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The Doha Negotiations on Trade in Goods: At a Crossroads

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ABSTRACT

In their current haste to deliver, the Doha negotiators seem to head for a package combining increased market access for "easy" products (mostly those with low or moderate tariffs) with broad exceptions in "difficult" sectors (mostly those with high tariffs). Such a mix may increase the chances of getting a deal, but it is certain to deliver a disappointing economic outcome, with very limited welfare gains for the consumers and additional market access for the exporters.

The paper presents alternatives to the current proposals that would increase economic gains and would provide wider political support. As the alternatives are detailed enough to give a concrete sense of the issues at stake and of the outcomes within reach, the paper can be read in two ways. If the ongoing negotiations fail within the next weeks, these alternatives offer fresh options. If they lead to a deal within the next months, the alternatives offer a benchmark assessing the value of the Doha outcome that would have been achieved.

In the Doha negotiations on industrial goods, the alternatives are based on the target proposed by the European business (not by the Commission) – no single industrial tariff above 15 percent – because it makes a lot of sense. It would eliminate tariff peaks, hence deliver the bulk of the welfare gains to consumers. It would vastly increase the certainty of access to the emerging countries' markets, a critical outcome for businesses. Last but not least, it would not impose a brutal liberalisation on developing economies, making easier to negotiate simple and predictable exceptions, hence generating a "clean" Doha Agreement.

In the Doha negotiations in "agriculture", the alternatives address the deadlock of the EC tariff cuts by making use of a little known but crucial fact – that the negotiations deal with many more agro-industrial ("food") products than farm products. "Rebalancing" the current EC tariff proposal – cutting more the high tariffs, cutting less the low tariffs – is an attractive alternative. Cutting deeper into the high tariffs would greatly improve the economic welfare gains of the European consumers. Cutting less the low tariffs would deliver political benefits by offering the EC farmers and a vast majority of EC food producers a better "deal" than the current proposal.

Last but not least, the alternatives presented would better fit the two key criteria imposed on the Doha Round – the "less than full reciprocity" for the emerging economies, and a "comparably high level of ambition in market access for Agriculture and NAMA" – than the current proposals.

Keywords: Doha Round, WTO, Agriculture, NAMA.

The Doha Negotiations on Trade in Goods: At a Crossroads

Patrick MESSERLIN[1]

INTRODUCTION

The Doha Round is at this crucial juncture where it has to decide the critical trade-offs between increased market access and politically needed exceptions (called "flexibilities" in the Doha jargon). In their current haste to deliver, the Doha negotiators seem to head for a package combining increased market access for "easy" products (those with initially low or moderate tariffs) with a host of arcane exceptions in "difficult" sectors (those with high tariffs, that is, precisely those which require additional competition).

Such a mix may increase the chances of getting a deal. But it is certain to deliver a disappointing economic outcome: consumers' welfare is increased mostly by cutting high tariffs, and exporters find little comfort in the dismantlement of low tariffs, while the remaining high tariffs will be frozen until the next Round. An economically mediocre outcome behind an apparent diplomatic success is doomed to have a heavy political price in most WTO Members. Anti-globalizers and protectionists of all kinds will claim that every costly event occurring in the domestic economies after the Round completion is caused by a liberalisation that never happened (as it has been the case in agriculture after the Uruguay Round). That would give a new blow to the WTO reputation.

The paper reviews the Doha negotiations on trade in goods. It also presents alternatives to the current proposals that would increase economic gains and enjoy wider political support. As the alternatives presented are detailed enough to give a concrete sense of the issues at stake and of the outcomes within reach, the paper can be read in two ways. If the ongoing negotiations fail within the next weeks, or if they spark off a last minute rethinking, the alternatives presented in the paper offer fresh options. If the current negotiations lead to a deal within the next months, the alternatives offer a benchmark assessing the value of the Doha outcome that would have been achieved.

I.   Two Key Conditions for a Doha Outcome

The Doha mandate imposes two key conditions on any outcome of the Round. Firstly, paragraph 16 of the 2001 Doha Declaration reads: "The negotiations shall take fully into account the special needs and interests of developing and least-developed country participants, including through less than full reciprocity in reduction commitments [..]". An outcome that does not meet the "less than full reciprocity" has no chance to fly, even though this condition does not make much economic sense (it can easily be detrimental to developing countries' interests). But, the developing countries are adamant on such a provision because they see it as the last, minimal, expression of the "development" dimension of the Doha Round. Hence, the alternatives proposed in the paper abide by this condition, while trying to minimize its negative potential impact on the emerging and developing countries.

The second condition is embodied in paragraph 24 of the 2005 Hong Kong Declaration that reads: "[..] we instruct our negotiators to ensure that there is a comparably high level of ambition in market access for Agriculture and NAMA." This statement is expressed in terms of goods (contrary to the previous one) but it also has a country dimension since it requires de facto some "parallelism" between the liberalisation of the industrial markets of the emerging countries and the liberalisation of the advanced economies' agricultural markets. This second criterion is economically neutral. It could

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deliver economic gains if it fuels a virtuous circle of substantial liberalization by the two groups of countries. It would harmful if it pushes both groups of countries into a vicious circle of limiting the liberalisation scope and/or magnitude.

II.   An Integrated View of the Doha Negotiations in Goods

The Doha negotiations in goods are held in two fora – one focusing on "agriculture" (a term scrutinized below, in section 4) and another one focusing on industrial products (called "non-agricultural market access" in the Doha jargon, or NAMA). Although every negotiator is aware of the links between these two tracks, this negotiating structure makes more difficult a fully integrated view of the negotiations by hiding two remarkable symmetries.

The first symmetry flows from the liberalisation efforts that most WTO Members have undertaken since the last Round. During the two last decades, many developing countries have cut their applied tariffs on industrial products (unilaterally or in accordance with their Uruguay Round commitments). But they did not bind them at their new applied levels – hence generating a huge "tariff water" (the difference between the bound and applied tariffs). [2]   Meanwhile, the advanced economies are showing a huge "support water" in agriculture, that is, a difference between their Uruguay Round commitments on farm subsidies and their current farm support. Arguably, this farm support water is more the consequence of Uruguay commitments "generous" for OECD farmers and/or of recent world price increases than the effect of real cuts in OECD farm support. But, the fact is that this huge support water does exist.

These two huge, symmetrical "waters" are what makes the Doha Round so different from the previous ones. [3]   Firstly, their sheer magnitude means that simply eliminating them has a huge intrinsic economic value in terms of certainty of the existing trade flows in goods – a point that the Doha negotiators tend to undervalue while the business community is heavily insisting on it. In other words, even if the cuts in bound industrial tariffs and in farm support to be decided by the Doha negotiators are short to cut (on average) the current applied industrial tariffs and farm support, these cuts will have – more than in any previous Round – a strongly positive impact on trade in goods. Secondly, these symmetrical "waters" look an useful basis for a reasoned and balanced approach that is so cruelly missing in the ongoing negotiations. If the advanced economies' negotiators want to "cut flesh" in the industrial tariffs of the emerging countries (that is, to get bound tariffs lower than the current tariffs applied by these economies in order to generate "new trade flows") they should be ready to "cut flesh" in their farm support and in their agricultural tariffs since tariffs are the best instrument for disciplining subsidies [Snape 1991]. Of course, a symmetrical statement could be made for the emerging countries' negotiators.

The Doha Round has a second symmetry that could be remarkably useful. The peak bound tariffs of the nine major emerging countries in manufacturing are roughly of the same magnitude (400 percent) than the peak tariffs of the U.S. and the EC in agriculture (when including the ad valorem equivalent of the specific duties). Focusing on the peak tariffs is essential from an economic point of view because most welfare gains will flow from cuts in the high tariffs. (By contrast, WTO negotiators unfortunately focus on tariff and tariff cut averages that say little on the tariff structures, hence are unable to shed some light on the true economic impact of the Round.) The paper uses these almost similar peak tariffs for defining balanced cuts of the highest tariffs for the two main groups of goods (hence for the two main groups of WTO Members).

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[2] /WTO tariff negotiations deal exclusively with bound tariffs because they are the only ones that cannot be raised without compensating the affected trading partners, hence that deliver legal certainty in market access.

[3] /Out of the 143 WTO Members on which there is available information, 104 Members enforce applied tariffs lower than their bound tariffs, with 70 of them having an average tariff water higher than 10 percent. In some cases, tariff water can reach impressing average level (about 100 percent) [WTO 2006]. Out of these 70 countries, 21 can be classified as emerging economies, the rest being developing countries [Messerlin 2007].

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III.   The NAMA Negotiations

NAMA negotiators cover all the industrial sectors, except the food industries which are part of the negotiations in "agriculture". Their failure to define exceptions in such a way that negotiators could easily predict their impact on the final balance of concessions of their country and its trading partners is one of the key reasons for the suspension of the Doha negotiations in July 2006.

The December 2005 Hong Kong Ministerial did make a giant step in improving the market access negotiating process by adopting the "Swiss formula" as the instrument for negotiating tariff cuts. [4]/ The Swiss formula is an extremely efficient instrument from a negotiating point of view (it is the simplest possible negotiating method since it consists in agreeing on one figure, namely the Swiss coefficient) from an economic perspective (it cuts high tariffs by more than small tariffs, hence it grabs most of the welfare gains to be expected from liberalisation, while still making possible to stabilize or even to increase tariff revenues) and from a domestic political point of view (it keeps unchanged the pre-liberalisation ranking of tariffs, hence it does not trigger fights among domestic vested interests). Last but not least in the Doha Round, all these features make the Swiss formula the ideal instrument for taking into account the wide differences in the development level among the WTO Members without being forced to go through the process of defining different groups of developing countries (such a process has almost no chance to be successful in the current WTO forum).

That said, there is an unavoidable need for exceptions to a base formula in a forum with so many and so diverse Members as the WTO). [5]/ The Hong Kong Ministerial was unable to define the exceptions more clearly than the 2004 Framework Agreement – hence amounting to void the Swiss formula of any substance not only because the coverage of the exceptions has often been left open, but also because the magnitude of the exceptions can be huge.

Firstly, paragraph 6 of the Framework exempts "participants with a binding coverage of non-agricultural tariff lines of less than [35] percent [..] from making tariff reductions through the formula. Instead, we expect them to bind [100] percent of non-agricultural tariff lines at an average level that does not exceed the overall average of bound tariffs for all developing countries after full implementation of current concessions." Defining the binding level in average terms gives no clue about the final tariff structure. Indeed, such a procedure induces the Members operating under this provision (mostly "vulnerable" developing countries) to widen as much as possible the range of their bound tariffs, binding at a very high level some tariffs at the cost of binding the other tariffs at a very low level. In short, it induces the WTO Members to adopt a very distorted bound tariff structure that would be very costly for their consumers – and producers that account for a large share of domestic consumption.

Secondly, paragraph 8 of the 2004 Framework states that "developing-country participants [..] shall be given the following flexibility: (a) applying less than formula cuts to up to [10] percent of the tariff lines provided that the cuts are no less than half the formula cuts and that these tariff lines do not exceed [10] percent of the total value of a Member's imports; or (b) keeping, as an exception, tariff lines unbound, or not applying formula cuts for up to [5] percent of tariff lines provided they do not exceed [5] percent of the total value of a Member's imports." Paragraph 8(a) would permit to use very high Swiss coefficients. For instance, it would allow a Swiss coefficient of 150 if a Swiss coefficient of 25 is the base coefficient. [6]/ Paragraph 8(b) is totally open ended.

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[4] /The basic Swiss formula is $T = [rt/(r+t)]$ where 't' are the initial tariffs, 'T' the post-negotiation tariffs, and 'r' the reduction coefficient (hereafter the "Swiss coefficient"). The Swiss coefficient is thus the only element to negotiate on. In what follows, the expression "a Swiss60" means a Swiss coefficient of 60. A variant of the basic formula could be $T = rt/(r^{\alpha} + t^{\alpha})^{1/\alpha}$ where 'α' is a "political" coefficient (to be negotiated) aiming to reduce tariff cuts in the low tariff range, hence to boost political support – a feature that could be particularly useful for the negotiations in the farm products (see below).

[5] /This necessity has induced negotiators to use the term of "flexibilities". However, the term of "exceptions" describes better the economic consequences of such flexibilities.

[6] /A Swiss25 cuts a tariff of 100 percent into a tariff of 20 percent. Half this formula cut generates a tariff of 60 percent (100-(80/2)). A Swiss150 is enough to cut a tariff of 100 percent into a tariff of 60 percent.

A. The Current NAMA Tariffs: An Overview

In order to get a better sense of the issues at stake, Table 1 gives key information on the structure of the tariff schedules of 18 advanced and emerging economies which, all together, represent 83 of the world GDP (2004 estimates under power purchasing parity exchange rates). [7] A deal between these countries would thus be decisive, especially if it could be based on instruments easy to extend (such as the Swiss formula with its almost costless capacity to modulate the reduction coefficients) to the other WTO Members.

Table 1. Bound and applied tariffs, selected advanced and emerging economies

	Number of tariff lines [a]	Average			Bound tariffs			Applied tariffs		
		bound tariffs	applied tariffs	tariff water	Maximum	Nber of tariff lines		Maximum	Nber of tariff lines	
						>15%	>50%		>15%	>50%
	1	2 [b]	3 [c]	4	5 [d]	6 [d]	7 [d]	8 [d]	9 [d]	10 [d]
I. Low bound and applied tariffs, minimal tariff water: offering cuts in peak tariffs										
Japan	4327	2.3	2.3	0.0	28.5	25	0	25.0	13	0
USA	4428	3.4	3.3	0.1	38.6	120	0	33.1	80	0
EC	4441	4.0	4.0	0.0	57.5	38	1	42.8	37	0
Singapore	4306	4.1	0.0	4.1	10.0	0	2	0.0	0	0
Taiwan	4266	4.7	4.7	0.0	60.0	72	0	40.0	66	0
Canada	4427	5.3	4.0	1.3	25.0	360	0	20.1	255	0
II. Moderate bound tariffs, low applied tariffs, moderate tariff water: offering more certainty (binding) and cuts in tariff peaks										
Australia	3911	11.0	3.8	7.2	55.0	577	101	25.0	213	0
New-Zealand	4095	11.1	3.4	7.7	45.0	1450	0	40.0	228	0
III. Moderate bound and applied tariffs, low tariff water: offering notable liberalisation while keeping certainty high										
Korea	4347	10.2	6.7	3.5	36.8	552	0	30.0	59	0
South Africa	4247	11.0	7.8	3.2	60.0	1187	72	54.5	953	59
Malaysia	4247	11.2	8.0	3.2	300.0	1562	18	215.6	1234	10
China	4330	14.4 [e]	9.1	5.3 [e]	50 [f]	--	--	50.0	--	0
IV. High bound tariffs, moderate applied tariffs and tariff water: offering notable liberalisation while offering more certainty										
Philippines	4053	16.7	5.8	10.9	50.0	1886	127	40.0	954	0
Thailand	3522	20.2	10.0	10.2	80.0	2289	24	80.0	1243	19
V. High bound tariffs, moderate applied tariffs, high tariff water: offering substantial liberalisation and more certainty										
Brazil	4233	29.4	12.7	16.7	85.0	3994	1	35.0	2196	0
Mexico	4374	34.8	13.4	21.4	50.0	4349	76	50.0	2450	0
Indonesia	4229	35.0	6.8	28.2	125.0	3864	21	80.0	592	3
India	3736	37.0	15.4	21.6	150.0	3505	715	(52.0 [g])	3413	(708 [g])

Notes	[a] Data available at the Harmonized System 6 digit (Forbes et alii [2004]).
	[b] Data available at the Harmonized System 6 digit, except for China (see note [e]).
	[c] Data from WTO Trade Profiles (tariffs applied in 2005).
	[d] Data from Forbes et alii [2004].
	[e] Due to its recent accession, China's average bound tariff has been arbitrarily set at the level of her average applied tariff in 2002 (see text for explanation). China's current tariff water is nil.
	[f] Data for these bound tariffs are those enforced in 2005.
	[g] Data for the applied tariffs in 2000.
Sources:	Forbes et alii, 2004. WTO Secretariat, 2007.

Table 1 ranks these 18 economies by increasing bound tariffs, and suggests a breakdown into five relatively homogeneous groups. Group I countries can offer little in NAMA other than to cut their relatively few (but crucial for the exporting sectors of their trading partners) peak tariffs in sectors, such as some clothing, chemical or automotive products in the EC case. Group II countries can, above all, offer their trading partners more certainty by binding their remaining moderate or peak bound tariffs at their low applied level. Group III countries can offer notable liberalisation opportunities, but they should do so while ensuring to keep tariff water at their current low level. [8] Group IV countries can also offer notable tariff cuts, but, above all, they should offer their trading partners substantially more certainty by cutting their high bound tariffs. Lastly, Group V countries can offer both substantial tariff cuts and certainty (binding).

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[7] /Table 1 relies on the (mostly 2002) tariffs at the 6 digit level of the standard tariff Harmonised System for the bound tariffs [Forbes et alii 2004] and on the 2005 applied tariffs [WTO Trade Profiles] for the average (column 3)Maximum tariffs are coming from Forbes et alii [2004].

[8] /China has been put in Group III in order to take into account the fact that it is a recent WTO Member (after November 2001) and making use of provisions included in the 2004 Framework. Current bound tariffs of China are 9 percent, leaving no tariff water (they would make China a member of Group II or even Group I). The other recent WTO Members have a similar situation than China, but they are much smaller economies.

B. Listen to the European Business Community

It is often said that trade negotiators suffer from a lack of support from their business community. This has not been the case in the Doha negotiations. In particular, European firms have, clearly and repeatedly, defined the concessions they expect in NAMA from the emerging economies, namely "no single [industrial] tariff above 15 percent at the end of the implementation period of the Doha Round (except for LDCs)" [UNICE 2006].

Such a target is economically sound for three reasons – meaning that it should be adopted by the advanced WTO Members as their goal for the Doha Round. Firstly, its key virtue is to eliminate the tariff peaks that hurt the most the advanced economies' exports, and that generate the bulk of the welfare costs imposed on the domestic consumers of the emerging economies. Secondly, this target would vastly increase the certainty of access to the emerging countries' markets for the advanced economies' exporters – an outcome that is highly valued by the business community. Lastly, this target is far to impose a brutal trade liberalisation on the emerging countries (it is close to their currently average applied tariffs, see column 3 of Table 1) a feature that should help to reduce requests for exceptions, and to make them as simple and predictable as possible (see below).

All these reasons make really interesting to have a good concrete sense of the changes associated to the 15 percent target (using a base Swiss coefficient) and to simple and predictable exceptions (using Swiss coefficients higher than the base one). However, it should be stressed that the tariff data used for developing such an outline are defined at a level (Harmonised System 6 digit) which is more aggregated than the level used by the negotiators [Forbes et alii 2004]. Hence, the results presented in the paper should be taken with some caution for individual industrial goods (notably, peak tariffs) since the available data could be the average of (very) different disaggregated tariffs. By contrast, the calculations include already so many tariff lines that the results presented are likely to offer a good view of the situation.

C. The Base Swiss Coefficient for the Emerging Countries

Table 2 shows that the highest Swiss coefficients that would fulfill the European business target would range from a Swiss20 to a Swiss25. The Swiss25 is the base Swiss coefficient chosen in this paper, despite the fact that it leaves a very high number of tariff lines with tariffs higher than 15 percent for Indonesia and India.

Table 2. Calculations of possible tariff cuts, selected emerging countries

	Swiss factor = 20				Swiss factor = 25				Combined Swiss factor [a]			
	Average bound tariff	Tariffs >15% Number of lines	Average tariff	Maximum bound tariff	Average bound tariff	Tariffs >15% Number of lines	Average tariff	Maximum bound tariff	Average bound tariff	Tariffs >15% Number of lines	Average tariff	Maximum bound tariff
	1	2	3	4	1	2	3	4	1	2	3	4
I. Moderate bound and applied tariffs, low tariff water: offering notable liberalisation while keeping certainty high												
Korea	6.0	0	0.0	13.0	6.5	0	0.0	14.9	6.7	190	18.8	22.1
South Africa	5.2	0	0.0	15.0	5.8	230	16.5	17.6	6.2	266	23.1	30.0
Malaysia	5.4	8	17.7	18.8	6.0	25	18.0	23.1	6.2	118	21.6	50.0
II. High bound tariffs, moderate applied tariffs and tariff water: offering notable liberalisation while offering more certainty												
Philippines	8.1	0	0.0	14.3	9.0	159	16.4	16.7	9.3	384	17.7	27.3
Thailand	9.2	17	16.0	16.0	10.3	41	17.3	19.0	10.6	211	20.0	34.3
III. High bound tariffs, moderate applied tariffs, high tariff water: offering substantial liberalisation and more certainty												
Brazil	11.6	1	16.2	16.2	13.2	1	19.3	19.3	13.4	201	20.1	22.1
Mexico	12.7	0	0.0	14.3	12.6	82	16.1	16.7	14.7	206	20.2	27.3
Indonesia	12.2	20	17.1	17.2	14.1	2692	15.4	20.8	14.4	2701	15.9	34.3
India	12.4	10	17.2	17.6	14.3	2571	15.8	21.4	14.7	2571	16.5	42.0

Notes	[a] Based on a Swiss factor of 25 combined with a Swiss of 40 for 4 percent of the tariff lines and a factor of 60 for 2 percent of the tariff lines. The two highest Swiss factors have been systematically applied to the currently highest applied tariffs.
Source	Forbes et alii, 2004. Author's computations.

There are three reasons for such a choice. Firstly, almost all the post-Doha tariffs still above 15 percent with a Swiss25 are smaller than 16 percent (Indonesia) or 17 percent (India) – hence meaning that the Swiss25 is a very limited departure from the European business target. Secondly, the choice of a Swiss25 aims at changing the negotiating dynamics by promoting the notion that a more "generous" base Swiss coefficient should be "paid" by less numerous and/or arcane exceptions. For instance, choosing a Swiss25 (rather than a Swiss22 or 23 which would completely eliminate tariffs higher than 15 percent) should be paid by a more compromising attitude of the emerging economies on exceptions. Lastly – and crucially in the Doha context – the choice of a Swiss25 would make easier the fulfilment of the "less than full reciprocity in reduction commitments" condition, as shown below.

In sharp contrast with this approach, some advanced WTO Members have insisted on the use of a Swiss15 for the emerging economies. A Swiss15 would clearly go beyond the European business target since it would generate maximum tariffs in the emerging countries of roughly 13 percent. Such an "overshooting" raises serious doubts on whether some of these advanced WTO Members really want to negotiate. [9]/ An alternative explanation is that these negotiators see liberalisation as imposing that most (all) post-Round bound tariffs should be lower than the pre-Round applied tariffs. With the huge backlog of tariff water in the Doha Round, such an interpretation of what makes tariff binding valuable amounts to request from the emerging countries to deliver in one Round tariff cuts that the advanced economies delivered in two or three Rounds. No wonder then that such an "overshooting" has pushed the emerging countries' negotiators to look for wide exceptions in NAMA, offering to a dozen of industrial countries the excuse to do the same in farm and food products – ultimately a self-defeating sequence for every WTO Member.

D. Predictable Exceptions for the Emerging Economies

Exceptions should be defined in such a way that negotiators could easily predict their impact on the final balance of concessions between their own country and its trading partners. The scope of the exceptions and their level are the two most basic dimensions to define. [10]/ If there is only one way for defining the scope of the exceptions (namely the number of tariff lines eligible for the exceptions) there are many possible ways to define the level of the exceptions. So far, the Doha negotiators have shown some attraction for complex and loose exceptions. However, the multilateral trade regime, and every WTO Member, would greatly benefit from a simple definition for the exceptions because simplicity improves the capacity to predict and to assess the magnitude and impact of the exceptions. By contrast, complex definitions of exceptions generate self inflicted costs, such as rents hard to predict (see below the discussion on the tariff-rate quotas in agriculture).

In NAMA, the most natural way to put simplicity in practice seems to use Swiss coefficient(s) higher than the base one. Hence, what follows uses a "combined Swiss formula" based on two Swiss coefficients higher than the base one.

The first step for generating such a combined Swiss formula consists in defining the highest Swiss coefficient. A hint for a plausible highest Swiss coefficient flows from Table 1 (column 5) which shows that only half of the 18 economies have bound tariffs higher than 50 percent, and that only four are currently enforcing a tiny number of tariffs higher than 50 percent. [11]/ A 50 percent bound tariff as the highest post-Doha tariff for the 18 countries seems thus a very reasonable target (with the data used). It means that a Swiss60 would be the highest Swiss coefficient since it cuts a 300 percent tariff (the highest bound tariff for the 18 countries) into a 50 percent bound tariff.

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[9] //These doubts have been amplified by the fact that these Ministers are insisting on a Swiss10 for the advanced economies and on very limited tariff cuts in agriculture. That said, it should be underlined said that a Swiss coefficient defines the highest possible post-Doha tariff for initial tariffs much higher than those existing in the real world (a point that many negotiators did not immediately realize). For instance, a Swiss20 will cut an initial (pre-Doha) tariff close to 500 percent into a tariff of 19.2 percent. But tariffs of 500 percent are very rare in the real world (there is none in Table 1). For high tariffs not too rare in today world (say 50 percent) the post-Doha tariff with a Swiss20 is 14.3 percent only.

[10] /There can be other dimensions for defining exceptions, such as the transition period allowed for enforcing the commitments,. Those dimensions are often defined at a later stage of the negotiations, when comes the time of the ultimate adjustments.

[11] /Unfortunately, this observation does not include India, because of the absence of data on current applied India's tariffs which would be compatible with the data for the other countries.

The next step is to define the scope of the Swiss60, that is, to define the number of tariff lines for which the highest Swiss coefficient could be used. Table 1 suggests 2 percent of the tariff lines as a plausible scope because this is the share of all the tariff lines with a bound pre-Doha tariff higher than 50 percent (in accordance with the logic of the Swiss formula that is to compress tariff rates without changing their ranking). The last step is to define an intermediate Swiss coefficient and its additional coverage of the tariff lines. The coefficient is arbitrarily assumed to be 40, and the coverage to 4 percent of the tariff lines.

Based on this "combined Swiss formula", Table 2 shows that the emerging countries would exhibit average bound tariffs ranging from 6.7 to 14.7 percent, with a maximum bound tariff of 50 percent, but with very few tariffs higher than 30 percent. Moreover, the fact that the number of tariff lines with a tariff higher than 15 percent does not increase notably (compared to those in the case of a Swiss25 alone, see Table 2) suggests the combined Swiss coefficient as an interesting compromise between the exceptions to be introduced and the liberalisation targetted by the European business community.

Table 3 summarizes the changes in protection generated by such a combined Swiss formula. The average bound tariff would be cut by 4 to 22 percentage points (column 1), and the maximum bound tariffs by 15 to 250 percentage points (column 2). In addition, cuts in bound tariffs would have an impact on the applied tariffs. This is clearly the case for the maximum applied tariffs that would be cut by 8 to 165 percentage points (column 4). Once again, this is an important result because it is a crucial source of welfare gains: Effective cuts in terms of average tariffs would be limited to three countries (column 3) but the average tariff water would be eliminated or reduced to a low level in all the others – a result of considerable importance for, and highly valued by, the business community.

Although they largely consist in eliminating tariff water, these results may be perceived as a notable reduction of "policy space". However, this impression is inaccurate [Page 2006]). Of course, these results imply some reduction of policy space at the borders. But as illustrated by the advanced economies during the last fifty years, policy space has almost completely shifted to the "behind-the-border" agenda, if only because tariffs are much less efficient instruments than domestic taxes and subsidies on goods, services and production factors, all instruments ensuring a policy space that is quite consistent with WTO disciplines.

Table 3. Summary of tariff cuts generated by a "combined Swiss formula", selected emerging countries

	Cuts in bound tariffs (percentage points)		Applied tariff cuts due to bound tariff cuts (percentage points)	
	average [a]	maximum [b]	avg [c]	max [d]
	1	2	3	4
III. Offering some liberalisation, keeping certainty high				
Korea	-3.5	-14.7	0.0	-7.9
South Africa	-4.8	-30.0	-1.6	-24.5
Malaysia	-5.0	-250.0	-1.8	-165.6
China	n.a.	-22.7	n.a.	-22.7
IV. Offering some liberalisation and more certainty				
Philippines	-7.4	-22.7	3.5	-12.7
Thailand	-9.6	-45.7	0.6	-45.7
V. Offering more liberalisation and more certainty				
Brazil	-16.0	-62.9	0.7	-12.9
Mexico	-20.1	-22.7	1.3	-22.7
Indonesia	-20.6	-90.7	7.6	-45.7
India	-22.3	-108.0	-0.7	-10.0

Notes:
[a] (post-Doha avg bound tariffs) minus (current avg bound tariffs).
[b] (post-Doha max bound tariffs) minus (current max bound tariffs).
[c] (post-Doha avg bound tariffs) minus (current avg applied tariffs).
[d] (post-Doha max bound tariffs) minus (current max applied tariffs).
Sources: Forbes et alii [2004], Table 2.

E. The Base Swiss Coefficient for the Advanced Economies and the Two Core Doha Criteria

The potential offer of the advanced economies is mostly limited to cuts in peak tariffs, and to cuts in bound tariffs for Australia and New Zealand. These cuts have a great economic value for the emerging economies because industrial economies' tariffs peaks are concentrated on their imports. But, their "negotiating value" (often measured by the import weighted tariff cuts) is limited.

Would a Swiss10 deliver enough tariff cuts from the advanced economies for being considered as complying with the "less than full reciprocity" criterion? Or should it be a Swiss coefficient lower than 10? For instance, a coalition of developing countries (called NAMA11) argues for a 25 percentage points difference between the base Swiss coefficient for the emerging economies and the base Swiss formula for the advanced economies (meaning a Swiss0 for these economies if a Swiss25 is adopted for the emerging economies).

This question should be re-stated as follows. What would be the economic value of a Swiss coefficient lower than 10 for the emerging economies? For instance, shifting from a Swiss10 to a Swiss5 would reduce the maximum bound tariffs of the advanced economies from a range of 5.0-8.6 percent to a range of 3.3-4.6 percent (it would reduce their average bound tariffs from a range of 1.4-4.4 percent to a range of 1.0-2.8 percent). From the emerging countries' point of view, gains from so limited cuts of so low tariffs are not very attractive – especially if once enforced, they trigger more antidumping or safeguard actions from the advanced economies against exports from the emerging economies.

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An economically sound alternative for the emerging economies may thus be a deal based on a Swiss25 for the emerging countries and a Swiss10 for the advanced economies – reflecting the basic fact that the advanced economies have liberalised much more and earlier than the emerging countries. [12]/ Clearly, this tentative conclusion also depends upon the concessions of the advanced economies in the negotiations in agriculture. The deeper concessions in agriculture from the advanced economies would be, the more a Swiss25-Swiss10 deal in NAMA would be acceptable for the emerging economies – and the more the "comparably high level of ambition in market access for Agriculture and NAMA" criterion would be met.

IV.   The Negotiations in "Agriculture"

At a first glance, the "comparably high level of ambition" criterion seems a target out of reach since trade liberalization in farm products is so much lagging behind liberalisation in NAMA products. However, this first impression disappears when one recognizes the critical fact that talking about negotiations in "agriculture" is a misnomer. The current negotiations deal with many more agro-industrial (hereafter "food") goods than with farm products. More precisely, these negotiations cover roughly 2000 tariff lines, with 1100 lines being classified as processed food products, and 500 additional ones as semi-processed food products. This little recognized feature is crucial because trade liberalisation in food products is, by nature, much closer to trade liberalisation in industrial products than to trade liberalisation in farm products. Making a clear distinction between these two very different types of products opens thus a window of opportunities in the Doha negotiations in "agriculture".

A.   Assessing the Tariff Cutting Formulas in Agriculture

The negotiators in farm and food products face a problem that does not exist in NAMA. The formulas which, so far, have been tabled for cutting tariffs on farm and food products are much murkier than the Swiss formula adopted in NAMA. The negotiators have agreed to work on complex "tiered" formulas, and even awkward at some points. A tiered formula is 16 times more complex than a Swiss formula since, as shown by Table 4, negotiators should strike a deal on no less than 16 figures for developed countries (three thresholds defining four tariff ranges, four percentage cuts for each range, and a tariff cap) and they should do the same for the developing countries (and for any sub-group of them if required by the negotiations). Awkward discontinuities appear at the points connecting two different tiers. For instance, under the EC tiered formula, an initial tariff of 89 percent would be cut to a post-Doha tariff of 44.5 percent, whereas an initial tariff of 91 percent would be cut to a post-Doha tariff of 36.4 percent. Such discontinuities make hard to get an agreement on defining the various tiers, and they fuel the need of exceptions to accommodate such an agreement.

Assessing the economic and political impact of the tabled formulas appears thus essential. It requires a benchmark, and Paragraph 24 and common sense suggest to take a Swiss-like approach as the benchmark since the "comparably high level of ambition" condition would be much easier to check if the same instrument is used for cutting tariffs in agriculture and in manufacturing. For simplicity sake, what follows presents this exercise only for the EC tiered formula.

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[12] /The 15 percentage points wedge between a Swiss25 and a Swiss10 suggested in this paper happens to be the simple average of the 25 percentage points wedge suggested by the NAMA11 Group (Argentina, Brazil, Egypt, India, Indonesia, Namibia, Philippines, South Africa, Tunisia and Venezuela) and of the 5 percentage points wedge (between a Swiss15 and a Swiss10) suggested by some advanced economies.

Table 4. Tabled proposals on farm tariff cuts, 2005

	EC proposal		G20 proposal		U.S. proposal	
	definition of the tiers	tariff cut (%)	definition	tariff cut (%)	definition	tariff cut (%)
	1	2	3	4	5	6
Tariff cuts to be imposed on developed countries						
highest tier	>90%	60	>75%	75	>60%	85-90
medium high	60-90%	50	50-75%	65	40-60%	75-85
medium low	30-60%	45	20-50%	55	20-40%	65-75
lowest tier	0-30%	35	0-20%	45	0-20%	55-65
Tariff cuts to be imposed on developing countries						
highest band	>130%	40	>130%	40	>60%	[a]
medium high	80-130%	35	80-130%	35	40-60%	[a]
medium low	30-80%	30	30-80%	30	20-40%	[a]
lowest band	0-30%	25	<30%	25	0-20%	[a]
Other elements of tariff rates						
cap tariff (developed countries)	--	100	--	100	--	75
cap tariff (developing countries)	--	150	--	150	--	100

Source: The EC, G20 and U.S. proposals. Note [a]: Reference to "slightly lesser reductions" without more precision.

Figure 1 illustrates the EC tiered offer and two Swiss formulas, one with a coefficient of 60 and another one with a coefficient 70 for reasons explained below. The horizontal axis gives the current EC tariffs (including the ad valorem equivalents, as estimated by the Commission, of the many EC specific tariffs) with the exception of one tariff line (exhibiting a tariff of 408 percent, while the second highest tariff is 264 percent). The vertical axis illustrates the post-Doha tariffs which would be obtained by using the various formulas. The EC tiered proposal is illustrated by the four straight lines, the Swiss60 coefficient by the lower and long curve line, and the Swiss70 coefficient by the higher and shorter curve line.

Figure 1 provides a crucial result for the EC domestic policy makers. A Swiss-like approach would impose deeper tariff cuts on the current (pre-Doha) highest tariffs than the EC tiered formula, and smaller tariff cuts on the currently less protected products than the EC tiered formula. For instance, the Swiss60 would cut an initial tariff of 90 percent into a post-Doha tariff of 36 percent (compared to 45 percent in case of the tiered formula) and it would cut an initial tariff of 25 percent into a post-Doha tariff of 17.6 percent (compared to 16.3 percent if the tiered formula is used).
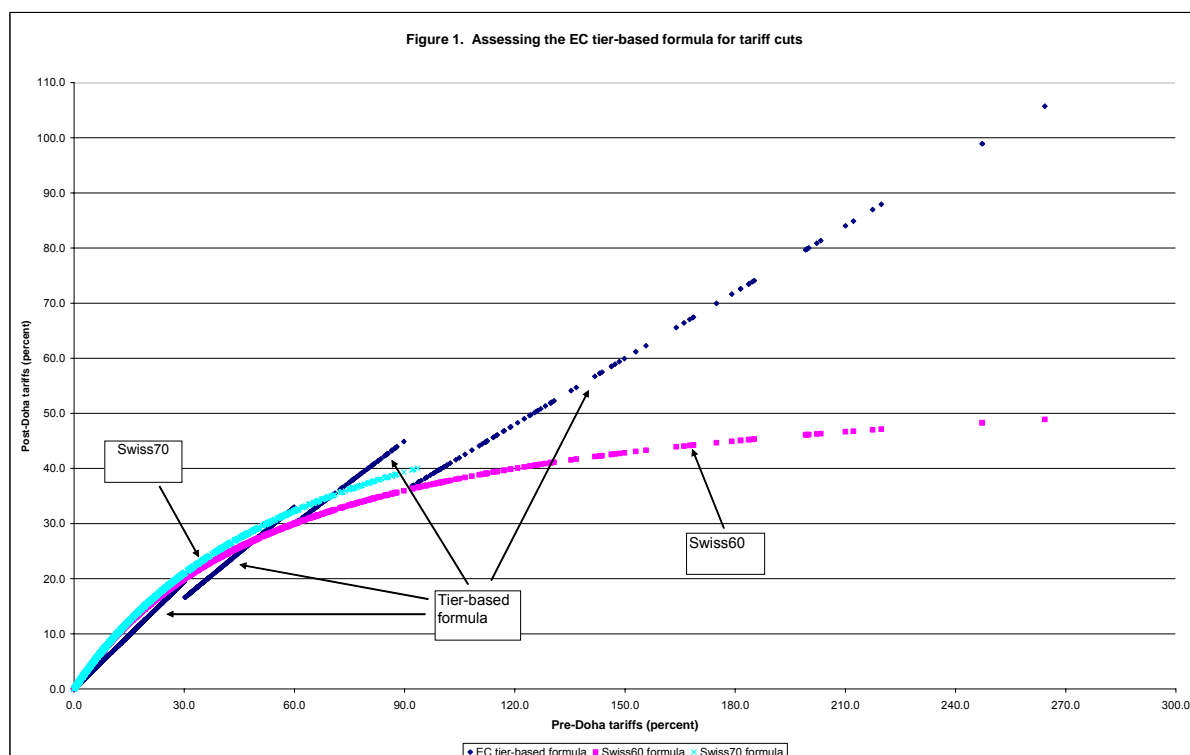
Figure 1. Assessing the EC tier-based formula for tariff cuts

Figure 1 provides a last important conclusion. It presents increasingly "dotted" lines and curves because the number of current EC tariffs above 90 percent are increasingly rare. The tiered formula means that post-Doha tariffs derived from the initial EC tariffs higher than 90 percent can still vary a lot (from 40 to 110 percent!). And this would be the case even if the initial tariffs are imposed on close varieties of the same family of products. For instance, the tariffs for close varieties of grape juice or buttermilk vary by a coefficient of 2 to 3 depending on the variety classification. Such a tariff structure would inevitably create misclassifications by EC Customs (with high risks of corruption) and it will generate severe distortions in European production at a very disaggregated level. Because it "compresses" the ranking of the highest tariffs, a Swiss-like approach minimizes such distortions (depending the Swiss coefficient adopted). For instance, a Swiss60 would "compress" the initial EC tariffs higher than 90 percent to the range of 36 to 50 percent only.

B. Farmers Are Not the Main Beneficiaries of the Tabled Proposal

A Swiss-like approach would rebalance the existing EC offer in an economically sound way by bringing two types of improvements. Cutting deeper into the highest tariffs would create most of the welfare gains that European consumers – especially the poorest – should expect from a liberalisation. And, because it reduces the huge distortions among the relative prices of the farm and food products generated by widely different tariffs, a narrower range of post-Doha tariffs would nurture a more far-reaching reallocation of resources among all the farm and food products.

But, its most surprizing result is that it would also have a positive impact on domestic politics. European producers of the goods getting smaller tariff cuts would clearly support a shift to a Swiss-like approach, while those associated to deeper tariff cuts would fight against it. As long as the former group constitutes a larger and stronger coalition than the latter, a Swiss-like approach is politically superior to the current tiered proposal. The key questions is thus: Who would be the producers benefiting from such a rebalance?

Answering this question requires to associate a level of processing to every tariff line. What follows draws this information from the table of concordance established by the U.S. Department of Agriculture (USDA) between every tariff line and a processing level. [13]/ Applying the USDA concordance table to the EC tariffs allows to get several results which open new perspectives in the negotiations. Table 5 summarizes the critical results.

Firstly, it shows the strong "tariff escalation" among the initial EC tariffs – the more processed the goods are, the higher their level of protection is. Table 5 shows that the average tariff of the bulk farm products (19.7 percent) is substantially lower than the average tariff of the processed food products (32.3 percent), and, even more strikingly, the highest tariff for the farm products (93.6 percent) is much smaller than the highest tariff on processed food (264.3 percent). It is worth mentioning the two main reasons behind such a strong tariff escalation. Firstly, it was the conviction which has prevailed until the Uruguay Round that food processors should be highly protected in order to counterbalance the high prices to be paid when buying European farm products. Secondly, it is the methodology adopted in great haste [Groser 2007] by a few Trade Ministers at the May 2005 Paris informal Ministerial for calculating the ad valorem tariff equivalent of the many specific tariffs in agriculture. In other words, the initial high tariff escalation in the EC tiered formula mirrors a far away and a recent past much more than a current reason.

Table 5. Rebalancing the EC tariff proposal

	Current ad val. equivalent tariffs %	Post-Doha tariffs (%)		
		EC offer	Swiss 70	Swiss 60	Swiss 50
All "agricultural" products (2011 tariff lines)					
average tariffs	24.4	12.9	13.9	13.1	12.2
Bulk farm commodities (117 tariff lines)					
average tariffs	19.7	10.7	11.8	11.1	10.3
maximum tariff	93.6	43.7	40.0	36.6	32.6
number of tariff lines with smaller cuts [b]			65	60	42
number of tariff lines with larger cuts [b]			8	13	31
Produces/horticulture products (273 tariff lines)					
average tariffs	13.6	8.0	9.7	9.3	8.9
maximum tariff	118.9	47.6	44.1	39.9	35.2
number of tariff lines with smaller cuts [b]			214	210	202
number of tariff lines with larger cuts [b]			5	9	17
Semiprocessed products (488 tariff lines)					
average tariffs	12.6	6.8	7.6	7.2	6.7
maximum tariff	174.9	70.0	50.0	44.7	38.9
number of tariff lines with smaller cuts [b]			262	243	226
number of tariff lines with larger cuts [b]			24	43	60
Processed products (1120 tariff lines)					
average tariffs	32.3	16.9	17.8	16.7	15.5
maximum tariff	264.3	105.7	55.3	48.9	42.0
number of tariff lines with smaller cuts [b]			949	847	749
number of tariff lines with larger cuts [b]			118	222	318

Notes	[a] it was impossible to allocate ** tariff lines in the three categories of products.
	[b] in case of using a Swiss formula instead of the EC tier-based formula.
Source	EC tariff offer in agriculture. Author's computation.

Secondly, the tariff cuts proposed by the current EC proposal protect food producers much more often than farmers. Table 5 shows that the post-Doha tariffs would be 10.7 percent for the bulk farm commodities compared to 16.9 percent for processed food products, while the post-Doha tariff peaks would be 43.7 percent for those farm products, compared to 105.7 percent for processed food. Interestingly, the food products that would remain the EC most protected items after the Doha Round are a strange hodgepodge of waste products (dog and cat food, offal, whey, etc.) goods with tiny

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[13] /The USDA concordance splits the whole universe of the "agricultural" products into four subsets: the bulk farm commodities, the produce/horticulture products, the semi-processed products and the processed products..

potential in international trade (yoghurts) and products of questionable importance (cucumbers, gherkins, etc.).

Thirdly, protecting farmers does not require to protect food producers. Farmers are, to a notable extent, immune to changes in the composition of the various processed food products which can be derived from their farm production. For instance, milk can be used to produce butter, cheese, yoghurts, sweets, etc., as coal can be used for producing steel or chemicals. (Who would argue that protecting coal requires to protect steel or chemicals?) If some processed dairy products are highly protected, it is at the detriment of the less protected processed dairy products. Re-balancing protection among food products would mostly generate a re-allocation of the farm production among its various possible uses in the food industry. It is often argued that such a conclusion would not hold for some products (called "sensitive" in the Doha jargon) such as dairy products, sugar, beef or poultry. But, looking at the detailed tariffs does not suggest that this argument is very convincing (see below).

Lastly, tariff escalation is not necessary anymore for "immunizing" European food producers against the high protection granted to European farm products. This argument is becoming obsolete for two reasons. Farm prices have been exposed to productivity gains in the advanced countries' agriculture. And, more importantly, farm products represent a much smaller share of the total costs of the final food products (often within the range of 10-15 percent of the prices paid by the consumers) that they used to be. In other words, aligning the protection of the food products to the protection of the farm products is unlikely to have a notable impact on the competitiveness of the food producers.

C. Re-balancing Tariff Cuts

That said, a better EC tariff offer should meet two conditions. It should be ambitious enough to fulfill the "comparably high level of ambition" criterion imposed by the Hong Kong WTO Ministerial. And, it should attract domestic European political support – it should be seen as a better deal than the current EC offer by a vast majority of the farmers and food producers. The following outline shows that it is possible. It is expressed in Swiss-type terms for reasons already mentioned. But, it should be stressed that it could be presented with a tiered formula (it is always possible to approximate a curve by a sequence of straight lines) though at the cost of discontinuities and complexities as those illustrated above with Figure 1.

Table 5 suggests that a base Swiss coefficient of 60 would be a substantial improvement over the EC current offer. [14]/ Firstly, it would generate an average EC tariff in farm and food products of roughly 13 percent. This is an interesting figure since it is similar to the average tariffs in NAMA products of some large emerging economies (Brazil, India, Indonesia, Mexico) and not far away from the average tariff of China, Philippines and Thailand. In other words, it would fill the "comparably high level of ambition" criterion. One could argue that the EC tiered proposal does the same. But, the Swiss60 would fill the "comparably high level of ambition" criterion in another respect – and that is not the case of the EC tiered proposal. The Swiss60 would generate a maximum EC tariff on farm and food products very close to 50 percent, precisely the maximum tariff suggested for the emerging economies when suggesting the outline for the NAMA negotiations.

Secondly, if a base Swiss60 would not be a brutal change of EC policy in average terms (compared to the tiered formula) it would generate a notable re-balancing: 287 tariff lines would have larger tariff cuts than those currently proposed, and 1360 tariff lines smaller tariff cuts than those currently tabled (364 lines would see no change). More crucially, the additional cuts would occur almost exclusively (in 92 percent of the cases) in the processed and semi-processed product sectors.

In other words, re-balancing would clearly improve the situation of a vast majority of the farmers compared to their situation under the tiered proposal. Table 5 shows the very few bulk and horticulture products that would be concerned by additional cuts, and the many products that would benefit from tariff cuts smaller than those created by the tiered formula. Moreover, the maximum

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[14] /For information sake, Table 4 includes the case of a Swiss50. Such a Swiss coefficient may create problems in the farm products, but interestingly, the political balance may be still positive in the processed food products.

additional cuts are limited (8.1 percent in the farm bulk commodities, and 7.7 percent in the horticulture products).

Although tariffs with larger cuts are concentrated in the processed food sector, rebalancing would keep almost unchanged the average tariff of all the processed food products. But, compared to the current EC offer, it would cut more deeply 222 food tariffs – on average, from 45.5 to 35 percent, but by more than 5 percent for only 87 tariffs, and by more than 10 percent for only 46 tariffs (a dozen of which are various forms of whey). Meanwhile, it would cut less deeply 847 food tariffs (from 11.4 to 13.1 percent on average). A vast majority in the processed sector would thus gain from rebalancing, all the more if the food markets in the rest of the world would be also opened up.

However, it is important to check in more detail the case of the "sensitive" products for which food tariffs are often said to have an impact on farm products (this check allows to have results independent from the way the USDA concordance table is done). In the case of poultry, lamb and beef, very few lines would face tariff cuts notably larger with a Swiss60, compared to a tiered formula. Only 2 (out of 100) 3 (out of 30) and 4 (out of 56) tariff lines (respectively) would face additional tariff cuts larger than 5 percentage points – a proportion so small that one should not expect serious problems for the farmers involved. In the case of dairy products, 40 tariff lines (out of 170) would face additional tariff cuts larger than 5 percentage points, and two dozen of tariff lines additional cuts larger than 10 percentage points. In the case of sugar, half a dozen tariff lines (out of 34) would face additional tariff cuts larger than 5 percentage points. In short, shifting to a Swiss60 could raise problems for less than 50 tariff lines. However, as underlined above, many of the dairy products exhibit wide differences in tariffs which are totally or largely unrelated to the farm sector – for instance, a different packaging size or different but close varieties.

These observations deflate notably the concerns often raised. But, as in the NAMA negotiations, there remains a need for defining predictable exceptions. Currently, the Doha negotiators are considering an intensive use of "tariff-rate quotas" (i.e., limited imported quantities of a good are subjected to a "in quota" tariff which is lower than the normal "out-of-quota" tariff imposed on the rest of the imports of this product) as the preferred instrument for exceptions. The Uruguay Round introduced them in agriculture as a device for beginning to open farm markets left closed by the very high tariffs agreed in the Round. In the Doha negotiations, the EC (and other WTO Members) are using them as a device for reducing less the out-of-quota tariffs – in other words, increasing quantities to be imported under the in-quota tariff is the "price" to be paid for keeping high the out-of-quota tariff. This is a self-defeating approach. If the European demand becomes smaller than the quota, the EC price will reflect the low in-quota tariff (the out-of-quota tariff playing no role) meaning that the EC producers would be (much) more strongly exposed to freer trade than expected by the negotiators. If the European demand exceeds the quota, the EC price will be determined by the world price plus the high out-of-quota tariff, generating huge rents for the quota beneficiaries. Who would get these rents? The answer depends on several parameters, but there is an almost sure bet: not the European farmers.

There are thus good reasons for the EC farmers to avoid the trap of the tariff-rate quotas. As suggested above for the NAMA negotiations, the best solution may be the simplest one, that is, it would consist in (a) higher Swiss coefficient(s). Table 5 investigates this possibility with a Swiss70 (or its tiered equivalent) on the farm bulk commodities. Firstly, a Swiss70 would attract farmers' support because it would increase the average tariff on farm products to 11.8 percent, compared to 10.7 percent under the current offer, and it would reduce only 8 farm tariffs (with larger tariff cuts limited to 4.8 percent at most). Secondly, using a Swiss70 only for the bulk commodities amounts to make exceptions for only 5 percent of the total tariff lines in farm and food products, a figure close to the scope of exceptions in NAMA, hence meeting the "comparably high level of ambition" criterion. Lastly, this criterion would still be met if a few additional tariff lines – such as the above-mentioned 35 tariff lines in the food sector – are shifted under a Swiss70.

D. Balancing Tariff Cuts and Domestic Support Cuts

Table 6 shows that the estimated amounts of domestic support granted in 2004 are much below the Uruguay Round final bound commitments for both the U.S. and the EC. In other words, there is a huge "subsidy water" in the domestic support of these two countries (which echoes the huge tariff water observed in NAMA for the emerging economies).

As a first glance, Table 6 suggests a somewhat comfortable negotiating position for the EC, mostly because it has introduced "decoupled" subsidies (it has moved roughly 25 billions of euros out of the perimeter of the "overall trade distorting support"). By contrast, the U.S. is still granting subsidies which are responsive to world prices, hence eligible to the Amber Box. As of March 2007, the U.S. position on these issues in the future is hard to decipher since the legislative process for a new Farm Bill has only started.

Table 6. Domestic support in the EC and the U.S. (billion U.S.$ [a])

	U.S.	EC25
1. The Amber Box (the most trade-distorting subsidies)		
The Uruguay final bound commitments	19.1	88.0
Effective amounts in 2004	13.0	42.0
Estimated amounts in 2006-2010	[b]	30.0
The Doha final bound commitments: proposals based		
on the EC formula	7.6	26.7
on the U.S. formula	7.6	15.1
on the G20 formula	5.7	17.8
2. Overall Trade Distorting Support [c]		
The Uruguay final bound commitments	55.0	148.0
Effective amounts in 2004	23.0	73.0
Estimated amounts in 2006-2010	18.0 [d]	37.0
The Doha final bound commitments: proposals based		
on the EC formula	22.0	44.7
on the U.S. formula	25.9	37.3
on the G20 formula	13.8	29.8

Notes   [a] Exchange rate: one euro for 1,20 U.S. dollar.
      [b] Unknown (depend on world price evolution).
      [c] Sum of the Aggregate Measure of Support (AMS), "de minimis" subsidies and Blue Box subsidies.
      [d] Estimate based on the USDA Farm Bill 2007 Proposal.
Sources EC, U.S. and G20 Proposals.
      Penn [2005] Jales and Nassar [2006] Kutas [2006].

However, this impression of a EC "comfortable" position is misleading for three reasons. Firstly, the OECD estimates of the domestic support provided to the EC farmers (the "producer support estimates" or PSEs) is roughly 100-110 billions of euros, that is, 25-35 billions of euros above the 2004 "overall trade distorting support". If the EC position looks comfortable under the current WTO definitions, it could become rapidly less comfortable if those definitions are strengthened. In particular, half of the EC AMS support is generated by the EC market price support scheme the status of which critically depends from whether (and to which extent) the Doha negotiators will narrow, or not, the scope of allowable support.

Secondly, even the "decoupled" subsidies will be exposed to increased scrutiny. From an international perspective, they allow farmers to do business as usual if they wish so. It should be stressed that the 2003 reform of the Common Agricultural Policy (CAP) has decoupled EC subsidies without bringing any new notable liberalization of the European farm sector, as best illustrated by the European overall level of protection from 57 to 55 percent, all other things being constant [OECD 2004]. From a domestic perspective, there is a growing recognition in Europe that direct payments go mostly to large farmers for which few Europeans want to fight. Interestingly, the Europeans (including the French) are, on average, more favorable to serious cuts in farm subsidies than Americans

[German Marshall Fund 2006]. Moreover, decoupled subsidies will undoubtedly face an increasing legitimacy problem. As time flies, it will be increasingly politically unsustainable to grant subsidies to farmers on the basis of productions they did in an increasingly far away past.

Lastly, it would be suprizing that there would be no pressures for "recoupling" subsidies in some new ways. A strong candidate for such a "recoupling" is biofuels (particularly, bioethanol), a sector witnessing a very worrisome boom in subsidies (mostly under the even more distortive form of tax deductions) in key industrial countries. This evolution is very unfortunate in the EC case because the recent decline of the EC sugar price has just revealed to efficient European sugar growers how much the CAP was their foe. By keeping alive inefficient European sugar growers (who are now turning to alternative crops) the CAP has made impossible for the most efficient European sugar growers (such as those in France or Britain) to enter profitable markets for them (such as the Italian sugar market). Biofuel subsidies will simply push these efficient sugar growers more away from what they should do first – to be an efficient source of farm products for food – at the risk of letting them down when new sources of energy will emerge (or if the oil price declines further, thanks to fuel conservation or less buoyant growth in the emerging countries). The Doha negotiators should thus start to make difficult the production of (allegedly) clean energy as an excuse for giving subsidies to clearly inefficient productions (such as the first generation of biofuels).

All these issues should induce the Doha negotiators to start to introduce disciplines which would increasingly limit farm subsidies largely to adjustment purposes and well defined "non-trade concerns". And they emphasize the need to cut agricultural tariffs, since lower tariffs are one of the best disciplines on subsidisation simply they make subsidies more visible and expensive.

E. Services, Property Rights and Negotiations in Farm and Food Products

Many negotiators do not seem yet to have fully realized that modern agriculture is intensive in services (from logistics to finance). The EC would benefit from knowing better the services content of its agricultural sector in order to get a sense of the growth in agriculture-related services that would flow from trade liberalisation in farm and food products, and vice-versa (the growth in farm and food products driven by more open agriculture-related services). As the EC is an advanced economy with well developed services, it is likely to have notable advantages in agriculture-related services that could provide profitable opportunities to European farmers with direct stakes in such services.

This logic is similar to the one between agriculture and intellectual property rights, as illustrated by the "geographic indications" (GIs). On this topic, the approach adopted by the Commission in the Doha Round – asking for strong GIs as a price to be paid for getting farm tariff or subsidy cuts – misses a key point. It assumes a causality – the stronger the GIs are, the better the situation of the sector is – which is far to be proven, as best illustrated by the recent evolution of the French wine sector. Strong and rigid French regulations on GIs in the Bordeaux wine have not prevented the collapse of this wine sector – in fact, they may have contributed to it by freezing backward and small production and marketing structures. There is an increasing recognition that GIs are best defended by flexible regulations inducing firms large enough to improve continuously their products in order to react to the ever changing tastes of the consumers, as best illustrated by Champagne vineyard.

F. Would the Failure of the Doha Round Save the CAP?

Some European quarters are hoping to save the Common Agricultural Policy (CAP) by letting the Doha Round fail. This is an illusion. The Doha Round – even if unsuccessful – has given a definitive stroke to the current CAP.

Firstly, the anti-farmer bias of the tiered formula is a blunt mirror of the true balance between farm and food products that all the Member States' Agriculture Ministers have agreed to.

Secondly, the Doha negotiations are making European farmers increasingly aware of the fact that the impact of common European tariffs varies with each Member state production structure. A Member State producing mostly farm goods protected by high EC tariffs is, on average, "more" protected than a Member State producing mostly farm goods protected by low or moderate EC tariffs. Table 7

illustrates this point by weighting the Member States's production by the EC-wide level of protection (be it measured by tariffs or by the combined protection granted by tariffs and subsidies as measured by the OECD "producer support equivalents").

Table 7 shows that, on average, farmers in Ireland are roughly twice more protected than those in Southern European Member States, simply because the Irish production is much more concentrated (than the Southern European production) in the farm products that are the most protected by the EC. An "uniform" protection on all the farm products would be politically appealing to European farmers (it would be much fairer). It would be economically interesting for them (it would induce them to produce the crops in which they are the best, not in which they receive high subsidies). And, it would be beneficial for the European consumers since it would enhance not only farm efficiency, but also food diversity.

Ironically, Table 7 shows that, contrary to a wide belief, French farmers are not among the most protected in Europe. Indeed, French farmers would be a major beneficiary of successful Doha negotiations in agriculture for two combined reasons. They would benefit from rebalanced tariffs since they would be less disadvantaged than with the EC tiered offer. And, as they are often among the most efficient in Europe, they will be among the major beneficiaries from a deep CAP reform, as illustrated by the sugar case. Some French farmers are beginning to realize this, and to wonder whether they should not support a swift CAP reform.

Table 7. Level of protection by EC Member state [a]

Member states	PSEs [b]		Tariffs [c]	
	%	index	%	index
Austria	59	103	22.9	98
Belgium	57	99	22.7	97
Britain	72	126	25.5	109
Czech Rep.	57	99	26.6	114
Denmark	54	94	26.1	112
Estonia	55	96	27.2	117
Finland	72	126	26.5	114
France	59	103	21.6	93
Germany	61	106	24.5	105
Greece	40	70	18.7	80
Hungary	44	77	23.5	101
Ireland	99	173	26.2	112
Italy	45	79	19.1	82
Latvia	59	103	25.3	108
Lithuania	62	108	26.6	114
Luxembourg	75	131	25.6	110
Malta	37	65	18.6	80
Netherlands	53	93	19.1	82
Poland	47	82	24.5	105
Portugal	43	75	18.3	78
Slovakia	54	94	25.2	108
Slovenia	57	99	21.2	91
Spain	43	75	19.1	82
Sweden	71	124	25.5	109
EC-15	55	96	21.9	94
EC-25	57	100	23.3	100

Sources: OCDE, WTO. Messerlin 2006.
[a] There is no available information on Cyprus' farm sector.
[b] PSE:Producer support equivalents in 2002, OCDE.
[c] Ad valorem tariffs in 2004 (specific tariffs excluded).

Concluding Summary

In the Doha negotiations on industrial goods (NAMA), the EC and the other advanced economies should (have) aim(ed) at achieving what the European business community is asking for – namely no single industrial tariff above 15 percent. Such a target makes good economic sense for three reasons. Firstly, it would eliminate the tariff peaks that constitute the main obstacle faced by the world exporters, and that generate most of the protection costs imposed on the consumers in the rest of the world. Secondly, it would vastly increase the certainty of access to the emerging countries' markets for the world exporters – an outcome that negotiators undervalue heavily, while the business community is insisting on it. Lastly, as this target does not impose a brutal liberalisation of the emerging countries, it should make easier to negotiate exceptions as simple and as predictable as possible, hence to generate a "clean" Doha Agreement.

Focusing on the major emerging countries, the paper gives a concrete sense of the changes associated to the 15 percent target (using a base Swiss coefficient of 25) and to simple and predictable exceptions (using Swiss coefficients of 40 and 60). The emerging countries would then exhibit average bound tariffs ranging from 6.7 to 14.7 percent, with a maximum bound tariff of 50 percent (but only a tiny portion of the bound tariffs would be higher than 30 percent). Their average bound tariffs would be cut by 4 to 22 percentage points, their maximum bound tariffs by 15 to 250 percentage points. More crucially for the economic welfare gains, their maximum applied tariffs would be cut by 8 to 165 percentage points. If effective cuts in average applied tariffs are limited to three emerging countries, the average tariff water would be eliminated or reduced to a low level in all the others, revealing a huge increase in the level of certainty for the business community.

The Doha negotiations in "agriculture" are dominated by two little known – but crucial – facts. Firstly, the negotiations deal with many more agro-industrial ("food") products than farm products. Only a quarter of the tariff lines involved are farm products, all the others being food (semi-processed or processed) products. Secondly, the tariff cuts offered by the current EC proposal (the most critical proposal in tariff matters) protect food producers more than farmers: the post-Doha average tariffs would be 10.7 percent for farm products, compared to 16.9 percent for processed food, while the post-Doha maximum tariffs would be 43.7 and 105.7 percent, respectively. Last but not least, the EC food products that would remain the most protected items after the Doha Round would be a strange hodgepodge of waste products (dog and cat food, whey, etc.) goods with tiny potential in international trade (yoghurts) or with questionable importance (cucumbers, gherkins, etc.).

In such a context, "rebalancing" the current EC tariff proposal – cutting more the high tariffs, cutting less the low tariffs – is an attractive alternative. Firstly, cutting deeper into the high tariffs would deliver more economic welfare gains for the European consumers than the current EC proposal.

Secondly, rebalancing would deliver political benefits. For instance, a base Swiss coefficient of 60 combined with a Swiss coefficient of 70 for the exceptions would offer the EC farmers a better "deal" than the current EC proposal since the average tariff on farm products would be reduced to 11.8 percent, compared to 10.7 percent under the current offer. Rebalancing would leave unchanged the average tariff of all the processed food products, but it would cut more deeply 222 food tariffs – on average, from 45.5 to 35 percent, but by more than 5 percent for only 87 tariffs, and by more than 10 percent for only 46 tariffs (a dozen of which are various forms of whey). Meanwhile, it would cut less deeply 847 food tariffs (from 11.4 to 13.1 percent on average). As a result, a vast majority of EC food producers would support rebalancing, all the more if the other WTO Members liberalize their own food sectors.

Combining the above outlines in NAMA and agriculture would fit the two key criteria imposed on the Doha Round. The "less than full reciprocity in reduction commitments" condition would be ensured by the remaining notable differences between the bound and applied tariffs of the emerging countries and those of the advanced economies in NAMA. The "comparably high level of ambition in market access for Agriculture and NAMA" criterion would be ensured by the fact that the maximum and average tariffs of the emerging countries in NAMA would be close to the maximum and average tariffs of the advanced economies in farm and food products.

There are other important aspects of the negotiations in trade in goods. A key one is the treatment of the developing countries which cannot be classified as emerging economies or as least-developed economies. As suggested before the 2003 Cancún WTO Ministerial, the best solution would be to modulate the tariff cuts suggested above in order to allow a liberalisation of these "in-between" developing countries that would be more progressive, hence in line with their governing capabilities. This suggestion stresses the crucial necessity to find, first and foremost, a compromise between the emerging and advanced WTO Members.

All the above suggestions assume that the EC is ready to position itself as a WTO Member having a long term view of the world trade regime – looking far away being the mark of leadership. They also implicitly assume that other Rounds will follow a successful Doha Round. Those future Rounds will take over the unfinished business left by (perhaps) a more modest but "clean" (i.e., based on simple and predictable exceptions) Doha outcome much more easily that if they inherit a Doha package more ambitious for some products, but riddled with more distorsive exceptions on many more products. In short, the EC long term interest is to promote the notion of a sequence of WTO Rounds of liberalisation as a patient "peeling of the protectionist onion" [Messerlin 2007a].

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