (March 31st, 2003) was missed. The document prepared by the WTO Secretariat was rejected without much discussion.

6. In June 2003 the European Council adopted the Luxembourg reform of the CAP. It was announced as a great reform. It had some positive elements like progress in decoupling of subsidies, but not as much as it was hyped. Committed decoupling actually referred only to one fourth of subsidies granted. The CAP reform was never what the Europeans claimed it to be and it was actually very short of what was needed to comply with Doha.

7. The Cancun ministerial was approaching and little or no progress was being made in practically every issue. The worst shock came on Aug. 13, 2003--a month before the WTO Ministerial Conference meeting in Cancún, Mexico--when a joint U.S.-EU proposal on agriculture, offered as a means of breaking the deadlock of the WTO Doha Round, was announced with great fanfare. In a nutshell, the Americans and Europeans were very imprecise in defining their commitment to lowering import barriers and were overly precise in shielding massive subsidies to their own farmers from meaningful reform. In clear contradiction to the US proposal of June 2002, the US-EU joint proposal was clearly skewed towards the European gradual and discretionary approach. Why American trade negotiators coupled with the Europeans on the eve of the Cancún meeting will always be a mystery to me.

The unexpected U.S.-EU alliance was the fundamental cause of the debacle at Cancún. That alliance immediately triggered the formation of an opposition coalition led by Brazil, India and 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 meeting in Cancún.

8. The atmosphere of acrimony and cynicism that prevailed before, during and after the Cancún breakdown finally changed in early 2004. The first wind shift came in January, when Mr. Zoellick sent a letter to all WTO trade ministers. In it he signaled an auspicious departure from the infamous U.S.-EU joint proposal. Trade diplomacy became intense again. Everybody seemed to feel that

progress after July of 2004--and probably well into 2005--would be impossible because of the political circumstances in the U.S., Europe and elsewhere. Moreover, there was concern about whether the trade-promotion authority enjoyed by the U.S. Executive Branch would be extended by Congress when it came up for review in 2005. It was feared that in the absence of tangible progress at the WTO talks the extension could be blocked. WTO headquarters in Geneva left behind the lethargy of past months with the aim of clinching some meaningful agreements by the end of July. Of course the original objective of concluding the talks by the end of 2004 had been practically abandoned by then. The chief goal became simply to avoid a situation in which 2004 would become another lost year for the round.

9. At the eleventh hour of the July 31 deadline, a deal to reanimate the Round was clinched at the WTO headquarters in Geneva. The agreement was immediately hailed by its chief architects: Robert Zoellick, the U.S. trade representative, called it a milestone; Pascal Lamy, 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 to proclaim it a combination of trade liberalization and social justice!

A quick look at the points agreed back then reveals that the July agreement was, at best, a timorous step toward the goals set at Doha in 2001. Take agriculture, the area in which the Round was supposed to achieve the biggest reforms. True, negotiators agreed to eliminate export subsidies. But they failed to set a date certain. They also reiterated their commitment to substantial reductions in trade-distorting domestic subsidies, but they omitted any time frame, as well as any definition of "substantial." Furthermore, they agreed--mainly because of U.S. demands--to redefine the so-called Blue Box of subsidies (acceptable under WTO rules) to allow payments to farmers that otherwise could have been prohibited.

Regarding tariffs and other impediments to imports, negotiators committed to

substantial reductions but, again, failed to set any timetable or specify by how much. Equally worrisome was that negotiators agreed that countries could designate products as sensitive, giving them a mechanism to circumvent the general rules on dismantling farm protectionism. It was not hard to envision the abuses this provision would engender. Those hoping for real agricultural reform gained no peace of mind from statements made by certain officials. For example, Mr. Lamy himself praised the deal for locking the EU's Common Agricultural Policy into the WTO's covenants.

10. After the July 2004 Framework was produced nothing significant occurred in the negotiations for over a year. Only the specter of another failure impelled trade ministers enough to agree a Declaration at the Hong Kong Ministerial of December 2005. That Declaration was of scant substance and simply went ahead with providing a bunch of new 2006 deadlines. For example, according to the schedule, at the close of April there should be agreement on the modalities for market access on both agricultural and non-agricultural products.

11. Three months after the Hong Kong Ministerial I did my own reality check at a conference in Columbia University and concluded that ... *If not by April 30th (when the crucial deadlines on modalities will most likely be missed again), then certainly by mid Summer of 2006, it will be conspicuously clear that it is not possible to conclude a substantive Doha Round within the time frame implied by the present TPA.*

12. As we all know, April 30th came and nothing significant happened. A new deadline was set for end of June. After various attempts to bridge differences, the WTO Director General and Former EU Trade Commissioner, Pascal Lamy, suspended the negotiations indefinitely on July 24th.

Nothing of positive significance has occurred since the suspension of the negotiations. The situation may be even worse, considering that the EU has now

adopted a policy to negotiate again PTA's and that new U.S. Congress may prove to be a less pro-free trade than its predecessor.

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 on January 27th. Frankly, I don't read much into these announcements. The problem with the Doha Round has never been a technical one. Nor has it been one of lack of meetings and agreement among stubborn trade ministers. The fiasco does not stem from a 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 if the highest authorities of the countries with the biggest responsibility do not have a serious commitment to reform; if they don't understand that it's necessary to pay a political cost to accomplish real reform; if they aren't willing to put in place a consistent strategy to address seriously their respective domestic political economy issues that make their political constituencies resist trade liberalization.

It's true that all parties have contributed to the disappointment produced by the Doha Round. It's unquestionable that the developing countries have adopted highly defensive positions on most issues. However, the biggest responsibility for its failure so far lies with the biggest developed players: the US, the EU and Japan. These have failed to honor the core commitments established in the Doha Declaration.

Developing countries were told that the only way to solve satisfactorily their pending issues was to launch the 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 be 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 reduction 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 catalyze collective action. To play this catalytic role, they must move first with serious liberalizing offers and commitments of resources for their effective realization. In this way, international leadership would 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 create global public goods is all about. Certainly leadership stems from power; but the other crucial element is legitimacy grounded in clarity of purpose and the willingness to move toward that purpose without waiting for others to do so -- and sometimes also on the willingness to contribute with incentives that will entice others to follow.

Consequently, the Doha Round shall not succeed without such a process of catalytic leadership. This process entails first and foremost a transparent agreement between the U.S. and the E.U. to commit at last to real agricultural reform –ambitious reduction in trade barriers and sharp abatement of trade distorting subsidies, without the loopholes that they 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 an “aid for trade” fund to compensate the poorest countries for their loss of preferences -which a good Doha outcome would bring about, and to support them to improve their infrastructure and develop their export capacity.

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

Were the U.S. and the EU to provide for that kind of leadership, they would be well positioned to accomplish other countries' willingness and contributions 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 of the world towards globalization, not only as an instrument for economic prosperity but also for the pursuit of peace and security as Mr. Zoellick argued in 2001.

Is that catalytic leadership likely to emerge any time soon? Unfortunately, that does not seem to be the case. And this is a very bad news. The cost of failure in the Doha Round is not only the income opportunities forgone for both developed and developing countries that its successful conclusion would provide, but more importantly the losses that all will incur if the system is allowed to deteriorate and eventually proves incapable of preventing countries from regressing 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, I believe that if the bad news are confirmed, then –I want to insist- 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 very much,