



MESA-REDONDA
Roundtable

**RESTAURANDO A COOPERAÇÃO COMERCIAL
MULTILATERAL: O FUTURO DA OMC**

Restoring multilateral trade cooperation: the future of the WTO

14 E 15 DE ABRIL DE 2014, 9h ÀS 18h

14-15 April 2014, 9h - 18h

Local: Brasil 21 Suítes, Salas Goiás I e II – Brasília (DF)

Venue: *Brasil 21 Suítes, Rooms Goiás I and II – Brasília (DF)*

9:00 - 9:15

Sessão de abertura

Opening session

- Renato Baumann (Ipea)
- Vera Thorstensen (FGV)
- Peter Draper (SAIIA)
- Carlos Mussi (CEPAL, ECLAC)

9:15 - 10:30

Palestra: Acordos preferenciais de comércio, megaregionais e o futuro da regulação do comércio mundial

Keynote speech: Preferential trade agreements, mega-regionals and the future of world trade regulation

- Jeffrey Schott (Senior Fellow - Peterson Institute for International Economics)

10:30 - 10:50

Coffee break

10:50 - 12:30

Painel 1: O Brasil e os acordos preferenciais de comércio: quem são os melhores parceiros?

Panel 1: Brazil and preferential trade agreements: who are the best partners?

Moderador/Chair:

- Ivan Oliveira (Ipea)

Palestrante/Speaker:

- Lucas Ferraz (FGV)

Debatedores/Discussants:

- Carlos Mussi (CEPAL, ECLAC)
- Marden Barboza (Ministério da Fazenda / Ministry of Finance, Brazil)

12:30 - 14:00

Almoço

Lunch

14:00 - 16:00

Painel 2: O papel dos acordos plurilaterais no futuro da OMC

Panel 2: The role of plurilateral agreements in the future of the WTO

Moderador/Chair:

- Carlos Abijaodi (CNI)

Palestrantes/Speakers:

- Peter Draper (SAIIA)
- Diego Bonomo (CNI)

Debatedores/Discussants:

- Felipe Muñoz (Universidade do Chile / University of Chile)
- Patrick Lawless (Embaixada da Austrália / Embassy of Australia in Brazil)

16:00 - 16:20	Coffee break
16:20 - 18:00	Painel 3: Câmbio e regulação do comércio internacional Panel 3: Exchange rate and international trade regulation Moderador/Chair: - Richard Cunningham (Cordell Hull) Palestrantes/Speakers: - Vera Thorstensen (FGV) - Aluisio de Lima-Campos (American University) Debatedor/Discussant: - Paulo Ferracioli (FGV)

15 de abril (TERÇA-FEIRA) / 15th April - Tuesday

9:00 - 10:00	Palestra: O futuro da agricultura brasileira e a importância da OMC Keynote speech: The future of agriculture in Brazil and the importance of the WTO - Kátia Abreu (Senadora e presidente da Confederação Nacional da Agricultura / Senator and president of the National Confederation of Agriculture)
10:00 - 10:20	Coffee break
10:20 - 12:30	Painel 4: Agricultura – Os principais desafios da OMC: Doha entre a Farm Bill e a EU CAP Panel 4: Agriculture – WTO main challenges: Doha between the Farm Bill and EU CAP Moderador/Chair: - Clodoaldo Huguene (Ex-embaixador do Brasil na OMC / Former Brazilian Ambassador to the WTO) Palestrantes/Speakers: - Will Martin (Banco Mundial / World Bank) - Andre Nassar (Icône) Debatedores/Discussants: - Flávio Damico (Ministério das Relações Exteriores / Ministry of Foreign Relations, Brazil) - Ricardo Rozemberg (University of San Martin) - Jin Kyo Suh (KIEP)
12:30 - 14:00	Almoço Lunch

14:00 - 15:00

Palestra: A OMC tem futuro?

Keynote speech: Has the WTO a future?

- Clodoaldo Hugueneu (Ex-embaxador do Brasil na OMC / Former Brazilian Ambassador to the WTO)

15:00 - 15:20

Coffee break

15:20 - 18:00

Painel 5: Mesa-redonda: a OMC em busca de nova estrutura e novos temas?

Panel 5: Roundtable: WTO in search for a new structure and new issues?

Moderador/Chair:

- John Weekes (Ex-embaxador do Canadá na OMC / Former Canadian Ambassador to the WTO)

Palestrantes/Speakers:

- Paulo Estivallet de Mesquita (Ministério das Relações Exteriores / Ministry of Foreign Relations, Brazil)

- Jeffrey Schott (Peterson Institute for International Economics)

- Peter Draper (SAIIA)

- Vera Thorstensen (FGV)

- Carlos Márcio Cozendey (Ministério da Fazenda / Ministry of Finance, Brazil)

- Renato Baumann (Ipea)

Apoio:



Cordell Hull Institute

Organização:



ipea Instituto de Pesquisa
Econômica Aplicada

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Opening Session

Carlos Mussi is Diretor of Economic Commission for Latin America and the Caribbean (ECLAC)'s Office at Brasil. He is responsible for the Brazilian macroeconomic and fiscal outlook reports, and coordinates technical cooperation projects, cooperating with multiples Brazilian government secretaries and ministries. He has a MSc in Economy from PUC-RJ.

Peter Draper is Senior Research Fellow in the Economic Diplomacy programme at the South African Institute of International Affairs. His other domestic affiliations are: Lecturer at Wits Business School; and Senior Consultant to the India, Brazil, and South Africa think tank consortium at the Centre for Development and Enterprise.

Renato Baumann is Professor at Universidade de Brasília and Instituto Rio Branco, and Director of International Studies, Political and Economic Relations (DINTE) at IPEA. He is PhD in economy at Oxford, England, and former director of ECLACs office in Brazil.

Vera Thorstensen is Professor at São Paulo School of Economics at Fundação Getulio Vargas and the Coordinator of Center for Global Trade and Investment (CGTI). She was the economic consultant at Brazil's Mission at the WTO from 1995/2010. She was the editor of Letter from Geneva publication from the Brazilian Mission (2001/08), and President of Rule of Origin Committee at WTO (2004/10).

Keynote speaker: Jeffrey J. Schott is senior fellow working on international trade policy and economic sanctions of the Peterson Institute for International Economics. During the Tokyo Round of multilateral trade negotiations, he was a member of the US delegation that negotiated the GATT Subsidies Code. Since January 2003, he has been a member of the Trade and Environment Policy Advisory Committee of the US government. He is also a member of the Advisory Committee on International Economic Policy of the US Department of State.

Panel 1: Brazil and preferential trade agreements: who are the best partners?

Chair: Ivan Oliveira is Research Fellow and Coordinator of International Economic Studies at the Institute of Applied Economic Research (IPEA). He was a Visiting Research Fellow in the Division of Globalization and Development Strategies at UNCTAD, and is a Ph.D. at Business and Public Administration from Federal University of Bahia (Brazil).

Speaker: Lucas Ferraz is Professor at São Paulo School of Economics at the Fundação Getulio Vargas since 2006, and Head of Economic Modelling at the Center for Global Trade and Investment (CGTI). He is an expert in Computable General Equilibrium Models for International trade. His research areas include the formation of Regional trade Agreements, Global Value Chains and non-tariff barriers to trade.

Discussant: Carlos Mussi (ECLAC)

Discussant: Marden de Melo Barboza is Deputy Secretary for International Affairs at the Finance Ministry, Brasília, and was a Professor of International Relations at UniCEUB – University Center of Brasilia.

Panel 2: The role of plurilateral agreements in the future of the WTO.

Chair: Carlos Eduardo Abijaodi is Director of industrial development at the Brazilian National Confederation of Industry – CNI. He was also director of business development and head of the International Business Center at the Federation of Industries of the State of Minas Gerais, Brazil. He was also international division assistant, international division coordinator, and international director for Africa and the Middle East at Andrade Gutierrez Group.

Speaker: Diego Bonomo is Executive manager of foreign trade at the Brazilian National Confederation of Industry. He was Senior Director of the International Division at the U.S Chamber of Commerce and Senior Director for Policy at the Brazil-US Business Council. He was also advisor to the Minister at the Secretariat of long Term Planning at the Executive Office of the President.

Speaker: Peter Draper (SAIIA)

Discussant: Felipe Muñoz is Professor at the Institute of International Studies at the University of Chile. He is also Coordinator of the Diploma of International Strategy and Political Economy and is consultant of the United Nations for trade affairs. He has a master degree in International Studies.

Discussant: Patrick Lawless is the Ambassador of Australia for Brazil. He previously served as Ambassador to Portugal (2009-2013) and as Ambassador to Poland (2002-2005). While posted in Portugal he was also accredited to Cape Verde, Guinea Bissau and Sao Tome and Principe. He completed earlier postings in Moscow, Pretoria and Paris.

Panel 3: Exchange rates and international trade regulation.

Chair: Richard O. Cunningham is Chair at the Cordell Hull institute and senior international trade partner in the Washington office of Steptoe & Johnson LLP, where he is a member of the International Department. He is active in representing corporate and governmental clients with respect to US Government trade policy issues and in negotiating private and governmental agreements to resolve market-access problems and other international trade issues,

Speaker: Aluisio Lima-Campos is an adjunct professor at American University's Washington School of Law, Chairman of the Brazilian International Trade Scholars Institute - ABCI, and economic advisor at the Embassy of Brazil in Washington; and a Brazilian Government appointed member of the permanent list of trade remedies experts prepared to take part in WTO dispute settlement panels.

Speaker: Vera Thorstensen (FGV)

Discussant: Paulo Ferracioli is Professor of International Business and Foreign Trade at Getulio Vargas Foundation - FGV. He is counselor of Superior Council of Foreign Trade at the Federation of Industries of the State of São Paulo and of the Business Council of Foreign Relations at the Federation of Industries of Rio de Janeiro.

Keynote Speaker: Kátia Abreu is a Brazilian Senator and President of the Brazilian National Confederation on Agriculture.

Panel 4: Agriculture – WTO main challenges: Doha between the Farm Bill and EU CAP

Chair: Clodoaldo Hugueney is the former head of the Brazilian WTO delegation in Geneva, as permanent representative of Brazil to the WTO, and former Ambassador of Brazil in China. He is also an international affairs advisor for the Brazilian Confederation of Agriculture and Cattle Raising (CNA).

Speaker: Will Martin is Research Manager, Agriculture and Rural Development, in the development Research Group at the World Bank. He worked as a researcher and manager at the Australian Bureau of Agricultural and Resource Economics, and as a Senior Research Fellow at the Australian National University. He has published extensively on agricultural trade policy and developing countries, with a particular focus on the World Trade Organization and economic development. He has published widely using quantitative models such as the Global Trade Analysis Project, and has a particular interest in using detailed data to build up a complete picture of the effects of policies on welfare impacts at national and household levels.

Speaker: Andre Nassar is the Director-General of AGROICONE since 2013. He has served as the Director-General of ICONE and is a leading agricultural economist on various projects, including as a member of the Brazilian Technical Group for Doha Round agricultural negotiations. Dr. Nassar is an expert in international trade policy and in modeling long run scenarios of supply, demand and trade of agricultural, food and biofuel commodities. He is also an expert in sugar and ethanol world market and policies.

Discussant: Flávio Damico is the Director of the Department of Inter-Regional Mechanisms of the Brazilian Ministry of Foreign Affairs since 2011. He was chief of the Agriculture Division of the Brazilian Ministry of Foreign Affairs (2004), president of the Committee on Sanitary and Phytosanitary Measures of the WTO, and Minister Counselor at the Permanent Mission of Brazil to the WTO.

Discussant: Ricardo Rozemberg is Senior Researcher at the Centro iDeAS (San Martin University, Argentina). He was manager at the National Investment Development Agency and Director at the Studies Center for Production.

Discussant: Jin Kyo Suh is senior research fellow of the Korea Institute for International Economic Policy (KIEP) that is a leading institute concerning the international economy in Korea and advises the government on all major international economic policy issues. He is a policy advisor of the Ministry of Foreign Affairs and Trade and also a News commentator of the Korean Broadcasting

System (KBS) that is Korea's leading public service broadcaster and the most influential media organization in the country.

Keynote Speaker: Clodoaldo Hugueney (Former Head - Brazilian Delegation in Geneva, Ambassador to the WTO)

Panel 5: WTO - in search for a new structure and new issues

Chair: John Weekes is senior international trade policy adviser at Bennett Jones LLP. Mr Weekes was Canada's Ambassador to the WTO from 1995 to 1999, and in 1998 served as Chair of the WTO General Council. He chaired the Working Party on the Accession of Saudi Arabia to the WTO from 1996 until 2002. From 1993 to 1995, Mr Weekes was Canada's Chief Negotiator for the North American Free Trade Agreement (NAFTA).

Speaker: Carlos Márcio Cozendey is the Secretary (Deputy Minister) for International Affairs of the Brazilian Ministry of Finance. He is a career diplomat and has been Director of the Economic Department and Head of the Mercosur Division at the Brazilian Ministry of External Relations. He was President of the WTO Committee on Technical Barriers to Trade and panelist on two Dispute Settlement Cases under the GATT and the WTO.

Speaker: Jeffrey Schott (Peterson Institute for International Economics)

Speaker: Ambassador Paulo Estivallet de Mesquita is the Director-General of the Economic Department at the Brazilian Ministry of External Relations. He has worked in several areas, including multilateral affairs, and East and Southeast Asia policy planning. Mr Mesquita has held posts in the Brazilian Embassies in Rome and Santiago. He has worked on the Doha Round since its launch in 2001 and was the Deputy Permanent Representative of Brazil to the WTO.

Speaker: Peter Draper (SAIIA)

Speaker: Vera Thorstensen (FGV)

BRAZIL ROUNDTABLE

Brasilia – April 14-15, 2014

Restoring multilateral trade cooperation: the future of the WTO

On April 14 and 15, 2014, IPEA – Instituto de Pesquisa Econômica Aplicada, CGTI-FGV – Center for Global Trade and Investments of Getúlio Vargas Foundation and SAIIA – South African Institute of International Affairs organized in Brasília the Brazil Roundtable on Restoring Multilateral Trade Cooperation: the Future of the WTO.

The event was part of a World Bank Development Grant Facility project. The Roundtable brought together practitioners policymakers and business leaders around the world who are engaged in trade discussions, issues and negotiations administered by the World Trade Organizations.

The event was attended by specialists from the academia, business and government of Brazil and other countries and received around 40 participants each day.

The Round table was divided in 5 panels, besides 3 keynote speeches.

The first keynote speech was given by Mr. Jeffrey Schott, on “The new trade order: from multilateralism to mega-regionalism”. In the following, the first panel discussed Brazil and preferential trade agreements: who are the best partners?”. The second panel discussed “The role of plurilateral agreements in the future of the WTO”. The third panel of the day was focused on “Exchange rates and international trade regulation”.

The second day of event started with a keynote speech given by Ms. Tatiana Palermo, on behalf of Brazilian Senator Katia Abreu, on “The future of agriculture in Brazil and the importance of the WTO”. The fourth panel of the Roundtable was focused on “Agriculture – WTO main challenges: Doha between the Farm Bill and EU CAP”. The third keynote speech was given by Mr. Clodoaldo Hungueney, who presented insight on the question “Has WTO a future?”. The fifth and last panel discussed the future of the WTO in “WTO – in search for a new structure and new issues”.

The Roundtable had valuable discussions in all panels, which helped to give insights of actions to be taken to restore multilateral trade cooperation.

The minutes of the meeting are presented below.

RESTORING MULTILATERAL TRADE COOPERATION: THE FUTURE OF THE WTO

Brasília, April 14-15, 2014

Hotel Brasil 21 Suítes

Setor Hoteleiro Sul, Quadra 6. Brasília-DF

Rooms: Goiás I and II.

MINUTES OF THE MEETING

Opening Session

Renato Baumann (IPEA)

Vera Thorstensen (FGV)

Peter Draper (SAIIA)

Carlos Mussi (ECLAC, Brazil)

Session I

Pathways to WTO Recovery

Renato Baumann: This event is part of a series of discussions happening in other developing countries. Seoul's event was the first to address the Future of WTO in a multipolar world, and after Brazil's, it will certainly happen in other countries. The relevance is paramount: WTO is going through a reorganization process, and Brazilian diplomacy has always been very aware and an advocate for the institutionalization of the multilateral system; therefore, Brazil has been emphatic on the preservation of existing organizations. The existence of the WTO as we know it is of utmost importance to Brazilian economy. That said, what's going to happen after Bali? There is space for a more optimistic scenario for the Doha Round, but there's still plenty of work to be done.

Keynote Speaker: Jeffrey Schott (Senior Fellow - Peterson Institute for International Economics)

In his presentation Schott argued that the WTO is still in trouble, even after the results of Bali. The success of the GATT era has not been replicated. Since Uruguay Round, the WTO gathered many new members, overflowing the Dispute Settlement Mechanism (DSM) with demands, leaving it close to an overload. The WTO is producing minor results and Members are seeking PTAs.

The Doha deals were neither ambitious – they did not achieve the range of offers and subjects that mattered, nor balanced – there was no policy change between developing and developed countries. As a result, there was no room for new trade and investment negotiations. Members failed to recognize the importance of other services regarding agriculture. The fact Members do not seek the need to open market for other services around the world was a tactical blunder. There was no flexibility to

take changes in the modalities of services regarding agriculture. For Doha to work, it has to have full participation of the most important developing and developed countries.

Schott also said that the WTO laws and obligations are still in force, but there is reluctance to pursue multilateral solutions. As a consequence of the return of WTO's hibernation, the Mega-regionals – TPP, TTIP, RCEP – were the pursued alternative by the countries that gather the greatest world's share of GDP and world's exports (goods and services). The nature of plurilaterals has changed dramatically, including more sustainable and ambitious deals. Those mega-agreements, nonetheless, share a common problem: too many poor countries are not involved in any of them (Africa, much of Latin America and much of South Asia). The developing countries risk marginalization, and there is an urging need to rechannel those initiatives back into the multilateral forum.

The main question proposed by Schott was how to reinvigorate the negotiations, and improve and recover WTO's norms? There are two pathways for the Doha-plus+ Agenda. The first path constitutes a Direct Approach by building on prior arrangements and linking them with the plurilateral negotiations. In this scenario, for the Bali package to absorb the PTAs, Agriculture and NAMA have to be dealt with by major players. Real constraints on agriculture subsidies and real new access for LDCs exporters on behalf of US and EU must be achieved. For China, it means to be further liberalized, and there is no better moment for the negotiations: the Chinese flexibility on internal economic reform coincides with the possible WTO reform. BRICS must also have to compromise in Services in order to gain Agriculture and NAMA.

The big trade deals in the making that should be absorbed by the Doha Development Agenda (DDA) includes reduction of *ad valorem* tariffs and Trade Facilitation; Trade in Services; the expansion of Information Technology Agreement coverage and membership; and the will to liberalize tariffs on Environmental Goods by the major traders.

The second path is through Mega-Regional to multilateral (M2M). WTO will not be the rule making pole, rather that will be the convergence between the Mega-Regionals, but will still keep the function of multilateral commitment and enforcement. The convergence among the countries that negotiate the Mega-Agreements lies in a common interest to deepen and widen the scope of the upcoming Mega-Regionals. They all share the need for export diversification, investment and economic growth. There is a natural bond among the countries that negotiate RCEP and TPP, and those Mega-regionals use the Korea agreements (KORUS and KOREU) as role model. Negotiators are learning and developing new disciplines not yet covered by WTO by doing RTAs and PTAs.

New rules arising from TPP include: initiatives on environment, labor, competition policy, state-owned enterprises, and e-commerce. TTIP highlights are the coordination on US-EU positions on Trade in Services and a possible understanding in farm support

among them that would help the DDA. And through RCEP, developing countries will gain capacity building.

None of the paths are easy to thread, but they are complementary and should be pursued simultaneously.

In the question period, Cunningham made the point that the developed countries, as they pursue Mega-Regionals and plurilaterals, need to dispel two views widely held among developing countries: (1) that the U.S. and EU are seeking to promote their agenda even if the developing world doesn't agree; and (2) that the U.S. and EU are intent on avoiding a negotiation on farm subsidies.

Weekes asked Schott to comment on the apparent implication of this "competitive trade liberalization" that a lot of countries (mostly in the developing world) will be left out and thereby disadvantaged. Schott responded that the risk of a growing marginalization of WTO members should give impetus to a resurgence of WTO multilateralism. According to him, that was seen in Bali, but that thinking has since waned.

Regarding agricultural supports, Schott stated that they are not in any of the Mega-Regionals and in TTIP, that issue has run into a brick wall. If this subject is covered in TTIP, it will have to be conditional on reaching a broader WTO agreement.

Schott, in response to a question from Lima Campos on ISDS, stated there is concern in many countries that aggressive ISDS litigation will stifle legitimate domestic regulations. But experience shows there is not all that much ISDS litigation and few large damage awards. In the TTP, there is an effort to build in limitations on ISDS.

Panel 1: Brazil and preferential trade agreements: who are the best partners?

Chair: Ivan Oliveira

Speaker: Lucas Ferraz

Discussants: Carlos Mussi; Marden Barboza

Ferraz

The first topic raised referred to global value chains. The "New Trade Theory" was consolidated in the 80s mainly by the work of Paul Krugman and aimed to explain bilateral trade between countries with no apparent mutual comparative advantages (the so-called "North-North" trade or intra-industry trade). At the time, the intra-industry trade was the typical trade among developed economies and represented over 30% to 40% of global trade flows. The 70's and the 80's also witnessed the rise of Asia and the rapid industrialization of some of its countries, such as South Korea, Taiwan, and Singapore. Nowadays, intra-industry trade (or trade in intermediates) corresponds to over 66% of Global trade and it is not only North-North as it used to be, but also North-South.

Instead of taking the traditional “import substitution policy” approach for industrialization, those countries opted to specialize in stages of production, integrating their industries not only to value chains already in existence in Europe and North America, but also building their own regional value chains. The rapid industrialization in Asia worked as a positive shock to the international demand for commodities, benefiting traditional and efficient exporters such as Brazil, Russia and Australia. The increasing international demand for commodities resulted in welfare gains to Brazil but, on the other hand, in an even more over-valued real exchange rate. This external scenario contributed to the loss of competitiveness of its domestic manufacturing sector.

Data from WIOD demonstrates that the increasing share of intermediates in global exports suggests the growing importance of Global/Regional Value Chains. The share in world value-added exports is shifting rapidly to the developing world. Among BRICS countries, China has been the most integrated, while Brazil, Russia and South Africa are lagging in this regard.

Value Chains are predominantly regional. The most significant ones are located in Asia, NAFTA and Europe. Joining the Mega regional agreements, like TTP or TTIP, may constitute an opportunity for relatively isolated countries to gain access to relevant Regional markets.

Concerning the phenomena of Preferential Trade Agreements (PTAs) and Non-Tariff Barriers (NTBs), it is well known that negotiations in regional fora have been extremely active: more than 400 PTAs were notified to the WTO over the last 20 years, most of them with a significant reduction of import tariff levels. Nonetheless, there is evidence suggesting import tariffs were replaced by non-tariff barriers in some rich countries, a fact that can be attested if one considers that the Transatlantic Trade and Investment Partnership (TTIP), currently under negotiation, is much more about reducing NTBs than Tariff Barriers.

Economic theory suggests that gains from PTAs are maximized when “natural trade partners” are involved. According to their significance in global trade flows, the EU and also the USA can be considered natural trade partners, not only for Brazil, but also to most of the world. Simulation exercises carried out using the CGE model suggest that Brazil can significantly improve its participation in international trade with the formalization of FTAs according to the “natural trade partner” perspective, and when NTBs are taken into consideration, results can be much more impressive.

Ferraz also drew attention to the fact that Brazil is getting more and more isolated from international trade. The low level of foreign content observed in Brazilian manufacturing exports probably harms its competitiveness and dynamism. Brazilian exports are still “made in Brazil”, whereas global exports are progressively “made in the world. There is not an intra-Mercosur GVC; the fact that Brazil relies heavily on

manufactured exports to Argentina, and those exports do not then move on to other destination reflects the structural lack of competitiveness.

In the era of global value chains, an adequate trade infrastructure is even more important than before. Around 90% of international trade flows in Brazil in value goes through ports. Port efficiency in the country is far below global standards and may work as an additional trade barrier not only for imports, but also for exports. Other factors beyond infrastructure that harms trade performance in Brazil are tax burden and a tendency to a structurally over-valued exchange rate.

Debate

Marden Barboza emphasized the importance of Brazil getting into global value chains. Nonetheless, questioned how the insertion should be carried through and which model should be followed: the Chilean, focused on the exportation of agricultural and metal commodities; the Mexican, based on export platforms; the Korean, focused on strategies sectors etc.

Thorstensen highlighted the fact that Brazil only has the WTO as a negotiation forum, and posed some questions: (1) what is the Brazilian government position regarding Brazilian insertion in global value chains?; (2) Should we bring the Mega-Regionals into the WTO system?; and (3) Is Brazil ready to eliminate all the barriers necessary to its integration into GVCs?

Weekes considered that maybe the Brazilian trade structure may compromise the insertion of Brazilian market in global value chains. Weekes stated that Brazil's growth potential is indeed vast, but protectionist measures may cause a dramatic effect in an insertion scenario. According to him, the importance of NTBs means that Brazil and the BRICS and developing countries need to make some hard choices as to the Mega-Regionals.

Cunningham argued that, if development dynamics are now changing due to GVCs, and if trade liberalization has now taken the form increasingly of adopting policies that facilitate GVCs and the resulting FDI, Brazil has hard choices to make about government policies and the allocation of resources. Moreover, if NTB elimination within a regional trade agreement has such a major impact on non-members of the RTA, what does a country like Brazil do? Join an RTA? Seek multilateral rules in WTO negotiations?

Ferraz further argued that the cost of maintaining Brazil's isolation is high, that is to say that not only its insertion may cause negative effects for the Brazilian economy, but also the lack of insertion. In fact, the lack of insertion is already damaging national industry, which is incapable of competing in the international market. A solution for this dilemma may include specialization in some of the production stages, and not in all of them, in order to develop competitive advantage. According to Ferraz, the path to insertion in global value chains must include investment in increasing the skills of workers, education and infrastructure. The market would answer the questions related

to which production stages should be developed in the Brazilian economy and which elsewhere.

Draper cautioned that Ferraz' prescriptions, in line with those emanating from the GVCs literature, appear similar to the contested 'Washington Consensus' framework – liberalize and the market will do the rest. Whilst agreeing with Ferraz's recommendations, he noted that many developing countries are looking for more from their states, and want to know what kind of role is appropriate for states in this new global trade context. He noted that this concern needs to be addressed, and that actually there is a major role for states in it. For example provision of infrastructure, appropriate education, etc requires major state capacities particularly in the African context. Furthermore, states can provide investment environments conducive to attracting MNCs, for example by establishing properly run SEZs and investment promotion agencies.

Panel 2: The role of plurilateral agreements in the future of the WTO (14.00-16.00)

Chair: Carlos Abijaodi (CNI)

Speaker: Peter Draper (SAIIA)

Speaker: Diego Bonomo (CNI)

Discussant: Felipe Muñoz (University of Chile)

Discussant: Patrick Lawless (Embassy of Australia in Brazil)

Abijaodi

To introduce the Panel, Abijaodi suggested the following reflections:

1. How can WTO Members restore the organization's multilateral nature?
2. How can sectoral plurilateral agreements cooperate with the multilateralization of trade rules?
3. Should Brazil and the other BRICS attenuate their inflexibility towards plurilateral agreements?

Draper

In his presentation, Draper argued that the plurilateral agreements are, in a way, *sui generis*. Historically, the WTO is punctuated by plurilateral agreements. It is harder to achieve an agreement on any subject multilaterally, and a few disciplines were discussed first in plurilateral agreements. Also, throughout the decades and due to its relevance and bargaining power, plurilateral agreements have been a tool to reinforce American supremacy over the multilateral system.

At the present, PTAs are bypassing the WTO. How to deal, multilaterally, with the distress of countries not participating in the mega-agreements? One main question to South Africa and other BRICS revolves around important issues that are blocked at multilateral forums but are discussed at the mega agreements which developing countries are excluded from.

The plurilaterals are an instrument to achieve trade liberalization. But the political economy of negotiating them is fraught with challenges. Top of the list is how to achieve balance amongst potential candidate topics. Key issues such as agriculture will be left off the table in plurilateral negotiations, affecting Brazil and Australia, due to EU, USA and Japan's reluctance to negotiate this issue. The most valuable bargaining chip for developing countries to gain market access in agriculture is negotiating services. WTO-plus is mainly centred on service sector. Perhaps the BRICS should be more proactive, and seek to initiate their own plurilaterals, for example in agriculture.

Another related challenge concerns the nature of plurilaterals. 'Inclusive' ones such as the Information Technology Agreement multilateralize their outcomes on an MFN basis. The key is to achieve sufficient 'critical mass' amongst big traders so that the 'free rider' problem is minimal. There should be relatively little problem for the BRICS and other developing countries in supporting this kind of plurilateral.

However, 'exclusive' plurilaterals are more problematic. These include PTAs, both goods (GATT art. 24) and services (GATS art. 5); and Annex 4 arrangements such as the Government Procurement Agreement. PTAs are allowed for under the rules and are proceeding in any event. The GPA has just been updated and expanded, showing there is appetite for this kind of arrangement. However, to launch new Annex 4 agreements is virtually impossible since it requires consensus of the entire WTO membership, many of whom fear that such agreements will be imposed on them in the future. To allay this fear a 'code of conduct' to govern such arrangements could be negotiated upfront, and include transparency and aid for trade measures, for example.

Draper argued that, in general, developing countries do not support plurilateral negotiations, with a remarkable exception: China; which has broken ranks among BRICS. China's potential gains from negotiating TISA are enormous and in pace with its internal policy reform on services.

Nonetheless, Mega agreements should not be imposed on non-members. Furthermore, technical support should be available to developing countries that may want to participate in Mega Agreements negotiations in order for those countries to do it autonomously.

Bonomo

According to Bonomo, plurilateral agreements are taboo in Brazilian trade policy. The Government is not open to discussion. Historically, though, Brazil signed and ratified four plurilateral agreements during the Tokyo Round, and other plurilateral agreements outside GATT's scope.

Why is Brazil firmly opposed to plurilaterals since the WTO was established?

The first reason is that Brazil is looking for sector-specific trade-offs and all possibilities demanded great concessions in return. The second reason comprises the weight of

trade-offs inside the Doha Round: the same subjects negotiated within plurilaterals would not be able to be used in international negotiations; hence, Brazil would lose bargaining power in using agriculture to balance NAMA, for instance. This logic did not work out as Brazil expected.

Third, Brazil wants to consolidate a new form of negotiation within the WTO, and the proliferation of plurilaterals with weaker systems is not Brazil's political goal. Brazil coherently chooses not to be part of the fragmentation while betting on the strong belief in the WTO system. This political statement is related to an economic position whose root lies in the economic crisis faced by the Brazil during the decades of 1980/90.

The private sector does not share the political position adopted by the Government, and understands that there is an urgent need to review Brazil's relationship with plurilateral agreements, especially TISA. Services are of great relevance to the manufacturing sector and its added value, and Brazil could gain from falling prices related to services. Furthermore, regarding MFN plurilaterals in key goods sectors it is better to participate in order to shape the outcome, than to be left outside.

To Bonomo, the plurilaterals are not a threat to the WTO. Although all big players are enhancing their influence and bargaining power through PTAs and Mega-Regional agreements, they need the multilateral system in order to gain access to the big developing markets. He then concluded that the best option is to keep balance between the ratification of a few and key plurilaterals, and the reinforcement of multilateral dynamics of WTO.

Debate

Lawless mentioned that not doing anything is more costly to the international trade system than negotiating PTAs. PTAs are, in essence, the unilateral will of reducing tariffs in the expectation others will do it so afterwards. The main objective should always be to multilateralize the inclusive PTAs in a global basis.

Muñoz remembered the importance of environmental goods, which are a common subject of plurilaterals, and the fact that their normative spill over into the multilateral system is already consolidating. This trend might be applied to other WTO+ subjects. There is an issue regarding the spillover of the rules negotiated in plurilaterals into countries that did not take part in the negotiations. It is important to be a part of the PTAs and Mega-Agreements in order to become a *rule-maker*.

Lima Campos questioned if it is possible to use plurilaterals in favor of the BRICS, instead of just reacting to the propositions made by other countries. How about Agriculture?

In answer to Lima-Campos, Draper answered that the proposal should be made regarding an agreement on agriculture: what's the offer? What's the bargaining chip? In a sense, it would be a very similar negotiation, and the same logic as the one (not)

happening in Doha. The BRICS would have to get into the bargain, unilaterally, with a proposal in all sectors. And go round the table.

Bonomo mentioned that, in economic terms, Brazil should line up with US and EU. There would be more economic gains than choosing BRICS. But there are advantages of aligning with like-minded positions.

Schott said that the BRICS negotiations have no credibility. Nonetheless, if there are individual propositions on topics of interest or the desire to integrate Mega negotiations, the deals could work. A more pragmatic approach should be adopted at the negotiations, especially when dealing with troublesome countries such as EU and USA.

Some of the Mercosur countries (Uruguay and Paraguay) are negotiating TISA – Brazil should be aware that its regional partners are engaged in a multilateral negotiation on the subject. Attention should be paid to the fact that the policy focused on tariff reduction adopted in Mercosur did not spur positive results alone. Brazilian interests may no longer respond to the interests sought in a possible regional integration in South America, and the negotiating agenda might end up politicized due to the lack of political consensus on some issues that were once homogeneous.

Panel 3: Exchange rates and international trade regulation (16.20-18.00)

Chair: Richard Cunningham (Cordell Hull)

Speaker: Vera Thorstensen (FGV)

Speaker: Aluisio de Lima-Campos (American University)

Discussant: Paulo Ferracioli (FGV)

Cunningham

Cunningham introduced some thoughts on what might be done in order to mitigate the effects of this kind of manipulation, including during the negotiation of regional, bilateral and plurilateral trade agreements.

He posed five questions related to the theme:

1. Is this a trade problem? What is the extent of the problem?
2. How is it possible to differentiate manipulation from other monetary policies? Care must be taken to differentiate between true manipulation and a government's (or a central bank's) legitimate response to economic difficulties.
3. How can manipulation be measured?
4. Which remedies can be used? Unilateral measures, measures adopted in the context of regional/preferential trade agreements or in the WTO DSB? The most appropriate "remedy" in the trade context might be a requirement to explain and a requirement to consult with injured trading partners.
5. How can multilateral financial institutions be involved? A WTO oversight function might be appropriate, possibly in cooperation with the IMF.

According to Cunningham, a major problem is that finance ministries in almost all countries oppose the involvement of trade ministries in currency issues, and finance ministries almost always win such inter-agency battles.

In addition to AD and CVD, unilateral measures to address (or, more likely, to generate pressure on) currency manipulation could include, in U.S. law, a Section 301 case leading to Article 15 dispute settlement.

As to countervailing duties, there is a complex question as to whether currency manipulation is an export subsidy, because it also acts as a barrier to imports. If it is not an export subsidy, there is a “specificity” problem.

In antidumping cases, where a currency is manipulated, the investigating authority might use the “real” exchange rate. This has some analogy to the authority to reject use of below-cost home market sale and below-cost affiliated party inputs.

Thorstensen

Thorstensen initiated the debate on currency wars versus trade wars. The number of countries that present exchange rate misalignments is significant. Taking into account that the misalignments are persistent, it is important to think about the appropriate forum where exchange violations should be judged.

According to Thorstensen, to exam the impact of exchange rate misalignments on trade, one possibility is to transform a misalignment into a tariff and then to adjust the import tariff of each country, through a “tariffication” exercise. An overvalued exchange rate has the effect of reducing or nullifying the import tariffs of the overvalued country, creating an incentive to imports from third countries. An undervalued exchange rate, on the other hand, will give an incentive to exports from the undervalued country. A country’s undervalued currency will have the effect of increasing its import tariffs, sometimes above the bound levels at the WTO.

One could look for a solution under the legal framework of IMF and WTO. When the IMF and the GATT were created, by the end of the 40’s, the predominant exchange rate system was the gold-dollar standard. The GATT was designed to establish rules towards the liberalization of trade while the IMF would control exchange rate policies and safeguard members’ balance of payments.

In this context, the GATT had a direct link with the IMF through Article XV of GATT. IMF also created a link with trade, through Article IV of its Agreement, which established obligations regarding exchange rates.

Thorstensen argued that with the implosion of the gold standard in the 70’s, the IMF transformed itself into the guarantor of the stability of the international financial system, now including several exchange rate arrangement options: from pegged rates

to completely floating ones. GATT on the other hand was not able to negotiate new rules for trade that took into consideration this new reality.

One approach is to look for the “manipulators”, according to IMF Article IV concept, based on the magnitude of reserves, current account and currency misalignments. The problem with this approach is that it relies on the political will and strength of the IMF to identify a member as a currency “manipulator”, a very sensitive issue. Furthermore, the way IMF’s Article IV is presently drafted, it is really difficult to prove the *intent* of a member in manipulating its currency in order to gain a “competitive advantage”.

Another possible approach is to look for the “frustrators”, based on GATT Article XV concept of frustration of the GATT’s objectives; that is, the benefits of trade under a set of negotiated rules. This proposed methodology follows the logic of the GATT and is to be implemented and managed entirely by the WTO.

One important difference between the two approaches is that while the first seeks to define what a currency manipulation is, and who are the “guilty countries”, the second approach focuses on the consequences to trade of a wide range of currency-related public policies that frustrate the objectives of the WTO.

According to Thorstensen, in order to solve the misalignment problem, WTO could create a WTO virtual trade currency based on the weighted average trade of goods and services from 85% of international trade. At the same time, it should negotiate a band or target zone for allowable fluctuations. Each member would be free to choose the exchange rate arrangement that best fits its economic policy; the arrangement would continue to be overseen by the IMF. Each member would be authorized to allow fluctuation of its exchange rate inside this negotiated band. Each time the exchange rate gets out of the band this member has to consult with affected countries in the WTO. The remedies available could be multilateral, such as raising or cutting tariffs for all the sectors, or bilateral, as currency anti-subsidies or currency safeguards for affected sectors after examination of injury. Another option is to negotiate compensation. The idea is to create objective criteria to allow the neutralization of the effects derived from misalignments on trade instruments.

Lima-Campos

Lima-Campos suggested that there is a need to direct economic instruments in order to attain the objective pursued by international actors.

There are three levels where the issue can be addressed.

At the domestic level, it is possible to think of trade defense remedies. The advantage is that the government does not need to go to the WTO. In the US there is a regulation under discussion that, if approved, will oblige the Department of Commerce to adopt domestic measures to deal with exchange rate misalignment.

At the regional level, it is possible to include currency clauses in PTAs. The TPP negotiations include, although informally, an exchange rate clause. One should bear in mind that, if the US adopted a trade agreement containing such a clause, it would be hard for them to oppose the same discussion in the WTO. Thereby the topic could be multilateralized.

Finally, in the multilateral level, Lima-Campos stressed that WTO Members should seek American support for introducing this measure into the WTO. Without the support of all the relevant Members, nothing will be done regarding the topic.

Debate

Cunningham noted that in antidumping investigations it is necessary to execute an exchange rate adjustment in order to apply the dumping measure and compare prices among countries.

Ferracioli recalled that just four years ago the theme was considered a non-issue at the WTO. He also questioned why negotiations about exchange rate misalignments are not being carried out at the WTO. In an attempt to understand the reasons for that, he wondered if a consensus would be possible even with the Chinese presence in the WTO, once the representatives of the Chinese government already declared themselves against such a measure. In addition, the WTO Secretariat is against the discussion of the topic.

According to Marden Barboza, the exchange rate misalignment issue has been debated in Brazil since 2008/2009. He believes that it is difficult to reach a consensus regarding the topic, and some countries should force the discussion within the WTO through the adoption of trade defense measures.

Lima-Campos stated that it a definition of the term “manipulation” should be established. There are different definitions beyond the one adopted by the IMF. Bad behavior should be punished, but not all the exchange rate interventions should be considered as bad behavior.

Weekes considers that it is hard to demonstrate manipulation and even harder to reach an acceptable outcome for all the countries.

Draper asked how the new basis of measuring trade, value added, should be factored into the conversation. Imposing higher tariffs on imports would amount to taxing exports, where countries rely on imported intermediate goods. Similarly, countries that deliberately undervalue their exchange rates are taxing imports, thus making exported goods that rely on those imports less competitive internationally. The inflationary effect of undervaluation would compound this and, in the medium term, potentially render the undervaluation null and void. But at the cost of higher inflation, which is a tax on the poor and underprivileged. He also wondered what utility this view of exchange rates as an instrument, rather than a variable, has in many developing country contexts. In South Africa, which has deep and liquid financial markets, the

capital account drives the exchange rate, and the underlying driver is South Africa's chronic savings shortage. As a result the authorities have very little influence over exchange rate fluctuations and would find it difficult to forcibly adjust in response to, for example, a WTO-induced currency band. Finally, he questioned whether it is really possible to implement the kind of responses proposed without sparking potentially very serious trade wars as countries retaliate. If such broke out that would undermine the very multilateral trading system we all wish to preserve and extend.

APRIL 15, 2014

Session II

Keynote Speech: The Future of Agriculture in Brazil and the importance of the WTO (9.00-10.00)

Chair: Clodoaldo Hugueney (Former Head - Brazilian Delegation in Geneva, Ambassador to the WTO)

Keynote Speaker: Tatiana Lipovetskaia Palermo (Head of the International Department) *on behalf of* Senator Kátia Abreu (President of the National Confederation of Agriculture)

Palermo presented a detailed picture of the current state of the Brazilian agricultural sector, emphasizing the contribution of agribusiness exports to the Brazilian economy, which accounted for 41% of Brazilian exports in 2013.

The agricultural productivity has risen 300+%, and the largest export market is Asia (45.5% of agricultural exports, 23% to China), which is growing. The EU is the number two export market (22.1% of agricultural exports) and that has been falling slightly.

Despite growth in world food demand, Brazilian agriculture faces problems:

- DDA is stalled;
- Bilaterals and regionals are proliferating, but Brazil is not participating;
- Brazil has lost GSP treatment in the EU and Canada, and will soon lose it in U.S.;
- The economic outlook in Brazil's major export destinations is mixed;
- Sanitary/phytosanitary regulations in major countries are often not based on scientific data, so Brazil wants international harmonization of such regulations;
- Brazil's agricultural community would take Brazil to negotiate FTAs with the U.S. and China, and join TPP. They are very concerned that Brazil is not participating in the negotiations (TPP and TTIP) that are writing new rules on agriculture;
- U.S. farm subsidies remain a major issue. U.S. subsidies will grow on milo, soy, cotton, corn, rice and wheat in 2014-16 under the new U.S. farm bill. The crop-specific subsidies distort trade, especially on cotton;
- The EU still gives very large amounts to farmers. Their current system is somewhat less trade-distortive, but significant distortion remains, due to the large money payments.

With just a few trade agreements in force, Brazil has some difficulties negotiating sanitary and phytosanitary protocols and market access, hindering the expansion of agribusiness international trade. It was also stressed that Brazilian isolation in the current negotiations of mega agreements (TTIP and TPP) will have a high cost in the future, which might harm the agricultural sector. The speaker also highlighted the need for changes in the regulatory framework of WTO, especially regarding subsidies, SPS and monitoring mechanisms.

Ambassador Hugueney noted that exports of manufactured goods presented, in the last years, minor growth, resulting in a significant deficit in the Brazilian merchandise trade balance.

According to the former Ambassador to the WTO, the fact that the Doha Round is not progressing; the fact that countries are prioritising negotiations of regional and bilateral trade agreements; and the fact that regional integration is not evolving in South America denote significant changes in global trade that affect Brazilian trade in such a way that a review of Brazilian commercial policy is required.

Hugueney believes that the participation of the agricultural sector in the review of some basic aspects of Brazilian commercial policy will have a significant effect given its economic importance. At multilateral level, it will be hard to obtain substantial results on the liberalization of agriculture trade, especially after the implementation of the new agricultural policies adopted by the US and the EU. On the one hand, it will be a major challenge for Brazil to roll back the excessive subsidies paid out in the agricultural sector. On the other hand, the technological progress in the Brazilian agricultural sector is substantial, and decreased some of the damaging effects of the trade barriers.

**Panel 4: Agriculture - WTO main challenges:
Doha between the Farm Bill and EU CAP**

Chair: Clodoaldo Hugueney

Speaker: Will Martin (World Bank)

Speaker: Andre Nassar (Agrolcone)

Discussants: Flávio Damico; Ricardo Rozemberg; Jin Kyo Suh

Nassar

Nassar highlighted the challenges posed by the US Farm Bill 2014 and the EU European Common Agricultural Policy (CAP) from 2013. He stated that if it is possible to retake Doha's trade talks, the agriculture negotiations will be mostly shaped by these two regulations.

Both the negotiations of the new Farm Bill and CAP took into account the results of cotton and sugar disputes, which shaped product - specific programs in order to reduce risks associated with WTO compliance. Moreover, it was decided that crop and revenue insurance programs (CIP) will be strengthened.

The CAP 2013 concluded the transition from "blue" to "green" box payments and foresees the elimination of export subsidies (this can be inferred since there is no budget estimate for export subsidies). A strong reduction of payments linked to markets and product-specific support was observed, and the single farm payment has been modified to a per hectare payment, with a certain degree of freedom for

member states to decide how to distribute them. In addition, there are ongoing reforms of sugar and dairy policies.

The Farm Bill 2014 eliminated direct payments, Counter-Cyclical Payments (CCP), and Average Crop Revenue Election (ACRE). The CCP and ACRE were replaced by the following price and revenue support programs: Price Loss Coverage (PLC) and Agricultural Risk Coverage (ARC).

It is estimated that payments are likely to increase in the Farm Bill 2014 due to the new price and income support programs and to new insurance programs. At the same time, if USDA prices projections are confirmed, US Programs will reduce agricultural commodities world prices for two main reasons: (i) subsidies push production up pulling prices down; and (ii) subsidies, specially the insurance types, minimize risks for producers thereby stimulating production even if prices are at low levels.

Although the reform is still not complete on dairy and sugar, the EU is doing true reform, converting all subsidies to green box. The U.S., however, still needs to be challenged:

1. They are notifying supports wrongly—linked to prices and markets, but notified as non-product specific AMS. Brazil will challenge this;
2. The WTO Appellate Body has ruled that crop insurance is product-specific, but not trade-distortive. Thus the U.S. is wrong when they say their shift from income support to crop insurance puts them in the green box. Brazil will make this the major issue in a WTO challenge;
3. The U.S.—caused distortion will increase for soy and corn (due to higher reference prices), but will decline somewhat for cotton.

In his conclusions, Nassar supported the multilateral approach as the only alternative to negotiate agriculture, especially the matters related to domestic support and market access. Absent a Doha Agreement, Brazil will have to pursue WTO dispute settlement.

Martin

Martin highlighted some of the WTO challenges in agriculture.

Countries as a whole seek to redistribute income to favored groups, to stabilize domestic prices relative to world prices, and also pursue non-economic goals such as food self-sufficiency or processing of raw materials in order to accomplish domestic political goals. With the aim of achieving these goals, some policy instruments are used, such as import tariffs, export taxes or export restrictions, domestic subsidies and price insulation.

Nevertheless, these policies have side effects once they are adopted. One must bear in mind that the protection designed to raise domestic prices lowers world prices, because it reduces market access and forces exporters to sell at lower prices: if everyone protects, the policy is ineffective.

According to Martin, the WTO should seek progressive reductions in distortions with main emphasis on import restrictions. During the Uruguay Round, agricultural distortions were converted to price-based, and a reduction in the use of export subsidies and price insulation was observed. Throughout the Doha Round, the main focus of the negotiations was on tariff cuts; during its course dramatic reductions in domestic support limits were observed, however Members paid little attention to reducing price insulation.

Regarding the US Farm Bill 2014, it can be stated that the basic structure of the former Farm Bill remained, and four controversial programs were discontinued: (i) Countercyclical Price Program from 2002 Bill; (ii) Average Crop Revenue Program; (iii) Dairy Price Program; and (iv) Supplementary revenue assistance (SURE) disaster program.

All domestic support measures considered to distort production and trade (with some exceptions) fall into the amber box, which is defined in Article 6 of the Agriculture Agreement as all domestic supports except those in the blue and green boxes. These include measures to support prices, or subsidies directly related to production quantities. With regard to the regulation adopted by the US, disaster insurance programs fall outside the definition required to fall into the amber box, while insurance programs fit in the definition of the amber box.

On the subject of the CAP 2013, Martin asserts that broad parameters were maintained, with the main focus on direct payments and limited price intervention.

Much of the recent debate has been about whether the WTO rules allow countries to do what they would like to do, and there is a need to keep a focus on the WTO's role in managing collective-action problems. Substantial progress in reducing protectionism in developed countries has been observed, nonetheless there still are signs of slippage in the Farm Bills. Concerning developing countries, many of them have moved from negative to low positive protection, and there are some signals they could move to substantial positive protection.

Debate

Rozemberg mentioned agriculture negotiations in the context of the Bali Package. A reflection was proposed regarding what he called "the new multilateral negotiation approach" used in the Bali Package. He emphasized that consensus was reached with flexibility and pragmatism, and advocated that a more specific and limited agreement is better than no agreement at all.

Although an agreement has been reached, one should bear in mind that there is still the need to implement the decisions reached in Agriculture. He argued that, while the Trade Facilitation Agreement has a clear path for its implementation and will be part of a new treaty within the WTO legal framework, Agricultural commitment in this field was just a political declaration with no date set.

The structure of world agricultural markets has changed dramatically, not only because of higher prices, but also due to the important advances of developing countries in production and trade, especially China. The larger presence of developing countries in the global market benefits them with a greater capacity to negotiate a more balanced agreement, but also bring more responsibilities in the international arena. The reform process in agriculture is still unfinished business, and that is why agriculture must be an essential part of the multilateral Agenda for most developing countries.

Jim Suh reminded that the U.S. is in a very defensive position, but is caught by domestic politics. US agreement is necessary to a successful Doha agriculture result, so we need to find a compromise. In that regard, he noted that the subsidy issue, while still important, is less so than in the past.

Nassar was questioned about how useful would a proliferation of dispute settlement cases be. He answered that it is too soon to tell, but based on the projection of prices over the next two years, Brazil will have to take action.

Another question raised referred to what can be done about EU SPS rules. Damico, in the one hand, thinks that the TTIP is a logical place to address that, but it seems unlikely. Schott, in the other hand, states that what is needed is a ceiling, probably product-specific, on U.S. and EU supports. According to Suh, the obvious approach is to go back to a balance between developing country NAMA concessions and U.S./EU agricultural support concessions.

On the word of Ambassador Hugueney, the nature of the U.S. support programs has acquired a life of its own. There is a pernicious association between the insurance industry and the farm lobbies. The U.S. and EU policy changes are due in significant part to the dispute settlement cases on cotton and sugar. One should try to lock in what is now in place in the U.S. and EU, but at the same time work toward limits that will come into effect in the future at lower levels. Developing countries in the G20 negotiating group are prepared to move to a high level of ambition on agricultural supports, but not in market access. Food security is a real issue. If there were a crop failure in China, there is no adequate source of food. But the current types of solutions are unnecessarily trade distorting.

Session III

Keynote Speech: Does the WTO have a future? (14.00-15.00)

Clodoaldo Hugueney (Former Head - Brazilian Delegation - Ambassador to the WTO)

After 40 years dealing with GATT/WTO issues, I believe I can say a few words not about how to save the WTO but instead how to make it operational or functional. It is each day more difficult to provide solutions for what currently is happening in the international arena.

Firstly, there is a problem with multilateralism itself. International organizations are struggling with several problems such as overwork and diversity of topics in their agendas.

Secondly, there is a whole new number of emerging countries and as a result the creation of new political powers, enhancing the multipolar order.

These are two reasons why it has been difficult not only to conclude the Doha Round, but also to deliberate effective measures under the United Nations Security Council, or even to push for reforms in the IMF and in the World Bank Group. One - it is mandatory to shift the balance of power in these organizations but this is really a complex thing to do. Two - internally the impact of those problems can be sensed when it comes to the manners of response to domestic demands mandated by the democratic system.

This is the big picture. Now let us discuss the issues currently under debate in the WTO.

There are difficulties in relation to the *modus operandi* applied in multilateral negotiations. For instance, the mega-agreements can be pointed out as a side effect. It is necessary to find a way to conclude the Doha Round and to adapt the WTO to a new agenda with new international trade topics. We are seeing the weakening of the multilateral system which has the WTO as its center.

But why is that happening?

The rise of China and other emerging countries is one reason, associated with their constant increasing participation in international trade. Investments follow these trade flows. Thus, negotiations cannot be made without bearing in mind these countries' interests, since the international scenario is no longer like before, where they was a group of countries of small economic scale and little or no real influence in the decision-making process, e.g. G-77.

The Doha Development Agenda should be the appropriate forum to finally negotiate the essential issues that emerged since the GATT era, such as agriculture. Maybe a wrong approach toward the Agenda was taken, or perhaps the Doha Declaration was made already with no intention to be pursued. The DDA created an impression that now issues related to development would be tackled, but it turned into a traditional trade negotiation. The latter would have worked well if the situation had not changed drastically in the meantime.

A large majority of WTO Members is interested in exceptions to the rules and not general rules governing trade. Thus, building consensus in multilateral negotiations also becomes something really complex. For instance, landlocked countries, LDCs, emerging economies, developed countries and each and every other group of members have divergent interests. Cancun made it clear that developing countries were not going to accept a top-down solution imposed by the U.S. and EU.

The *agendas* were completely different. Developing countries were interested in larger commitments in agriculture from developed countries, especially domestic support, in exchange for commitments in NAMA. Developed countries demanded big contributions in NAMA, but were not willing to offer larger commitments in agriculture.

For many years, we have been dealing with these issues and, now, the United States and other major countries no longer recognize the supremacy of the Multilateral Trade System (MTS). Before, the United States was the leader of trade liberalization in agriculture. However, when their agriculture and producers became dependent on domestic subsidies programs, the United States changed position in the WTO. The mood of support for globalization has been declining in the U.S. and EU and was never very strong in countries like Brazil.

Therefore other options, besides the WTO, ought to be in order. However, the anti-globalization movement has increased which made approval of PTAs in the U.S. Congress even harder to pass. Thus WTO negotiations suffered along with those impacts.

The main point here is to discuss trade increase and its more profound iniquity. The Director General Roberto Azevêdo has done a remarkable job in only few months in office to approve the Bali Package last year. There have been some criticisms, but since the very beginning the goal was only to pursue an interim agreement to get *momentum* for the continuance of WTO negotiations. However, I believe this moment is over now.

My perception is that we should not only maintain and improve the MTS but also develop a functional WTO. This is important for everyone and it will require a cooperative effort because no country can put the WTO aside.

It is necessary to conclude the Doha Round and then to reform the WTO. If the reforming process and the Round are conducted at the same time, there will certainly be dissonant internal voices willing to block Doha Round negotiations even more.

For me, it is no longer possible to reach an ambitious package under the Doha Round, which means that balance between agriculture and NAMA will be met only in lower thresholds than at the beginning of the negotiation. It is also necessary to focus on critical issues and not to be diverted by topics that, although relevant, are not essential to the Round itself. Another option would be to rebuild the agenda and start it over. This is a feasible way to look toward a bold and comprehensive agreement which is such a complex task to pursue. For me, it is best trying to conclude the Doha Development Agenda as its original mandate and, then, go further towards new topics.

Thus it is best to conclude the Round in steps instead of negotiating several partial agreements revisiting the GATT *à la carte* doctrine and, therefore, the principle of the single undertaking.

If the Round fails, we will experience a rise in the level of dissatisfaction with, and distrust of, the WTO, making any kind of reform just unfeasible to achieve.

The WTO cannot keep such a track. It has inherited some GATT problems such as trade liberalization and market access as ends in themselves. Also, its traditional focus in the bargaining process – reciprocity - confronts the reality of global value chains. The agenda is moving from tariff issues to domestic regulations and no longer to border issues. This change of heart reveals the obsolescence of the current model.

In addition, trade negotiators in Geneva have been living in a fantasy world focusing themselves on specific demands with limited structural effects instead of debating the real important international trade issues.

Countries are moving from marginal trade preferences to rules negotiations and the impact on international trade might be greater than before. In this context we have the mega-agreements. We are talking about geopolitics foundations. The United States can be a decisive actor on both sides of two oceans. The Atlantic dimension remains important but, at the same time, the Pacific region gains relevance because of economic globalization and the rise of China, which shifts international trade issues to Asia. The China-Atlantic-Pacific relationship is critical.

We are developing issues that are not in MTS agenda such as, investments, labor rights and climate change. If those issues are not to be integrated into the MTS it may lead to a moment where there will be different country groups who will fight for the inclusion and the formation of these rules.

For me, I wonder if China will be allowed to join TPP. If China is accepted, it will be a monumental change and it will definitely affect multilateral trade negotiations. However, China is principally interested in pursuing balance of and influence in Southeast Asia and in Europe.

Another thing we shall bear in mind is that I do not know any country that would like to be in a position to choose between the United States and China. Not even Australia, which has close ties to the United States!

In Europe, the economic recovery is slow and the Ukrainian crisis deteriorated the scenario. Add that to TTIP negotiations and historic divergences such as GMOs, sanitary measures etc. There has not been much excitement about the conclusion of a trade deal between the European Union and the United States. Nonetheless, if they are successful, that will have a relevant transformation power in the MTS.

In relation to the WTO as a negotiation forum, the question is how to combine the consensus rule, participation of members and efficiency?

An authoritarian system is more efficient but people start seeing advantages for supporting an inclusive one.

The ability to build consensus and to maintain the multilateral approach appealing as much as in small groups debates is a real challenge.

Small groups of countries have chosen to discuss specific topics instead of general trade issues. However, this strategy is not feasible in WTO context. I really think that these groups that are interested in solutions for their trade issues shall gather all small groups together and settle differences amongst them.

All groups are now invited to the Green Room. When I was the G20 coordinator, the negotiation process was more transparent than before. The idea is to go to a rotating agenda, moving forward from rounds format and the single undertaking principle. With 160 members, it is very difficult to build consensus in certain topics that are not as important for the majority of WTO members. If the chosen model is fully multilateral, it means to say that countries should leave the WTO to seek an agreement in a specific topic only of concern to them. It is necessary to make room for collective and multilateral negotiations in smaller groups for topics that are not a general concern. This would strengthen the role of plurilateral agreements, whose authorization and approval must be given by WTO members as a whole, by consensus. It is mandatory to address such issues.

I am not going to discuss the specific points to be included in the agenda: revise TBT and SPS, competition, investments, harmonization of rules, mutual recognition agreements, environmental issues, global value chains and so on. The important thing is to find the way for a feasible agenda. The diversity of interests makes this hard work. A multilateral and a plurilateral negotiations criteria and an adequate agenda can make consensus possible for the chosen topics.

If you are dealing with these new topics it is necessary to avoid Geneva's localism and look to the general context.

On S&D Treatment, we need to look beyond it. S&D was a problematic solution. To create exceptions to trade in order to contemplate development demands is a mistake. The point is to put development as the main concern of the WTO and not just an exception. This is no longer an option because developing countries, at least a majority of them, are no longer interested in exceptions but in making general and efficient rules to promote development.

In relation to Brazil, I argue that the WTO needs reforms. My personal view is that the current Brazilian trade policy did not bring the results as expected regarding economic growth, international trade participation, competitiveness, aggregate value, diversification of exports and so on. We are seeing an involution of our trade policy. Today we returned to the debate of whether Brazil is facing a deindustrialization process or not!

It is mandatory to revise the trade policy to see if Brazil can do better than 1.3% of international trade. We have a setback in this regard.

The important point is how to reshape our trade policy. Without a new debate on our trade policy, without defining our goals, it is near impossible to engage in any trade negotiations, because the Brazilian negotiator will have no idea what to negotiate for.

It is necessary to develop new abilities to engage in multilateral negotiations, regional and bilateral ones after such revision. It is necessary to adopt an asymmetric geometry perception to negotiate and to finally get to a positive result.

Debate

Cunningham asked if a Doha Round Package is possible.

In answer, Hugueney stressed that the USTR was interested in it, but after some domestic problems such posture about trade concessions under negotiations has changed. Specific issues would not be that easy to negotiate but it would be possible to get a general agreement on agriculture.

The Doha Round should have been concluded years ago. It is not possible, even for its length, to achieve an ambitious result in NAMA and in agriculture. Europe has always believed in a simpler package for agriculture because they knew they could not make great concessions on that matter.

It is possible to find grounds for balance and to achieve a final package. China is not going to be an obstacle because she benefits from economic globalization and trade multilateralization. This does not mean that they did not pay a price for that. They did but they had massive gains and, therefore, they are not going to oppose a package.

India and Brazil are more complicated. India has a very heavy food security agenda. For Brazil, agriculture is a political issue. Any governmental measure in this sector will be under the observation of the political world and of sectoral associations. Brazil is in a delicate position with an industrial sector that has been struggling to compete in the past years. Without revising our trade policy and its goals – and it shall encompass industries' domestic difficulties – there will be no space for a NAMA agreement in the WTO or even to reduce policy space in tariffs. One could say that Brazil is in the very and most delicate position of all.

A package is completely possible. What will be difficult is an ambitious one.

Cozendey stated that MFN principle is a defense for what currently is happening outside WTO negotiations. In terms of plurilateral agreements that is not possible. However, it would be the case to consider a turn back to Tokyo Round formula.

Hugueney commented that if proper conditions are not created for countries to bring their problems to multilateral negotiations, they will seek such conditions outside that framework. The risk is to create regulatory blocs. This could turn into a confrontation scenario amongst those blocs. Multilateral negotiations challenges must not be neglected, but you can look for solutions which encompass multilateral negotiations

among small groups for specific issues that are not of general interest. It is even possible that much of the concessions made in those small groups in the WTO could be extended to the majority of WTO members. And, in that case, the member can choose to be a part of these specific agreements or to abandon it. In all grounds, eliminating multilateralism is not a solution.

Panel 5: Roundtable: Is the WTO in search for a new structure and new issues?

Chair: John Weekes (Former Head - Canadian Delegation - Ambassador to the WTO)

Speakers:

Paulo Estivallet de Mesquita (Ministry of Foreign Relations, Brazil)

Jeffrey Schott (Peterson Institute for International Economics)

Peter Draper (SAIIA)

Carlos Márcio Cozendey (Ministry of Finance, Brazil)

Vera Thorstensen (FGV)

The panel began with the question of the Chair, John Weekes. The main question to be analyzed is - do we need a new structure or we can maintain the same one but with some improvements in order to create a better ambiance?

Estivallet answered that the problems we are facing are WTO related but they also concern multilateralism itself. Some years ago, he said, he participated in a meeting that included ministers and Pascal Lamy (former WTO Director General). One of the ministers raised the point that Lamy has not been very successful in WTO negotiations management. Lamy answered that many people within the countries were not in favor of trade liberalization, such as in the United States or in Brazil, and also that ministers were equally unsuccessful because they have not been able to promote the necessary environment to move trade liberalization talks forward. A weighted voting structure won't work in the WTO. You need consensus, because we are dealing with basic questions of how a society is organized.

Cozendey added to the debate stating that, in practice, the WTO has sought to change its decision-making policies, including the participation of other countries such as China. It is possible to provide an adequate structure if multilateralism is still alive. Members would not benefit from a system of small groups reaching common interests prior to multilateral negotiations. What he sees now is a transition from big economies to emerging countries (e.g. BRICS) which are called to the negotiations and invited to express their own interests and points of view. In 2008, all countries were in favor of the July Package except for India to whom food security proposals were not good enough. Nevertheless, the United States demanded higher commitments in opposition to Chinese and Brazilian interests. That move impaired the Doha Round negotiations greatly. In his opinion, the biggest problem may have been that the emerging countries were being asked to take the same role as the developed countries, and they weren't ready to do so.

It will be necessary to wait for the completion of Chinese transition towards international trade rules in order to restart bargaining at high stakes. At that point, the *renminbi* could be an international currency, for instance.

Schott said that, regarding WTO structure issues, we may provide a two-handed economic answer. On one hand, the structure is flawed which makes it harder to do anything in the WTO. The Bali Ministerial Conference showed that any country, which has trade relevance, could block negotiations. Such behavior may spread through other members causing serious damage to WTO negotiation processes.

The key element for a successful negotiation is that countries have to be willing to change their policies. The United States revealed some flexibility in the negotiation of the trade facilitation agreement. Many developing countries do not want to make deals in order to change their trade policies. They do not want any changes in their policy space.

This policy is not well perceived domestically. Developing countries economic reforms led them to engage in new opportunities such as TPP. If Malaysia and Vietnam are willing to work with the United States, why not Indonesia?

In this sense, the current WTO structure could work if there were enough countries with some trade relevance to participate in negotiations.

Weekes said that the principle of single undertaking reduced negotiations flexibility. Furthermore, the consensus clause has provoked the same difficulties.

Thorstensen questioned if we are going to do something about that. What are the concrete steps to be taken now? What to do tomorrow morning?

Cozendey answered that the first step is to conclude the Doha Round. There is no structural problem, but an issue problem. He agrees with the fact that there are some restrictions by negotiating under the single undertaking principle. It is not very easy to get internal balance. The WTO also does not have any regulation on normative and standard agreements; other organizations take care of that part. Shall that change? Are PTAs going the other way around? It does not seem so. It is necessary to have a minimum level of regulatory harmonization.

Thorstensen asked about the TISA.

Cozendey responded that we ought to respect the MFN principle. Agreements on trade in services have only confirmed what had been done before. There is nothing actually new or innovative.

Estivallet complemented that, regarding plurilateral agreements, the point is that when ITA was negotiated in 1995-1996, it was another phase of trade liberalization. Thus we held consultations and a comprehensive negotiation framework in order to achieve a tariff reduction deal. Brazil would like to work out some intermediary level of

liberalization and the United States informed that it was a take-it-or-leave-it agreement which meant that should Brazil could either sign the agreement without demanding anything in return or it should not sign at all. Then, Brazil did not sign because it had no negotiation to build on. Why join an agreement that does not deal with a relevant sector to us without demanding compensation in sectors that we actually have some interest in?

Schott replied TISA will guarantee such rights only for those countries that sign it.

Cozendey stated that this would be incompatible with the MFN principle.

Schott answered that TISA may work on an MFN basis. China wants to be part of it, the European Union wants China to accede and the United States has no objections to Chinese membership. The United States only want guarantees that TISA won't follow the ITA negotiations experience, where China has attempted to carve out several products in order to reduce the scope of the agreement. If Brazil joins TISA as well, then India will feel the pressure to do the same. It would be very difficult to resist. And if we have all major countries as TISA members then TISA is ruled by the MFN principle. The U.S. lobby to support trade agreements in agriculture and in trade in services is working really hard and we ought to have a lobby to prevent protectionist policies in trade in services sectors.

Weekes noted that TISA is out the WTO. He asked what could be said about plurilateral negotiations within the WTO. You couldn't reach an agreement in the Doha Development Agenda without the major players' consent.

Cozendey recalled that there are plurilateral agreements within the OECD such as credit to exports. Some would like to include China, Brazil, and India very quickly and that makes the issue more complicated because there is a need to subject all major countries to the same rules, regardless of their level of development. This means approaching plurilaterals cautiously. We may face serious discrepancies.

Weekes said that, when we talk about services, countries have already adopted their Schedules. He would think of TISA as an agreement that covers several sectors but with no extra commitments other than those already in countries Schedules.

Estivallet pointed that he does not believe that there will be any flexibility in TISA. There will be some concessions in trade in services.

Thorstensen criticized that the Brazilian officials heard during the seminar that trade in services is a very important topic for Brazil in preferential trade agreements. What she has been hearing is that the [Brazilian] National Industry Confederation (CNI) and [Brazilian] National Agriculture Confederation (CNA) are very interested in such deals.

Estivallet replied that, in a few cases, Brazil does not negotiate services matters because of domestic legislation such as reinsurance.

Cozendey added that there is no such thing as a fear of opening the industry. Brazil might do that in the agreement with the European Union.

Schott stated that Developing countries cannot afford to wait and to keep their chips for future negotiations. In this scenario, they will remain with low participation in international trade.

What should Brazil do to expedite its development? It is the same question made by the Chinese. Is there anything in the multilateral field that could help to accomplish my domestic development goals?

Cozendey remarked his concern about market access and subsidies level. If there is evidence that the [U.S.] Farm Bill will change, then, they would have something to start with.

Lima Campos pointed that, if current plurilaterals are of no interest to Brazil, then, it should find one that might be.

Estivallet suggested, for instance, a plurilateral on domestic support.

Lima Campos answered that it could be a plurilateral on agriculture.

Cunningham said that WTO should come back to the rotating agenda format. He asked if panelists thought that would be adequate and balanced. He suggested that a revision clause should be included within five years of implementation to verify if what had been decided was really adequate and balanced.

Cozendey commented that agreements could be signed in ministerial conferences amongst the interested parties instead of maintaining the culture of rounds of trade liberalization. This could be given a try and every two years these negotiations could change either topics or signed agreements as well.

Draper said that we are in an interregnum period. China is the one who has made the deepest change. Those domestic reforms made China stronger. And that result made India rethink its own reforms. How are those changes going to impact on Brazil? Brazil has to promote changes in its policies. BRICS is an acronym based on solidarity and China might break this vow any minute for domestic concerns, for example by joining the TISA.

Cozendey replied that it is not difficult only for Brazil but also for every other country to engage in tariff negotiations with China because the Chinese economy has specific regulations, for instance, in matters of investments. Brazil cannot pretend to be an economy it is not. We have to face up to the fact that we are not in global value chains because we are not competitive enough and not because our tariffs are high or low. In other words, it is not just a tariff issue, we have to consider national industry lobbies and trade policies for all sectors. On services, China is making progress; the European

Union and the United States shall recognize that developing countries must be involved in a deal such as TISA.

Cunningham said that negotiations in trade in services are different when compared to NAMA and to Agriculture. There is a wide space to liberalize developing countries trade in services. We ought to find a way to push back negotiations into the multilateral forum.

Suh suggested that they should go back to the WTO and Regional Trade Agreements.

Estivallet stated that criticisms are being made towards Brazilian policies in the WTO because the country is stuck to a position it believes is positive and coherent. If there is an ongoing negotiation between the European Union and the United States, its content is so widely diversified and complex that it would be possible to negotiate the liberalization of only about 80% of goods. However, if a country has a less diversified trade basket then leaving 20% of trade in goods out of negotiations might be relevant.

Weekes said that, regarding regulatory issues, it was not a concern in the Doha Round to revise or bring up-to-date TBT and SPS rules. Yet this is becoming more and more important to assure market access. Are those measures negotiable? If the United States and the European Union sign a deal with understandings on such measures that could jeopardize other countries market access. Is that an issue that should be discussed in the WTO?

Cozendey responded that there are two ways by which international issues are negotiated: under GATT Article XX and by setting up a process that lead to conversion, to the access to information about the regulatory process, which is guaranteed to all. That can help with a possible convergence on standard regulation.

Summary and Conclusions of the Roundtable

The Roundtable discussed several important issues to the revitalization of the Multilateral Trading System.

Participants agree that the WTO is an essential component of the international trade architecture, and its importance must be restored. Members should find solutions to overcome the difficulties that resulted in the stalling of the Doha Round. A structural reform may not be required, but rather a few adaptations with a view to promoting the flexibility of the current system must be supported.

The WTO must remain as a negotiating forum, even if this role is now shared with preferential trade agreements, and, specially, the mega-agreements. It is clear that if solutions are not found to the challenges brought by Members to the WTO, they will seek to resolve these issues in other arenas, notably, PTAs.

Suggestions were made to restore the WTO as a functional institution for international trade. Some defend the negotiation of plurilaterals as a form to bypass the lack of interest of some members in negotiating some themes. Another possibility is to flexibilize the consensus and single undertaking rules for the adoption of future decisions. In this regard, the remaining Doha negotiations could be undertaken in a step by step basis, instead of a single package.

Regarding PTAs, their current influence in defining international trade regulation is undeniable. With the difficulties faced by the multilateral system, some defended that the insertion of countries in world trade and global value chains must be assured by the negotiation of new PTAs. In this scenario, even though there are some sectorial sensibilities, it would be more costly to do nothing than to celebrate new agreements.

The position of Brazil in such context is quite delicate. The country is at the margin of the proliferation of preferential trade agreements, from the drafting of new rules for international trade and from global value chains. The country's current foreign trade policy is unable to assure the integration of its economy in global trade. Brazil, together with other countries facing the same situation, needs to find ways to influence the trade liberalization process to reflect its interests.

Greater challenges are faced by the agricultural sector. The issue is best negotiated at the multilateral level, with no significant trade liberalization occurring at the regional level due to the reluctance of some developed countries. The theme, which is of core interest for developing countries, including Brazil, is not being properly dealt at the multilateral level, while suffering important changes promoted by major trade partners. These changes, reflected in the recent developments in the US Farm Bill and the EU CAP, will adversely affect several developing countries.

Furthermore, with liberalization of other sectors promoted under PTAs or plurilaterals, developing countries will lose their bargaining chips (notably, commitments in NAMA and services) to gain greater market access and reduction of subsidies in agriculture at the WTO.

There are great challenges to revitalize the WTO and ambitious results in the near future seem unlikely. Nevertheless, measures, notably those proposed above, can be taken in order to promote a better environment for trade negotiations and allow the organization to regain its importance as the core of the international trading system.



BRAZIL ROUNDTABLE

RESTORING MULTILATERAL TRADE COOPERATION: THE FUTURE OF THE WTO

**APRIL 2014
BRASILIA, DF - BRAZIL**

Pathways to WTO Recovery

Jeffrey J. Schott
Senior Fellow

Peterson Institute for International Economics

Presented at the Brazil Roundtable on
“Restoring multilateral trade cooperation: the future of the WTO”
Brasilia, 14-15 April 2014

The World Trade Organization (WTO) is still in trouble

1. Success of the GATT era has not been replicated.
2. Though the WTO has attracted many new members, including China and Russia, and the WTO's dispute settlement mechanism (DSM) has worked well:
 - WTO negotiations have produced only minor results.
 - The DSM is vulnerable to overload.
3. WTO negotiators never pursued a Doha package that was “ambitious and balanced,” and thus the talks stalled.
4. The Bali result doesn't suddenly make the WTO whole
 - depends on the follow-up this year...and beyond.

Consequences of the decade of Doha drift

- Reluctance to pursue multilateral initiatives going forward.
- Expansion of discriminatory regional trading arrangements (RTAs) that potentially cut non-members out of global supply chains.
- Negotiation of mega-regionals as potential “Plan B”:
 - Trans-Pacific Partnership (TPP), since March 2010.
 - Transatlantic Trade and Investment Partnership (TTIP), since July 2013.
 - Regional Comprehensive Economic Partnership (RCEP) linking ASEAN with China, Korea, Japan, India, New Zealand and Australia, since May 2013.

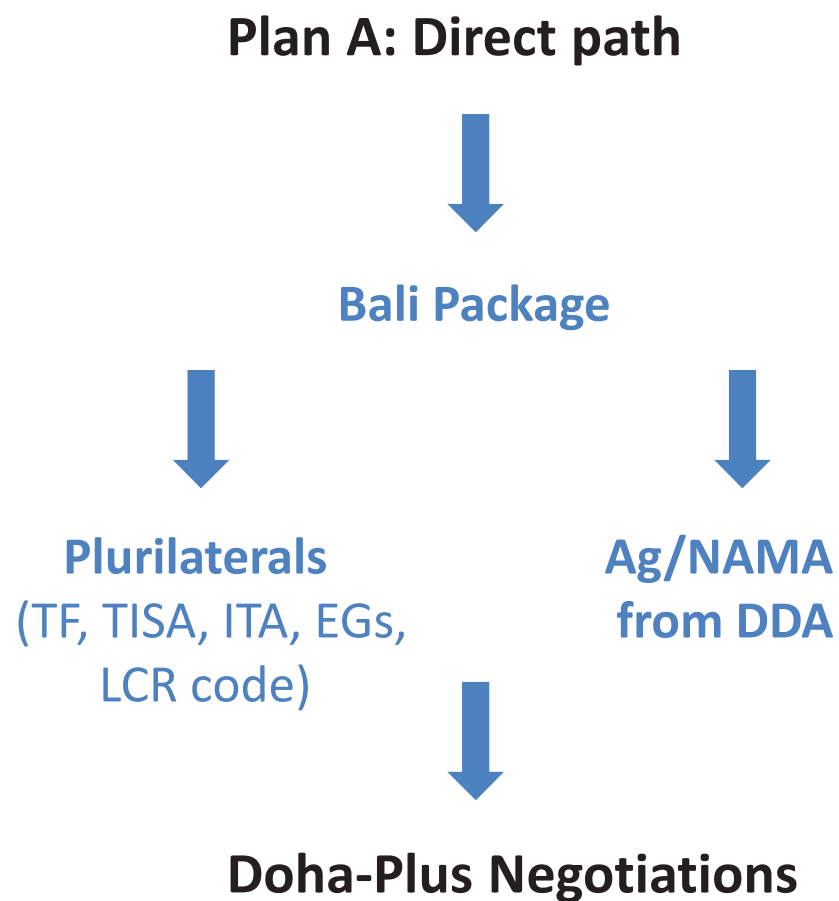
The rise of “mega-regional” trade partnerships

	TPP	TTIP	RCEP
Number of countries participating	12	29	16
Aggregate share of world GDP (%)	38	46	29
Aggregate share of world exports (goods + services) (%)	24	25	30
Realistic completion date*	2014	2015-16	2016-18

* Author's estimates.

Source: IMF, Direction of Trade Statistics (DOTS), 2013.

First option for WTO recovery



Plan A: direct path

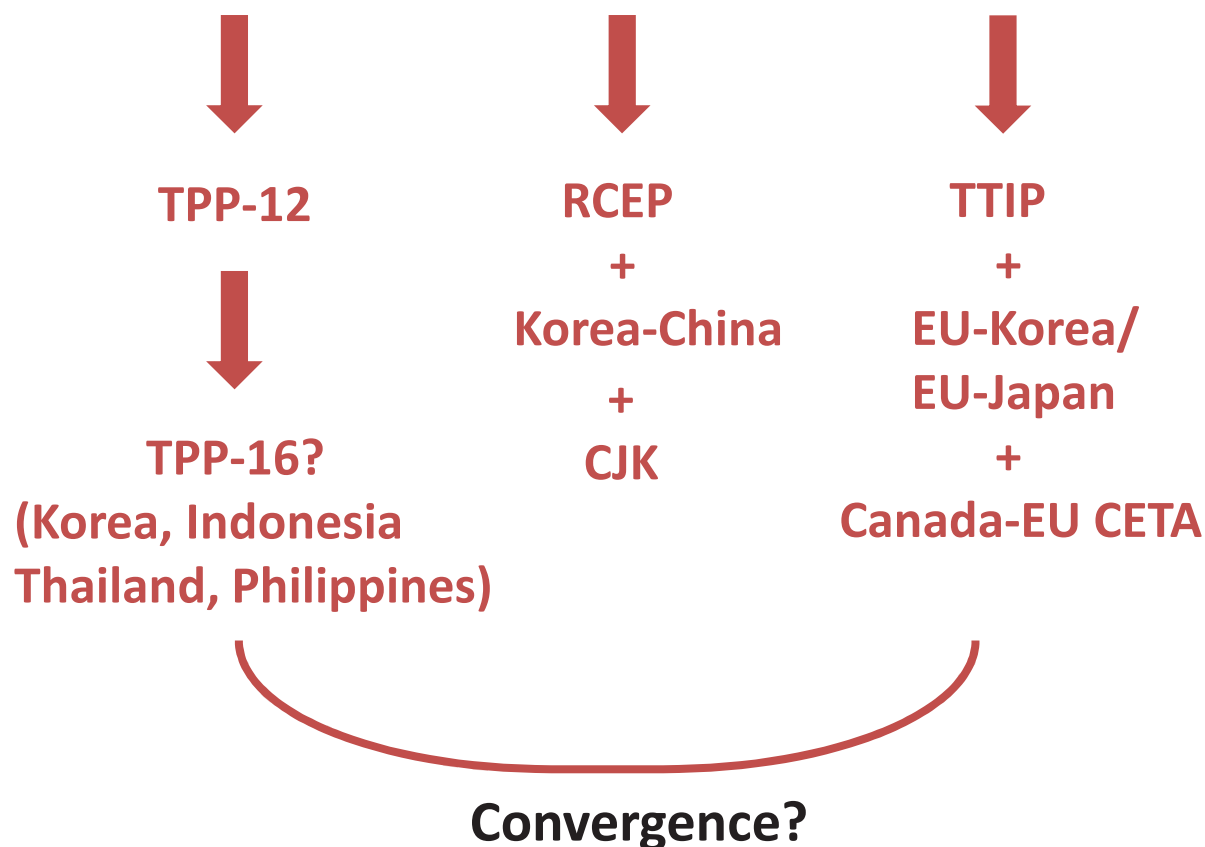
- The Bali Ministerial in December 2013 demonstrated that WTO talks can produce results.
- The Bali deal should propel work on an ambitious and balanced WTO Recovery Package.
- Progress is needed on at least some plurilateral deals coupled with specific benefits for the least developed countries (LDCs). Major trading nations need to lead these talks:
 - For US and EU, means real constraints on farm subsidies and real new access for LDC exports.
 - For China, means committing to broader liberalization than other developing countries.
 - For all the BRICs, means advancing services negotiations as a means to unblock the negotiating impasse on agriculture and NAMA.

Big trade deals in the making

- Bali agreement on trade facilitation needs prompt implementation; TISA, ITA and EGs should advance quickly in 2014 to complement and reinforce the DDA:
- **Trade Facilitation Agreement**
 - Moving goods quickly and cheaply means more trade and higher incomes. Average world tariffs 5% *ad valorem*, but average trade costs 10% *ad valorem*.
- **Trade in Services Agreement**
 - Expanded services trade should drive world commerce but is hindered by high barriers. Shifting resources to services in developing countries would unlock substantial gains.
- **Expanded Information Technology Agreement**
 - Trade in IT products has been key driver of global economic growth; global IT exports tripled between 1996-2010. Expanding ITA coverage and membership would further augment these gains.
- **Environmental Goods Agreement**
 - Group of 14, countries accounting for more than 85 percent of the \$950 billion in global trade of the covered EGs, announced negotiations to liberalize tariffs.

Second option for WTO recovery

Plan B: Mega-regional to Multilateral (M2M)



Plan B: mega-regionals to multilateral

- Could the TPP, TTIP and RCEP – each of which represents a sizable share of world output and trade – catalyze a M2M process that revives WTO negotiations?
- What features link or set the mega-regionals apart?
- How could mega-regionals supplement Plan A efforts to conclude WTO deal in coming years?

Mega-regionals: How much convergence?

1. Complementary agendas but not common content
2. Different time zones
3. Overlapping membership
4. Possible areas of convergence

New precedents for the world trading system?

- Negotiators learn by doing, and RTAs have often served as laboratories for developing new disciplines not yet covered by WTO.
- TPP reforms and rulemaking precedents:
 - Environment and labor provisions
 - Competition policy and state-owned enterprises
 - E-commerce
- TTIP efforts on services (likely) and agriculture (unlikely):
 - Coordinate US-EU positions on TISA talks
 - Bilateral agreement on domestic farm support would help spur WTO deal.
- RCEP will help its developing members better prepare for multilateral reforms via its incremental liberalization of goods and services; possibly innovative approaches to capacity building.

Conclusions

- Successful multilateral negotiations are crucial for a well-functioning WTO.
- Two options could revive progress on comprehensive WTO negotiations:
 1. Plan A: builds on the results from Bali to reinvigorate WTO negotiations in 2015. WTO members should agree on at least a down payment toward an ambitious and balanced WTO Recovery Package.
 2. Plan B: charts a novel but more uncertain progression of talks, building on mega-regional initiatives and the bilateral pacts that link them together.
- Plan A + B are complementary and should be pursued simultaneously.



Brazil in the era of Global Value Chains, PTAs, NTBs and Infrastructure Bottlenecks

Prof. Lucas Ferraz

São Paulo School of Economics – FGV

Outline

1. New facts for trade policy over the last decade: What is new about Global Value Chains?;
2. The Phenomenon of PTAs and NTBs;
3. Contextualizing the Brazilian economy in this new era: from openness to relative isolation;
4. Searching for the Trade Bottlenecks;
5. On the impacts of Trade facilitation over Brazilian trade flows;
6. Final Remarks

1. New facts for trade policy over the last decades...

What is new about Global Value Chains??

1. *The “New Trade Theory” was consolidated in the 80s mainly by the work of Paul Krugman and aimed to explain bilateral trade between countries with no apparent mutual comparative advantages (the so called “North-North” trade or intra-industry trade);*
2. *At the time, the intra-industry trade was the typical trade among developed economies and represented over 30% to 40% of global trade flows;*
3. *The 70’s and the 80’s also witnessed the accession of Asia and the rapid industrialization of most of its countries, such as China, South Korea, Taiwan, Singapore and many others;*

4. *Instead of taking the traditional “import substitution policy” approach for industrialization, those countries opted to specialize in stages of production, integrating their industries not only to value chains already in existence in Europe and North America , but also building their own regional value chains...*
5. *The rapid industrialization in Asia worked as a positive shock on the international demand for commodities, benefiting traditional and efficient exporters such as Brazil, Russia and Australia;*
6. *The blowing international demand for commodities resulted in welfare gains to Brazil but, on the other hand, in an even more valued real exchange rate. This external scenario contributed to the loss of competitiveness of its domestic manufacturing sector;*
7. *Nowadays, intra-industry trade (or trade in intermediates) corresponds to over 66% of Global trade and it is not only North-North as it used to be, but also North-South...*



Some Consequences...

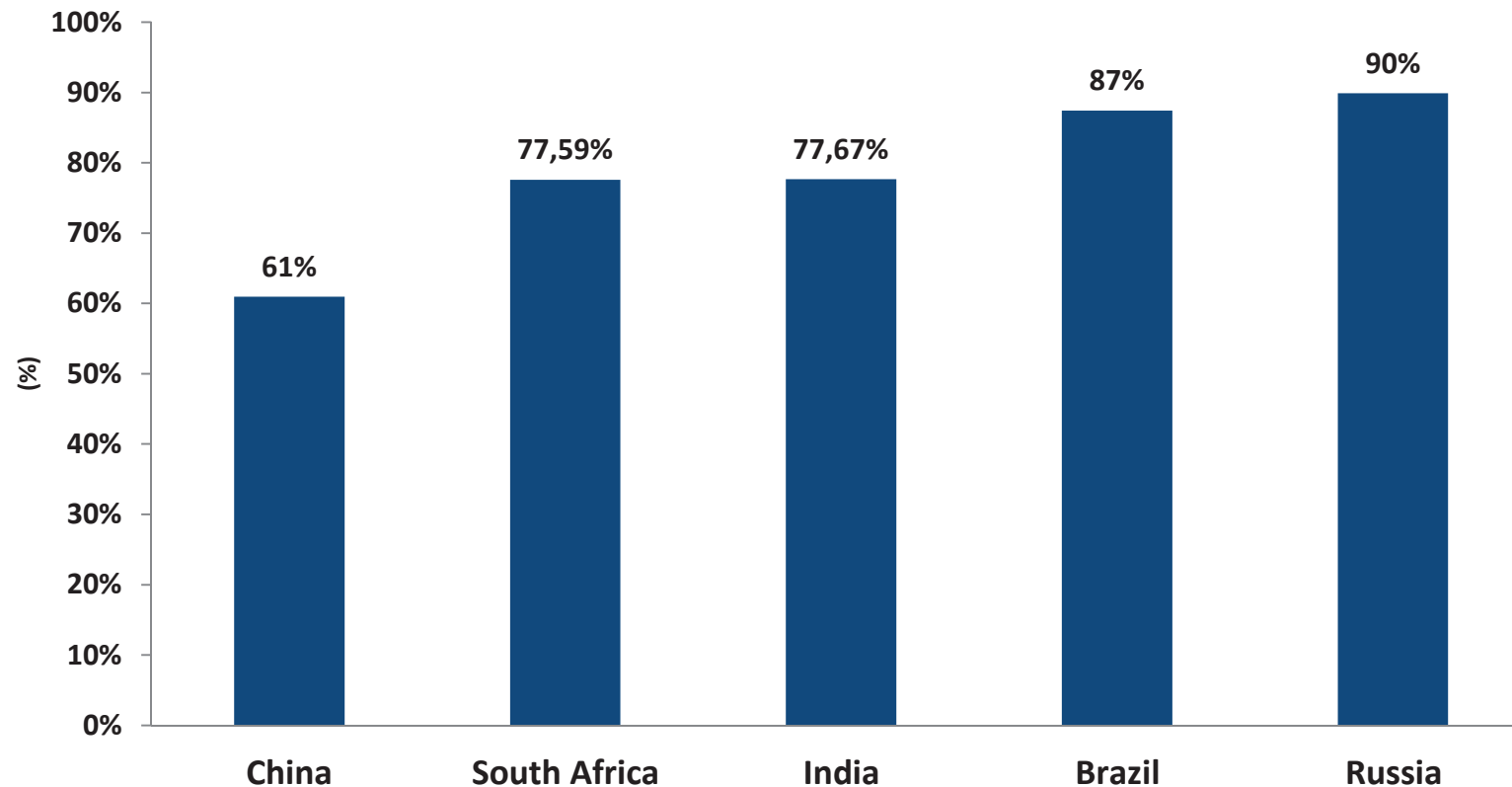
1. *The increasing share of intermediates in global exports suggests the growing importance of Global/Regional Value Chains*

(Grossman & Rossi-Ransberg, 2008; Johnson & Noguera, 2012; Baldwin & Nicoud, 2014)



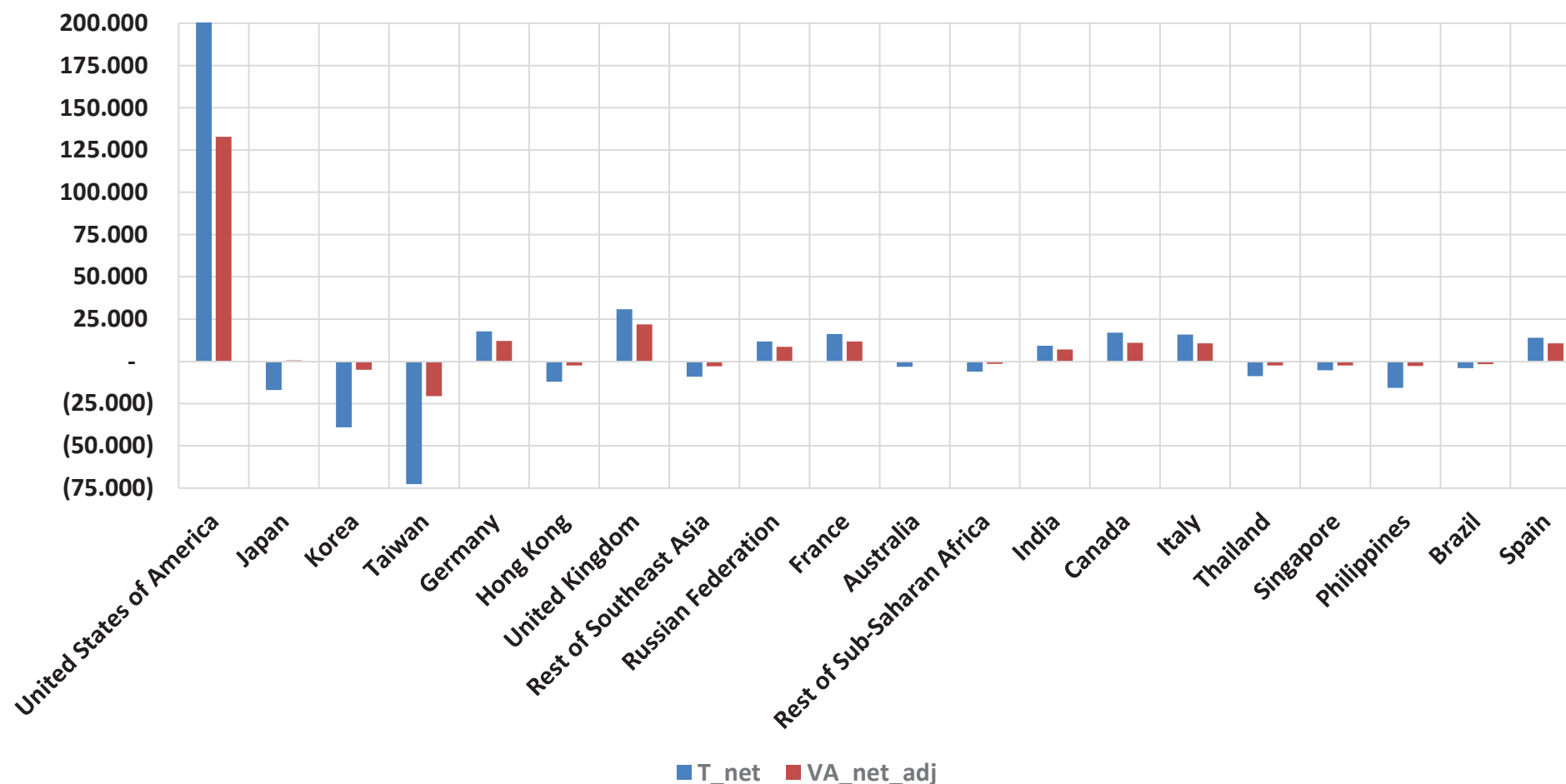
Source: WIOD

2. The more a country integrates in global/regional value chains, the lower the domestic content of value added embedded in its gross exports (Johnson & Noguera, JIE, 2012);



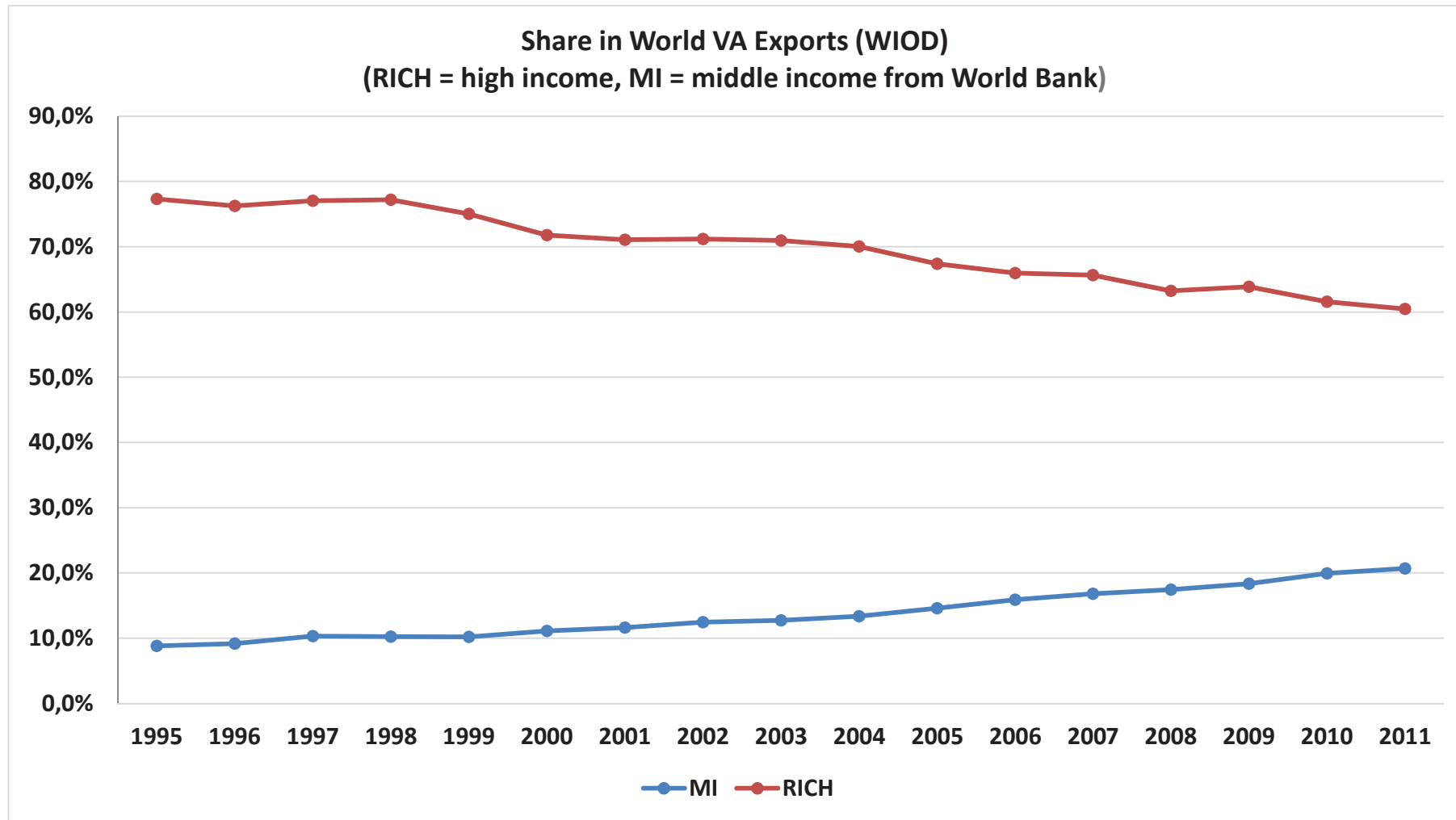
For each dolar exported by China, only 61 cents corresponds to payments to domestic factors such as labor, capital and land. The rest corresponds to payments to foreign content embedded in its exports...

3. As a consequence, traditional trade statistics based on gross trade may be misleading as a measure of the competitiveness of a country (Koopman et al, AER, 2014); CHINA- (2007)



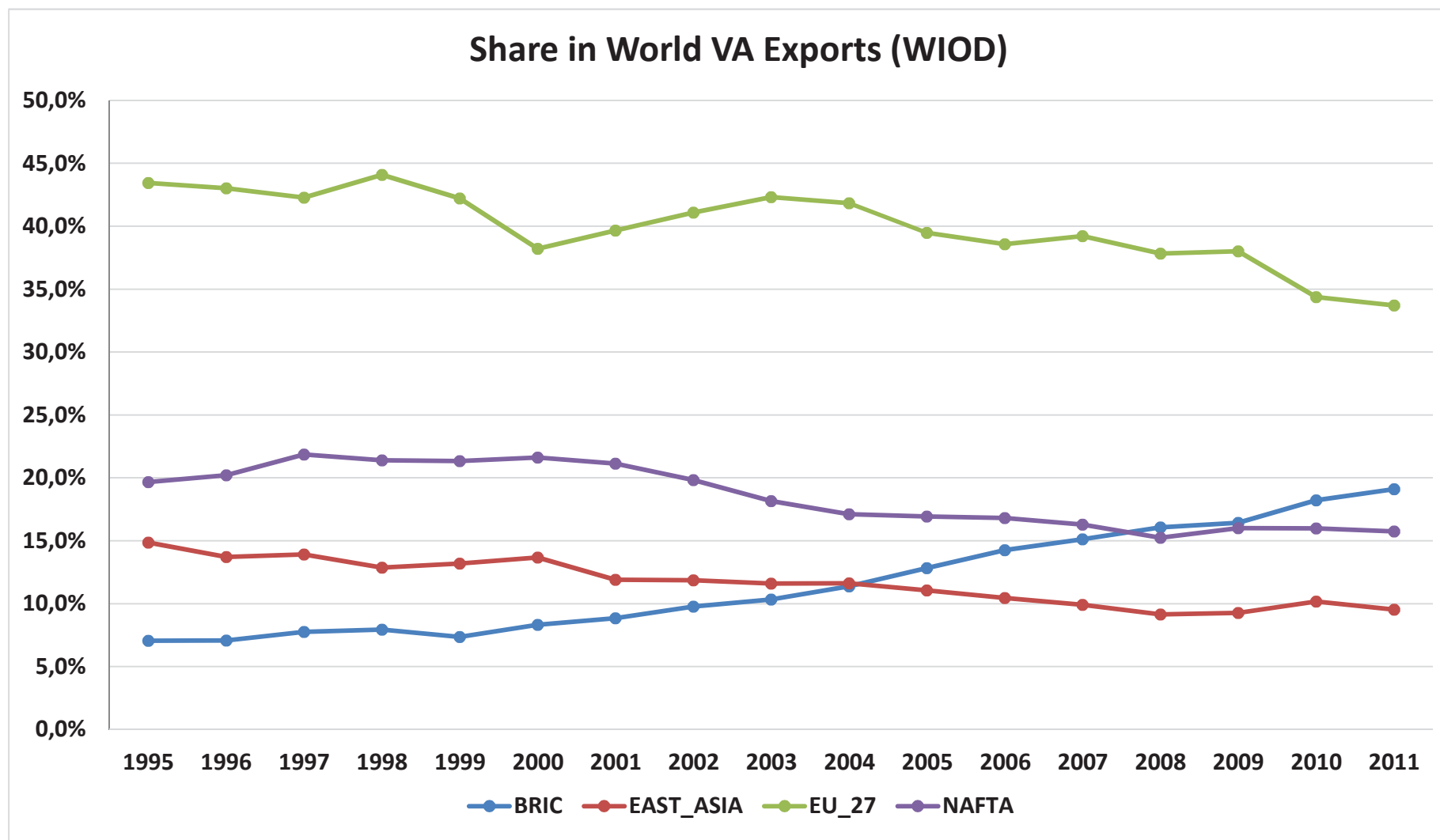
Trade surplus between China and the USA is around 40% lower in value-added ...

4. *Developing countries have increased their share in global value added generated by global exports at the expense of developed countries...*



Possibly suggesting that fragmentation has been more beneficial to developing countries....

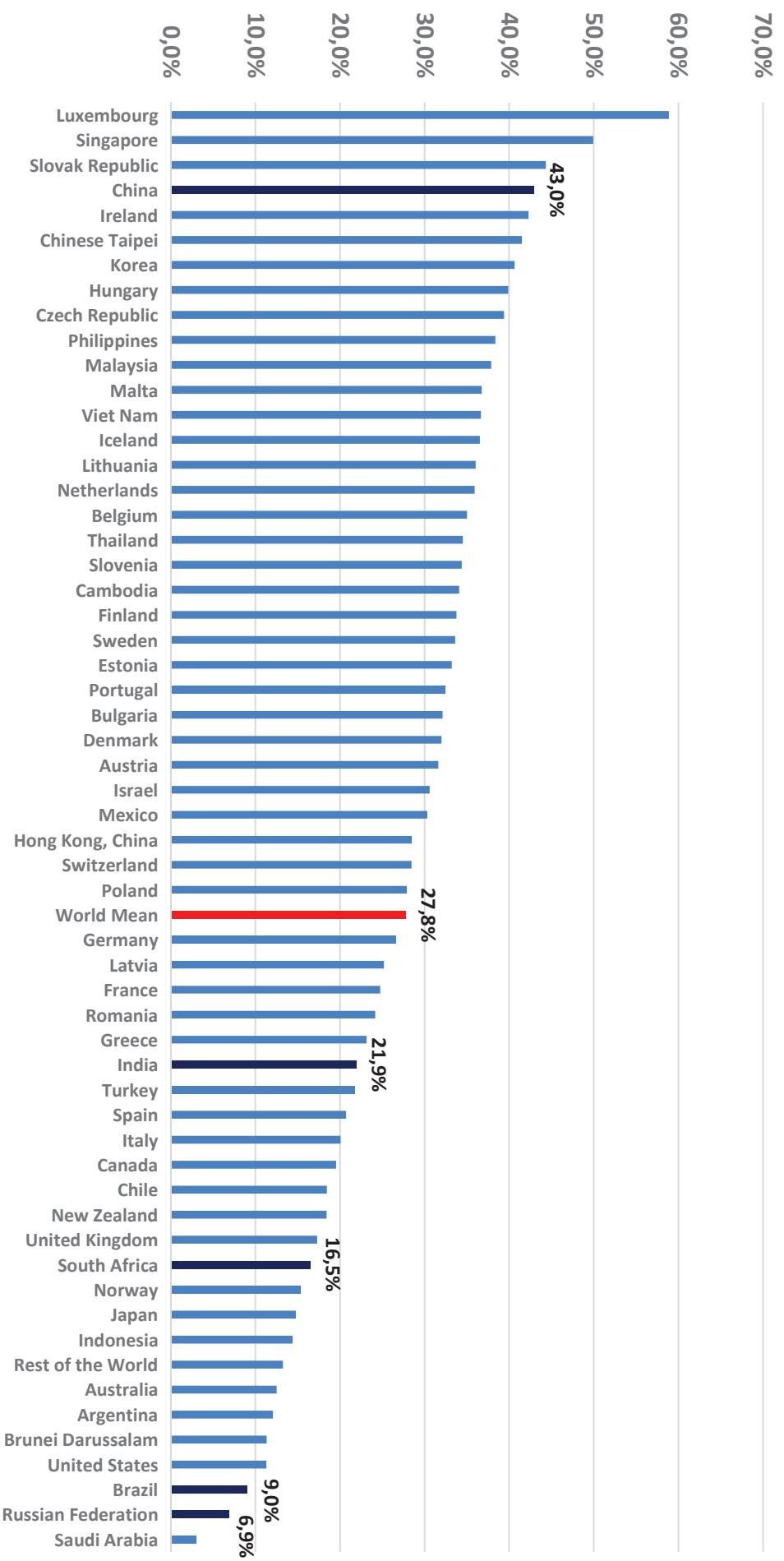
5. BRICS economies have also increased their share in global value added generated by exports...



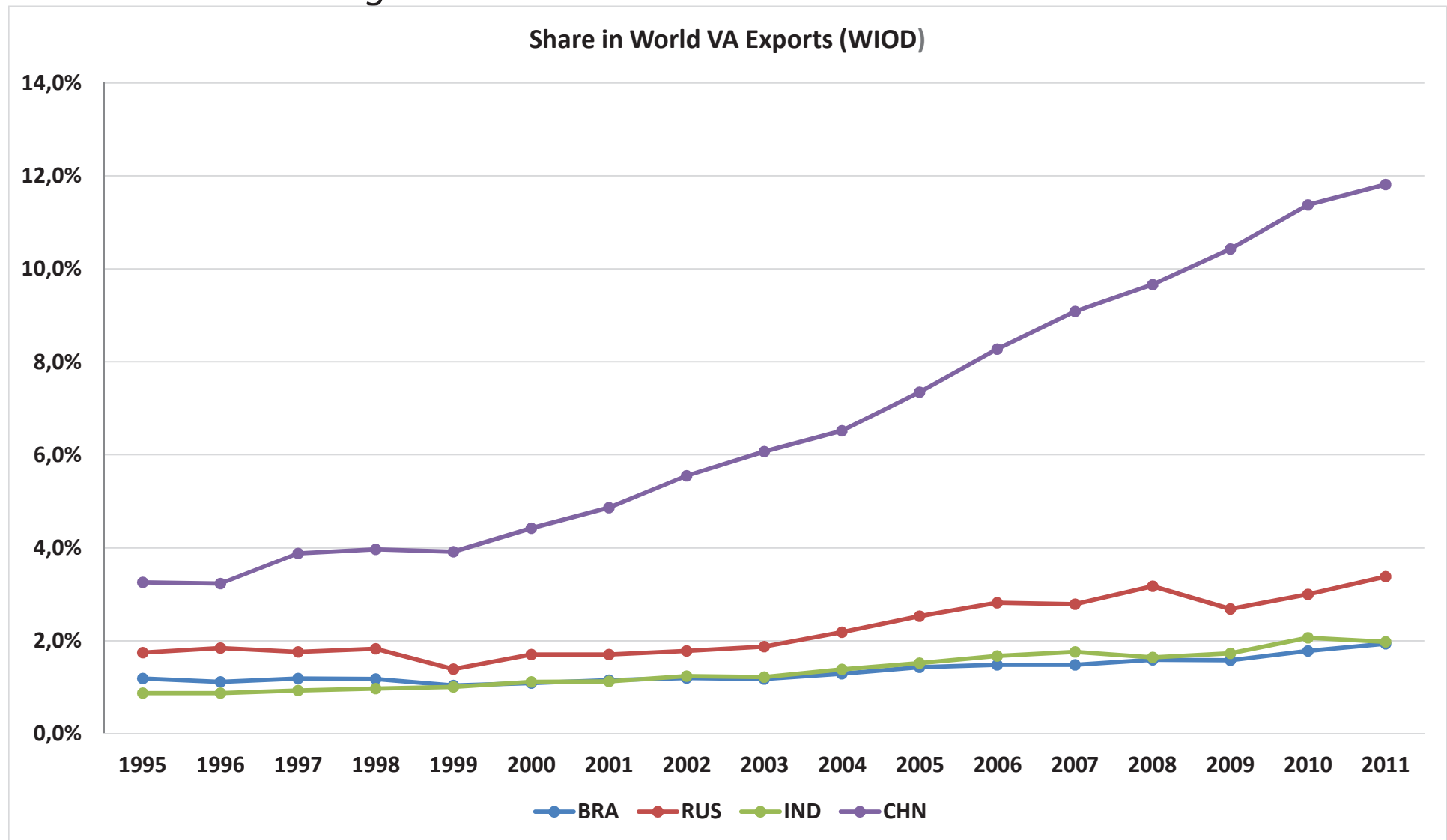
(East Asia = Japan + South Korea)

6. While CHINA has been the most integrated among BRICS, Brazil and Russia are among the least integrated in a cross-section of 58 countries...

Foreign Content Share in Gross Exports (OECD/WTO - 2009)



7. As the most integrated in Global Value Chains, China has benefited the most among BRICS economies...

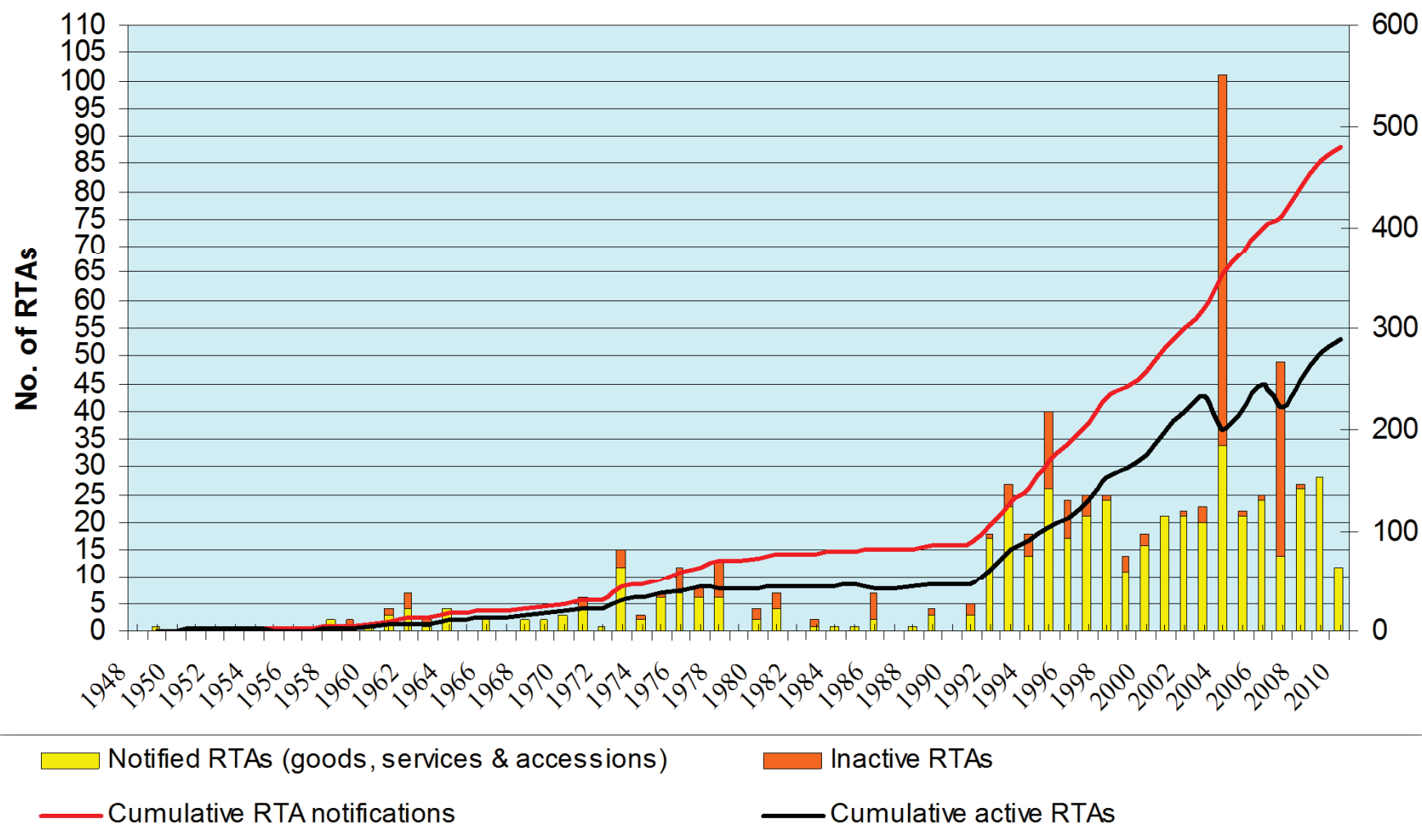


Some preliminary Thoughts...

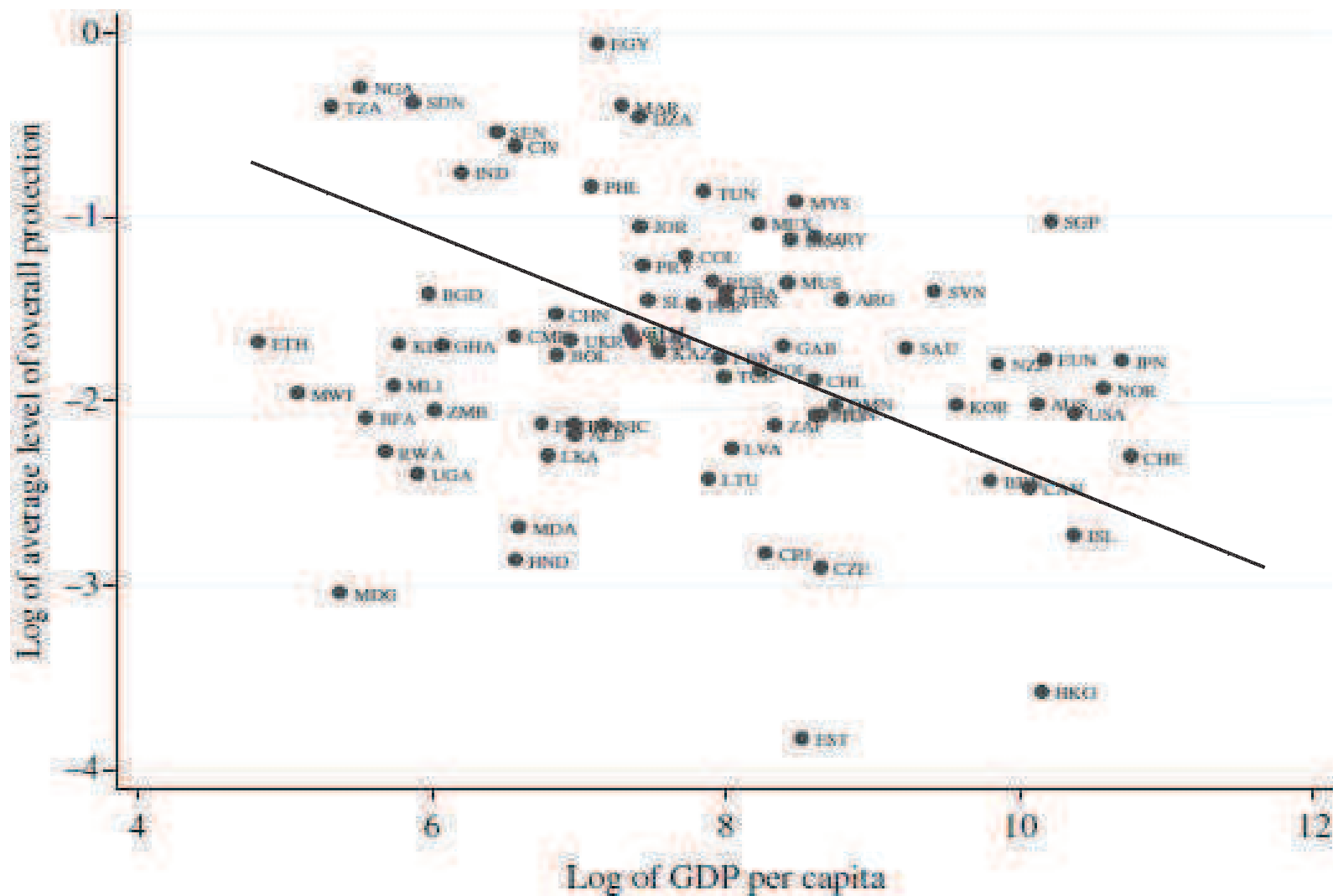
1. With the new paradigm of global value chains, countries compete in stages of production (tasks) and no longer in final goods;
2. Specialization in stages of production, according to comparative advantage, may bring significant dynamism to domestic exports, with positive net effects on employment (*Grossman and Rossi-Hansberg, 2008; Timer et al, 2013*);
3. Value Chains are predominantly regional. The most significant ones are located in Asia, NAFTA and Europe. Joining the Mega regional agreements, like TTP or TTIP, may constitute an opportunity for relatively isolated countries to gain access to relevant Regional markets.

2. THE PHENOMENON OF PTAs and NTBs

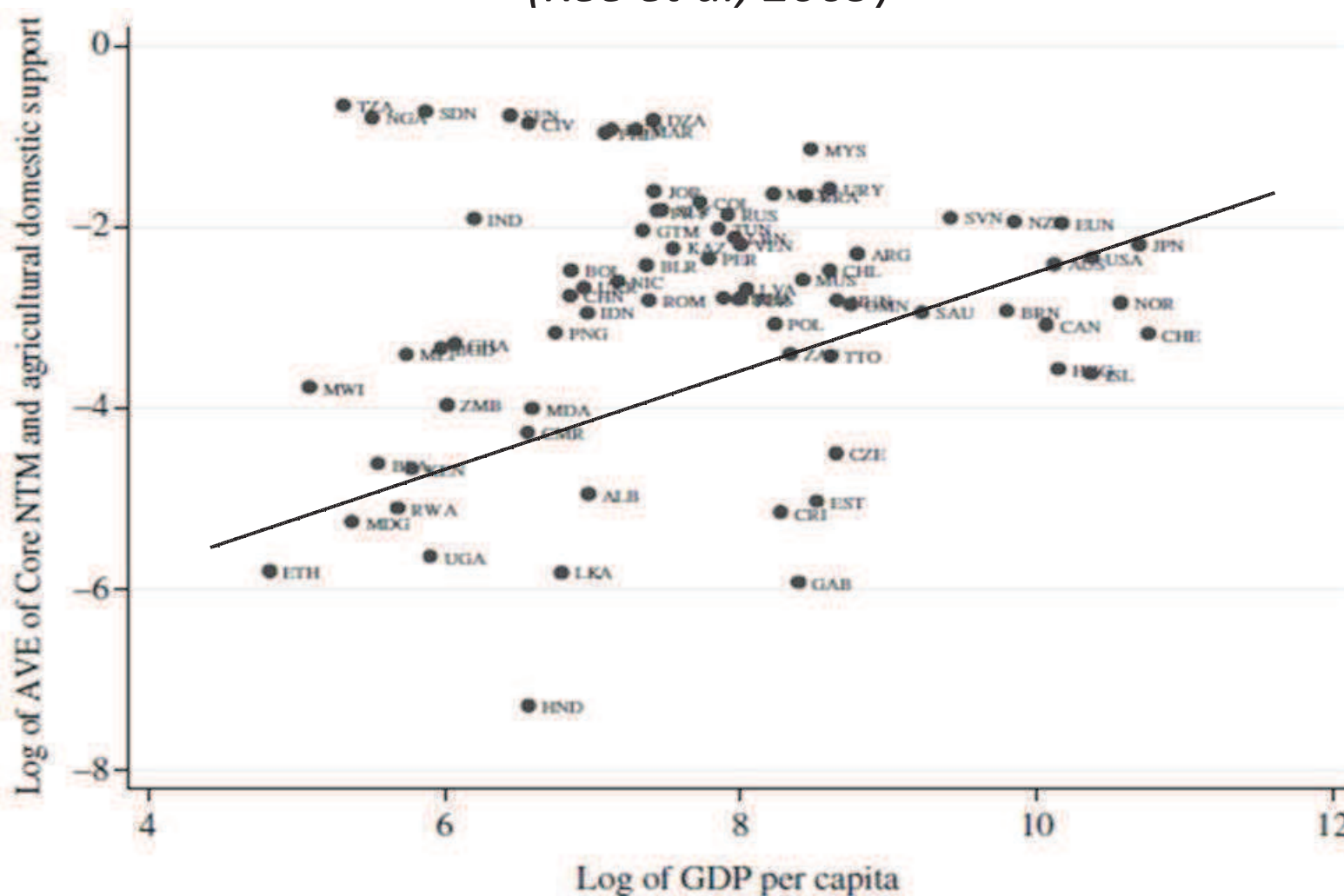
1. Regionalism has been progressively replacing Multilateralism : More than 400 notifications of PTAS over the last 20 years



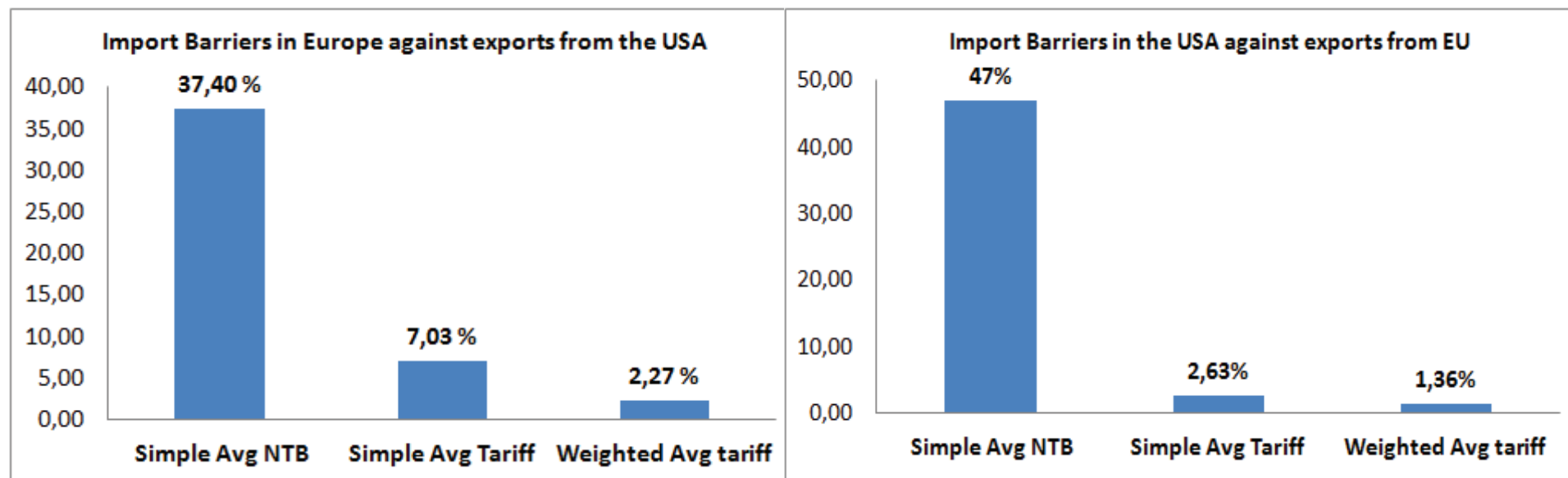
2. Nowadays, Developed Economies are the ones with the lowest average import tariff levels (Kee et al, 2009).



3. However, there is some convincing empirical evidence suggesting import tariffs were replaced by NON tariff barriers in rich countries
(Kee et al, 2009)

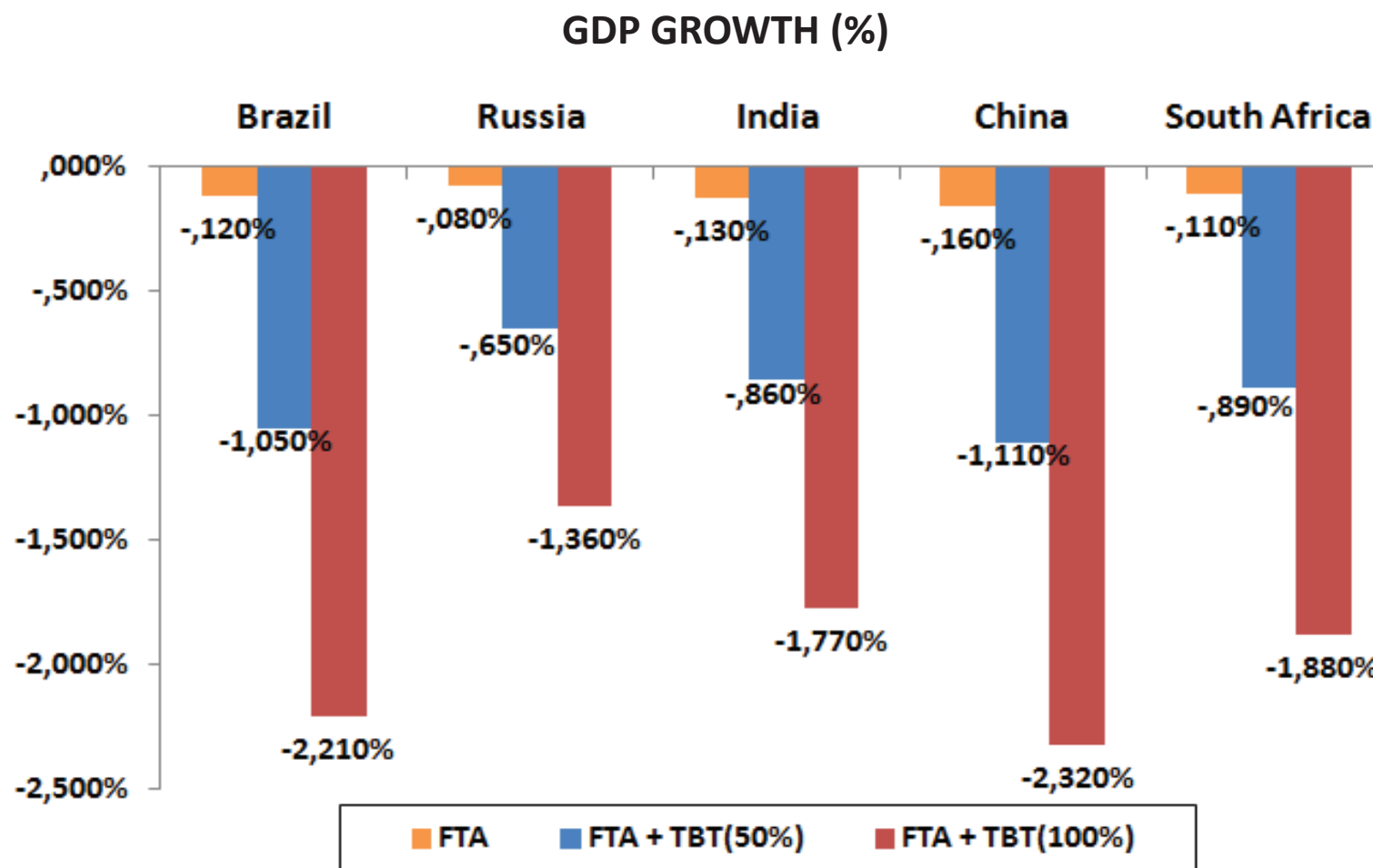


4. *Not surprisingly, the Transatlantic Trade and Investment Partnership (TTIP), under negotiation, is much more about reducing NTBs than Tariff Barriers...*



Source: WITS/ECORYS, 2009

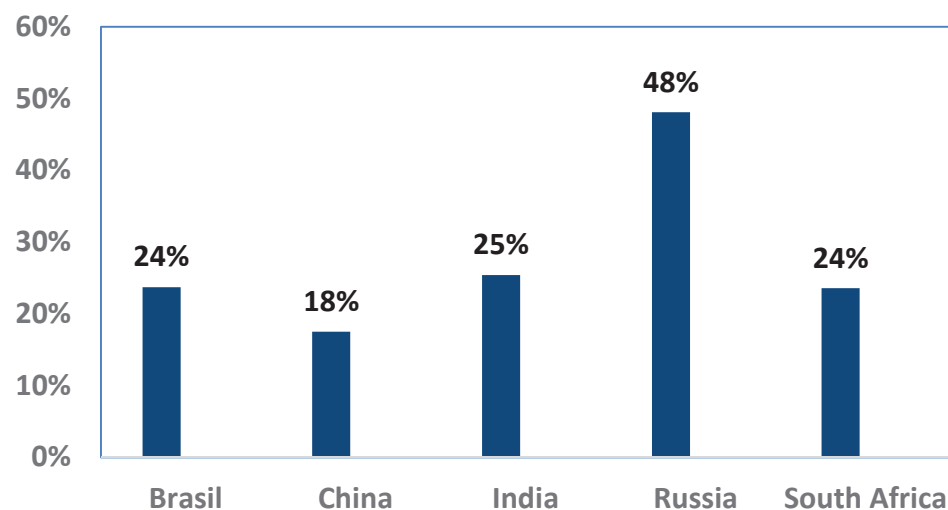
5. CGE simulations suggest that, when NTBs are taken into consideration, the TTIP can be harmful for Brazil and the rest of the BRICS economies...



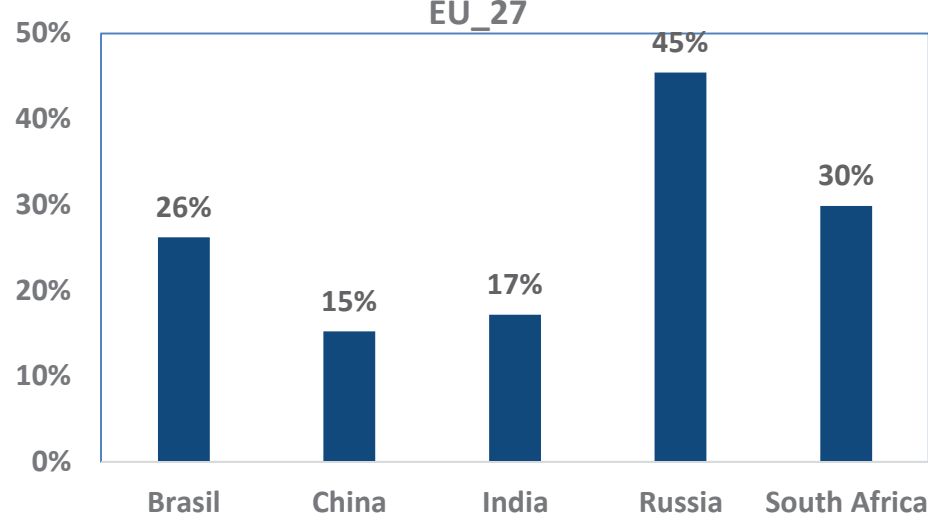
Source: GTAP 8

6. *Economic Theory suggests that gains from PTAs are maximized when “natural trade partners” are involved. According to their significance in global trade flows, The EU (also the USA) can be considered a natural trade partner, not only for Brazil, but also to most of the world...*

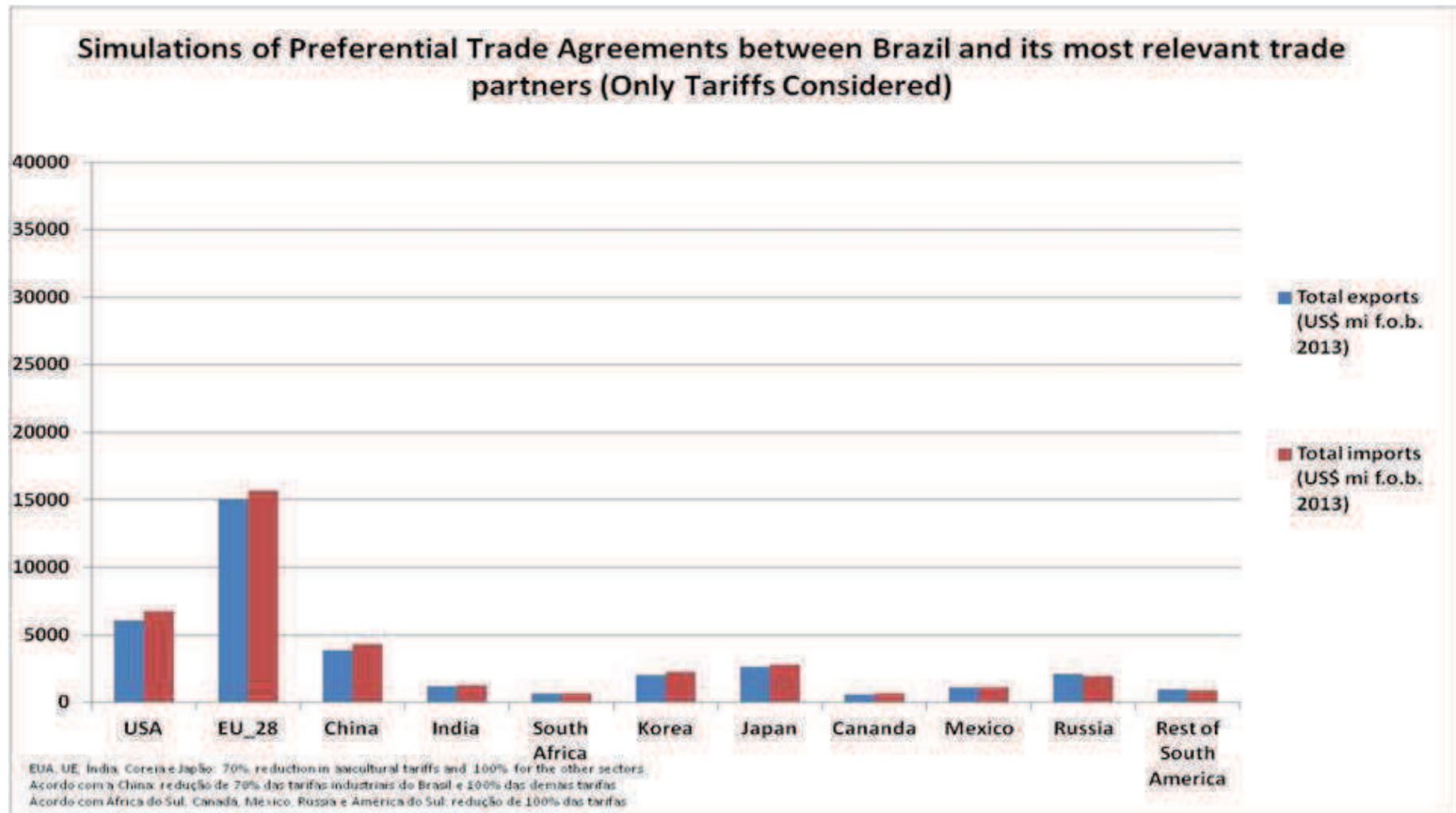
Share of total exports that goes to the EU_27



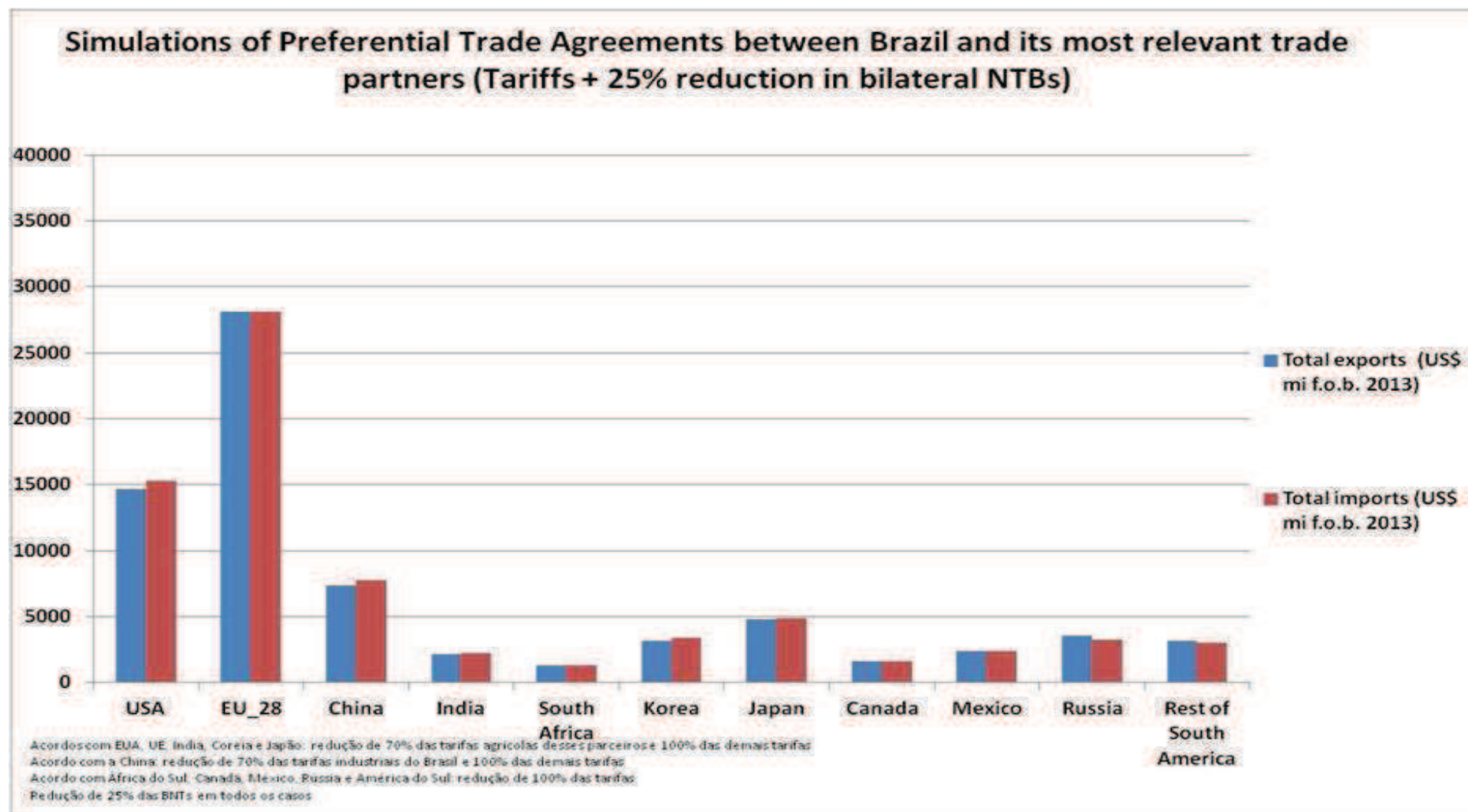
Share of total imports that comes from the EU_27



7. CGE simulation exercises suggest Brazil can significantly improve its participation in international trade with the formalization of FTAs according to the “natural trade partner” perspective...



8. When NTBs are taken into consideration, results can be much more impressive....



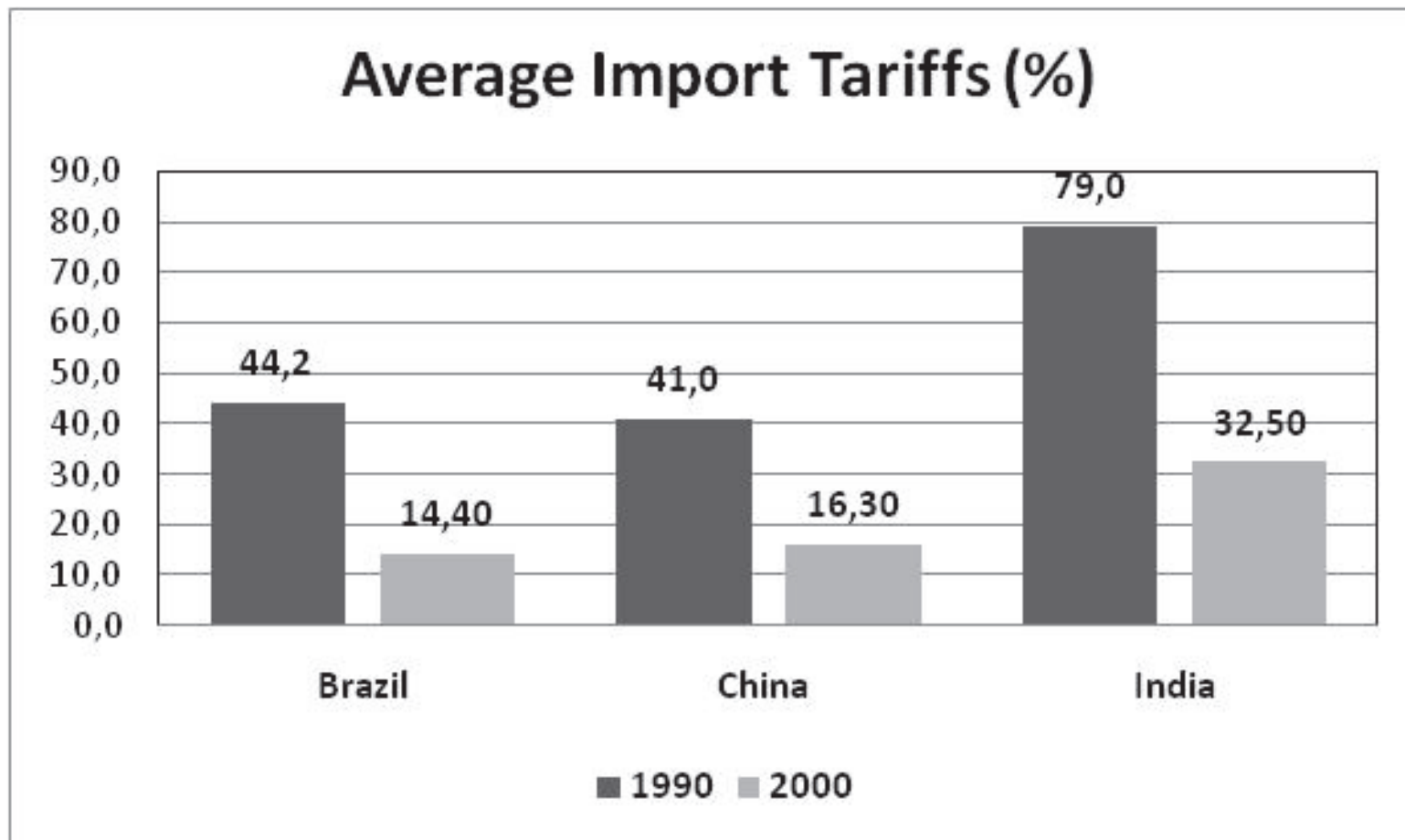
Some preliminary Thoughts...

1. *The explosive number of PTAs witnessed over the last decades suggests that global trade has been moving fast to become bilateral, regional and even plurilateral. The multilateral bet has evidently lost momentum;*
2. *Regionalism has also triggered the formation of regional value chains, as regional transactions costs have been significantly reduced (Ex: EU_28, Nafta, ASEAN);*
3. *The undergoing negotiation of Mega regionals, like TTIP or TPP, can potentially harm the economy of Brazil; They also pose a threat to the traditional role of the WTO as the sole multilateral rule setter;*
4. *Therefore, the current negotiation of a PTA between Mercosur and EU_28 is welcome and is very likely to give new dynamism to exports and imports in Brazil (over US\$15billion dollars in imports and exports); Trade gains can be maximized if NTBs are also negotiated...*

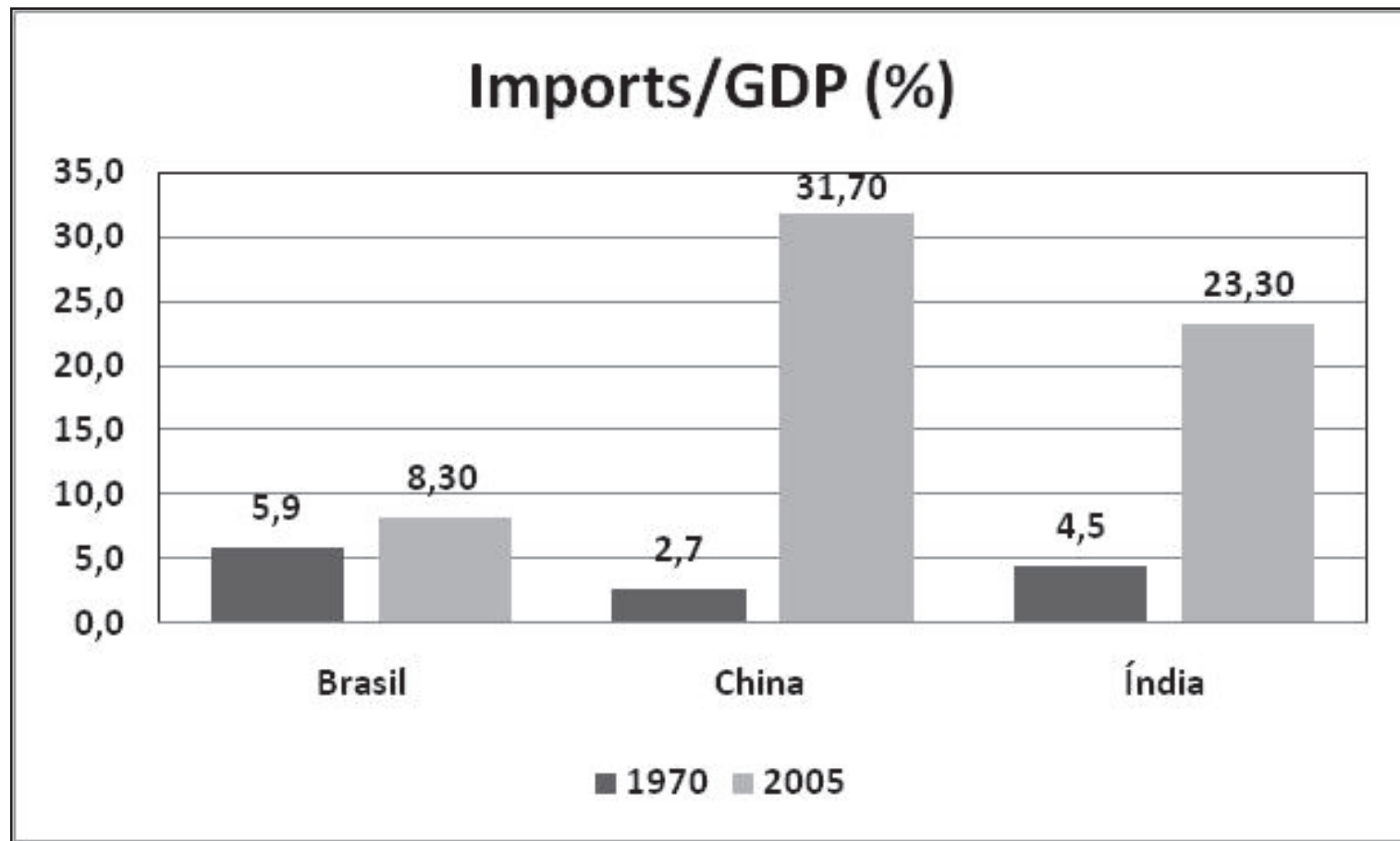
3. Contextualizing the economy of Brazil: from openness to relative isolation;

3.1. The Broad Picture and the “mystery of the missing trade”

1. *In the nineties, trade openness in Brazil was even more radical than the ones verified in China or India: -67% in tariff cuts for Brazil, -60% for China and -59% for India...*

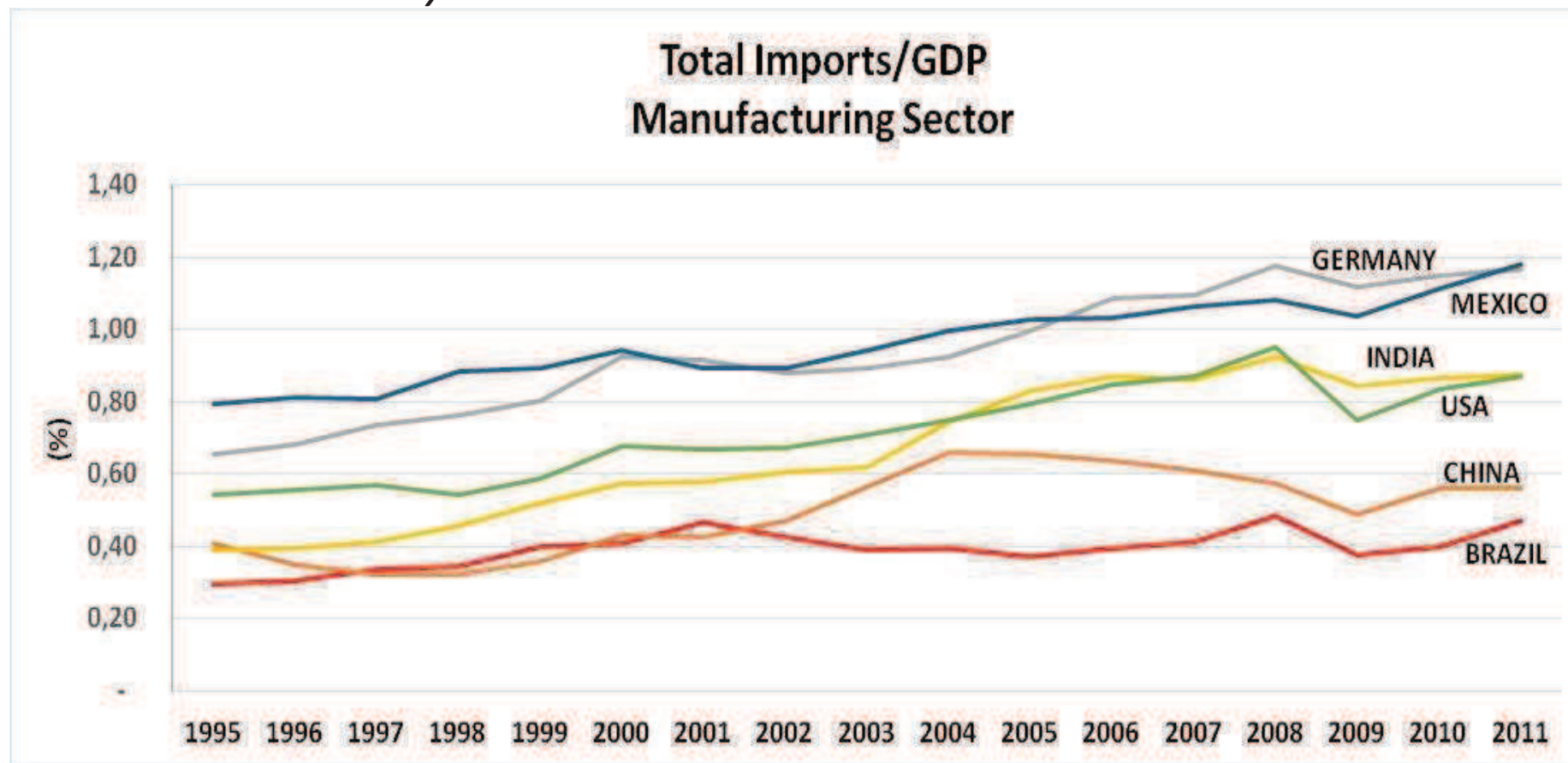


2. Despite the strong openness to trade verified in the nineties, import penetration in Brazil evolved quite slowly, far away from the outstanding dynamics observed for China and India...



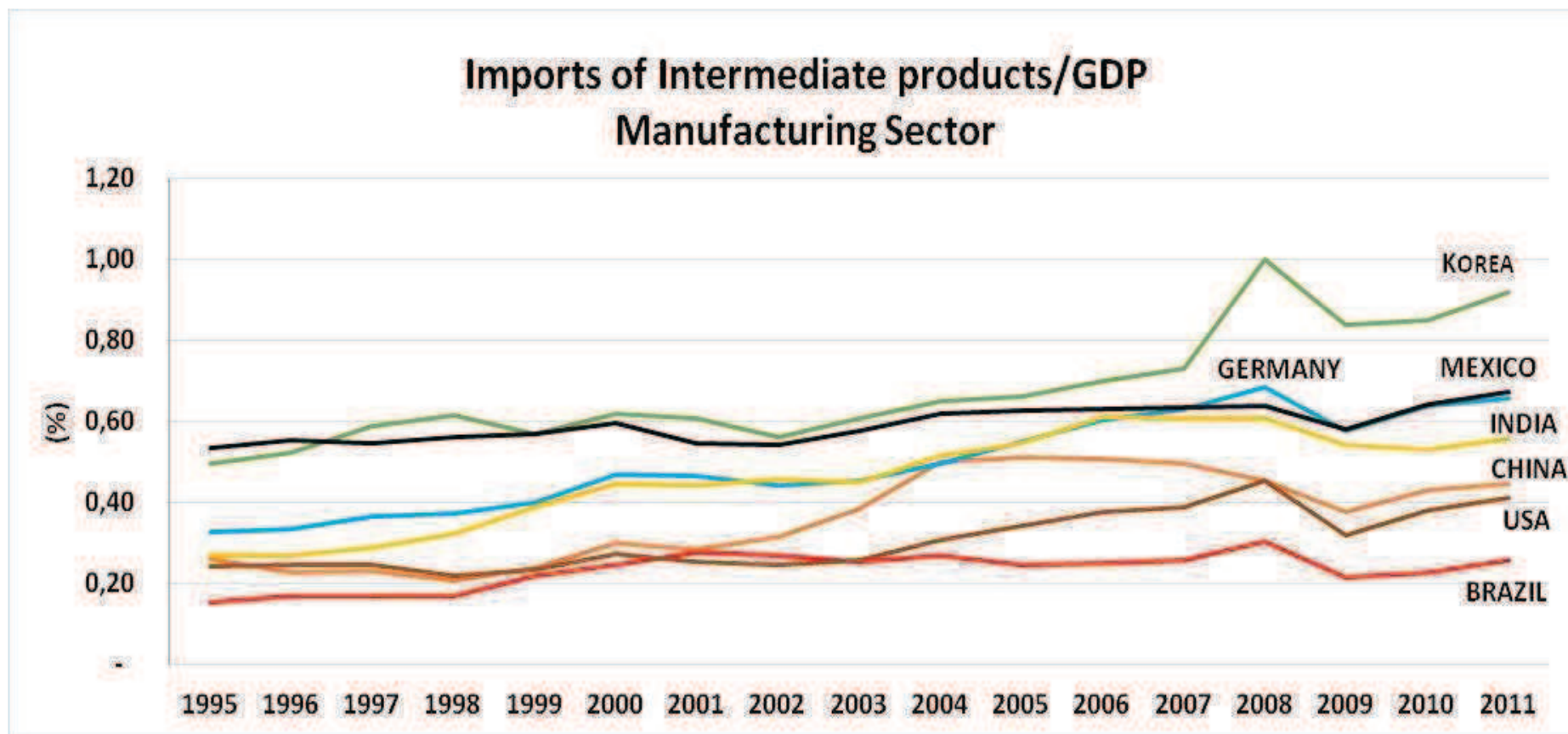
2. Can we take similar conclusions for the Brazilian manufacturing sector?

3. A closer look at the Brazilian manufacturing sector reveals that total import penetration has increased slightly over the last years, but still far below the levels observed for countries like China, India, Mexico, USA and Germany...



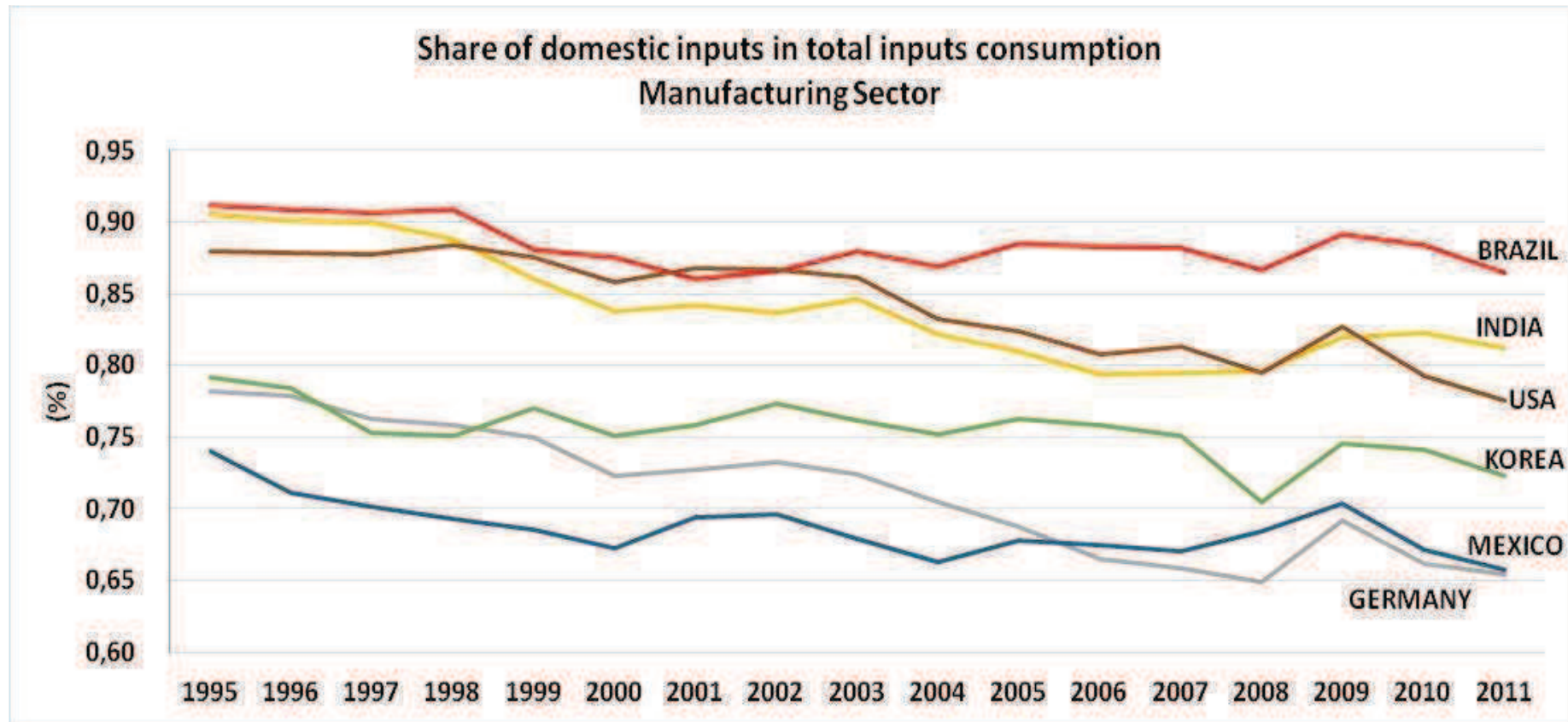
Source: WIOD

4. *The same remarks are also valid for the profiles for total import penetration of intermediate products into the Brazilian manufacturing sector...*



Source: WIOD

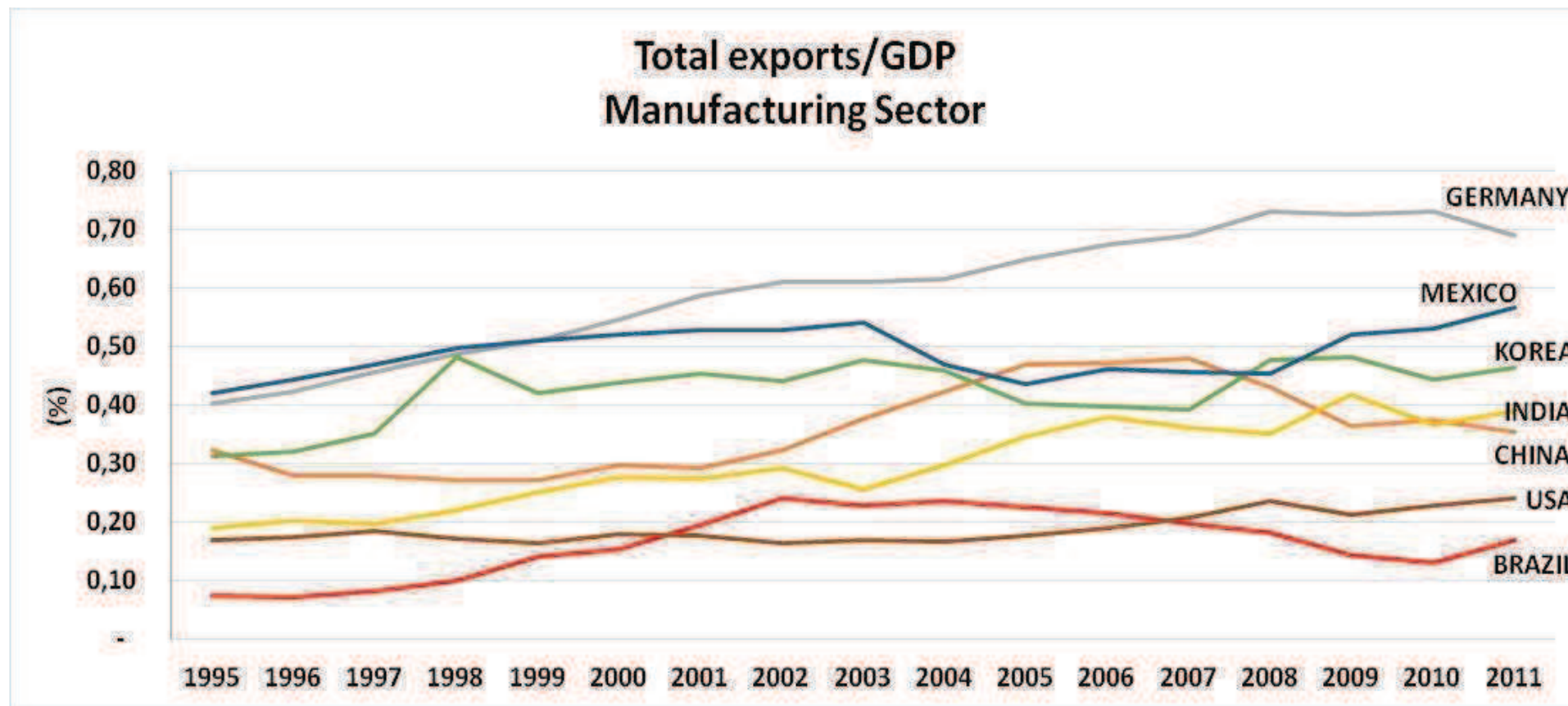
5. As a consequence, despite a slightly decrease over the period, the share of domestic inputs in total inputs consumption by the Brazilian manufacturing sector is still far above the rates observed for many emerging and developed countries...



Low participation of imported intermediate inputs in domestic production suggests low levels of integration in global/regional value chains...

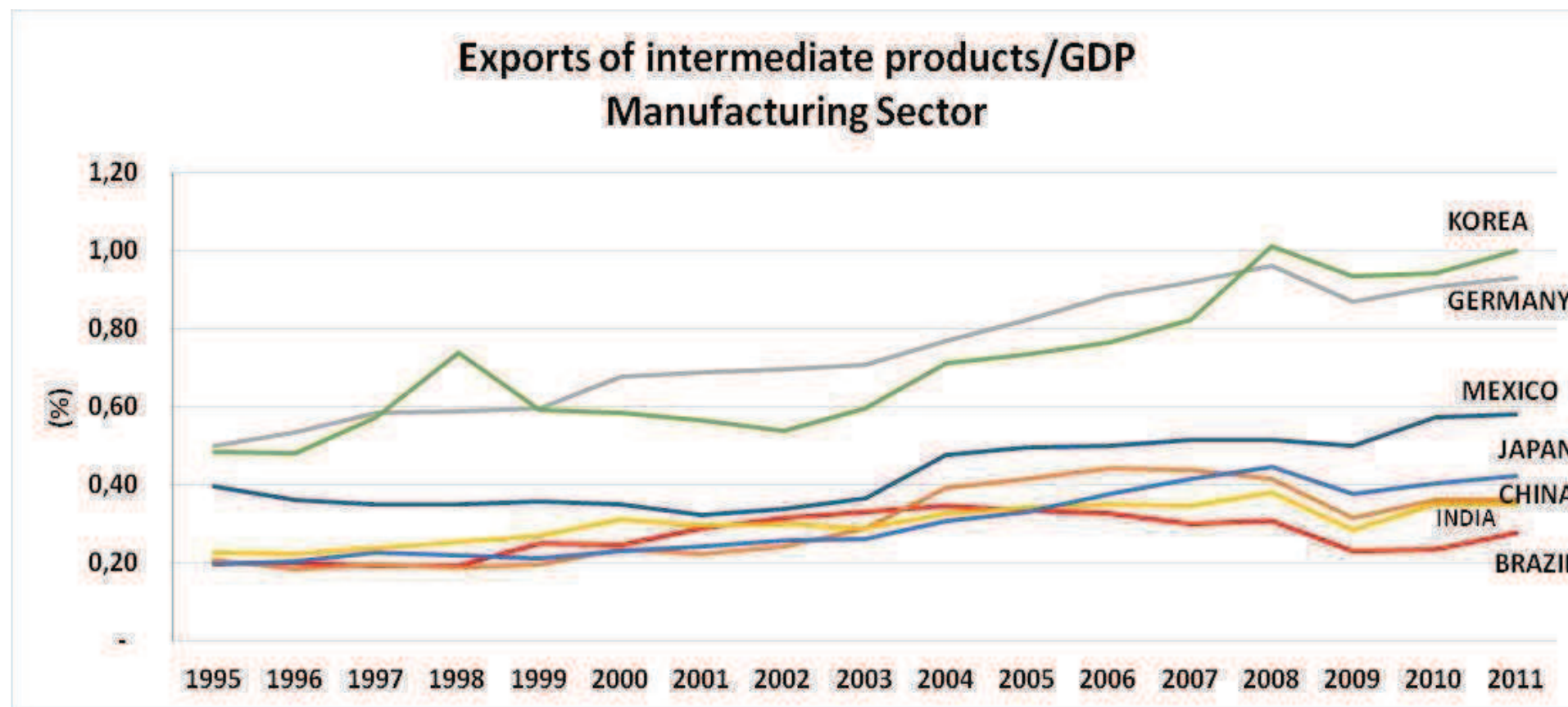
Source: WIOD

6. *The profile for total exports over GDP for the Brazilian Manufacturing sector is also disappointing in comparison to other emerging and developed countries...*



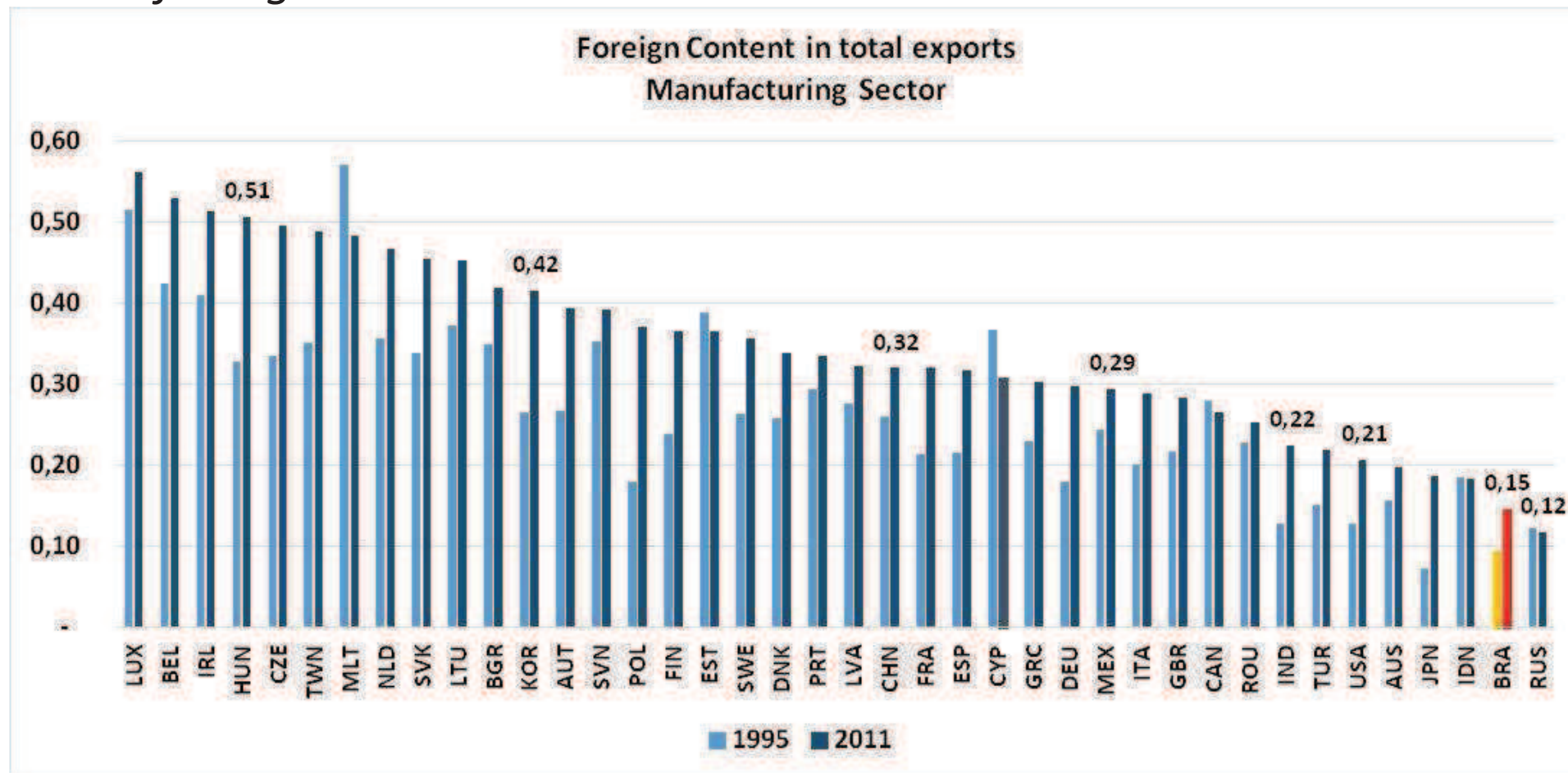
Source: WIOD

7. *The same can be said about the profiles for total exports of intermediate products over GDP, suggesting low levels of connections to global/regional value chains from exports...*



Source: WIOD

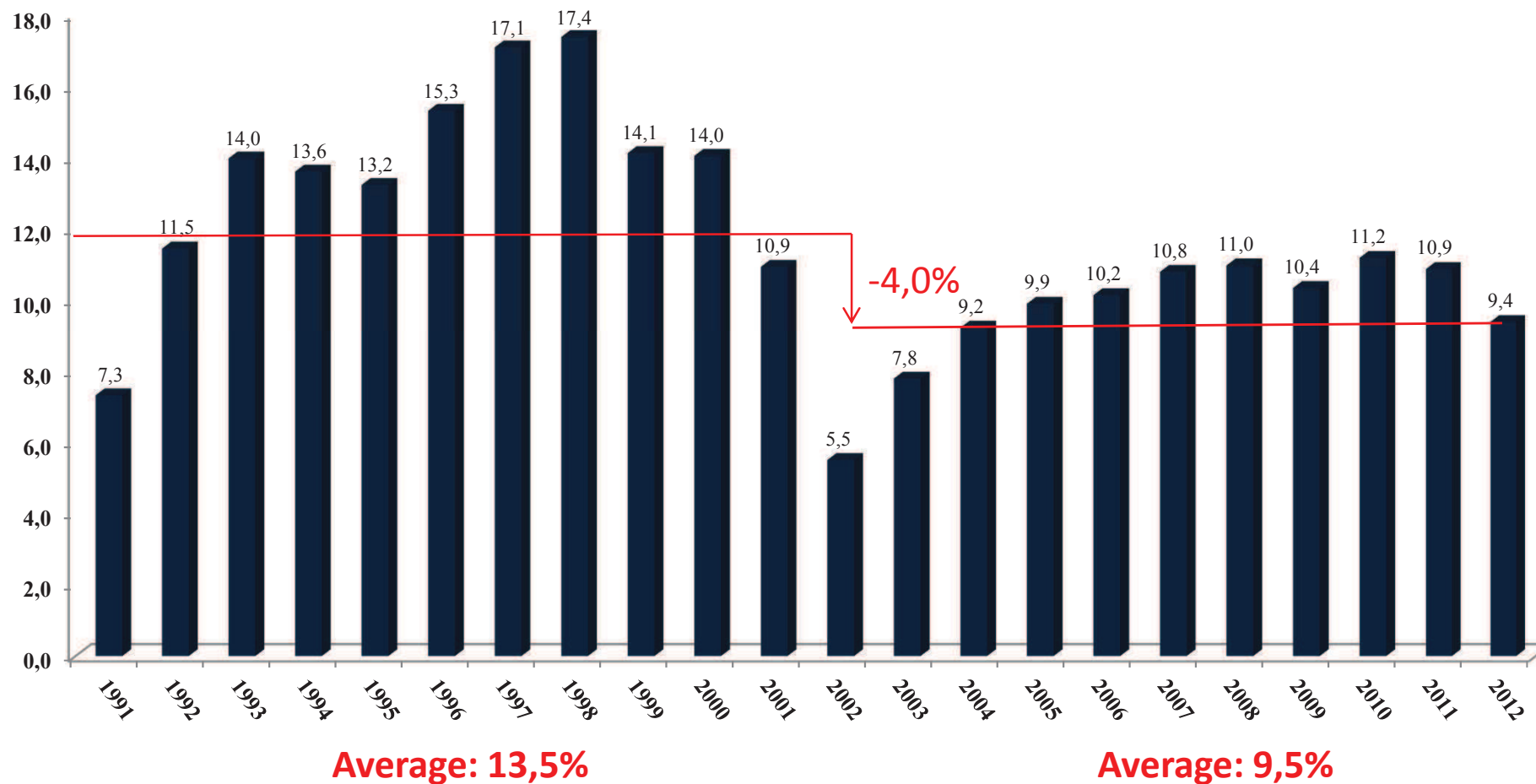
8. *The low foreign content in total exports, observed for the Brazilian manufacturing sector, are also suggestive of low levels of integrations in GVC's ...*



Source: WIOD

9. More than 90% of Brazilian exports to Argentina corresponds to manufactured products. However, since 2002, increasingly import restrictions in Argentina have been harming exports from Brazil...

Share of Brazilian total exports that are sold to Argentina (%)



Is there a significant regional value chain under formation in Mercosur??

Source: WIOD

10. There is some evidence of a regional value chain under construction in Mercosur...

Value Chain in Mercosur

Brazil exports to:

Argentina

Argentina	77,2%
Brazil	5,5%
Uruguay	0,4%
Paraguay	0,3%

Value Chain in Mercosur

Argentina exports to:

Brazil

Brazil	83,0%
Argentina	2,0%
Paraguay	0,2%
Uruguay	0,2%

Source: GTAP (2007) data base

11. However, the Figures for Global/Regional Value Chains in Europe, Asia and Nafta seem to be much more impressive...

Value Chain Europe

Germany exports to:

Czech Republic

Czech Republic 51,8%

Germany 11,5%

UK 3,4%

France 3,3%

Value Chain in NAFTA

USA exports to

Mexico

Mexico 75,1%

USA 18,2%

Canada 1,0%

Germany 0,6%

Transpacific Value Chain

KOREA exports to:

China

China 62,4%

USA 11,2%

Japan 3,3%

Germany 2,4%

Source: GTAP (2007) data base

Some Preliminary Thoughts...

1. The data analysis suggest that the Brazilian industry is still too verticalized in comparison to significant developed and emerging manufacturing industries, showing relatively low levels of penetration of intermediate and final products coming from abroad;
2. The low level of foreign content observed in Brazilian manufacturing exports probably harms its competitiveness and dynamism. Brazilian exports are still “made in Brazil”, whereas global exports are progressively “made in the world”;
3. In the era of global value chains, an adequate trade infrastructure is even more important than before. Around 90% of international trade flows in (in value) Brazil go through Ports. Port efficiency in the country is far below global standards and may work as an additional trade barrier not only for imports, but also for exports;

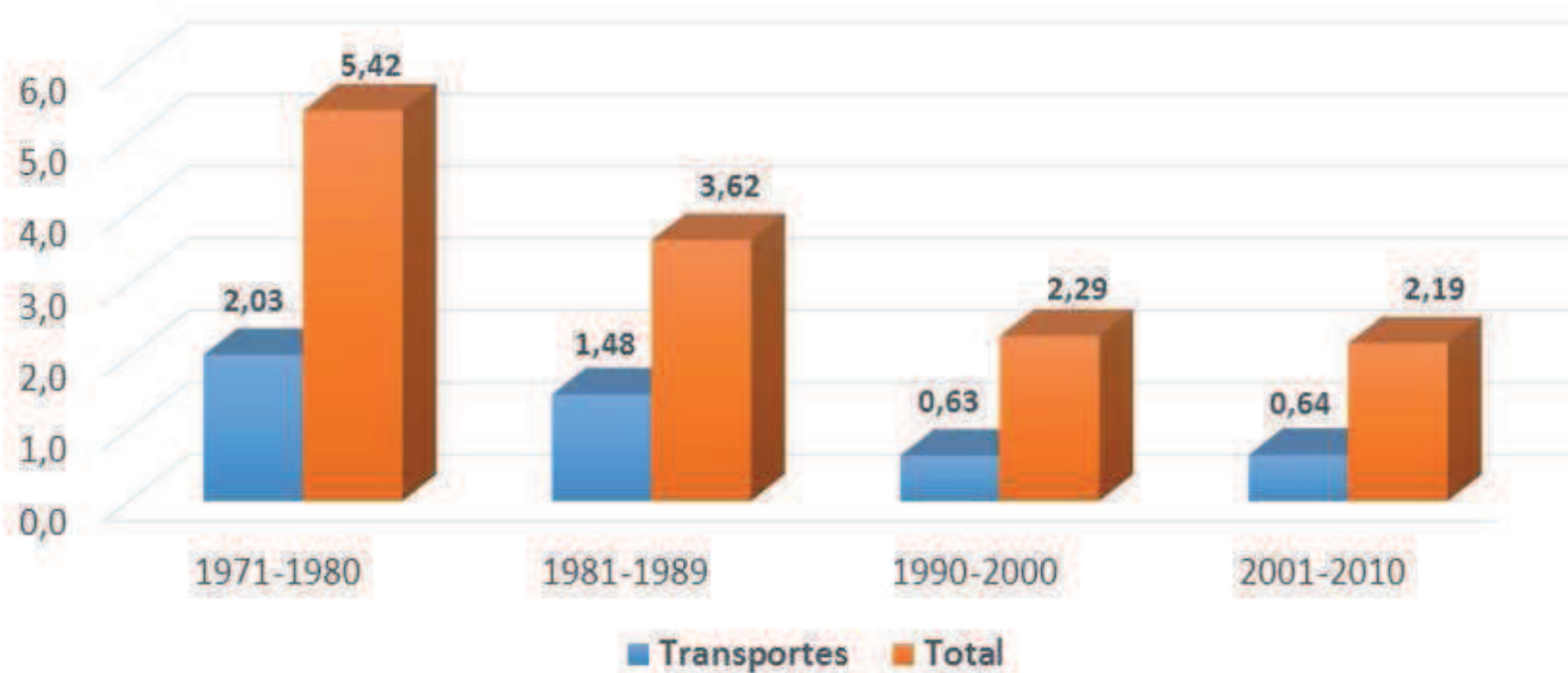
4. Searching for the “trade Bottlenecks”: a brief look at the quality of infrastructure in Brazil in comparison to the best practices in the world;

Other factors beyond infrastructure that harms trade performance in Brazil

1. Tax burden: It is typically high in countries where society demands public expenses to be high (society's decision);
2. Real Exchange rates: High public and private expenses are typically society decisions and results in low domestic savings in Brazil. As a consequence, Real exchange rates tend to be structurally valued;
3. Infrastructure: Becomes crucial for the competitiveness of a country mainly when the tax burden is high and real exchange rates are usually valued.

1. *Public Investments in infrastructure have plummeted over the last 40 years in Brazil....*

Investimentos em infraestrutura no Brasil (% PIB)



2. Brazil is far below the best practices in the developed world...

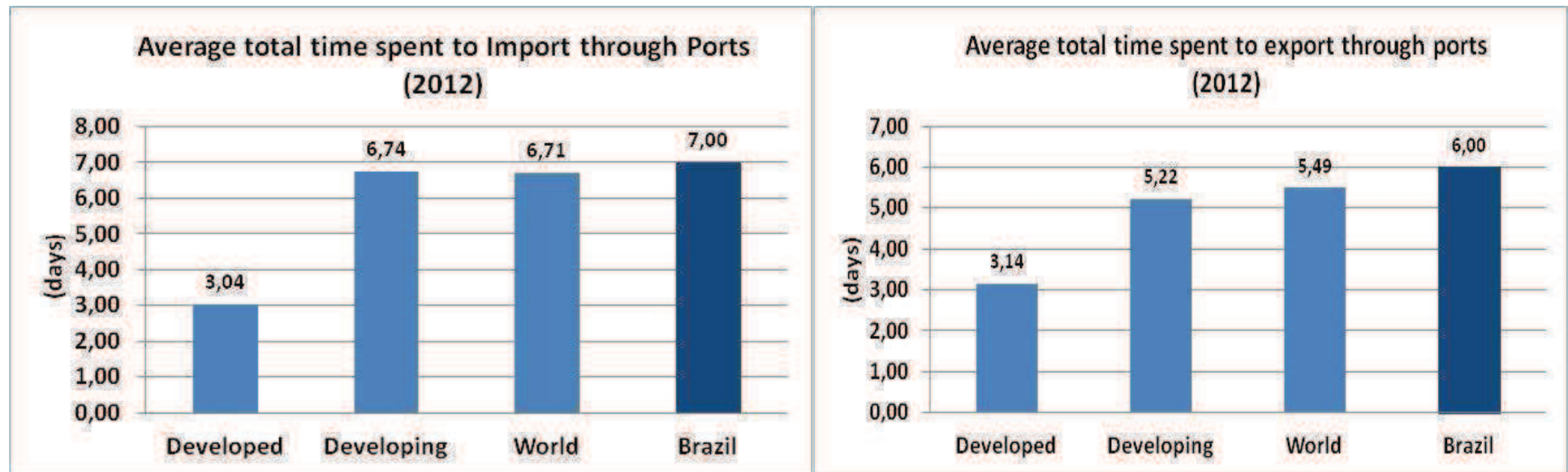
% Paved Roads	2010
International Benchmark	100%
BRAZIL	19%

Road Freight (US\$/1000.ton.Km)	2010
International Benchmark	US\$ 14.00
BRAZIL	US\$ 51.75

Railroad Freight (US\$/1000.TKU)	2010
International Benchmark	US\$ 4,76
BRAZIL	US\$ 74,67

Cust to export a 20 feet container (US\$)	2010
International Benchmark	US\$ 621
BRAZIL	US\$1,790
Containerization	2010
International Benchmark	100%
Brazil	70%
Customs clearance time in airports	2010
International Benchmark	5,4 hours
BRAZIL	2,6 days

Average total time spent to export and import products through Ports in Brazil



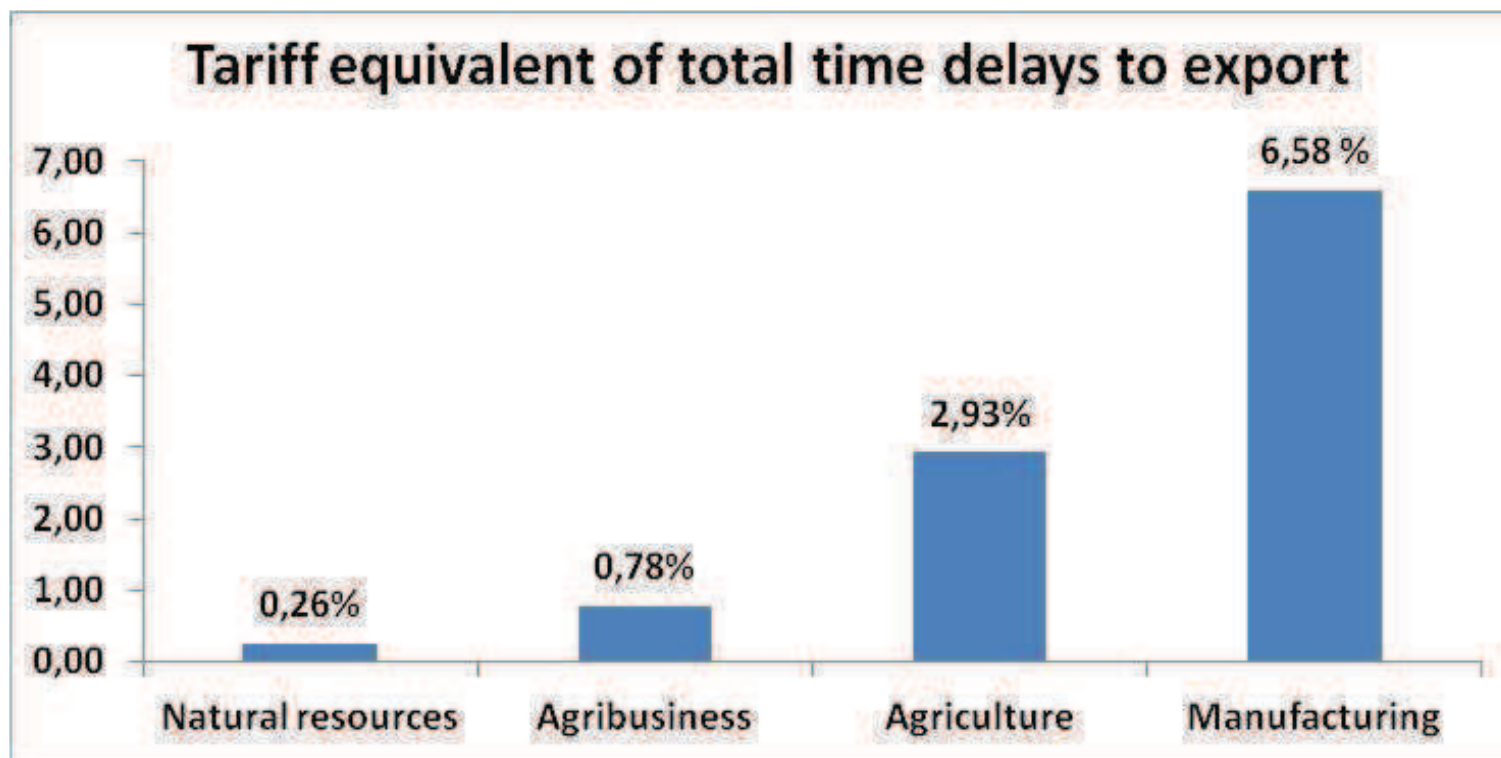
Nota: Clearence time and time spent to dock and unload

Some Remarks...

- The improvement of Brazilian infrastructure entails huge investments and will take time.
- However, streamlining shipping and customs procedures entails some financial resources but also regulatory reforms that are relatively inexpensive to be carried out. In this sense, the recently approved Bali package of Trade Facilitation is good news. (Bali Package, Dec/2013/WTO);
- Recent (and prestigious) empirical research points out that time delays may be even more relevant than import tariffs as barriers to trade. Also, they may play a significant role as barriers to export specially for manufactured products, due to just in time production arrangements, higher economic depreciation rates, etc.. (Hummels; D. (2013). “Time as a Trade Barrier”, *American Economic Review*, vol.103, 1-27.

5. On the impacts of Trade facilitation over Brazilian trade flows;

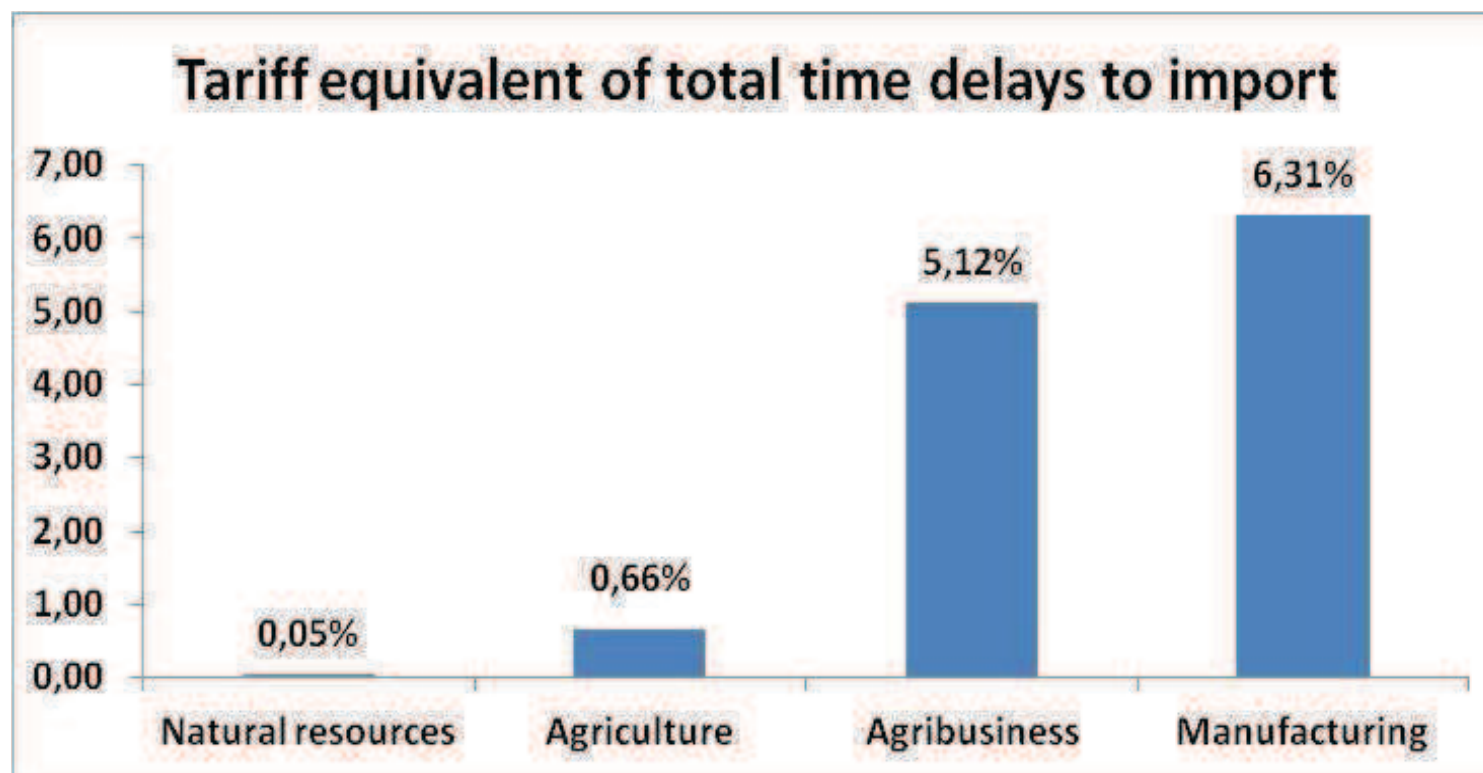
Time as a trade barrier to export through Brazilian Ports...



Note: 6,58% is a higher trade barrier than the ones Brazilian manufactured exports face in European and American markets (around 2,5%)...

Source: Hummels, 2013; GTAP 8

Time as a trade barrier to import through Brazilian Ports...



Note: Port inefficiency works as a significant trade barrier to imports, specially for manufactured products and agribusiness;

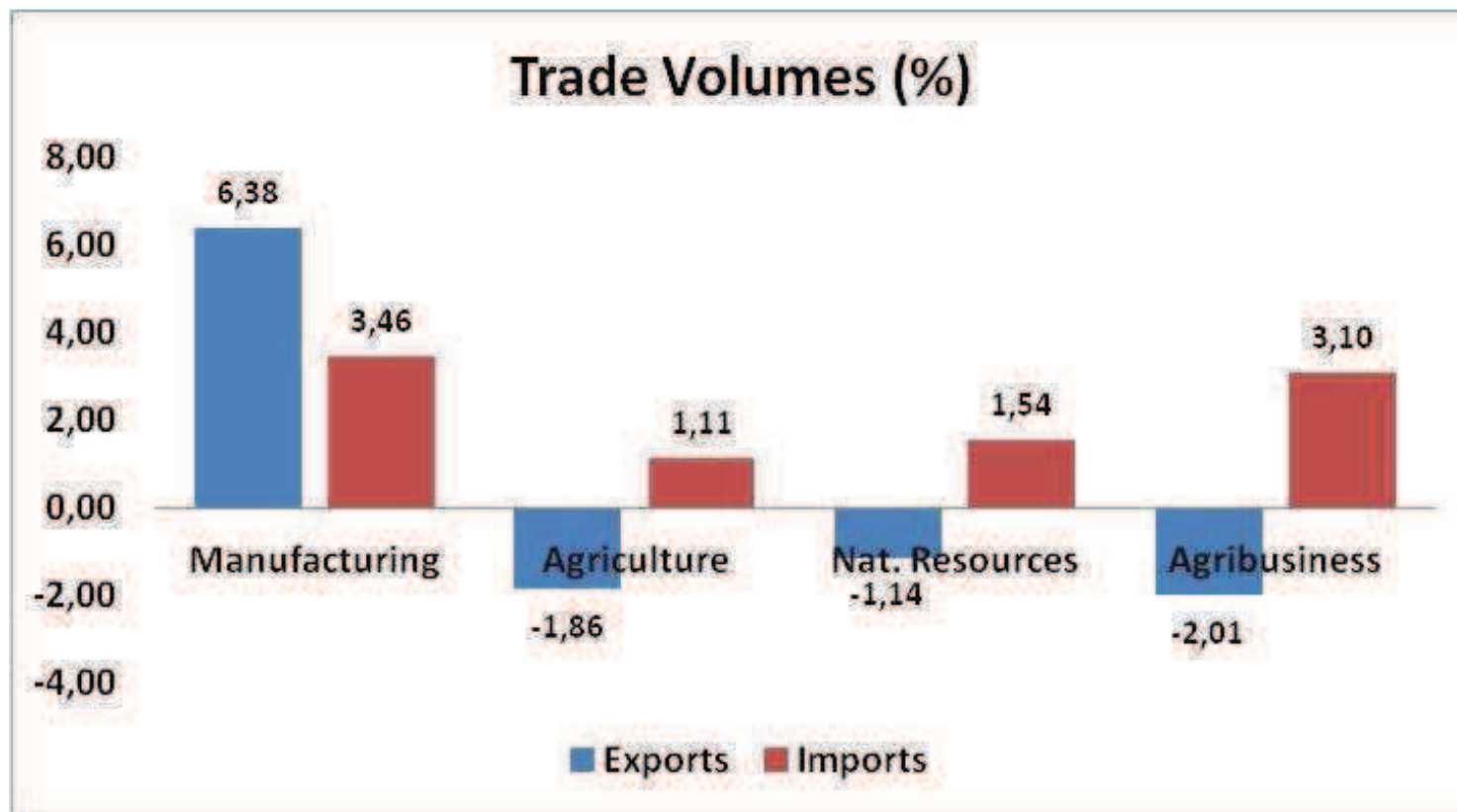
Source: Hummels, 2013; GTAP 8

CGE exercise: 50% reduction in the average time spent with customs clearance procedures

50% reduction in total customs clearance time	
Real GDP	0,21%
Terms of trade	0,53%
Export volume	2,27%
Import volume	2,79%
Real salary	0,27%
Returns on capital	0,29%
Returns on land	-1,46%

Significant effects over trade flows and GDP (over 5 billions in exports and imports, 2013)
More beneficial to capital intensive sectors

Sectoral Results...



Trade facilitation is more beneficial to manufacturing activity.

Final Remarks and a few Lessons

1. Despite significant import tariff reduction in the nineties, the Brazilian economy is still “closed” for global standards;
2. Non trade barriers like Port inefficiency may help explaining why import penetration in Brazil is not so strongly correlated with tariff cuts as one would expect;
3. Port inefficiency may also work as a significant trade barrier, specially to manufactured exports in Brazil;
4. The economy of Brazil, specially its industry, has progressed quite slowly on the process of integration to global or regional value chains. The only mild evidence of integration is in the case of intra-industry trade with Argentina;
5. Joining regional trade agreements initiatives involving countries/regions like USA, EU_28 and Asia, may pave the way for the integration of the Brazilian Industry in significant global value chains; Non-tariffs barriers to trade, like TBT's and SPS's, should be also carefully negotiated;

Final Remarks and a few Lessons

6. In 2011, exports of manufactured products in Brazil corresponded to 41,4% of total exports, against 16,2% for services;
7. When measured in valued added, the figures are 27,4% for manufactured exports and 40,7% for services exports, meaning a lot of service products are nowadays exported embedded in manufactured products;
8. Therefore, a competitive manufacturing sector entails an efficient supply of high quality service products (transportation, banks, product design, energy supply, marketing, etc...)

Thank you!

Lucas.ferraz@fgv.br

Head of CGE modeling at Centre for Global Trade and Investment (FGV-EESP)

TRADE WARS X CURRENCY WARS

2014

Profs. Vera Thorstensen, Emerson Marçal, Lucas Ferraz

Currency Wars

2

- Number of countries with misalignments
- Persistence and magnitude of misalignments
- Where to judge exchange violations?
- Manipulators (IMF Art IV) x Frustrators (GATT Art XV)

HOW TO ESTIMATE MISALIGNMENTS

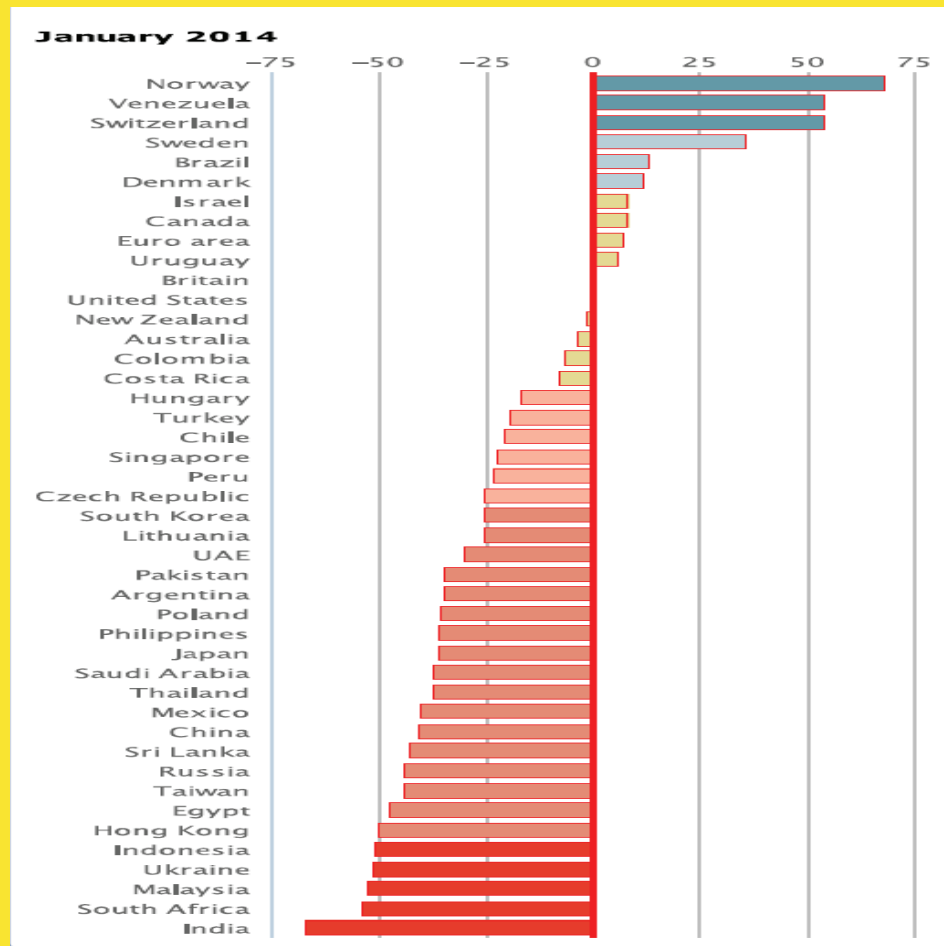
3

- PPP
- Equilibrium rate to current account balance (flow)
- Equilibrium rate to net foreign asstes (stocks)

Exchange rate – Big Mac

1 / 2014

4

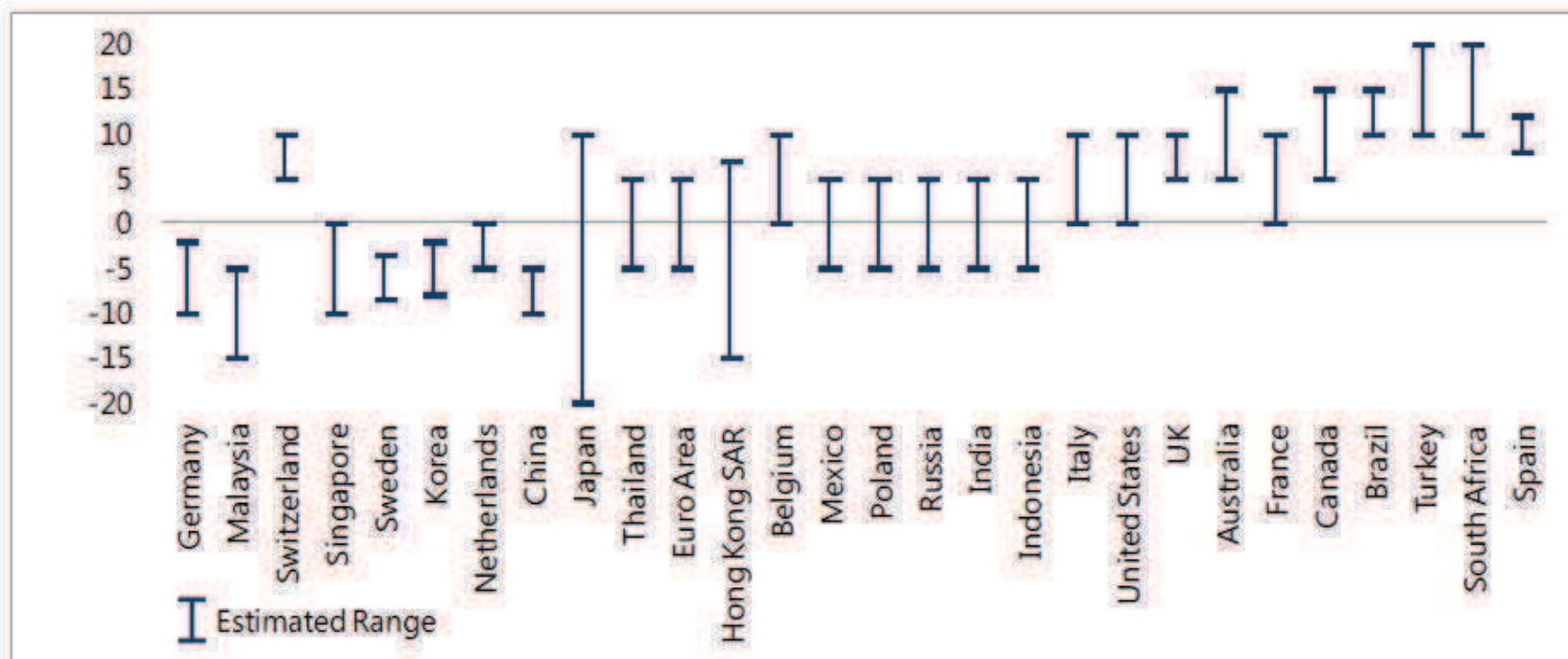


IMF - Estimates Exchange Rate Misalignments (6/2013) Pilot External Sector Report

5

Estimated Differences between Real Effective Exchange Rates and those consistent
with Fundamentals and Desirable Policies

(Percent)

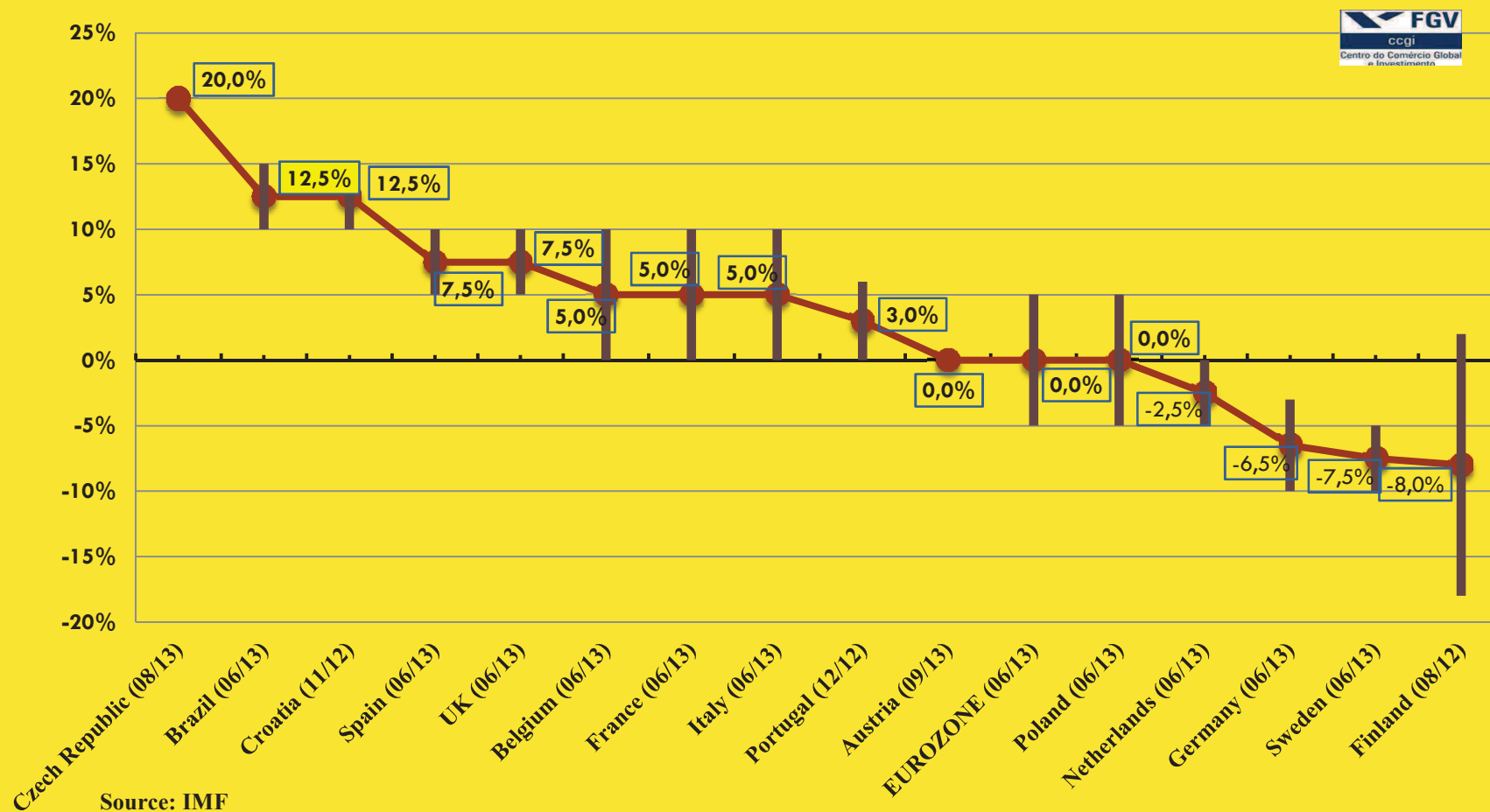


Source: IMF Staff calculations (see Figure 18 for details).

Europe x Brazil - Exchange Rate Misalignments

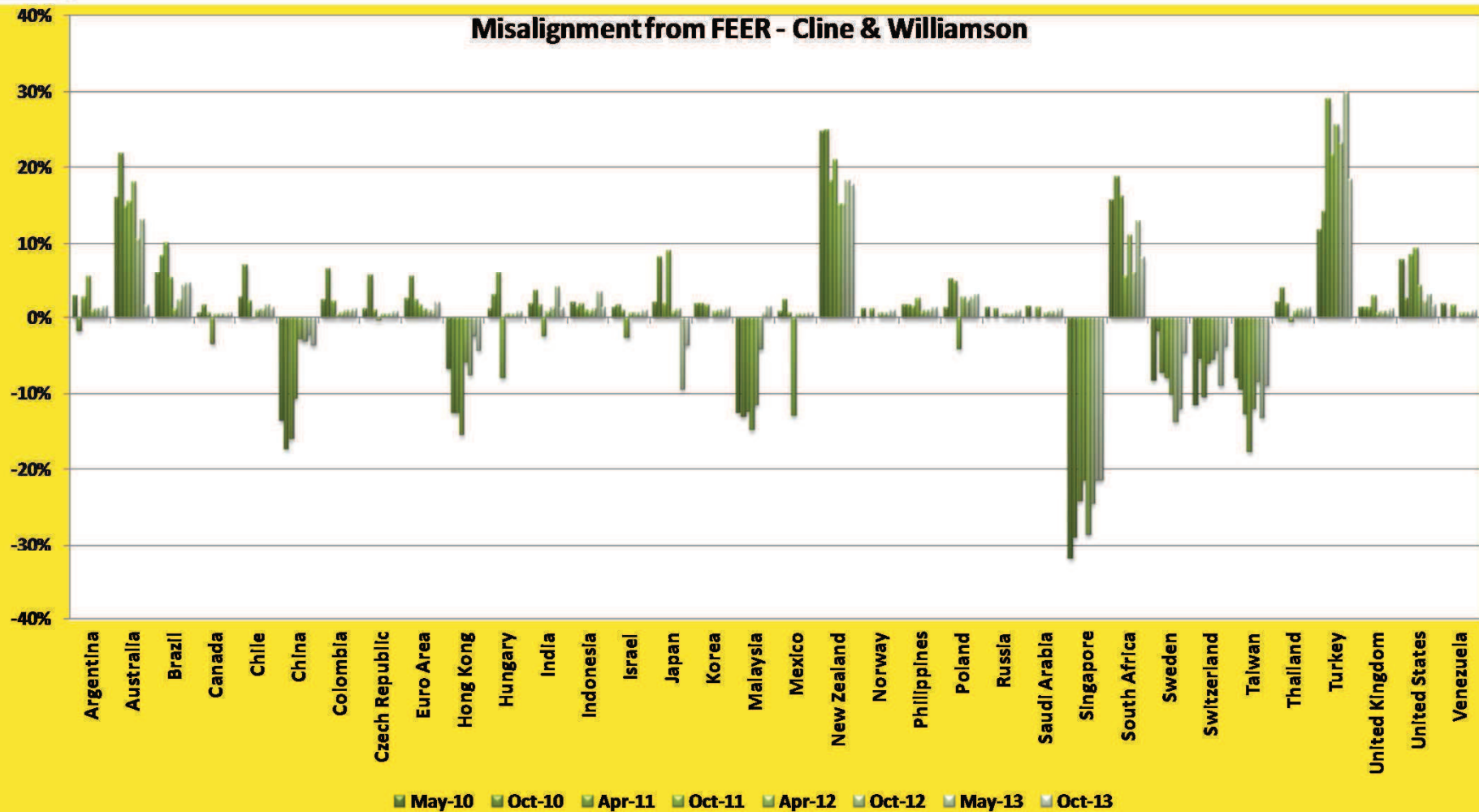
IMF Article IV Staff Reports 2013

6



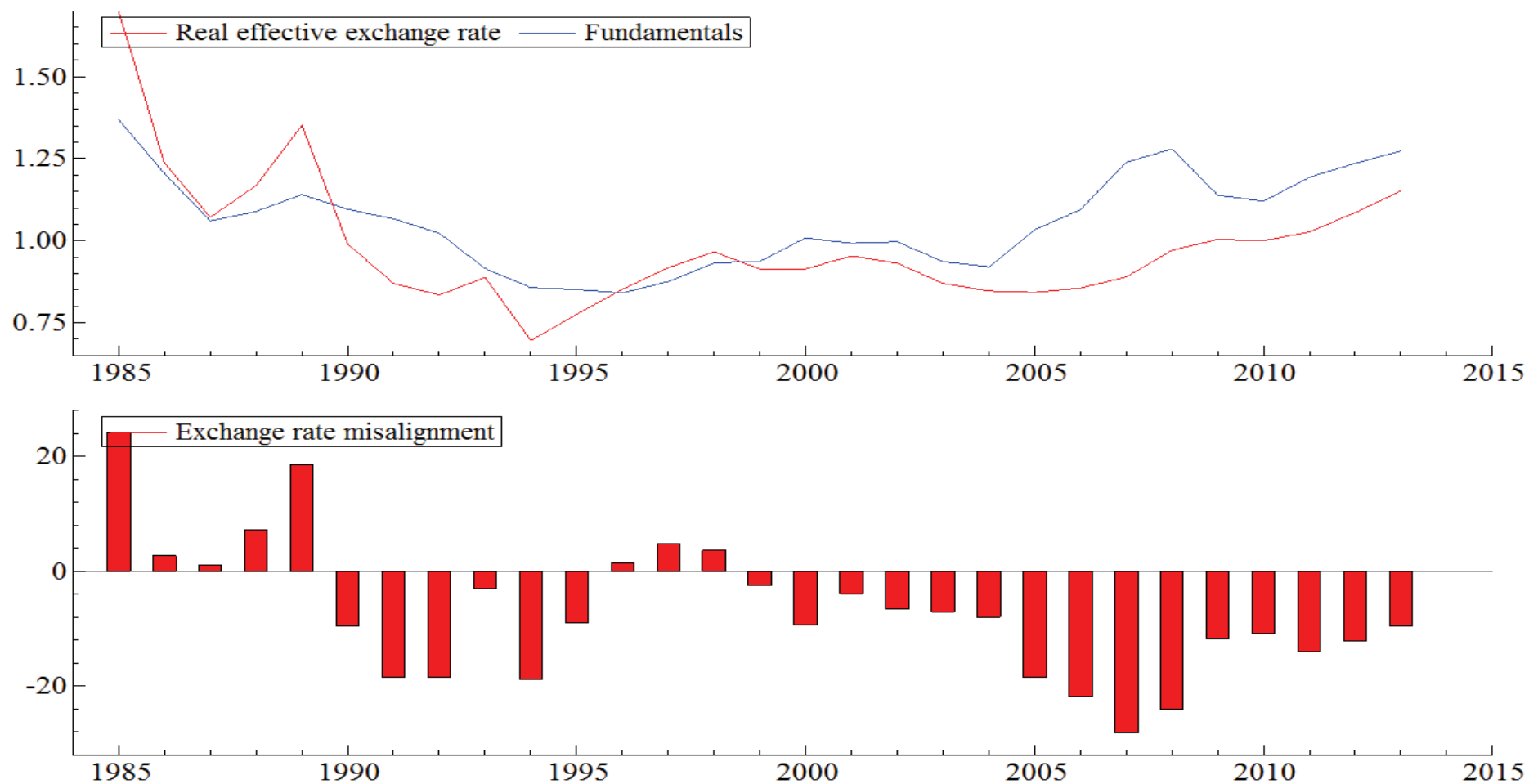
PIIE - FEER – Misalignments – Cline-Williamson (10/2013)

7



FGV - China: real exchange rate, fundamentals and exchange rate misalignments (annually) 2013

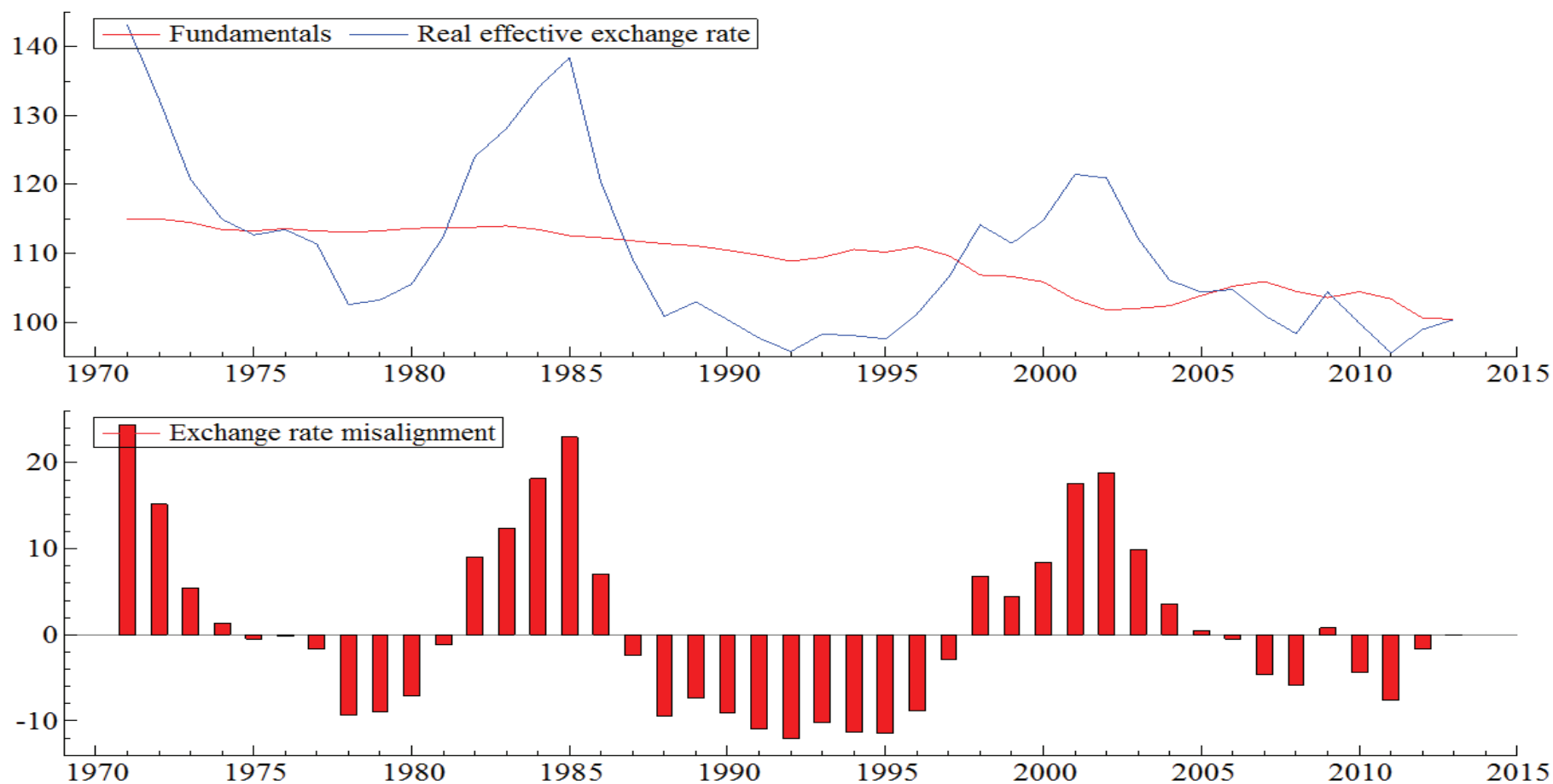
8



Sources: Misalignment estimates – Observatory on Exchange Rate - EESP/FGV (2013)

FGV - US: real exchange rate, fundamentals and exchange rate misalignments (annually) 2013

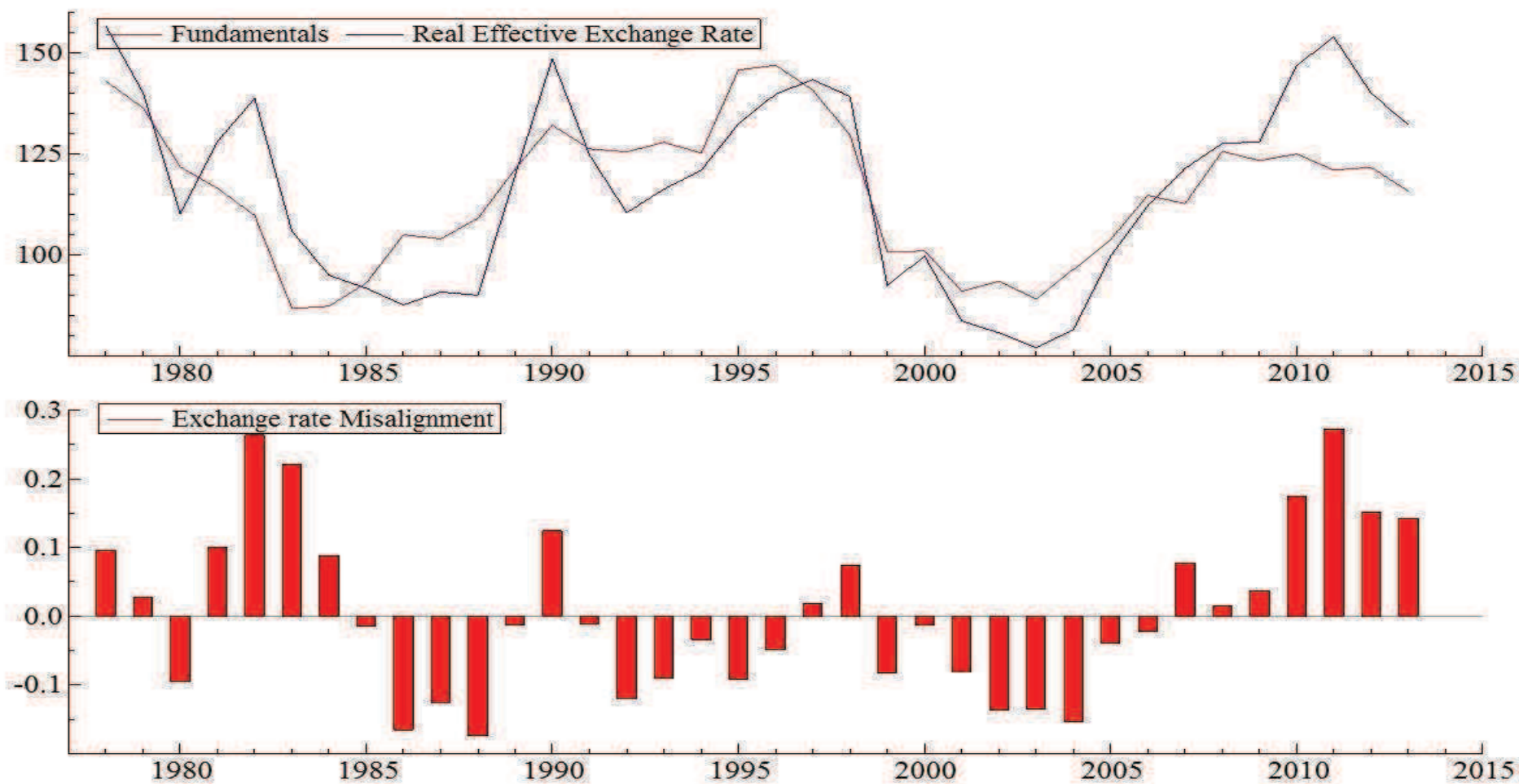
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Source: Observatory on Exchange Rate - EESP/FGV (2013)

FGV - Brazil: real exchange rate, fundamentals and exchange rate misalignments (annually) - 2013

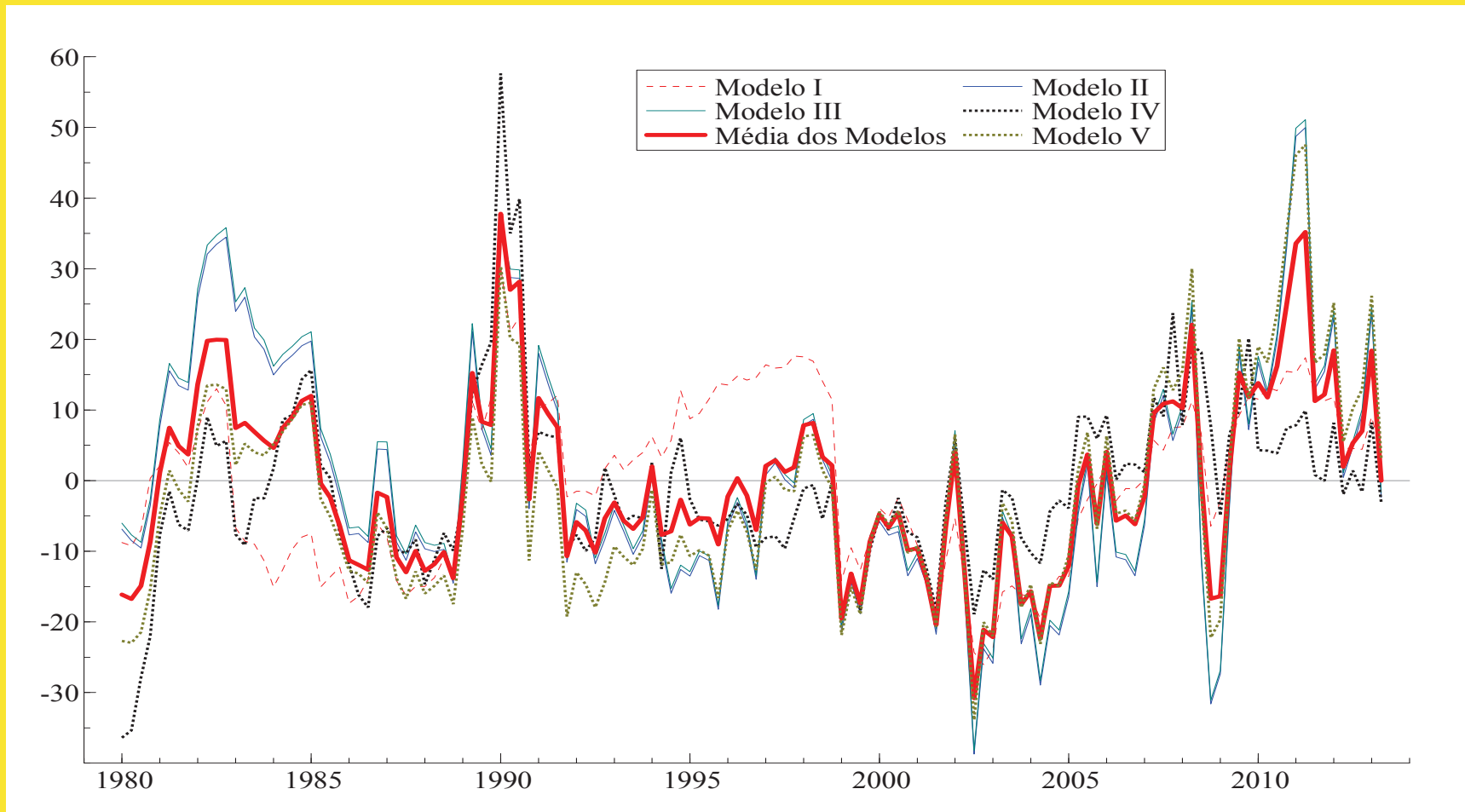
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Source: Observatory on Exchange Rate - EESP/FGV (2013)

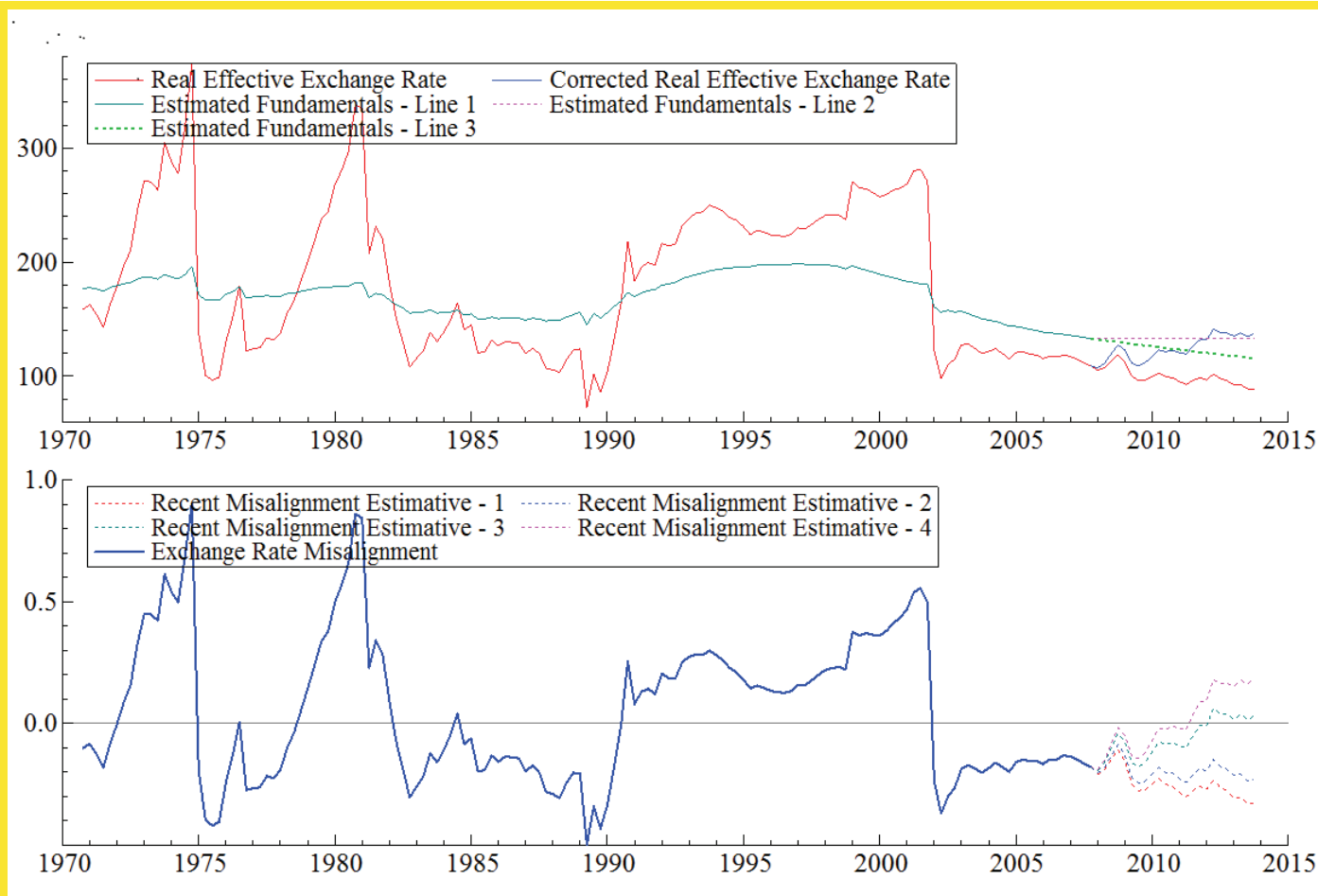
FGV - BRAZIL: Misalignments – different methods

11



FGV - Argentina: real exchange rate, fundamentals and exchange rate misalignments (annually) - 7/ 2013

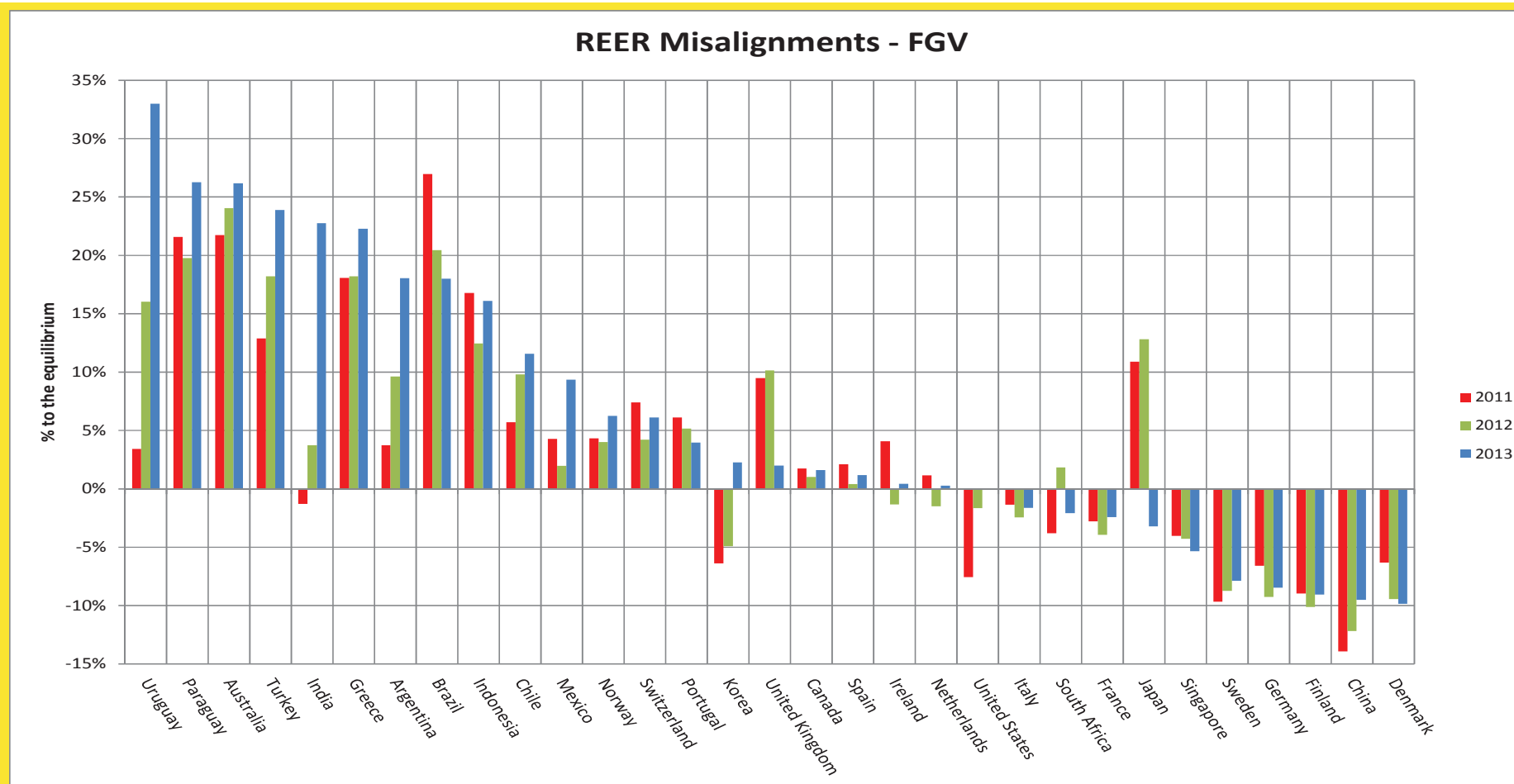
12



FGV – Misalignments 2013

Source: Observatory on Exchange Rate

13



“Tariffication” of exchange rate misalignments

- To exam the impact of exchange rate misalignments on trade, one possibility is to transform a misalignment into a tariff and then to adjust the import tariff of each country, through a “tariffication” exercise.
- An overvalued exchange rate has the effect of reducing or nullifying the import tariffs of the overvalued country, creating an incentive to imports from third countries.
- An undervalued exchange rate, on the other hand, will give an incentive to exports from the undervalued country. A country’s undervalued currency will have the effect of increasing its import tariffs, sometimes above the bound levels at the WTO.
- The equation used to “tarifficate” the effects of exchange rate misalignments is presented in the next slide

Tariffication of Exchange Rates

15

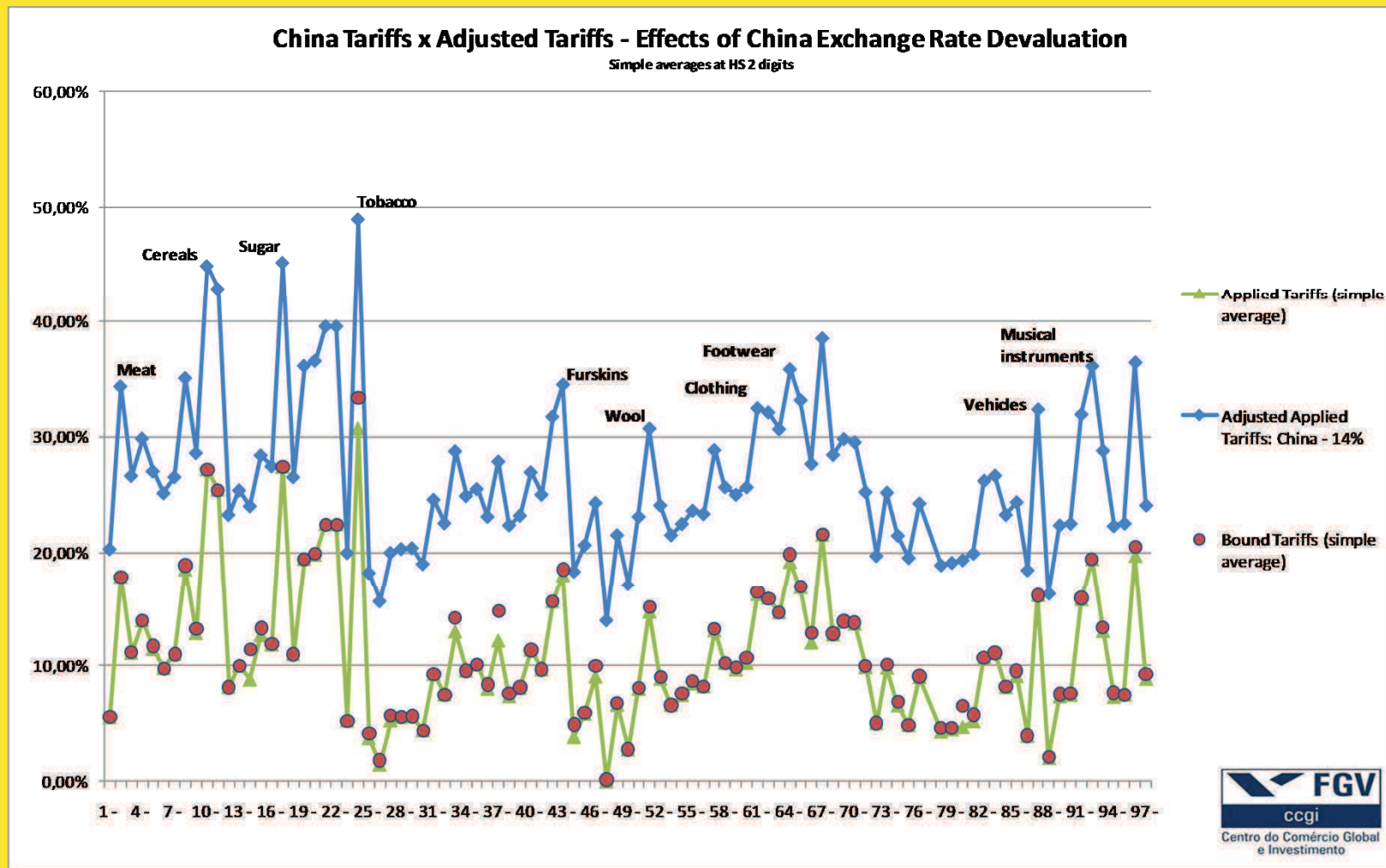
$$t^{adjust} = \left(-\frac{d(\Theta^*)}{\Theta^*} + \frac{d(\Theta_{dom})}{\Theta_{dom}} \right) + t \cdot \left(1 + \left(-\frac{d(\Theta^*)}{\Theta^*} + \frac{d(\Theta_{dom})}{\Theta_{dom}} \right) \right)$$

Simulations regarding the effects of exchange rate misalignments on selected Tariff Profiles

- Using the “tariffication methodology”, one can represent the effects of exchange rate misalignments on a country Tariff Profile.
- The Tariff Profile is comprised of bound tariffs and applied tariffs
- Bound tariffs are the tariffs negotiated at the WTO as the maximum permitted level of an import tariff.
- Applied tariffs are the import tariffs actually applied by a country and notified to the WTO
- After applying the “tariffication methodology” the results are adjusted bound and applied tariffs that represent the actual level of protection of a given country.
- In the following slides we present the simulations for Brazil, US and EU Tariff Profiles, considering the effects of the exchange rate misalignments of selected countries.

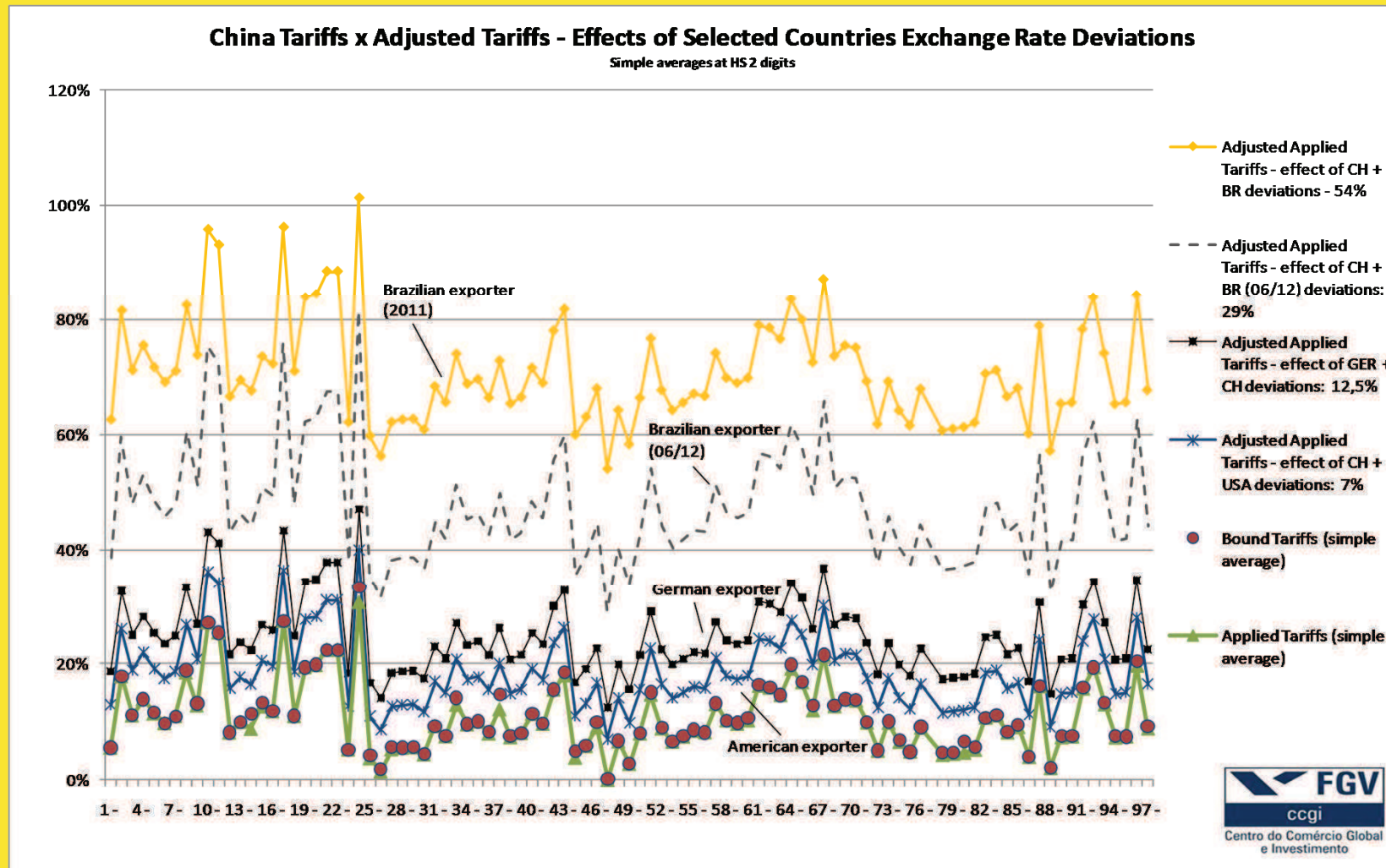
CHINA - Impacts of Exchange Rates on China Tariff Profile

China devaluation 15% 2013



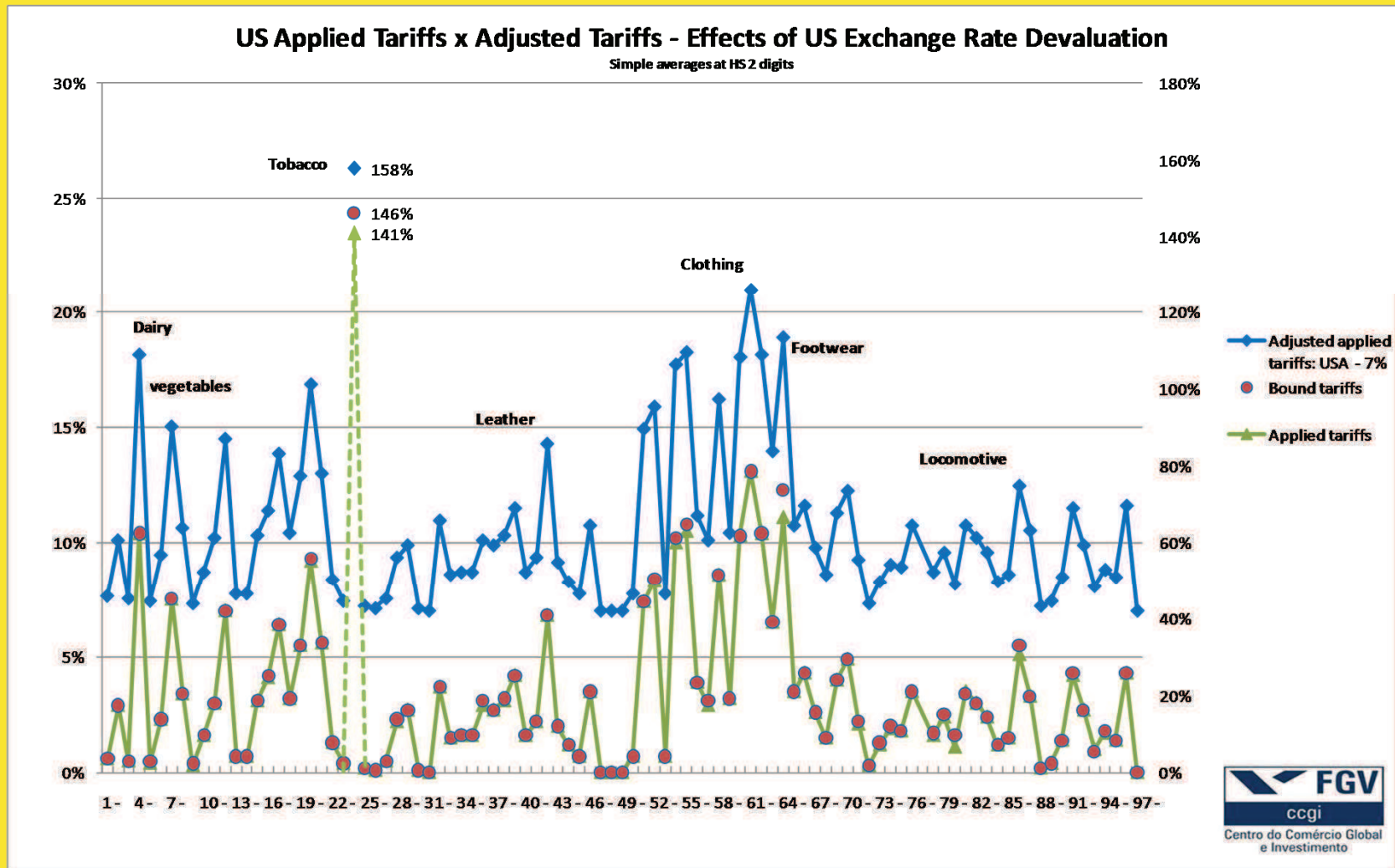
CHINA - Impacts of Exchange Rates on China Tariff Profile

Ch-Brazil, Ch-Germany, Ch-US and Ch-Brazil in Bilateral Misalignments



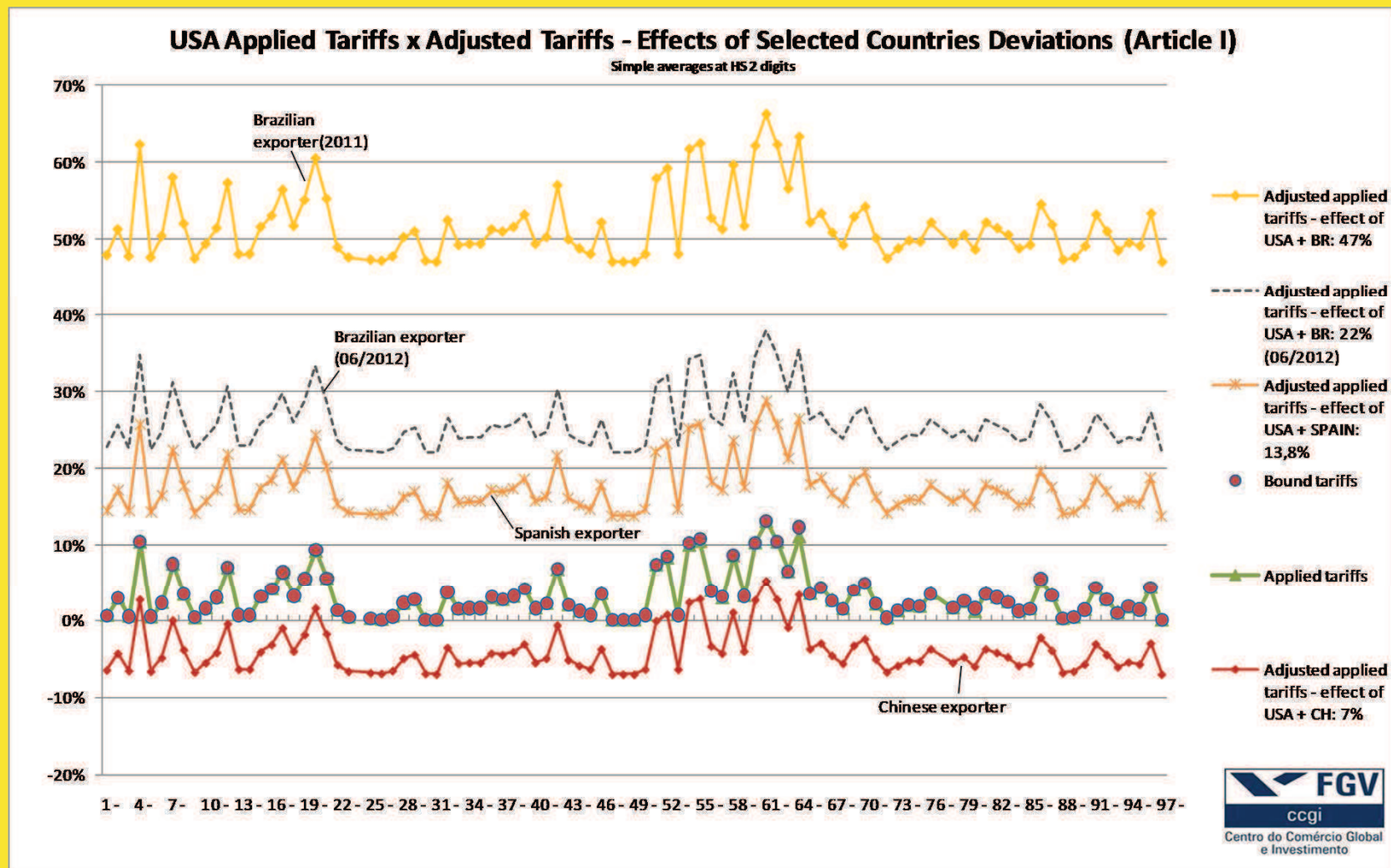
US - Impacts of Exchange Rates on US Tariff Profile

US devaluation in 2013 (- 5%)



Impacts of Exchange Rates on US Tariff Profile

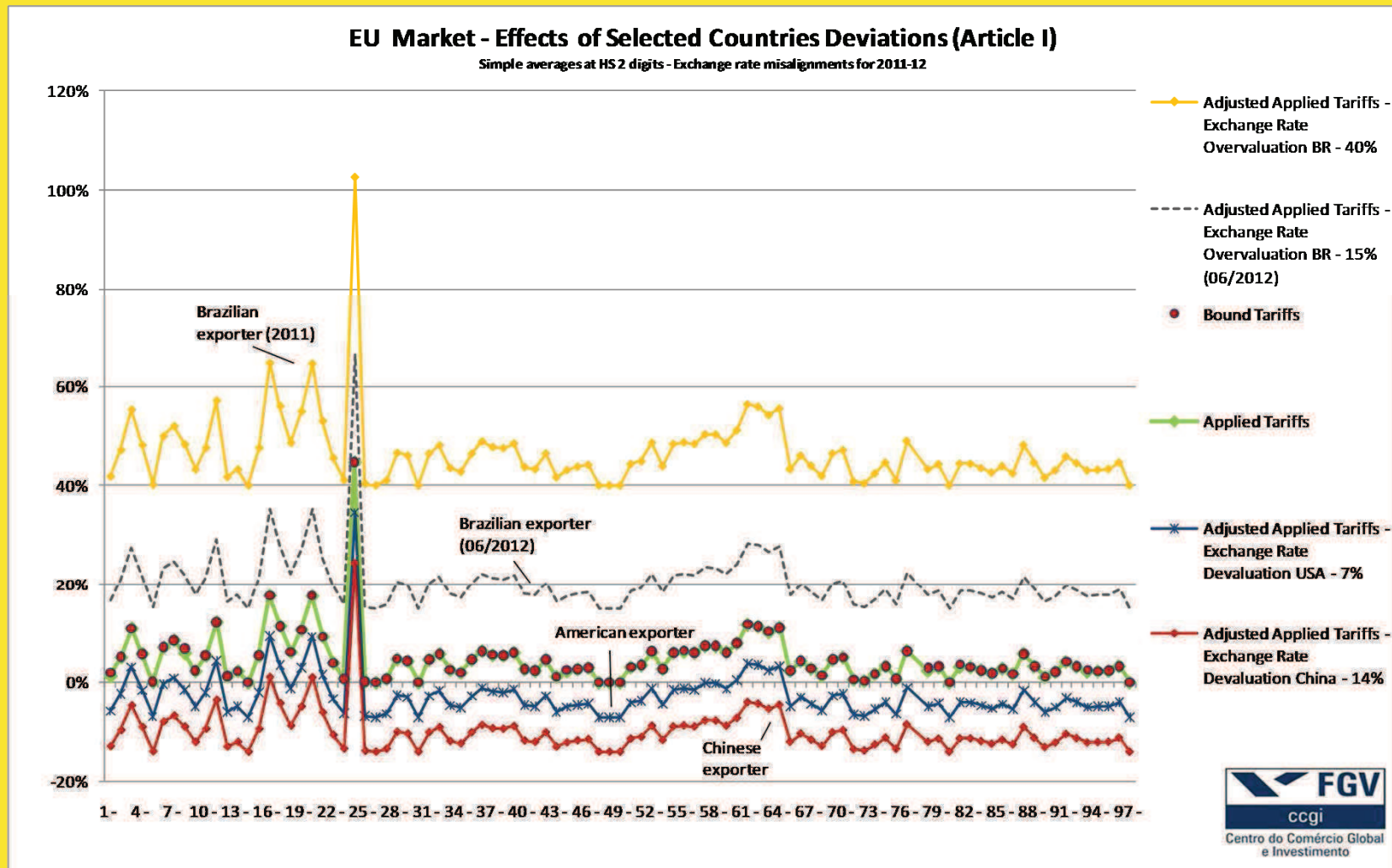
US-Brazil, US-Spain, US-China and US-Brazil in Bilateral Misalignments (2013)



Impacts of Exchange Rates on EU Tariff Profile

Brazil, US , China Misalignments and Brazil 2013

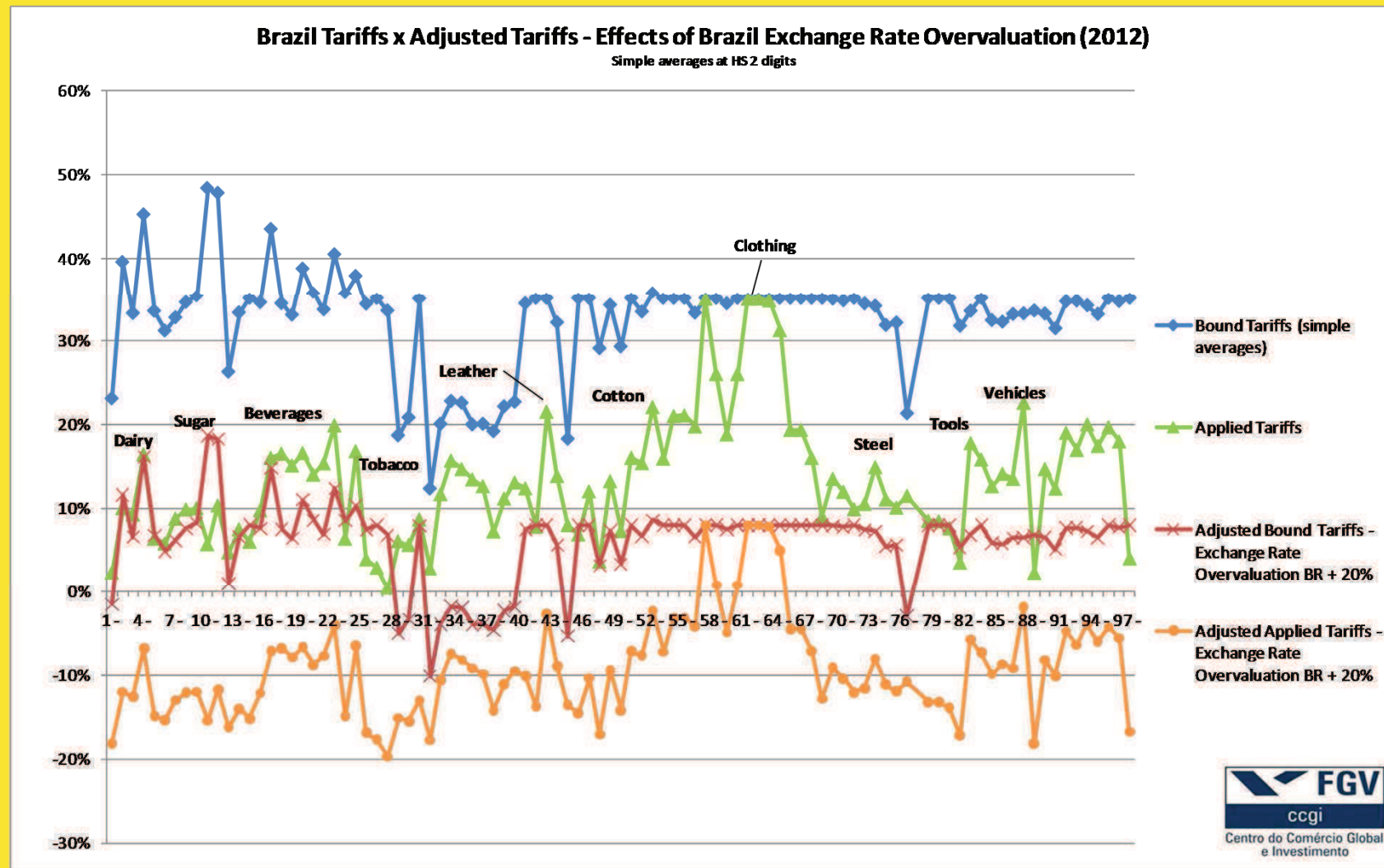
21



Brazil - Impacts of misalignments on Tariffs

2012 (+20%) 2013 (+15%)

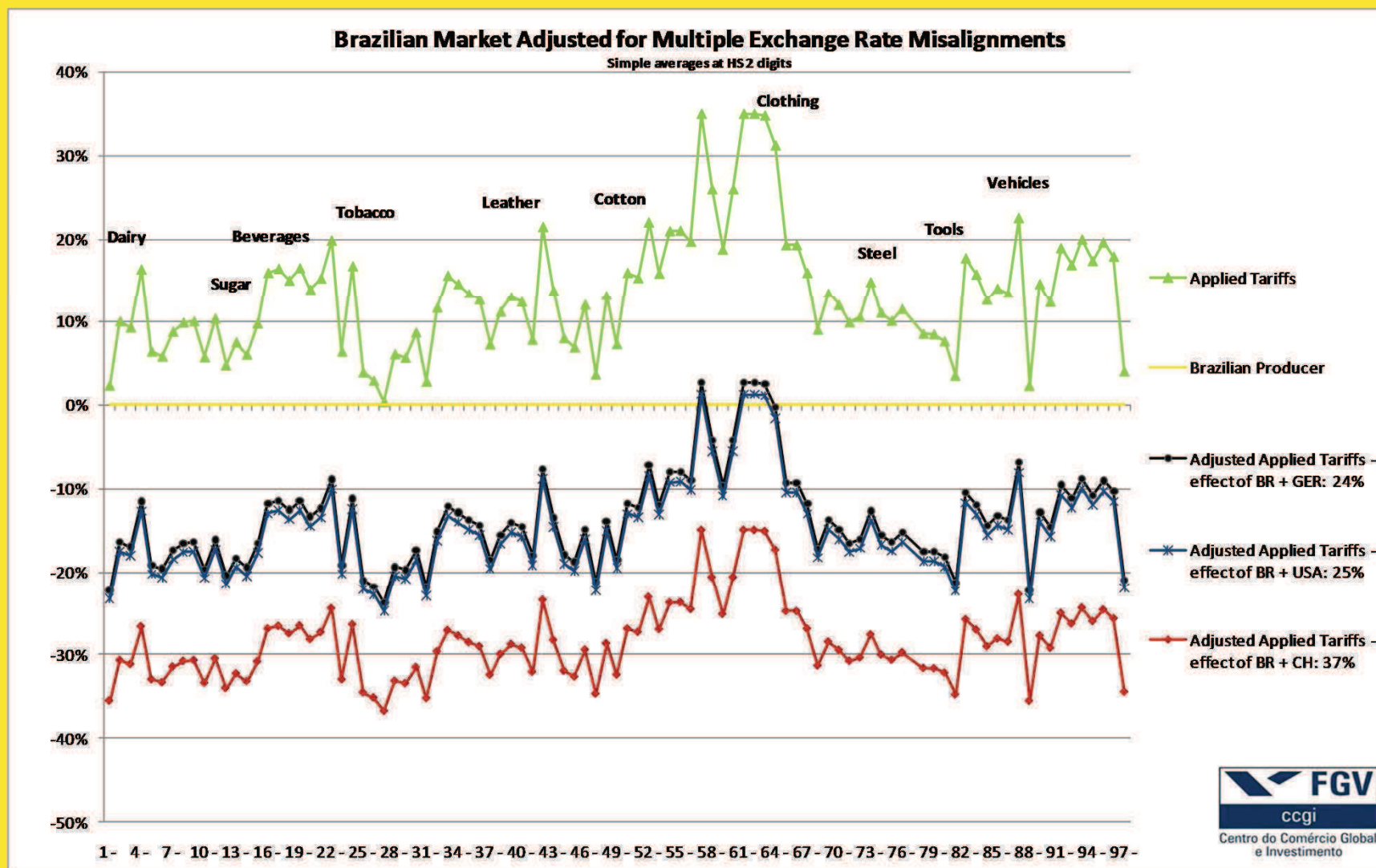
22



Impacts of Exchange Rates on Brazil Tariff Profile

Brazil-China, Brazil-US, Brazil-Germany Bilateral Misalignments in 2013

23



Conclusions

24

- Countries with overvalued exchange rates (Brazil, South Africa, Australia) have their negotiated tariffs reduced or nullified.
- Countries with undervalued exchange rates (USA, China, Germany) grant subsidies to their exports and their applied tariffs surpass the bound levels agreed at the WTO.
- Substantial and persistent exchange rate misalignments significantly affect or nullify most WTO rules: tariffs, antidumping, countervailing measures, safeguards, rules of origin, regional agreements, DSB retaliations...
- Problem:
WTO does not have adequate rules to address the exchange rate issue

HOW TO SOLVE THE PROBLEM

- ▣ IMF - manipulation (Article IV)
- ▣ WTO - frustration (Article XV)

HOW TO SOLVE THE PROBLEM

▣ IMF - manipulation (Article IV)

▣ WTO - frustration (Article XV)

WTO Rules relating trade and exchange rates

General Agreement on Tariffs and Trade (GATT)

Article XV.4

Contracting parties shall not, by exchange action, frustrate* the intent of the provisions of this Agreement, nor, by trade action, the intent of the provisions of the Articles of Agreement of the International Monetary Fund.

* Ad Article XV -*Paragraph 4*

The word “frustrate” is intended to indicate, for example, that infringements of the letter of any Article of this Agreement by exchange action shall not be regarded as a violation of that Article if, in practice, there is no appreciable departure from the intent of the Article. Thus, a contracting party which, as part of its exchange control operated in accordance with the Articles of Agreement of the International Monetary Fund, requires payment to be received for its exports in its own currency or in the currency of one or more members of the International Monetary Fund will not thereby be deemed to contravene Article XI or Article XIII. Another example would be that of a contracting party which specifies on an import license the country from which the goods may be imported, for the purpose not of introducing any additional element of discrimination in its import licensing system but of enforcing permissible exchange controls.

WTO - Rules relating between exchange rates and trade

General Agreement on Tariffs and Trade (GATT)

Article II:6

(a) The specific duties and charges included in the Schedules relating to contracting parties members of the International Monetary Fund, and margins of preference in specific duties and charges maintained by such contracting parties, **are expressed in the appropriate currency at the par value accepted or provisionally recognized by the Fund** at the date of this Agreement. Accordingly, **in case this par value is reduced consistently with the Articles of Agreement of the International Monetary Fund by more than twenty per centum, such specific duties and charges and margins of preference may be adjusted to take account of such reduction**; *provided* that the CONTRACTING PARTIES (*i.e.*, the contracting parties acting jointly as provided for in Article XXV) concur that such adjustments will not impair the value of the concessions provided for in the appropriate Schedule or elsewhere in this Agreement, due account being taken of all factors which may influence the need for, or urgency of, such adjustments.

GATT Guidelines to Art II.6(a) (Approved by CP)

15 February 1980 (L/4938)

1980 - World with different exchange rate arrangements

Guidelines:

- . Allow undervalued countries to renegotiate specific tariffs
- . Conditions: CP ask IMF to calculate size of depreciation

Undervaluation was more than 20%

Basket of currencies of 85% of imports

Period of analysis for size of depreciation: rate of 6 months
preceding the request x 6 months preceding last bound (weighted
average)

IMF Rules relating exchange rates and trade

IMF's Articles of Agreement

Article IV: Obligations Regarding Exchange Arrangements

Section 1. General obligations of members

Recognizing that the essential purpose of the international monetary system is to provide a framework that facilitates the exchange of goods, services, and capital among countries, and that sustains sound economic growth, and that a principal objective is the continuing development of the orderly underlying conditions that are necessary for financial and economic stability, each member undertakes to collaborate with the Fund and other members to assure orderly exchange arrangements and to promote a stable system of exchange rates. In particular, each member shall:

- (i) endeavor to direct its economic and financial policies toward the objective of fostering orderly economic growth with reasonable price stability, with due regard to its circumstances;
- (ii) seek to promote stability by fostering orderly underlying economic and financial conditions and a monetary system that does not tend to produce erratic disruptions;
- (iii) avoid manipulating exchange rates or the international monetary system in order to prevent effective balance of payments adjustment or to gain an unfair competitive advantage over other members; and
- (iv) follow exchange policies compatible with the undertakings under this Section

IMF Rules relating exchange rates and trade

IMF's Articles of Agreement

Article IV: Obligations Regarding Exchange Arrangements

Section 3. Surveillance over exchange arrangements

(a) The Fund shall oversee the international monetary system in order to ensure its effective operation, and shall oversee the compliance of each member with its obligations under Section 1 of this Article.

(b) In order to fulfill its functions under (a) above, the Fund shall exercise firm surveillance over the exchange rate policies of members, and shall adopt specific principles for the guidance of all members with respect to those policies. Each member shall provide the Fund with the information necessary for such surveillance, and, when requested by the Fund, shall consult with it on the member's exchange rate policies. The principles adopted by the Fund shall be consistent with cooperative arrangements by which members maintain the value of their currencies in relation to the value of the currency or currencies of other members, as well as with other exchange arrangements of a member's choice consistent with the purposes of the Fund and Section 1 of this Article. These principles shall respect the domestic social and political policies of members, and in applying these principles the Fund shall pay due regard to the circumstances of members.

IMF Rules relating exchange rates and trade

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Principles for Guidance Article IV Section I (2007)

Manipulation

- (i) protracted large-scale intervention in one direction in the exchange market;
- (ii) official or quasi-official borrowing that either is unsustainable or brings unduly high liquidity risks, or excessive and prolonged official or quasi-official accumulation of foreign assets, for balance of payments purposes;
- (iii) (a) the introduction, substantial intensification, or prolonged maintenance, for balance of payments purposes, of restrictions on, or incentives for, current transactions or payments, or
(b) the introduction or substantial modification for balance of payments purposes of restrictions on, or incentives for, the inflow or outflow of capital;
- (iv) the pursuit, for balance of payments purposes, of monetary and other financial policies that provide abnormal encouragement or discouragement to capital flows;
- (v) fundamental exchange rate misalignment;
- (vi) large and prolonged current account deficits or surpluses; and
- (vii) large external sector vulnerabilities, including liquidity risks, arising from private capital flows.

IMF x WTO relations

33

- Link between WTO and IMF is Art. XV

XV.1. The CONTRACTING PARTIES shall seek co-operation with the IMF to the end that the CONTRACTING PARTIES and the Fund may pursue a co-ordinated policy with regard to exchange questions within the jurisdiction of the Fund and questions of quantitative restrictions and other trade measures within the jurisdiction of the CONTRACTING PARTIES

- FMI - exchange questions ?
- WTO quantitative restrictions and other trade measures ?

WTO x IMF: to consult

34

XV.2. In all cases in which the CONTRACTING PARTIES are called upon to consider or deal with problems concerning monetary reserves, balances of payments or foreign exchange arrangements, they shall consult fully with the International Monetary Fund.

- Consult fully ?
- What to do: to take note? *amicus curiae*? expert?

WTO x IMF: to accept

35

XV.2 - In such consultations, the CONTRACTING PARTIES shall accept all findings of statistical and other facts presented by the Fund relating to foreign exchange, monetary reserves and balances of payments

and shall accept the determination of the Fund as to whether action by a contracting party in exchange matters is in accordance with the Articles of Agreement of the International Monetary Fund

WTO x IMF: to accept

36

XV.2. ...

The CONTRACTING PARTIES in reaching their final decision in cases involving the criteria set forth in paragraph 2 (a) of Article XII or in paragraph 9 of Article XVIII, shall accept the determination of the Fund as to what constitutes a serious decline in the contracting party's monetary reserves, a very low level of its monetary reserves or a reasonable rate of increase in its monetary reserves, and as to the financial aspects of other matters covered in consultation in such cases.

- §2(a) Art. XII – restrictions to protect balance of payment (serious decline in monetary reserves) and reasonable rate of increase
- §9 Art. XVIII – protection to developing countries - inadequate monetary reserves

WTO x IMF: exception

37

XV.9. Nothing in this Agreement shall preclude:

(a) the use by a contracting party of exchange controls or exchange restrictions in accordance with the Articles of Agreement of the International Monetary Fund or with that contracting party's special exchange agreement with the CONTRACTING PARTIES.

- exchange controls
- exchange restriction
- exchange intervention ????

WTO x IMF: conclusion

38

- WTO – determination if exchange measures frustrate objectives of GATT
- WTO consult with IMF (accept statistics and determination on IMF compliance)
- Other exchange actions (not exchange restrictions or controls) should not be submitted to IMF
- In other words: exchange interventions could be under IMF rules but they frustrate WTO objectives
- So - they violate WTO rules

WTO x IMF

39

- Manipulate x Frustrate

- 3 basic concepts:
 - . exchange arrangements: same WTO + IMF
 - . exchange action
 - . exchange restriction x exchange controls

WTO x IMF

40

- WTO – GATS
- PTAs – services
- Another financial bubble ?

A NEW PROPOSAL

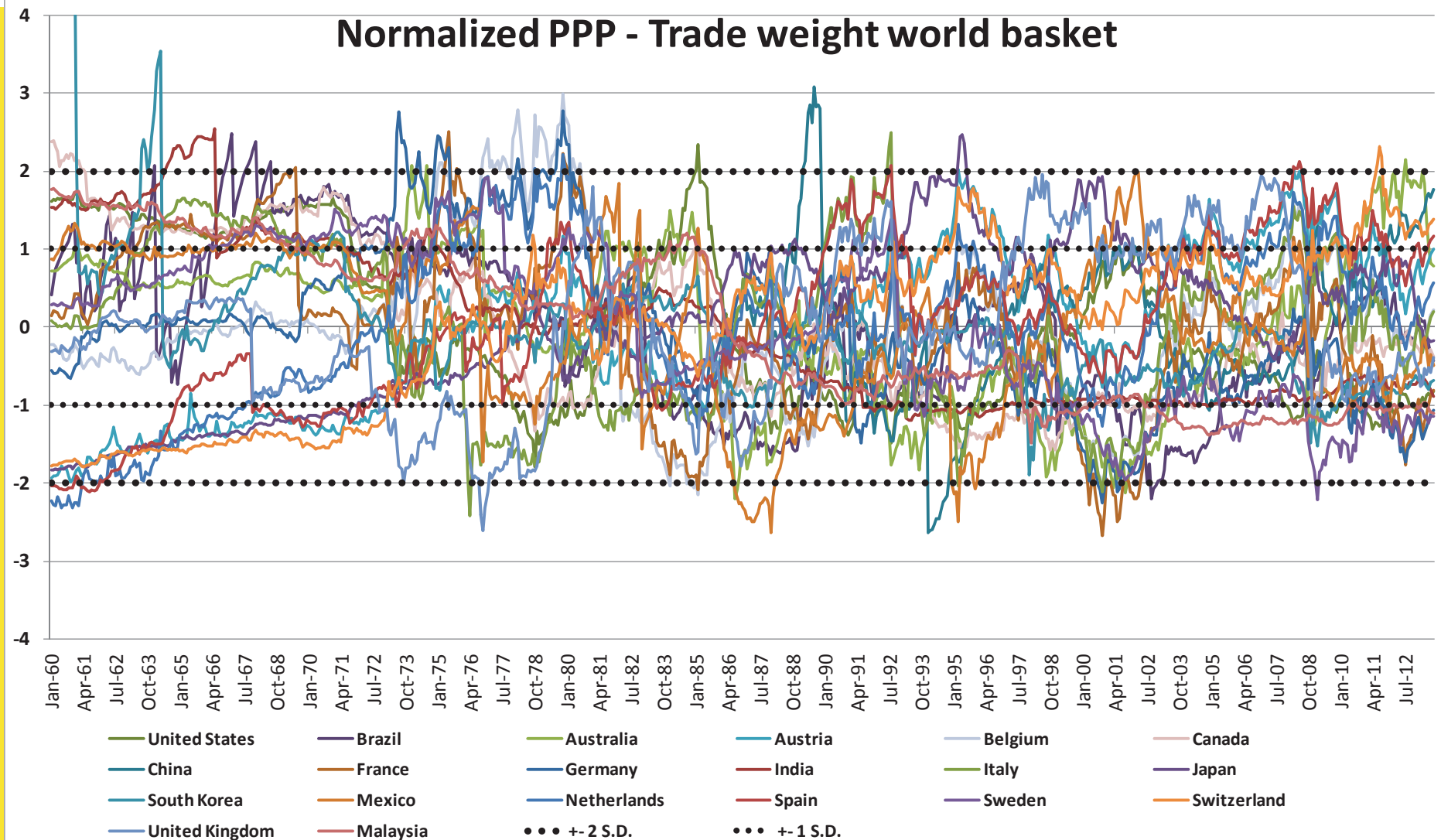
41

- Create a world currency
- Negotiate a fluctuation band
- Solve the conflict bilaterally

BOX OF SNAKES

Misalignments band (2013)

42

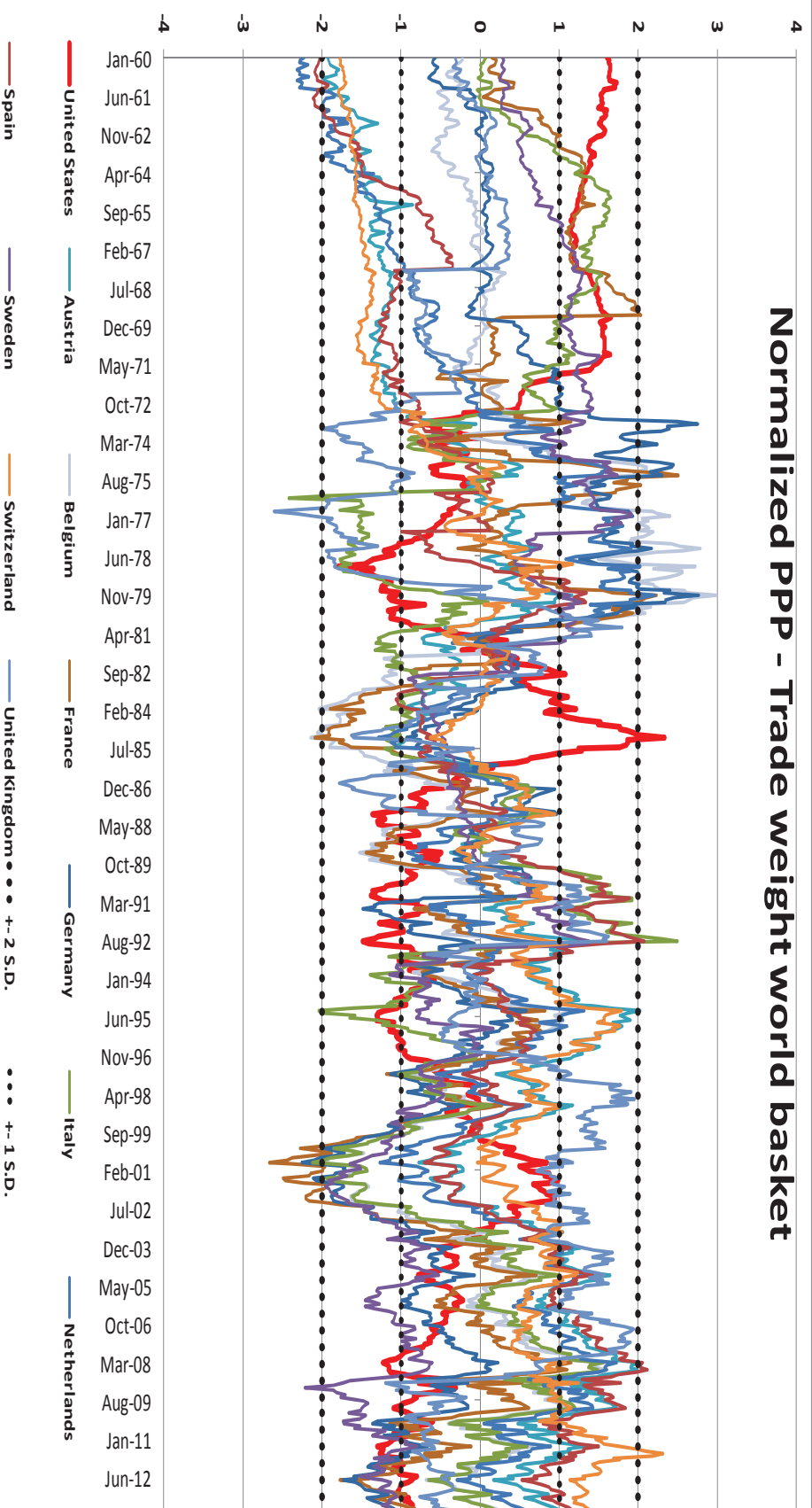


BOX OF SNAKES FOR TTIP

(6/2013)

43

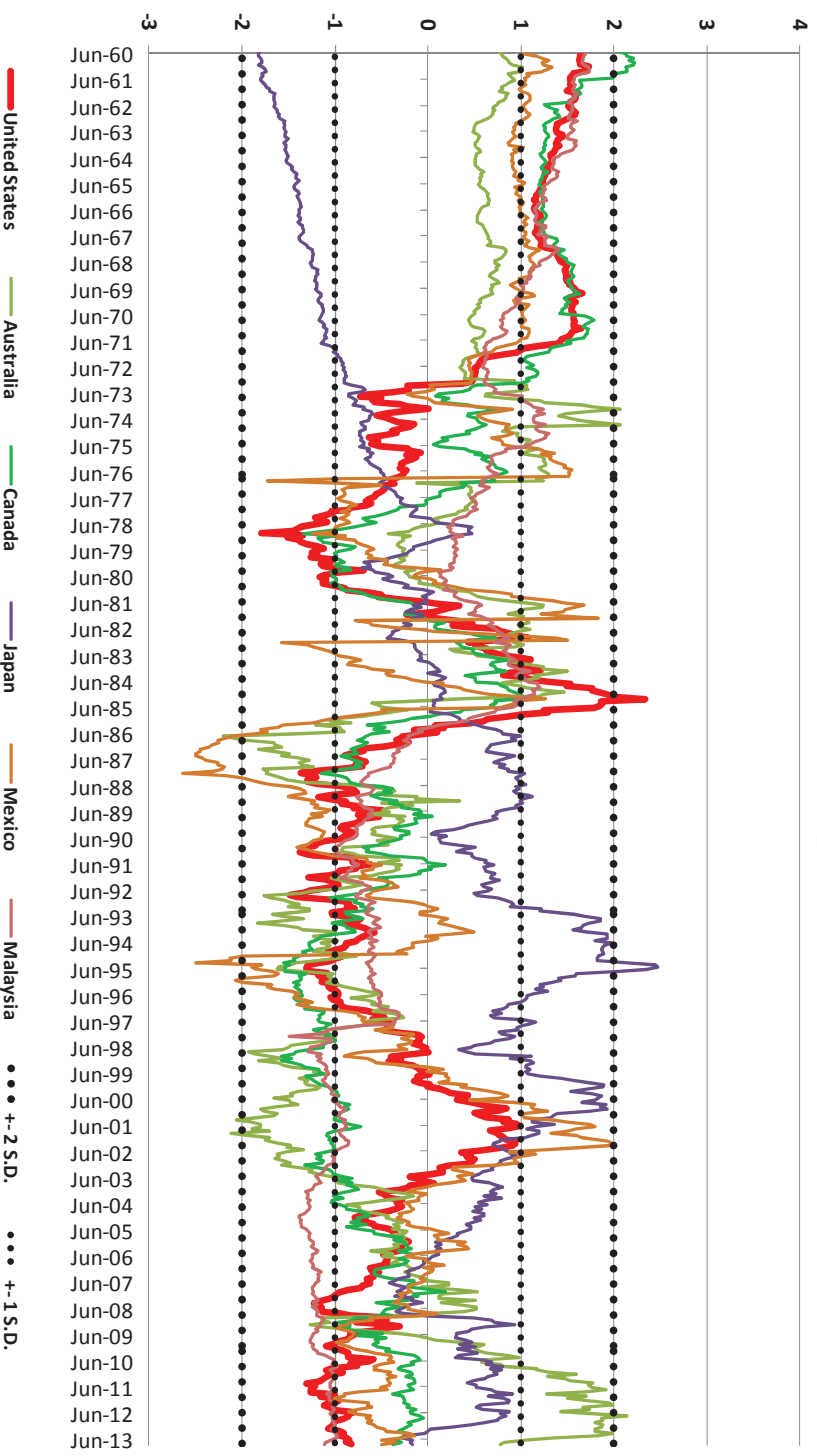
Normalized PPP - Trade weight world basket



BOX OF SNAKES FOR TPP (6/2013)

44

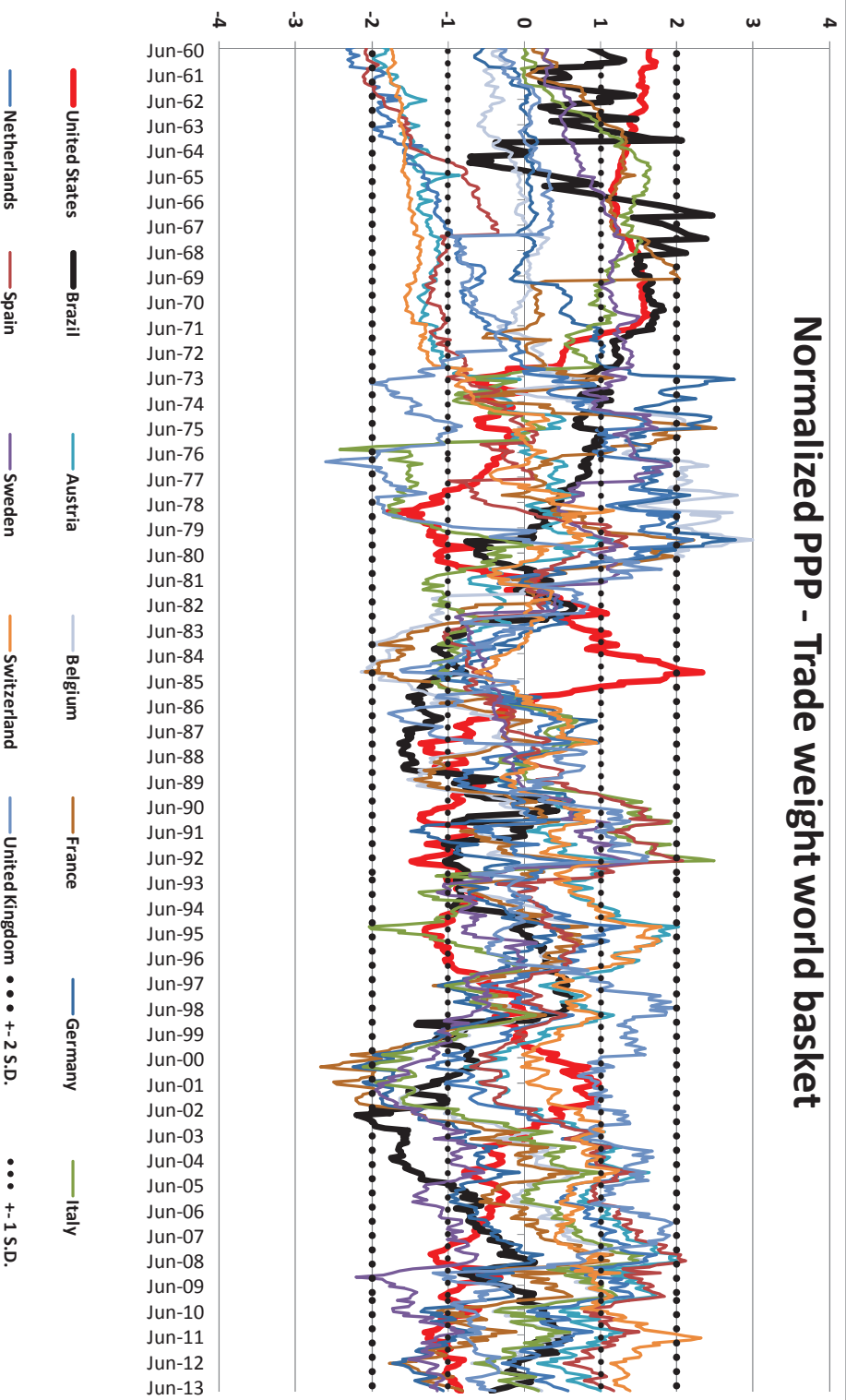
Normalized PPP - Trade weight world basket



BOX OF SNAKES FOR EU AND BRAZIL (6/2013)

45

Normalized PPP - Trade weight world basket



How to neutralize ?

46

- In the WTO
 - Tariffs
 - Anti- subsidies
 - Currency safeguards

- In the PTAs
 - Reduction of preference

Confederação da Agricultura e Pecuária do Brasil

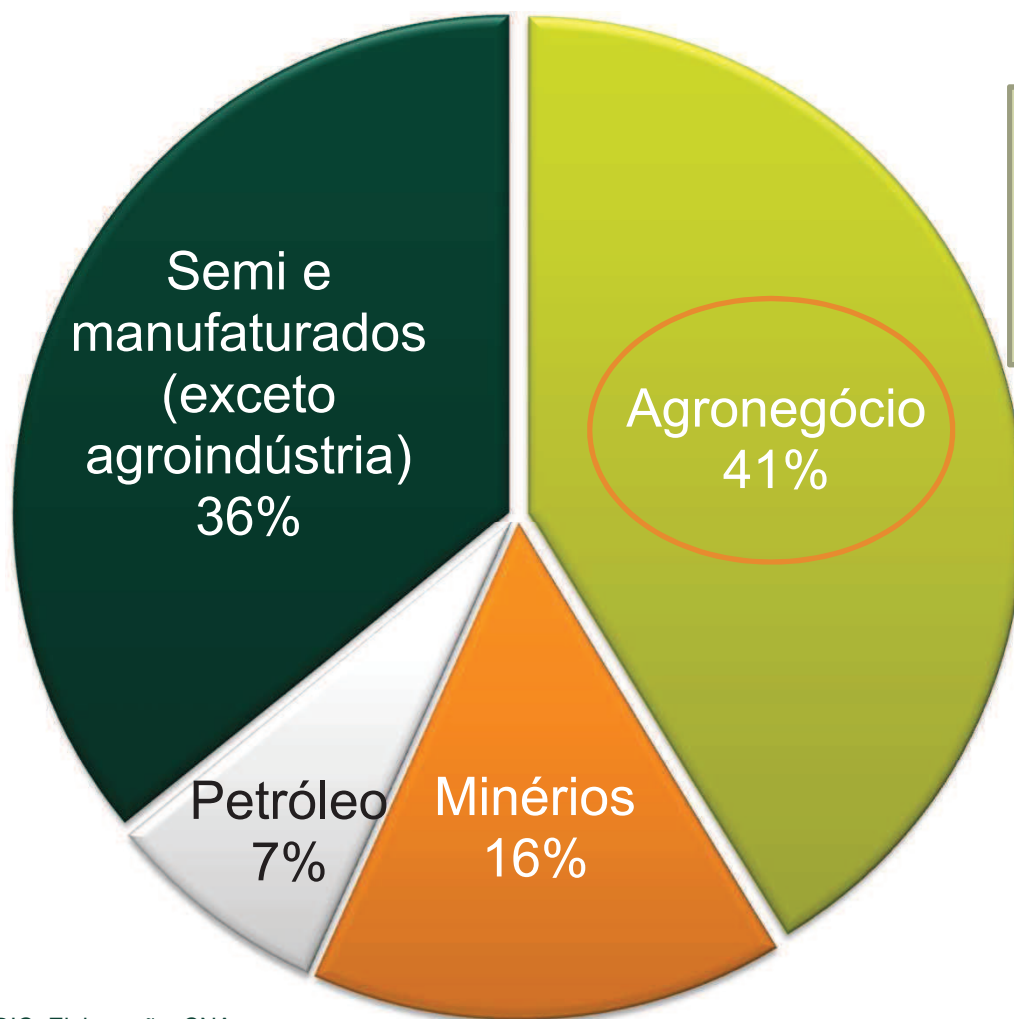


BRAZIL ROUNDTABLE
O futuro da agricultura e a importância da OMC

Senadora Kátia Abreu, Presidente da CNA

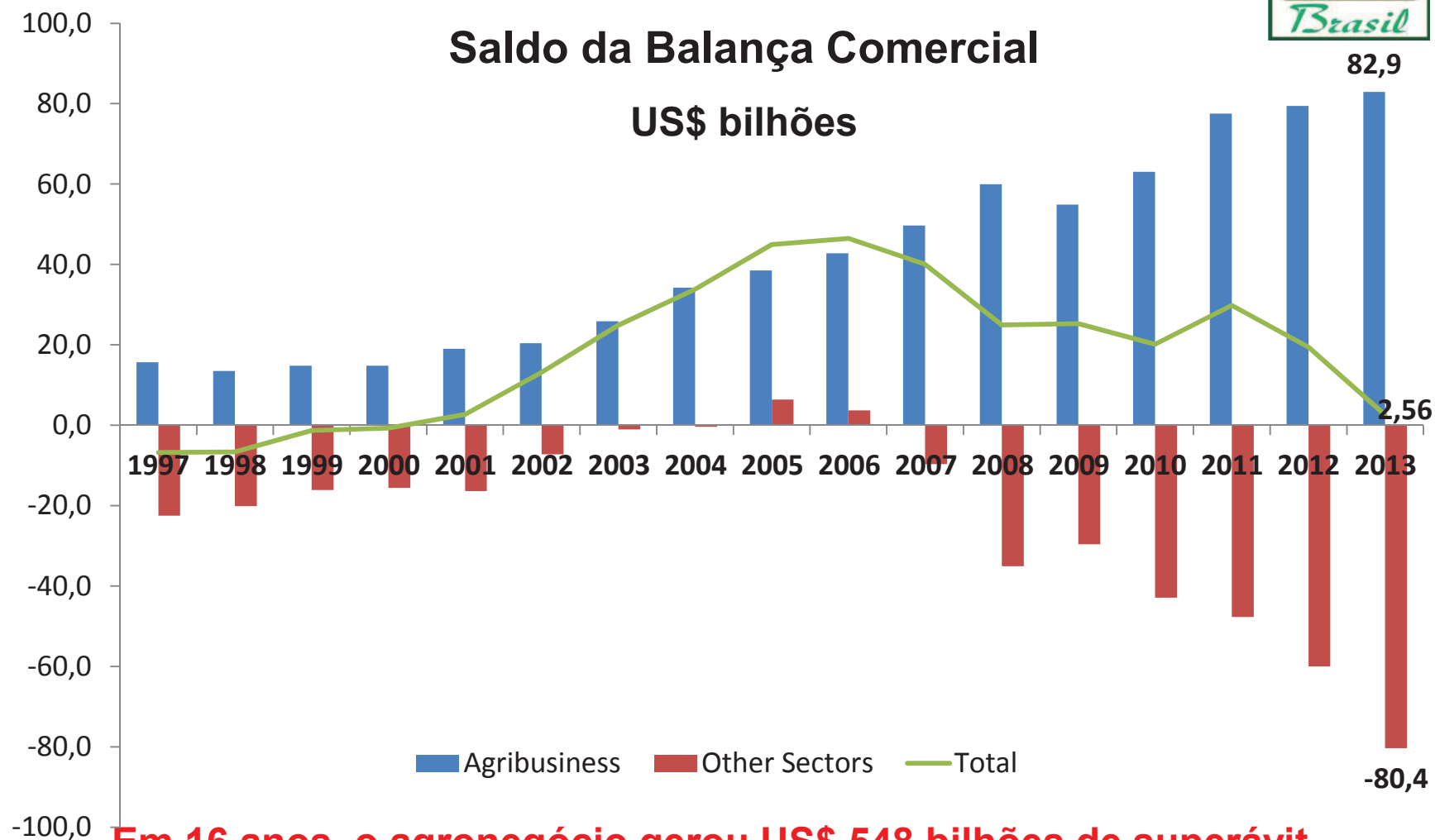
15 de abril de 2014

Participação do agronegócio nas exportações totais em 2013



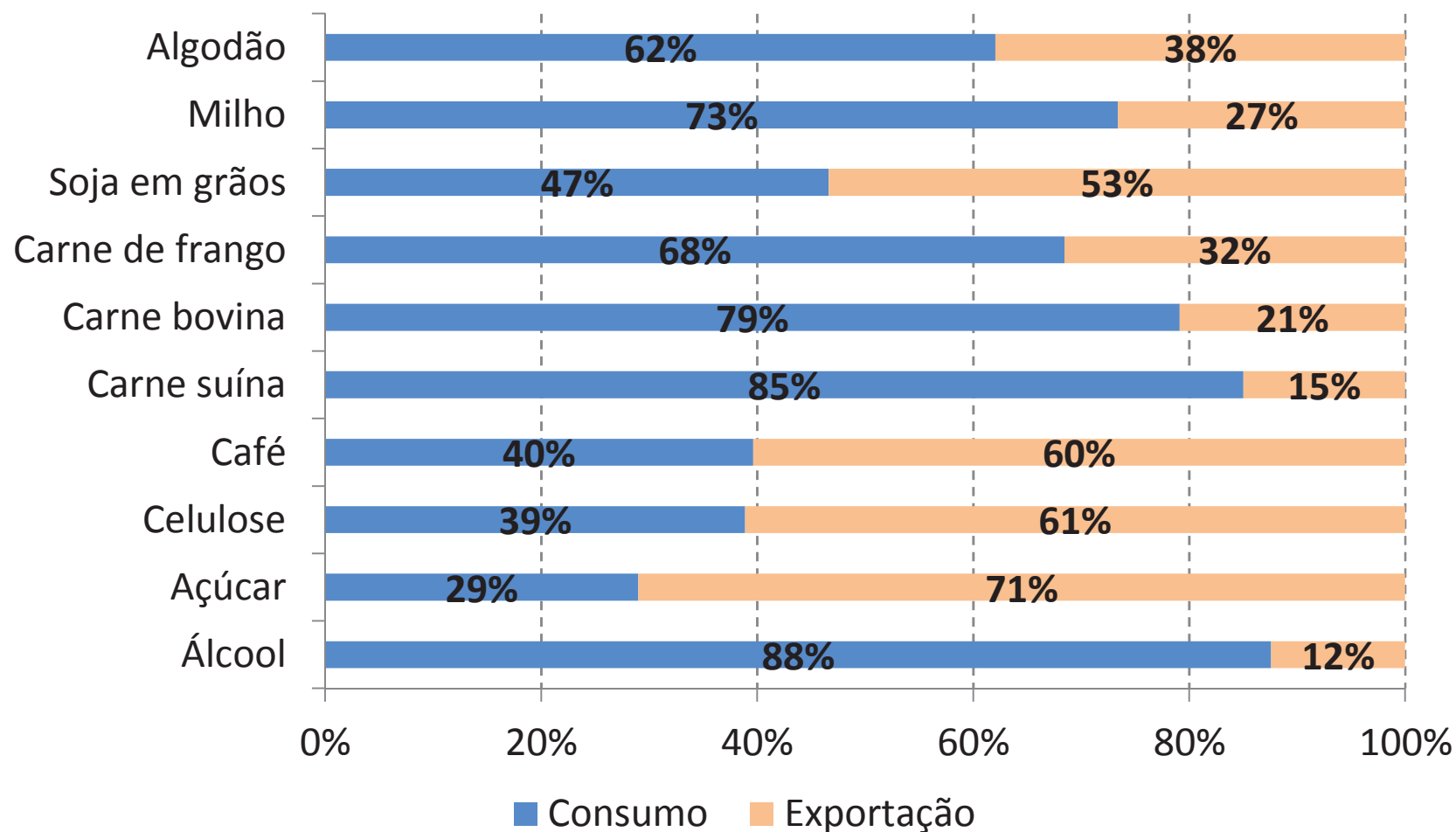
Superávit da balança comercial 2013
Agronegócio: US\$ 99,7 bi
Comércio total: US\$ 242 bi

A importância econômica do agronegócio brasileiro

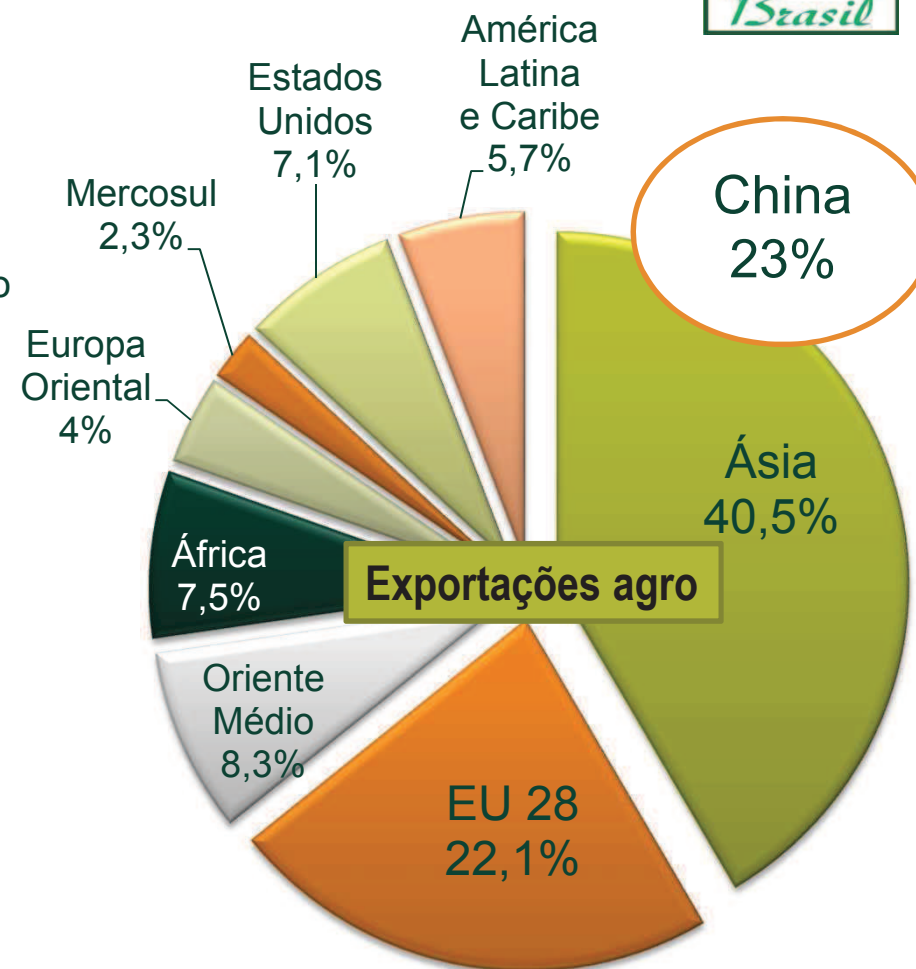
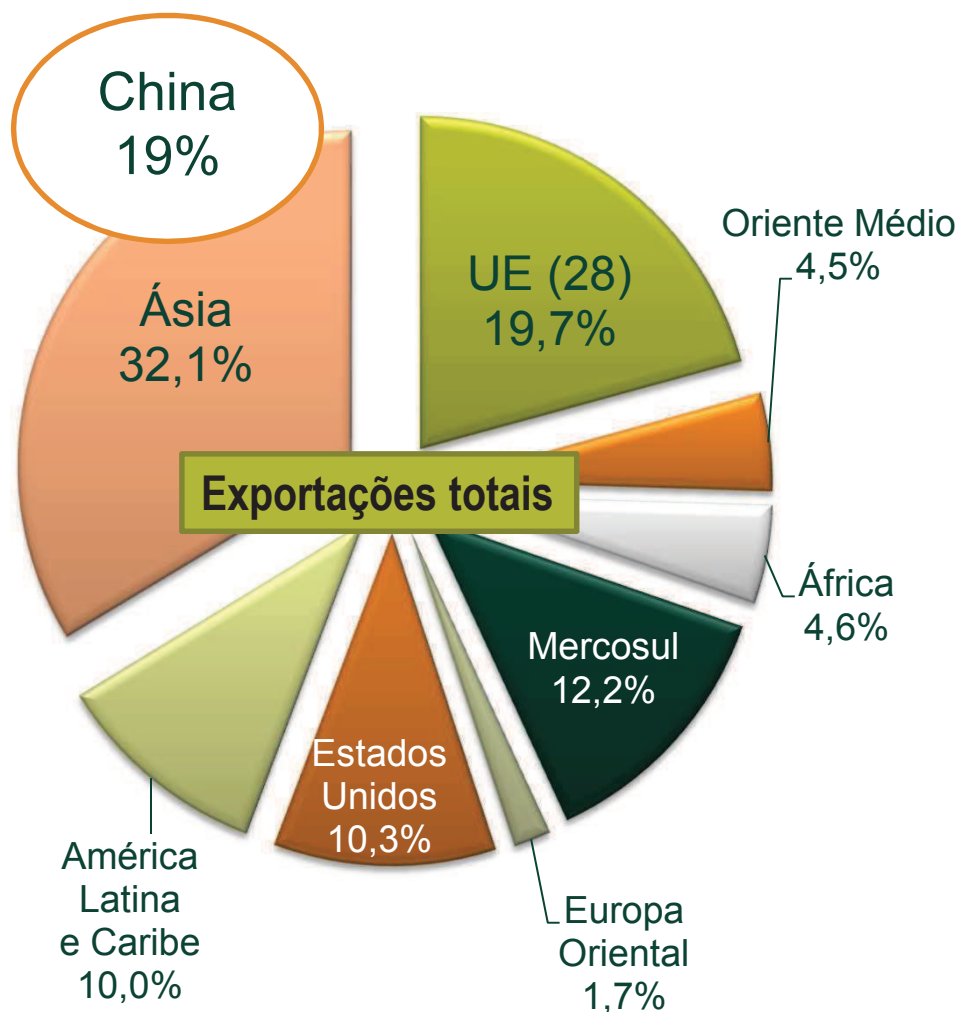


Em 16 anos, o agronegócio gerou US\$ 548 bilhões de superávit para a economia brasileira

A importância do mercado externo para o Brasil



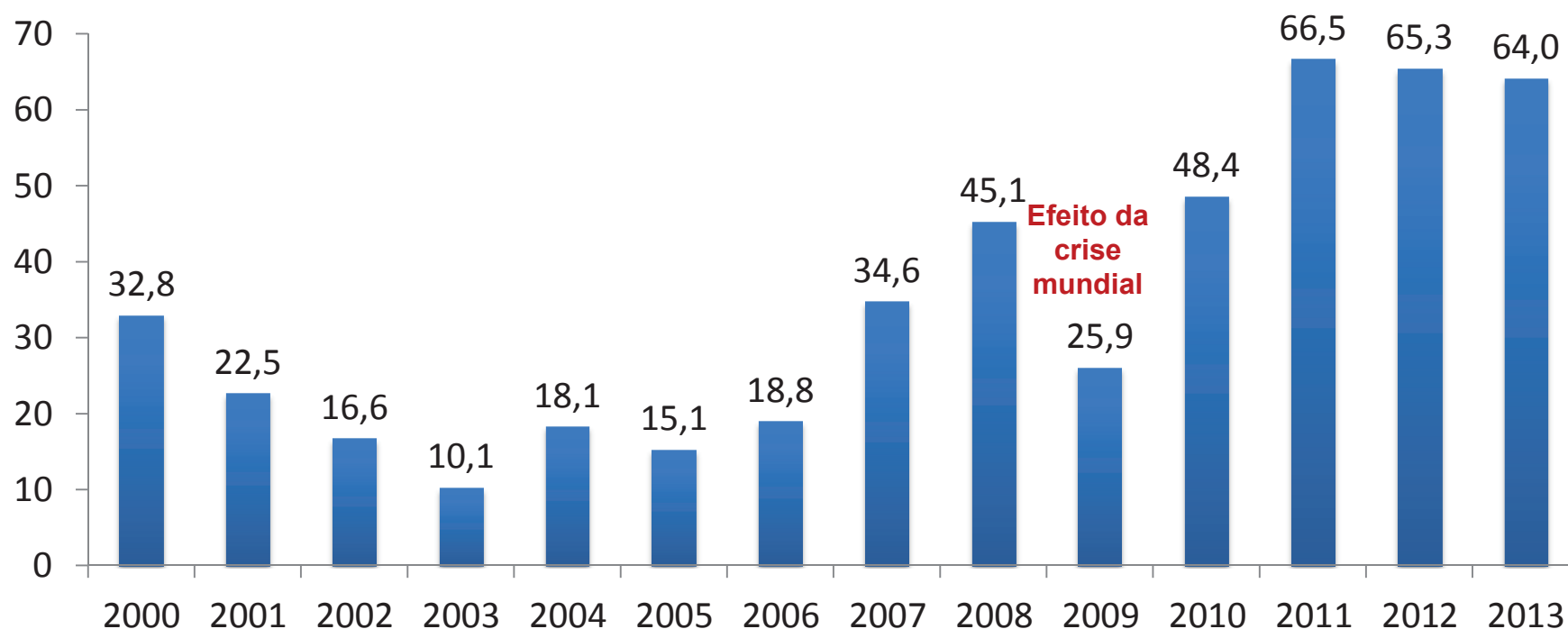
Exportações do Brasil em 2013: principais mercados



Evolução do fluxo de investimento estrangeiro direto (IED) no Brasil



Em US\$ bilhões

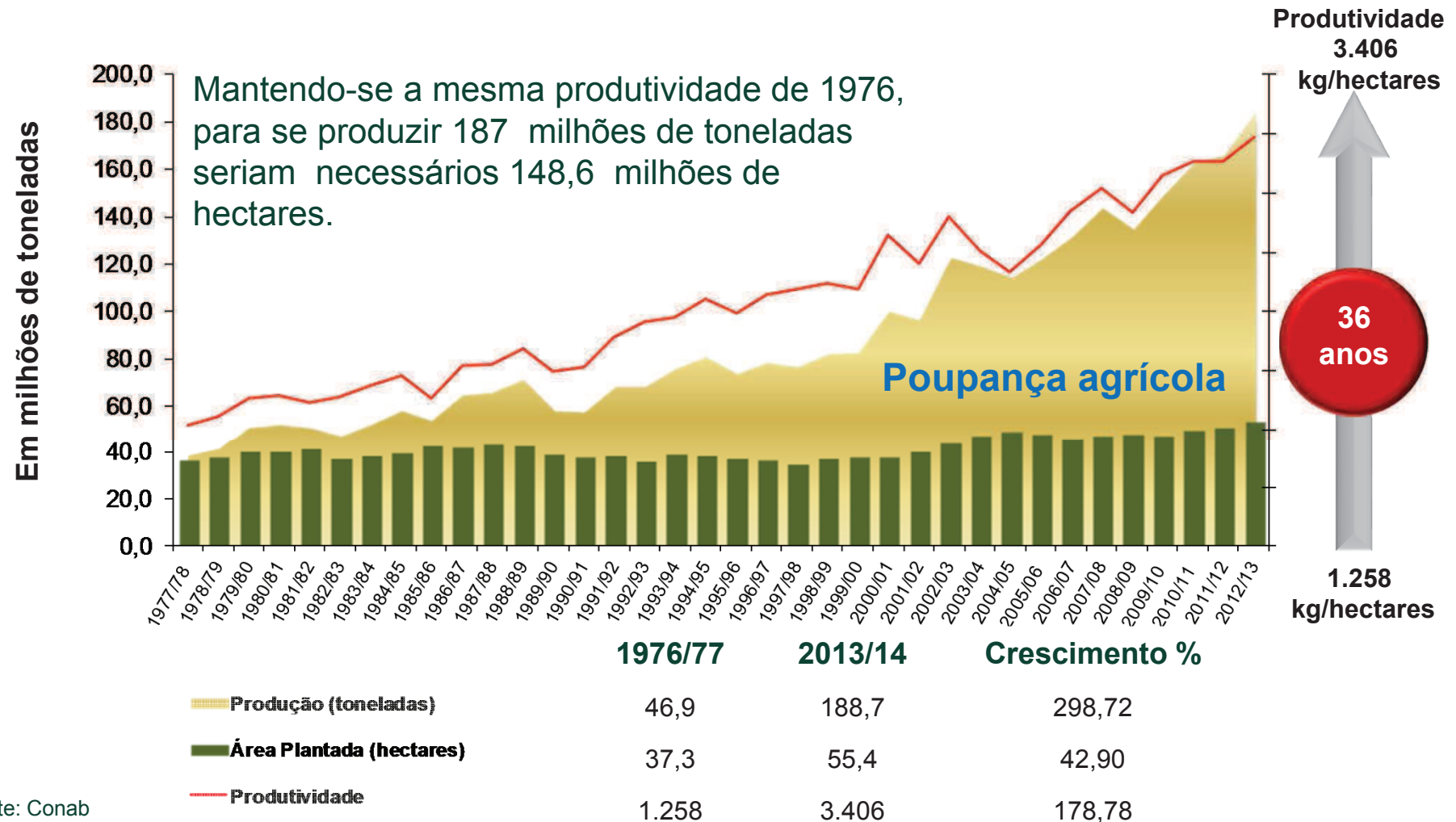


Brasil desceu da 5ª posição em 2012 para 7ª posição em 2013 no *ranking* de investimentos, superado por Estados Unidos (US\$ 159 bilhões), China (US\$ 127 bilhões) e Rússia (US\$ 94 bilhões).

Tecnologia: a base do desenvolvimento da agropecuária brasileira



Brasil: evolução da safra de grãos e fibras

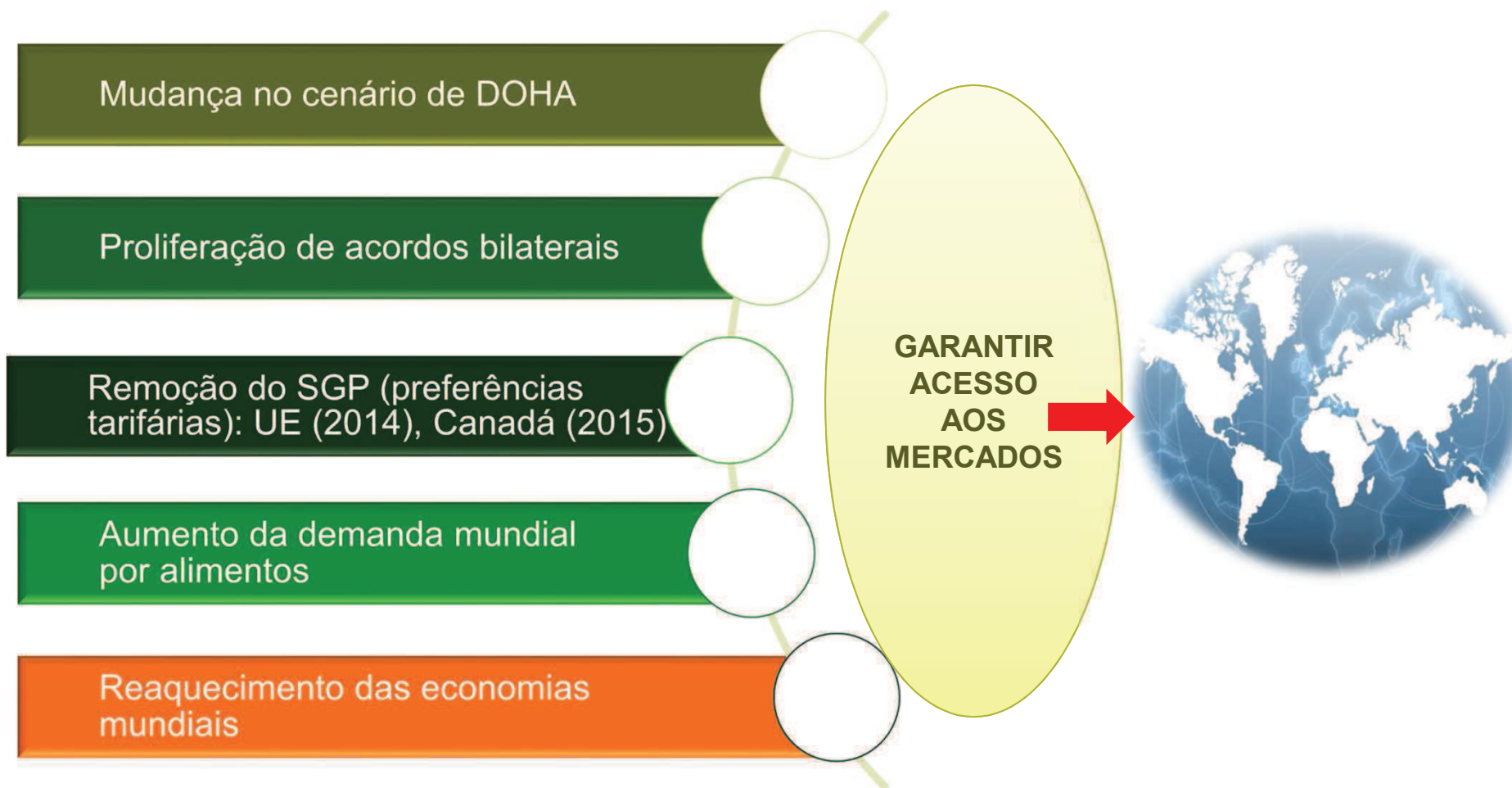


Fonte: Conab
Elaboração: CNA

Inserção internacional do agronegócio



O Brasil está fora das principais negociações de preferências tarifárias no mundo



Acesso a mercados



Com poucos acordos comerciais, o Brasil tem dificuldade em negociar protocolos sanitários e expandir as vendas externas do agronegócio



Inserção do Brasil no comércio internacional



Acordos assinados com 22 países, representando **10,2%** do comércio global.

Acordos em vigor com 15 países.

Nenhum acordo assinado desde 2011 (só a ampliação do Mercosul).

Acordos de Livre Comércio:

Vigentes - 5 países: Mercosul (Argentina, Uruguai, Paraguai - 1991, Venezuela – 2012) + Israel – assinado em 2007, entrou em vigor em 2010

2 sem vigência: Egito e Palestina – assinados em 2010

Acordos de Preferências Tarifárias (limitados):

Vigentes - 10 países: Bolívia (1996), Chile (1996), Guiana (2001), Colômbia (2003), México (2002), Equador (2003), Suriname (2004), Peru (2005), Índia (2005), Cuba (2006),

Sem vigência – com 5 países africanos: África do Sul (2000), Botswana (2003), Lesoto (2003), Namíbia (2003), Suazilândia (2003).

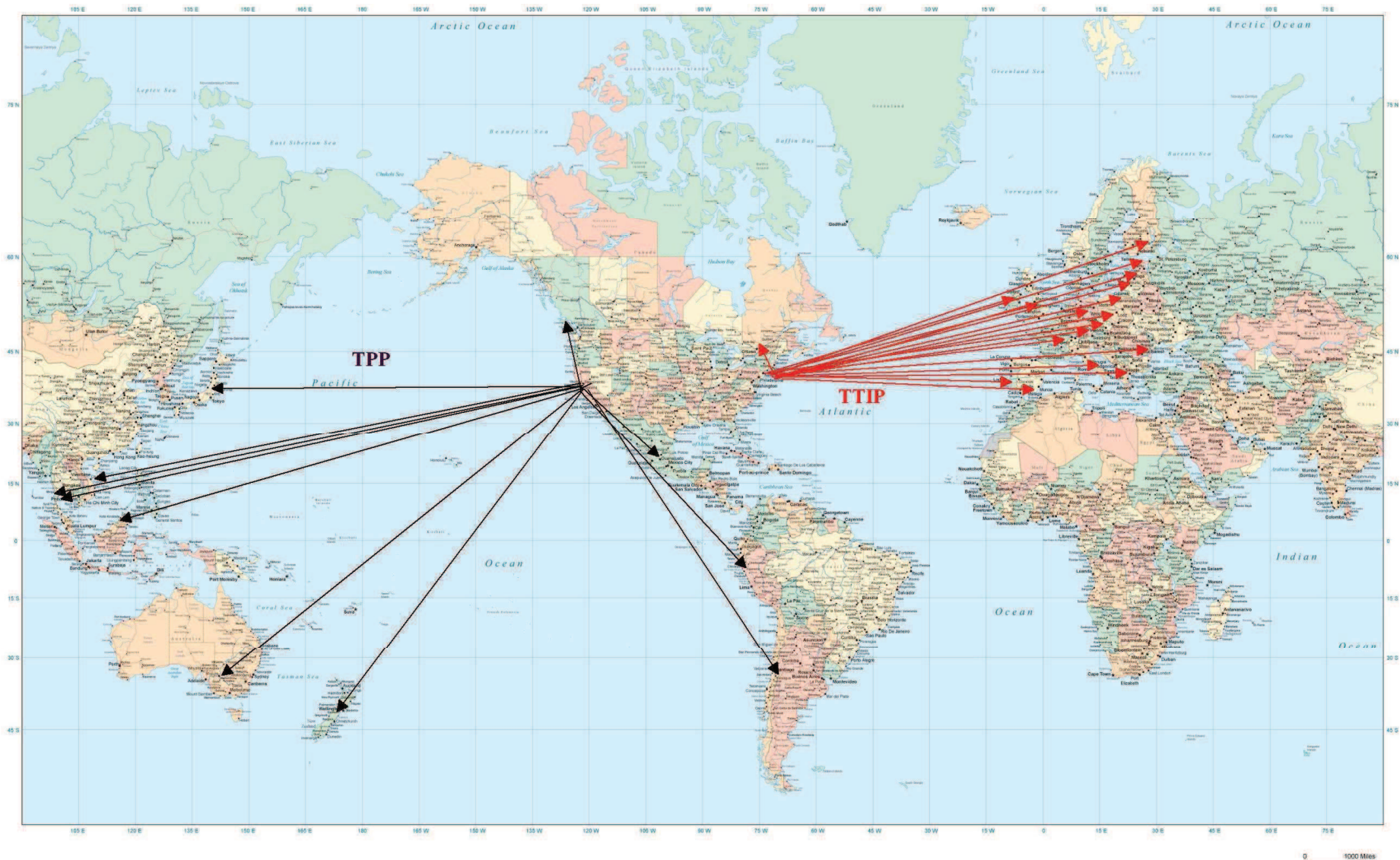
Acordo com a Índia: só **16 linhas tarifárias com 100% de desgravação**

Brasil fora dos mega-acordos

Os acordos bilaterais e regionais de livre comércio estão dividindo as Américas do Atlântico e do Pacífico.



Acordos	Mercado consumidor, milhões de pessoas	PIB, US\$ trilhões	Participação, PIB mundial	Participação, comércio mundial
Acordo Transatlântico de Investimentos e Comércio (TTIP) EUA e EU	821	32,3	50%	30%
Acordo de Parceria Transpacífica (TPP): EUA, Austrália, Brunei Darussalam, Canadá, Chile, Malásia, México, Nova Zelândia, Peru, Cingapura, Vietnã e Japão (12)	792	27,5	40%	33%
Mercosul (5)	274,8	3,3	5%	2,4%
Brasil	201,5	2,2	3%	1,3%



3 cenários para as negociações agrícolas na OMC



Cenário 1

2001 – Início DOHA

- Superprodução;
- Excesso de oferta no mercado
- Altos níveis de subsídios;

- PREÇOS BAIXOS

Cenário 2

2008 – 2012 Crise mundial / Impasse DOHA

- Aumento da demanda mundial (Ásia);
- Acordos bilaterais
- Leve redução dos subsídios à exportação na UE

- PREÇOS ALTOS

Cenário 3

A partir de 2013

- Retração do crescimento e da demanda na China;
- Aumento de subsídios para estoques públicos para segurança alimentar

- QUEDA DOS PREÇOS

Necessidade de mudanças no arcabouço da OMC



Subsídios

Maior transparência nas notificações e prazos das Caixas de subsídios do Acordo de Agricultura para evitar a inserção de subsídios distorcivos como os direcionados a produtos específicos

SPS

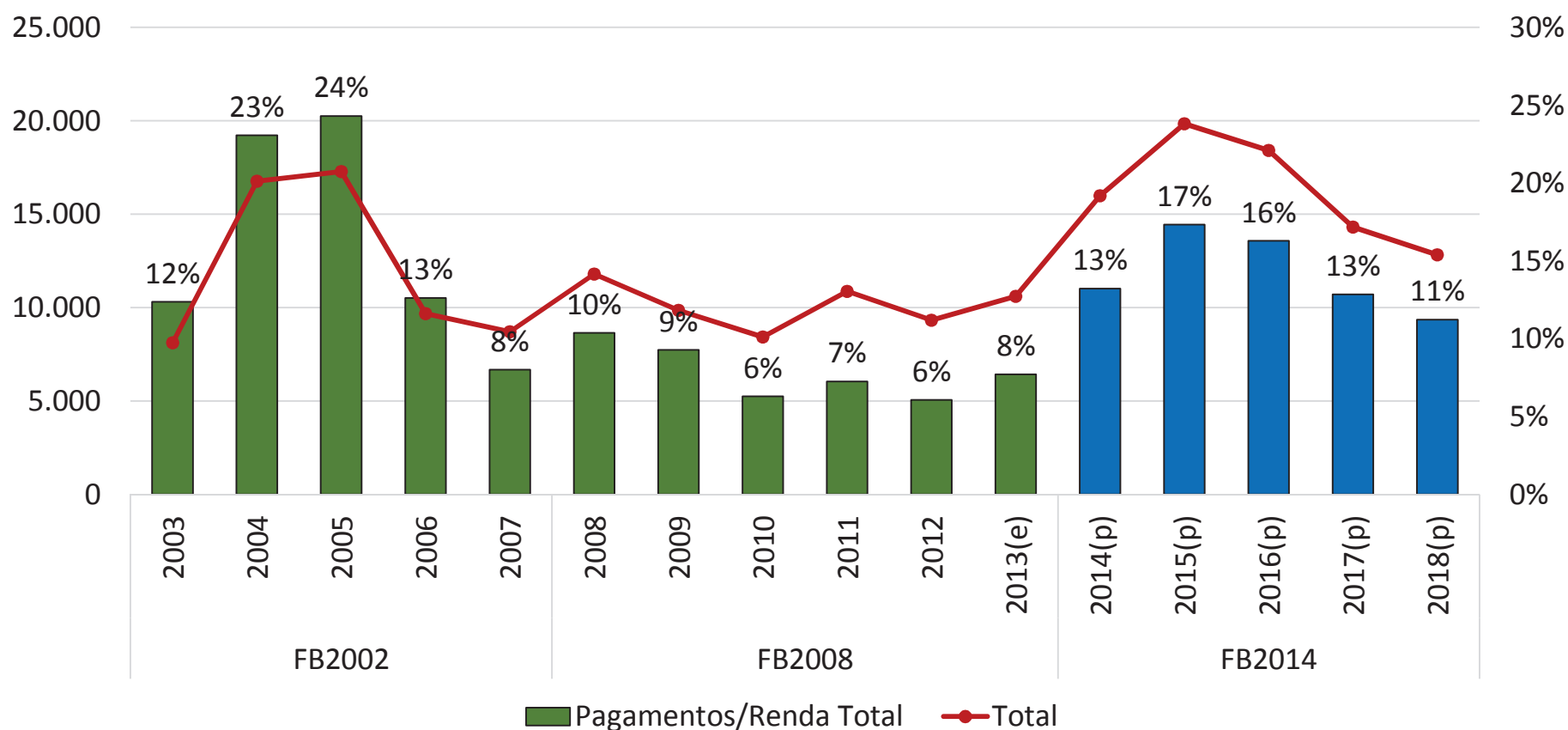
- Sistema de notificação de medidas SPS mais eficiente
- Esclarecimento dos padrões privados x públicos
- **Maior respeito à ciência e aos organismos internacionais de referência em sanidade**

Monitoramento

Deveria ser criado um mecanismo de monitoramento das Políticas Agrícolas dos países, que, em muitas vezes, são distorcivas. Similar ao mecanismo que monitora as políticas comerciais

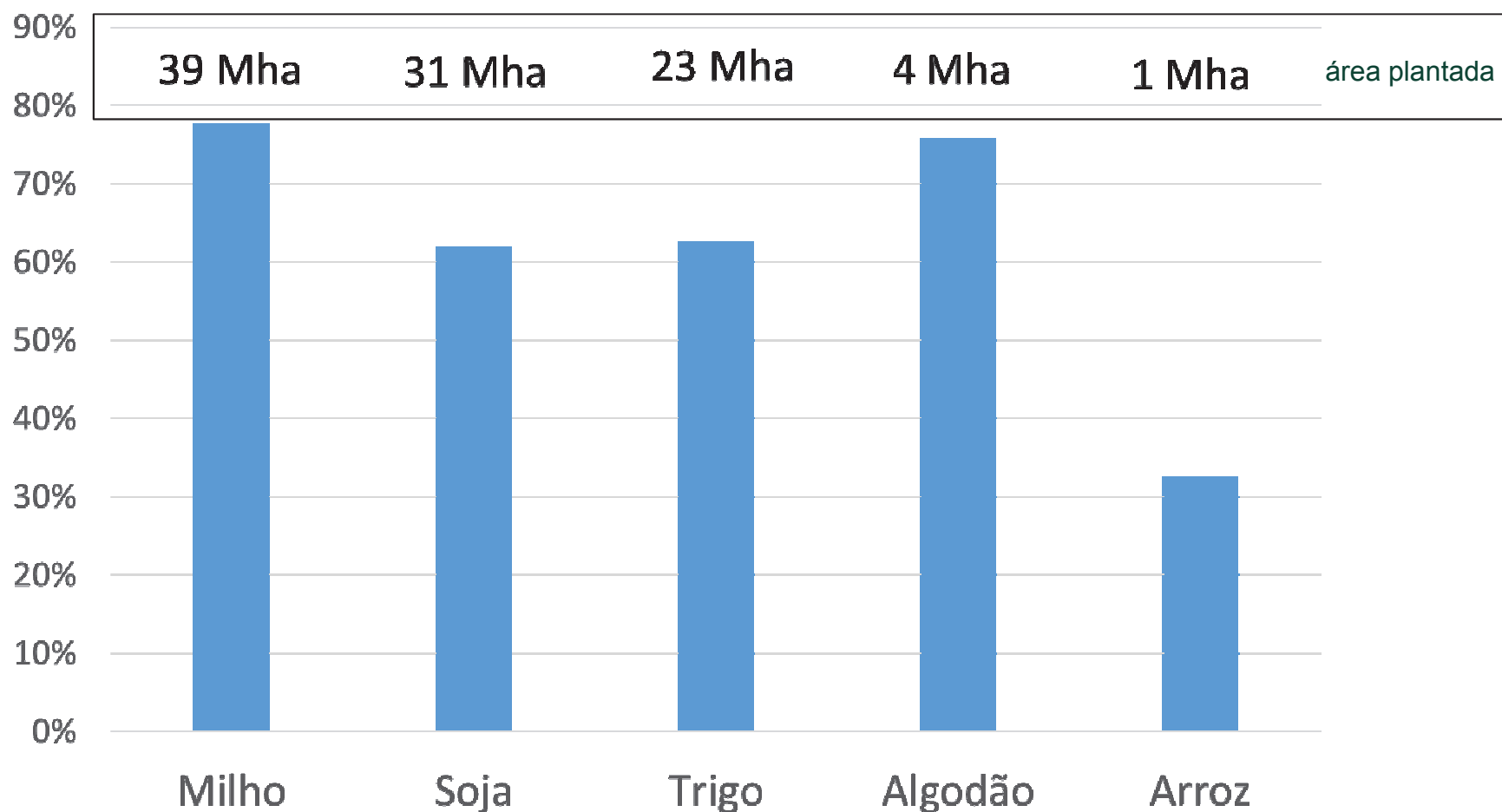


EUA: Subsídios em relação à renda para os principais produtos de interesse do Brasil (milho, soja, algodão, arroz e trigo), em US\$ milhões



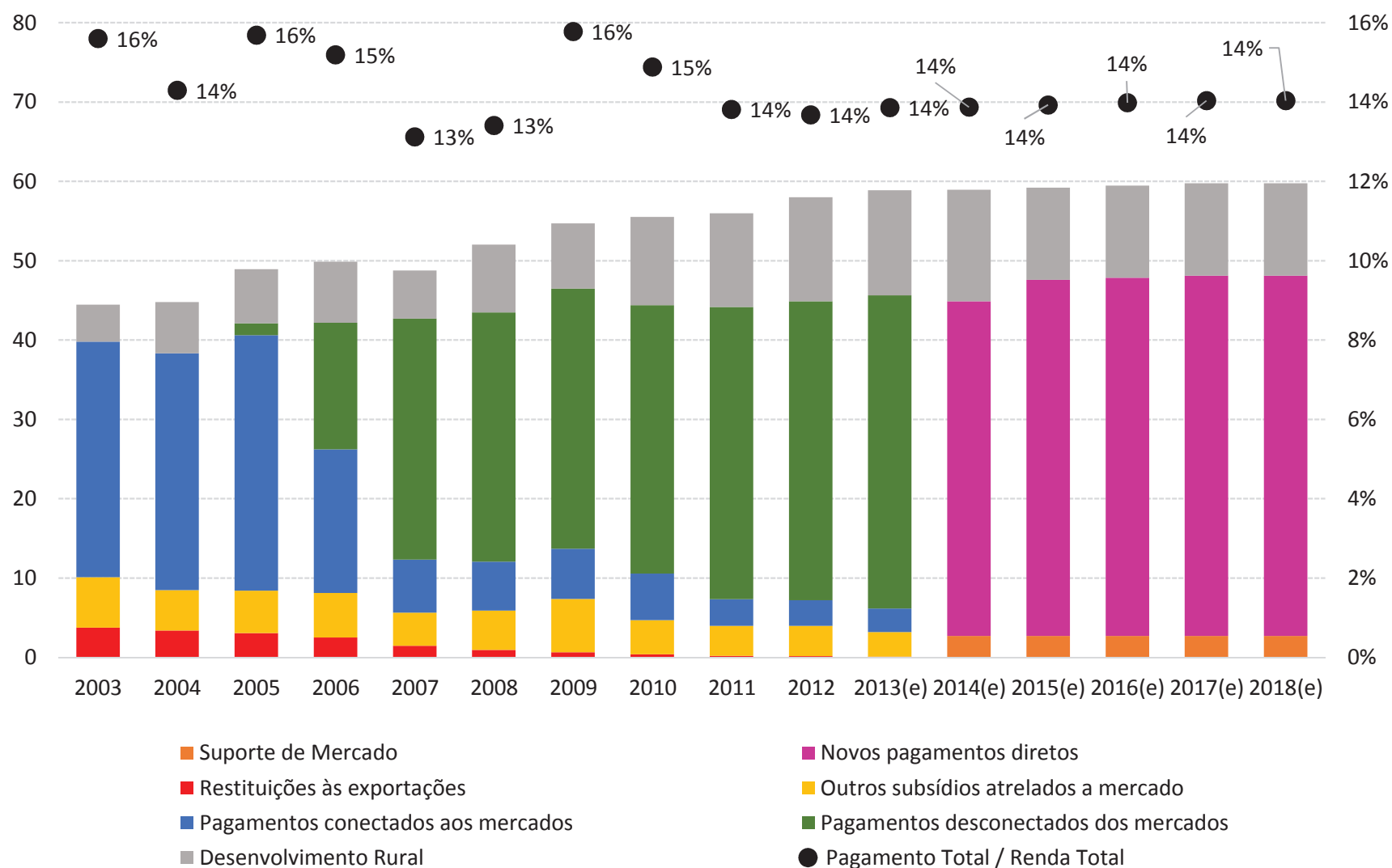
Fonte: USDA (várias fontes). Elaboração: Agroicone.

EUA: porcentagem da área plantada coberta por todas as modalidades de seguro rural (2013)



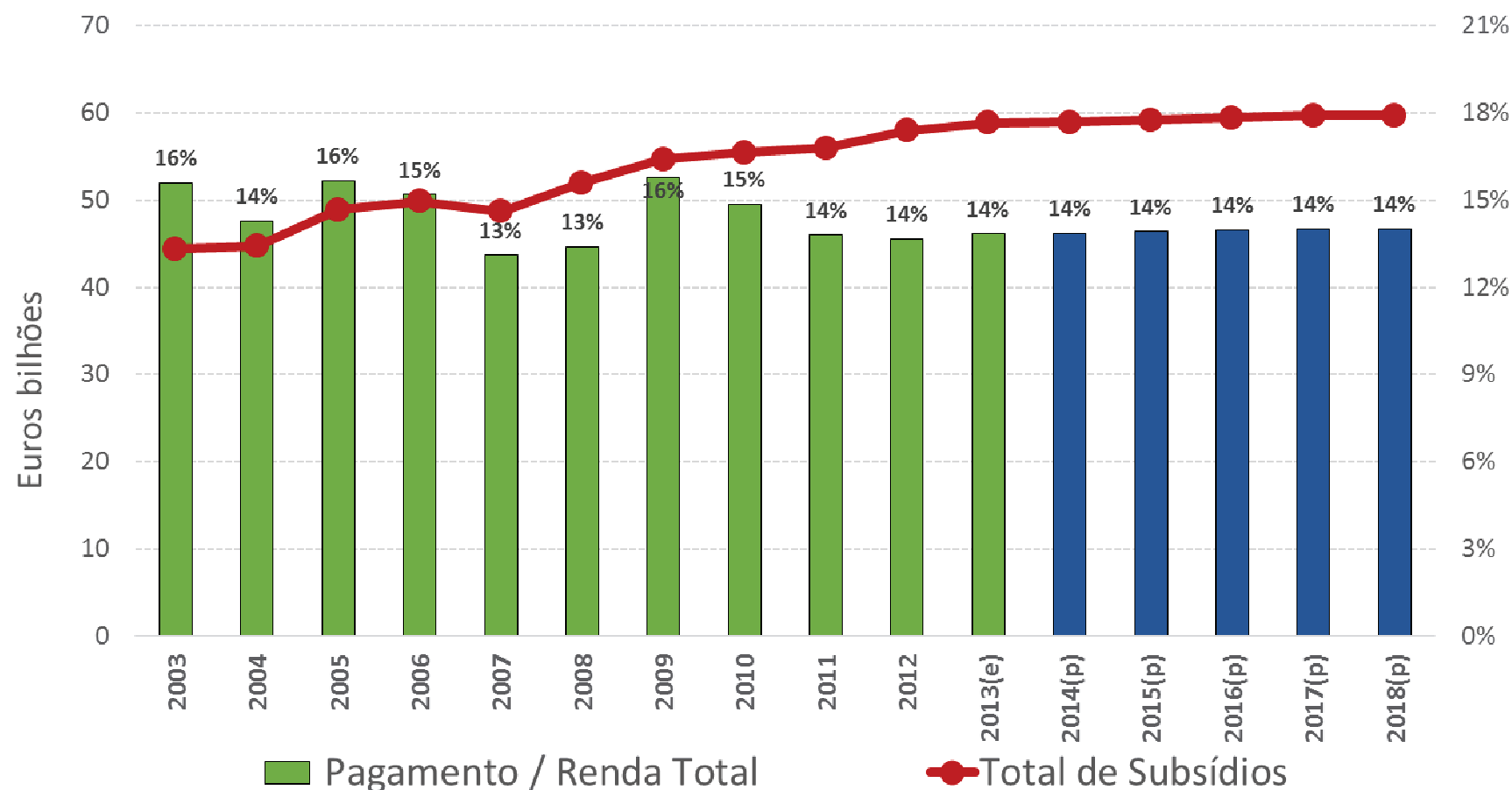


UE: Estimativas dos gastos da PAC2013 em relação à renda, por programa (€ bilhões)

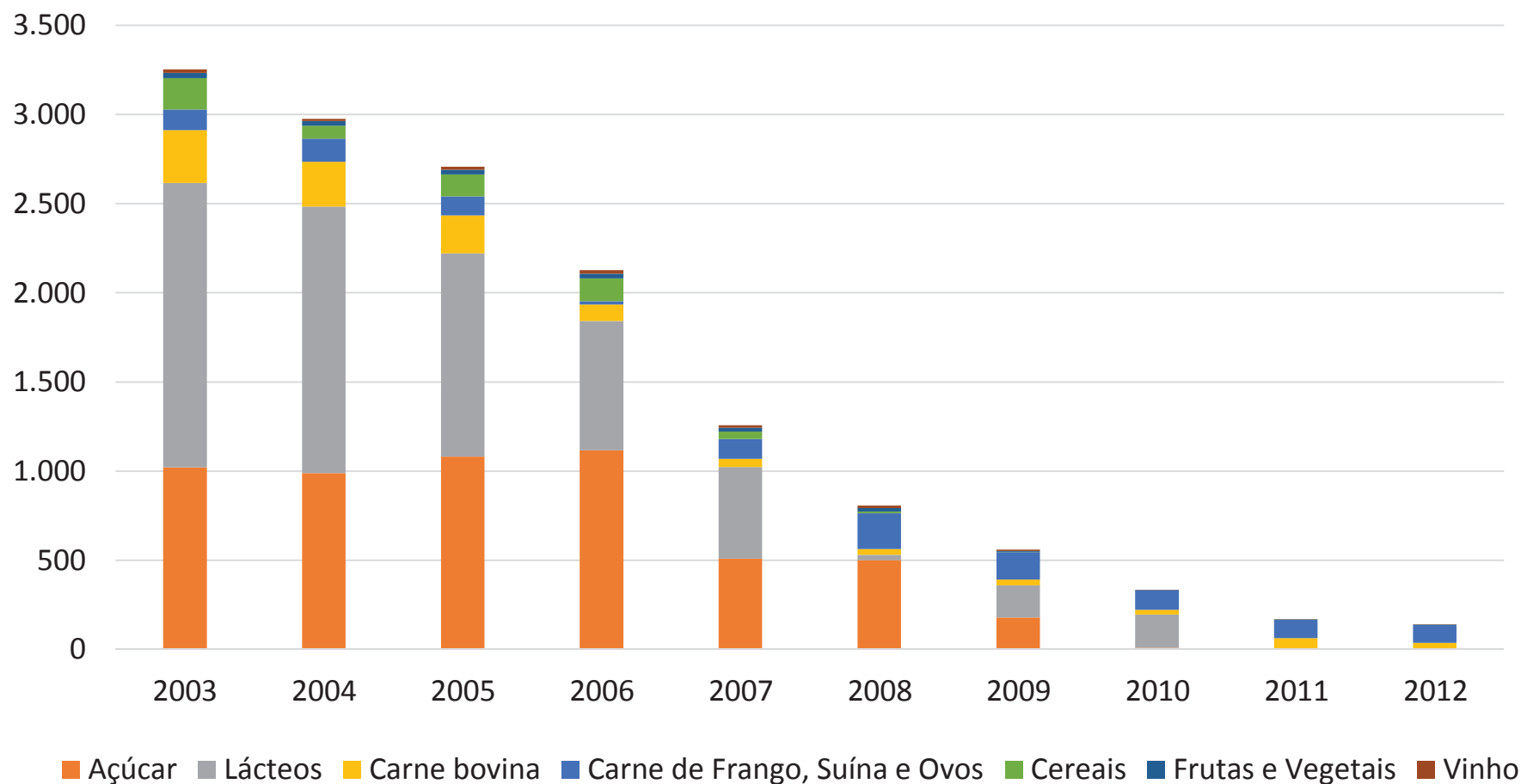


Fonte: Comissão Europeia (várias fontes). Elaboração: Agroicone.

UE: estimativas dos gastos da PAC2013 em relação à renda (€ bilhões)



UE: evolução dos subsídios às exportações até a PAC2013 (€ milhões)



Fonte: Comissão Europeia (várias fontes). Elaboração: Agroicone.



Programas norte-americanos mais distorcivos por beneficiar produtos específicos

- A OMC, no painel do algodão, reconheceu que programas direcionados a produtos específicos são mais distorcivos ao comércio internacional. O impacto da distorção decorre do montante de pagamentos recebidos por um determinado produto num determinado ano de mercado. Exemplos de produtos de interesse do Brasil impactados por subsídios diretos:
 - Algodão: em 2004, dispêndios dos EUA com o algodão, de US\$4,6 bilhões, representaram 49% da renda total dos cotonicultores norte-americanos. Em 2013, o pagamento total de subsídios em relação à renda dos produtores foi de 17%. A FB2014 prevê parcela de renda entre 19% e 21% no período de 2014 a 2018 (entre US\$1,3 bilhão e US\$1,4 bilhão).
 - Milho: maior dispêndio em 2005, de US\$10,5 bilhões, representando 32% da renda dos produtores. A FB2014 prevê parcela de renda entre 10% e 17% no período de 2014 a 2018 (entre US\$5 bilhões e US\$10 bilhões).
 - Soja: em 2004, os subsídios representaram 8% da renda dos produtores (US\$1,8 bilhões). A FB2014 prevê parcela de renda entre 9% e 15% no período de 2014 a 2018 (entre US\$3,2 bilhões e US\$5,5 bilhões).



Política Agrícola Comum da União Europeia: período 2014-2020

- A PAC2013 dá continuidade às reformas iniciadas na PAC 2002.
- A UE abandonou os subsídios para mercados e produtos específicos. **Praticamente todo o subsídio é dado na forma de um pagamento único por fazenda.**
- O pagamento único por fazenda passará a ser um pagamento por hectare e com liberdade para os países da União Europeia decidirem como distribuí-los. **10%-15%** podem ser vinculados a produtos específicos (cereais, oleaginosas, arroz, leite, sementes, carnes, azeite, beterraba e cana).
- Os subsídios às exportações, que já chegaram a somar cerca de €3,3 bilhões em 2003, foram retirados do orçamento. Há possibilidade de concessão dos subsídios à exportação no caso de crises no mercado (para cereais, arroz, açúcar, carne bovina, suína, leite e aves).
- As medidas que têm maior potencial negativo para o agronegócio brasileiro e que são monitoradas pela representação da CNA em Bruxelas: açúcar (fim do regime de quotas que limitam a produção de açúcar em 2017), leite (fim das quotas de produção em 2015) e vinho (menores restrições à produção a partir de 2016).

Conclusões do estudo comparativo



Maior preocupação do Brasil deve ser com a Lei Agrícola dos EUA:

- Subsídios dos EUA afetam negativamente produtos de interesse do Brasil, como soja, milho, algodão e trigo.
- O painel do algodão na OMC comprovou que, em períodos de menores preços, os programas dos EUA destinados a produtos específicos distorcem mercados internacionais, prejudicando exportadores brasileiros.

A PAC da União Europeia distorce menos os mercados mundiais:

- Embora os montantes de subsídios sejam muito elevados, os pagamentos não se destinam a produtos específicos, como os norte-americanos.
- O Brasil precisa continuar monitorando a implementação dos programas da UE para açúcar e lácteos e avaliando se as mudanças podem criar distorções no mercado internacional.

A UE terá mais facilidade do que os EUA para adequar sua política agrícola às regras da OMC.

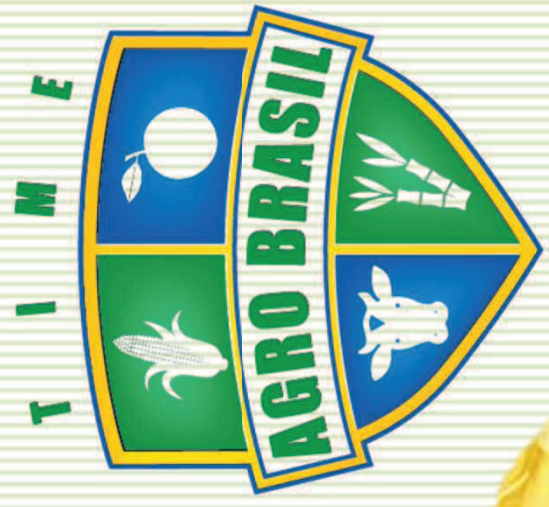
- Programas dos EUA poderão ser contestados na OMC, dependendo de como eles sejam notificados. Vários programas específicos para produtos são notificados como desconectados da produção, para evitar questionamento.

SEBRAE

*Serviço Brasileiro de Apoio às
Micro e Pequenas Empresas*



**Confederação da Agricultura
e Pecuária do Brasil**





WTO Challenges in Agriculture

Will Martin,
15 April 2014



Issues

- Collective action problems & the WTO
- The role of WTO
- Agricultural policy developments
- The challenges ahead



Domestic political outcome

- Countries seek to redistribute income to favored groups
- Countries often seek to stabilize domestic prices relative to world prices
- Some countries seek non-economic goals such as food self-sufficiency or processing of raw materials



Policy instruments

- Import tariffs most common way to raise prices
 - But some exporters use export subsidies
- Many developing countries seek to lower domestic prices
 - Export taxes or export restrictions
- Countries may also use domestic subsidies to transfer income to farmers
- Many countries adjust border measures to stabilize domestic prices
 - Price insulation

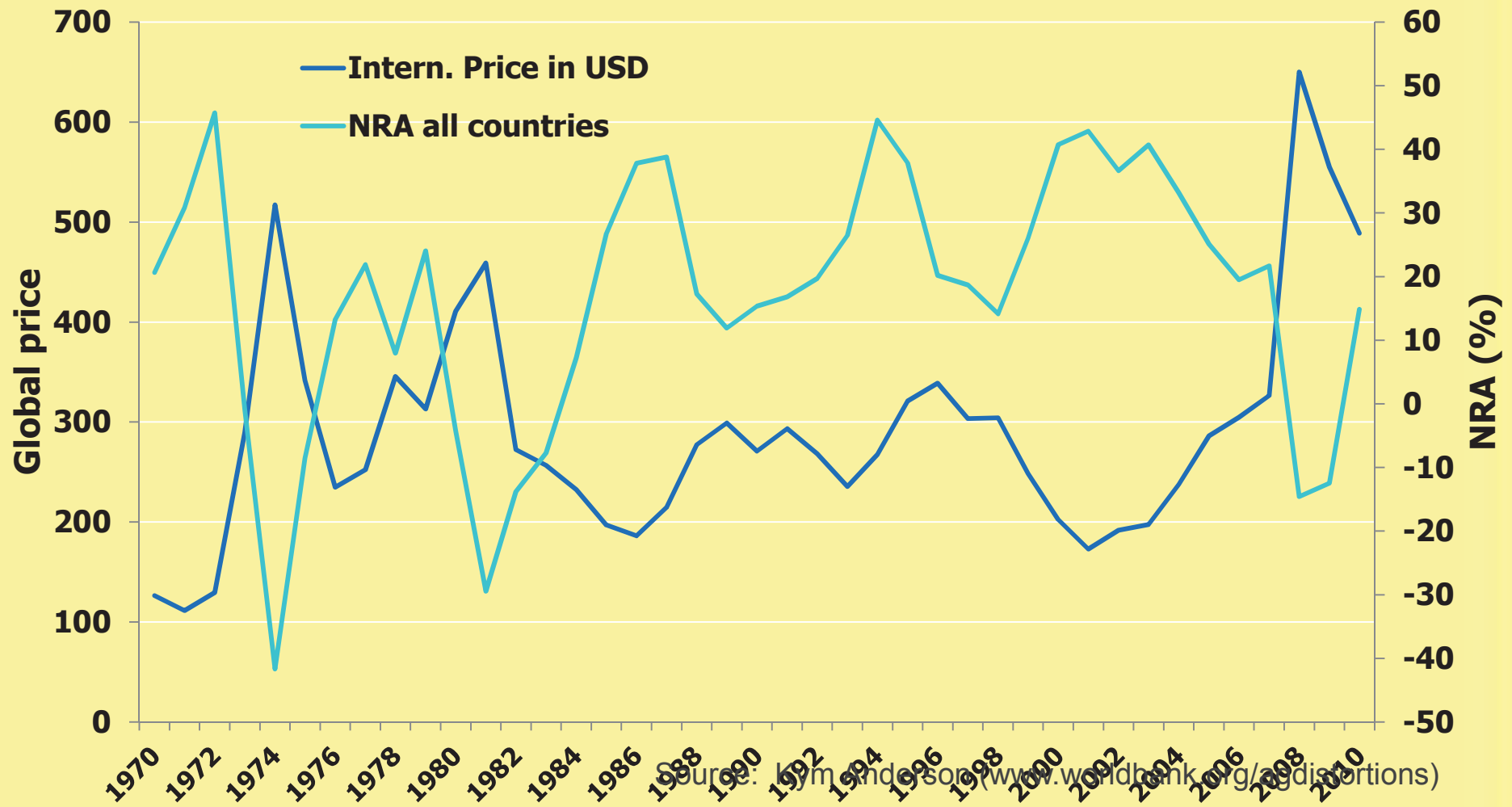


Collective action problems

- Protection designed to raise domestic prices lowers world prices
 - Reduces market access & forces exporters to sell at lower prices
 - If everyone protects, policy is ineffective
- Measures to stabilize domestic prices destabilize world prices
 - If everyone tries to stabilize, policy ineffective
 - Often by setting a domestic administered price
 - And varying protection as world prices change



Price insulation in rice





Collective action problems

- Difficult to deal with insulation unilaterally
 - Export restrictions raise prices to importers
 - Importers frequently reduce protection
 - Completely understandable
- Price insulation makes it difficult for countries to manage price shocks
 - Estimate that 45% of the rice price increase in 2008 came from countries introducing export taxes or reducing import barriers
 - Countries that did not insulate faced price increases almost twice as large as without insulation



Price spikes since 2007

- Key issue not envisaged in DD Agenda
 - Many countries, especially poor countries, are concerned about impacts on vulnerable people
 - 2008 price rises raised poverty by ~ 100 million people
 - Price insulation ineffective in reducing poverty impacts
- Raises concerns amongst importers
 - Many have advanced proposals to deal with this
- Do we need negotiations on export barriers?



Role of WTO



Role of WTO

- Seek progressive reductions in distortions
 - Main emphasis on import restrictions
 - Particularly seeks to restrict use of QRs
 - As these make it difficult for markets to respond
 - » Restrict imports when they are needed, make it impossible for exporters to sell products
- Strong disciplines on export subsidies, weak disciplines on export restrictions
 - Because of mercantilist focus
- Some disciplines on domestic support
- Disincentives for administered prices



How WTO works?

- Rules are designed to reduce the space for countries to do things that hurt other members
 - Tariff bindings restrict ability to raise tariffs that hurt exporters
 - Export subsidy limits restrict ability to raise domestic prices, and hence lower world prices
 - Policy space typically provided where no adverse impact on partners— eg green box measures
- Unless policy space is restricted in areas that affect others, the WTO will be ineffective



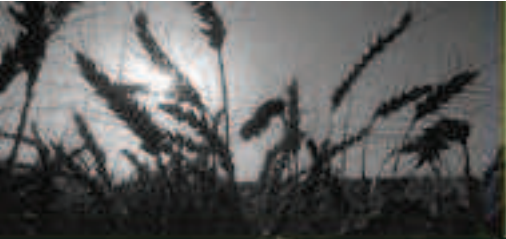
Implications of U Round

- Agricultural distortions converted to price-based
 - Very little reduction in support required
 - But the EU, in particular, moved away from distorting support to direct payments
- Rules on administered prices caused dramatic reduction in use in developed countries
 - But created huge room in domestic support limits
- Big reductions in use of export subsidies
- Some reduction in price insulation
 - Especially through ban on Variable Levies

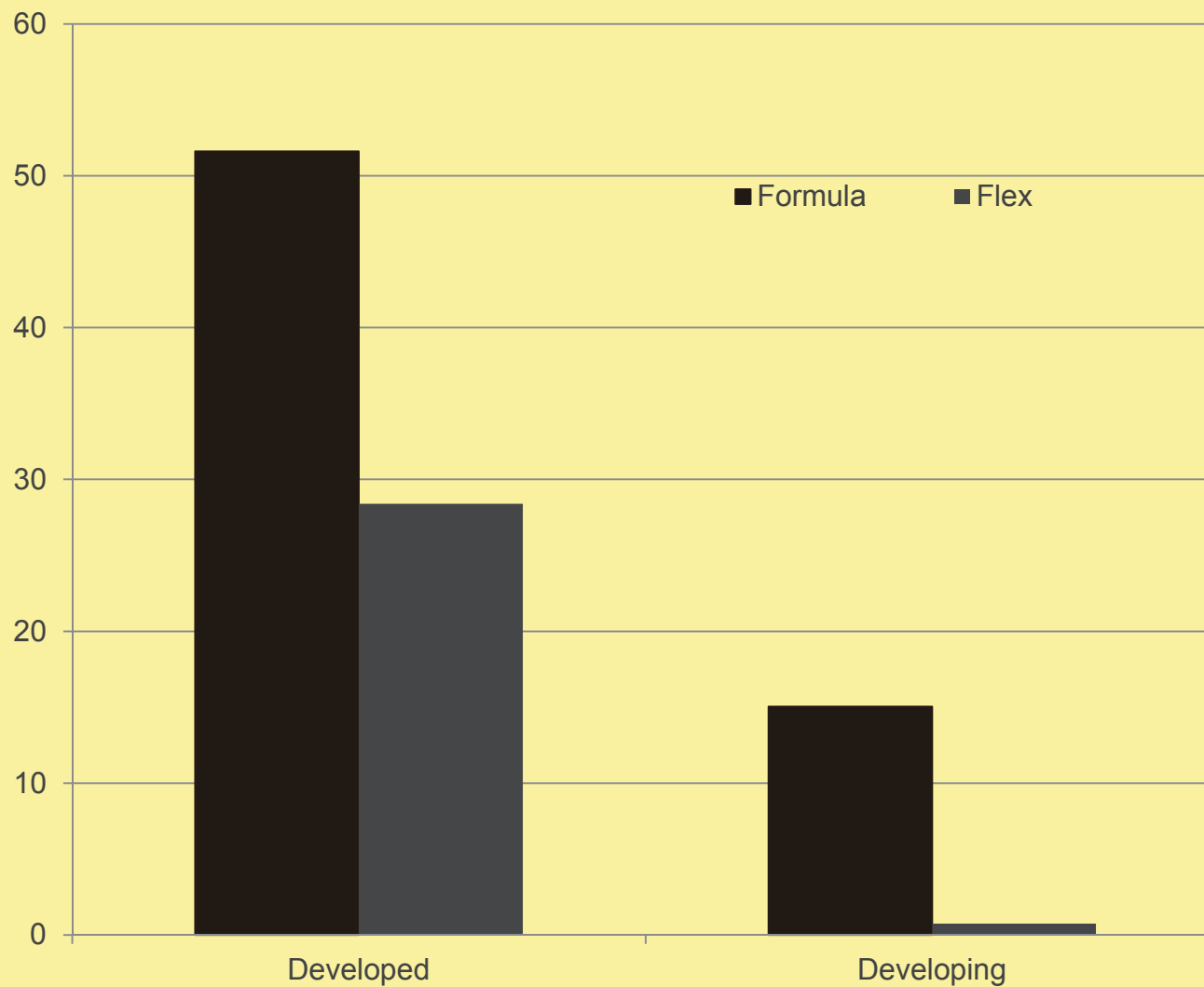


Doha proposals

- Main focus on tariff cuts but design flaws
 - Tops-down formula when political capital limited?
 - Poorly disciplined/priced x% of tariffs inadequate
 - But still worthwhile increases in mkt access
- Promise to abolish export subsidies
- Dramatic reductions in domestic support limits
 - 70% cut in US trade-distorting support
 - 82% in cotton
 - 80% cut in the EU
- Very little attention to reducing insulation

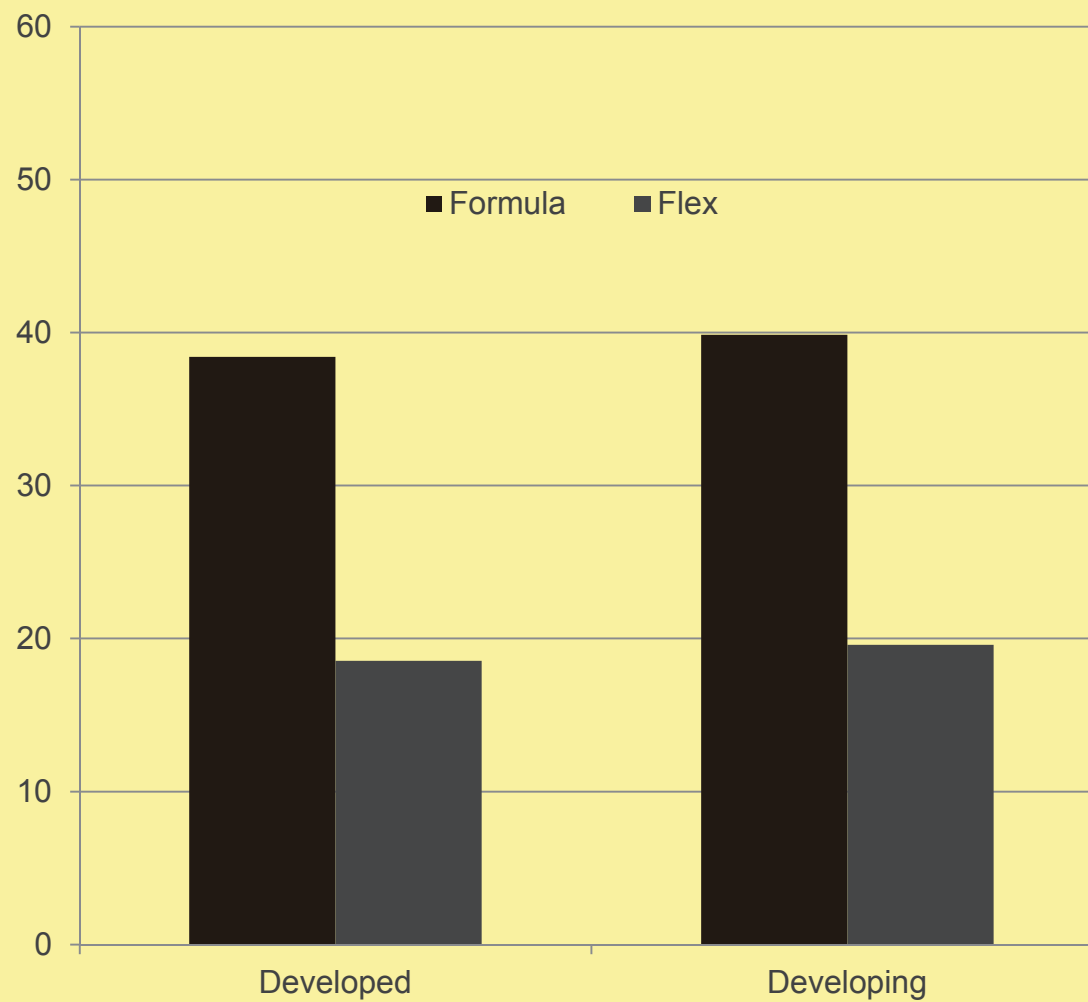


Cuts in agricultural tariffs, %



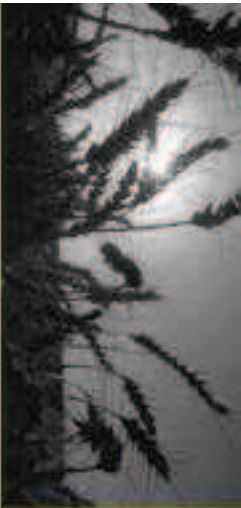


Cuts in applied agric tariffs faced, %

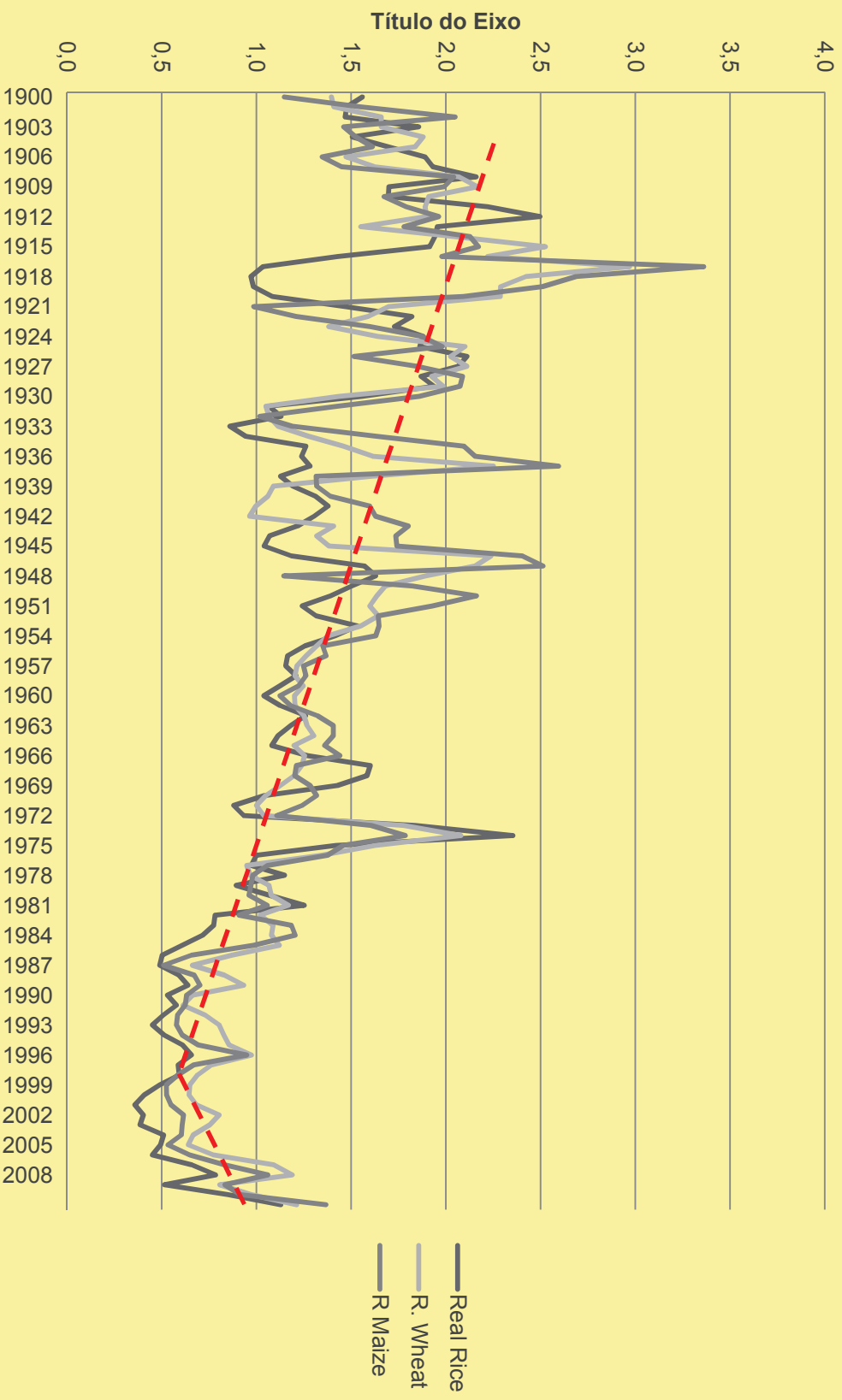




Agricultural policy developments

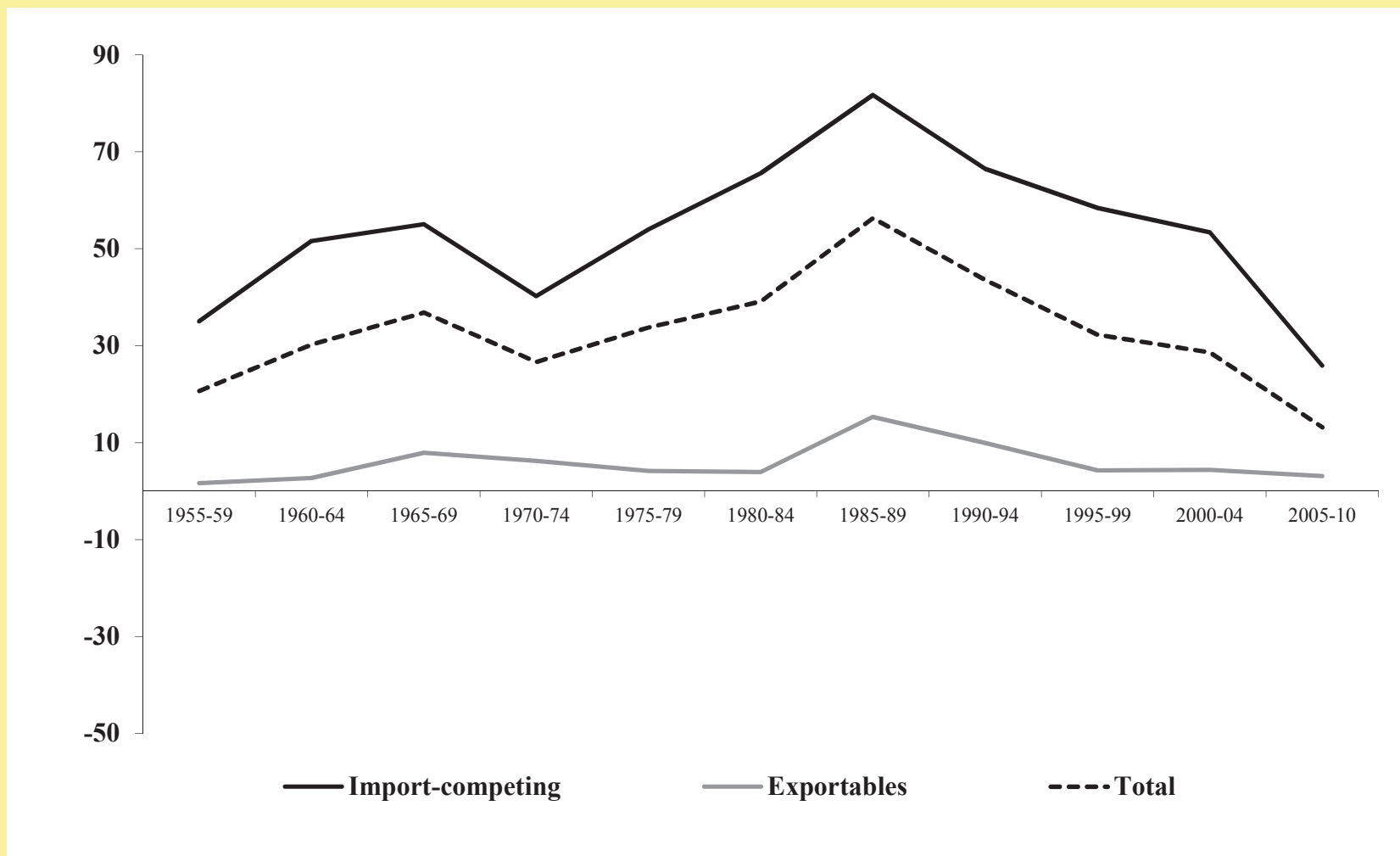


Changing price context



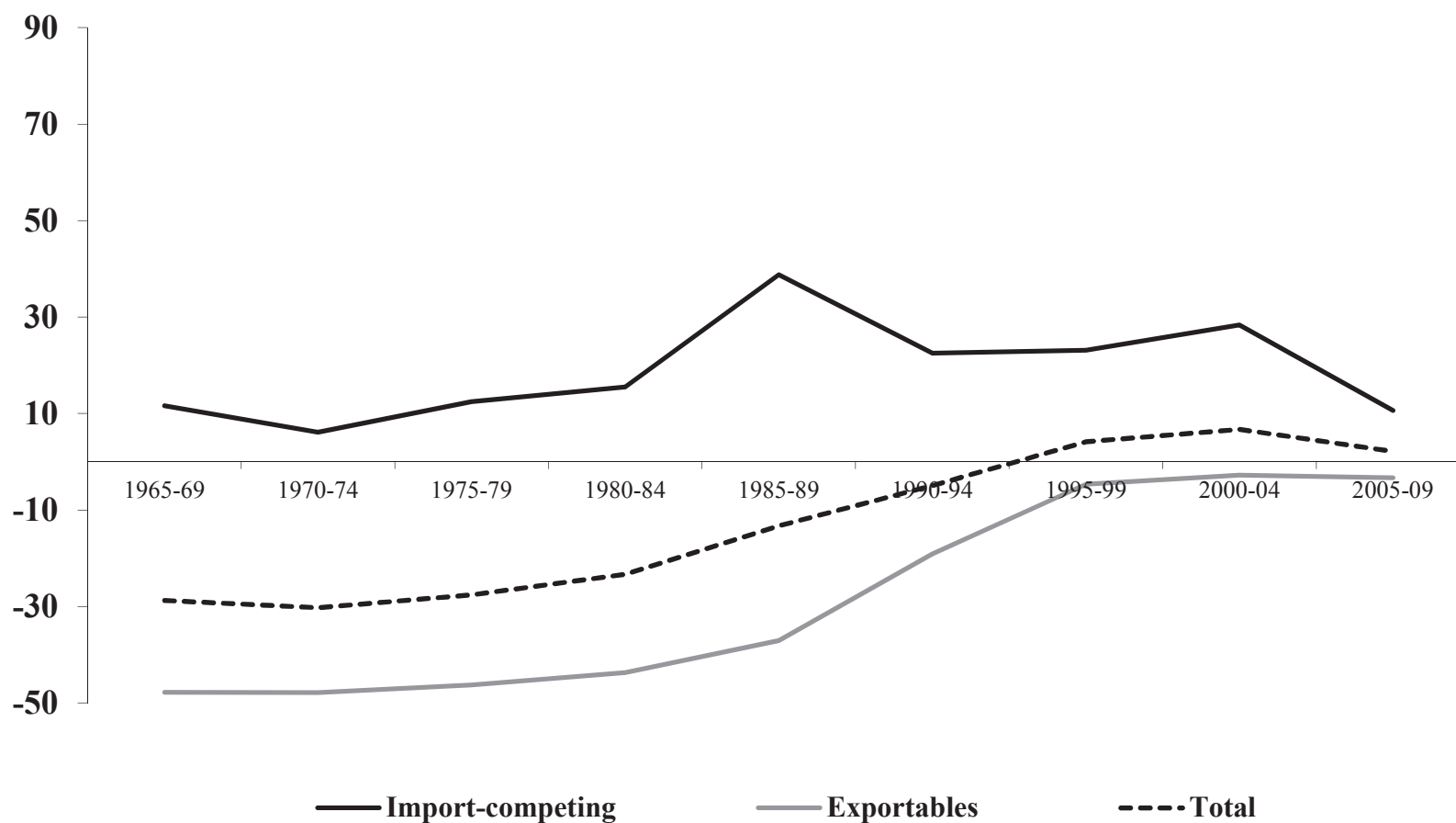


Industrial ctry ag protection, %





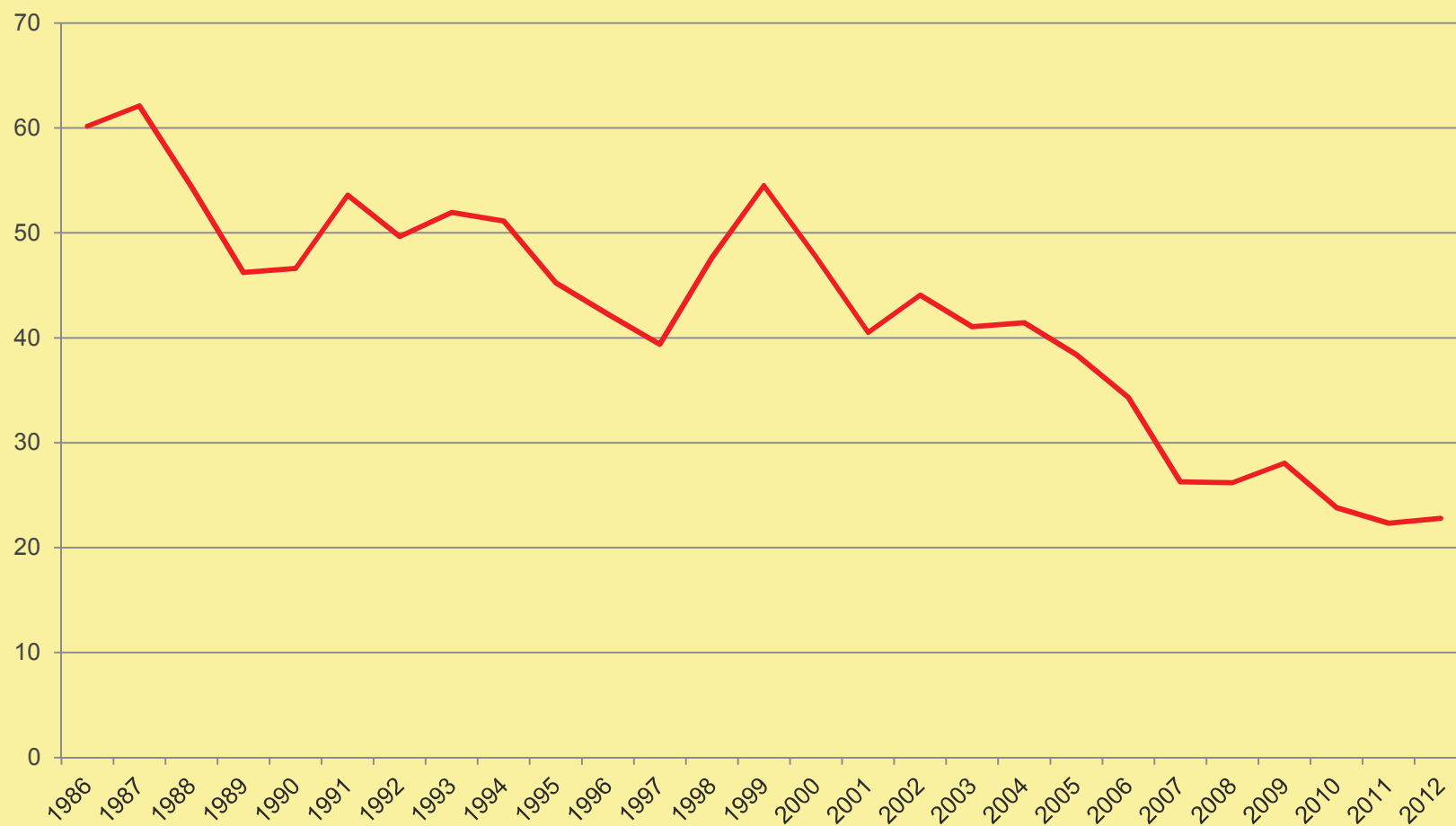
Developing ctry agric protection, %



Source: Anderson, Rausser, Swinnen, JEL



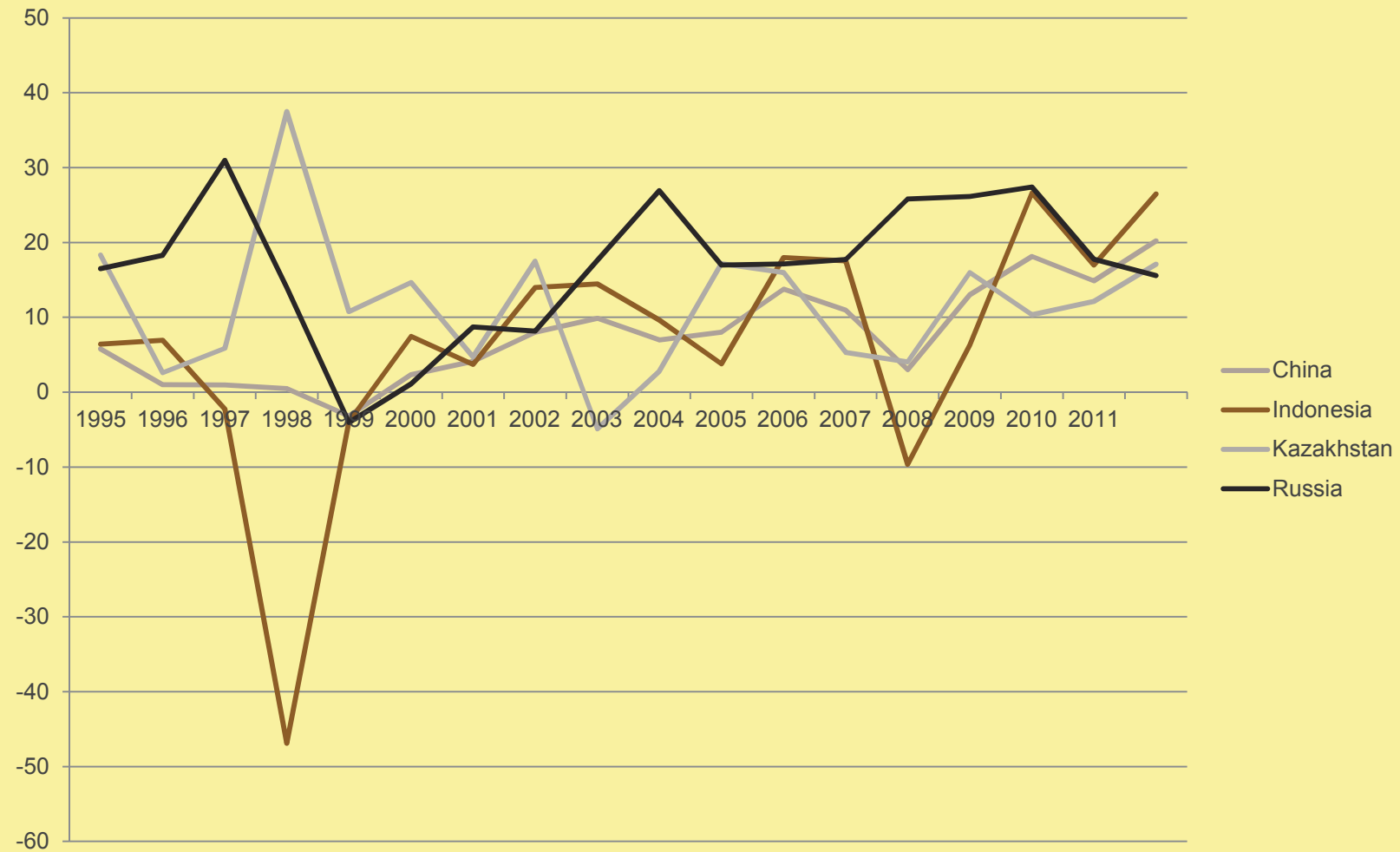
OECD Agric Protection, %



Note: $(NAC-1)*100$ Source OECDf

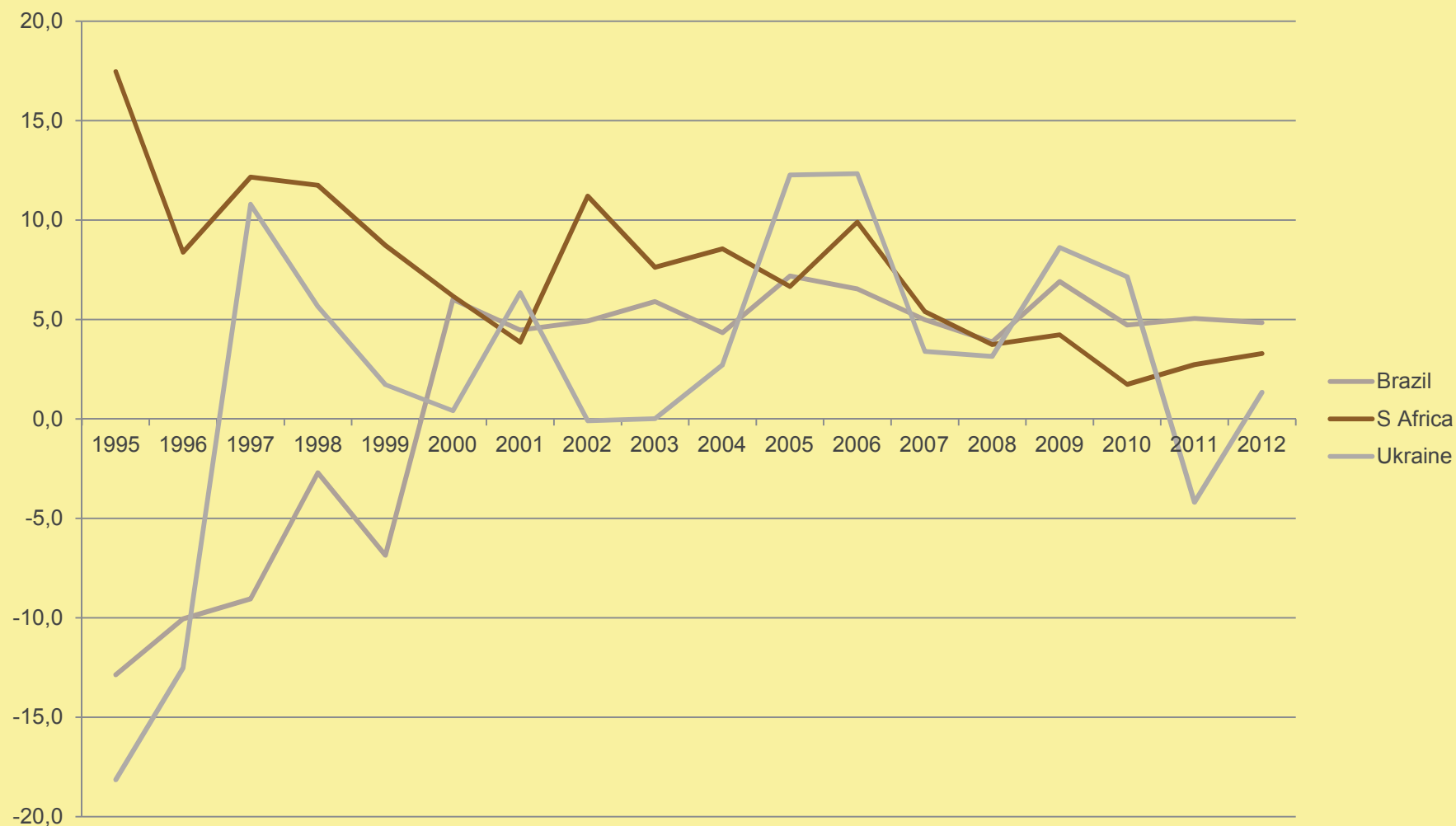


Developing ctry protn, %





Developing cttries with low protection, %





US Farm Bill

- Basic structure of the Farm Bill remains
- Four controversial programs discontinued
 - Countercyclical Price Program from 2002 Bill
 - It used historical areas and yields but paid out when prices fell below trigger levels
 - Average Crop Revenue Program
 - Paid when state-wide revenue fell below recent levels
 - Dairy Price Program
 - Preferential treatment for upland cotton
 - Supplementary revenue assistance (SURE) disaster program



US Farm Bill (ii)

- Disaster insurance programs not amber box
- Insurance programs are amber box
 - Price loss coverage
 - Reference prices much higher than previous program
 - Base areas and yields updated
 - Agricultural risk coverage
 - If national average revenue falls below 86% of 5 year average, pay up to 10%
 - Supplementary coverage option
 - Farmer pays only 35% of the actuarially fair premium



US Farm Bill

- Stacked income protection for cotton
 - Farmer pays only 20% of the actuarially fair premium
- Dairy margin protection program
 - Shallow loss insurance program
- Seems likely that these programs will involve very substantial outlays
 - Perhaps \$7 billion per year
 - Large relative to the proposed \$7.6bn AMS under DDA draft



CAP Reform

- Broad parameters likely maintained
 - Focus on direct payments
 - Very limited price intervention
 - CAP budget to be maintained and possibly rise as a share of EC spending
 - Insurance and income stabilization to be included
 - Subject to conditions that make it Green Box
 - No more than 70% of income loss



Challenges ahead



Moving forward

- While protection has been falling in the industrial countries, this appears to have levelled out in recent years
- Proposals for crop insurance in the USA seem likely to create substantial budget outlays
 - Could put pressure on US dom. support limits
- Rising protection in key developing countries is a concern



Need to reframe debate

- Much of the recent debate has been about whether the WTO rules allow countries to do what they would like to do
 - Important to keep the focus on whether the rules help reduce collective action problems
 - Restrictions on price insulation would reduce individual countries' ability to insulate themselves
 - But done together would reduce world price volatility
 - Need to count very generous insurance in the AMS helps avoid this becoming disguised protection
- Some proposals, like quantity safeguards, don't make sense even for the country



Conclusions

- Substantial progress reducing protectionism in the rich countries
 - But signs of slippage in the Farm Bills
- Many developing countries have moved from negative to low positive protection
 - Some beginning to move to substantial positive protection
- Need to keep a focus on the WTO's role in managing collective-action problems



Some sources

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- Martin, W. and Mattoo, A. (2011), *Unfinished Business? The WTO's Doha Development Agenda*, Center for Economic Policy Research and the World Bank.
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Restoring Multilateral Trade Cooperation: The Future of the WTO

**Agriculture – WTO main challenges: Doha
between the Farm Bill and EU CAP**

Andre Nassar

April, 2014

Disclaimer

- This presentation is based in a study we developed for the Agricultural National Confederation (CNA)

“Impacts of 2014 Farm Bill and 2013 Common Agricultural Policy on Brazilian Agricultural Exports”

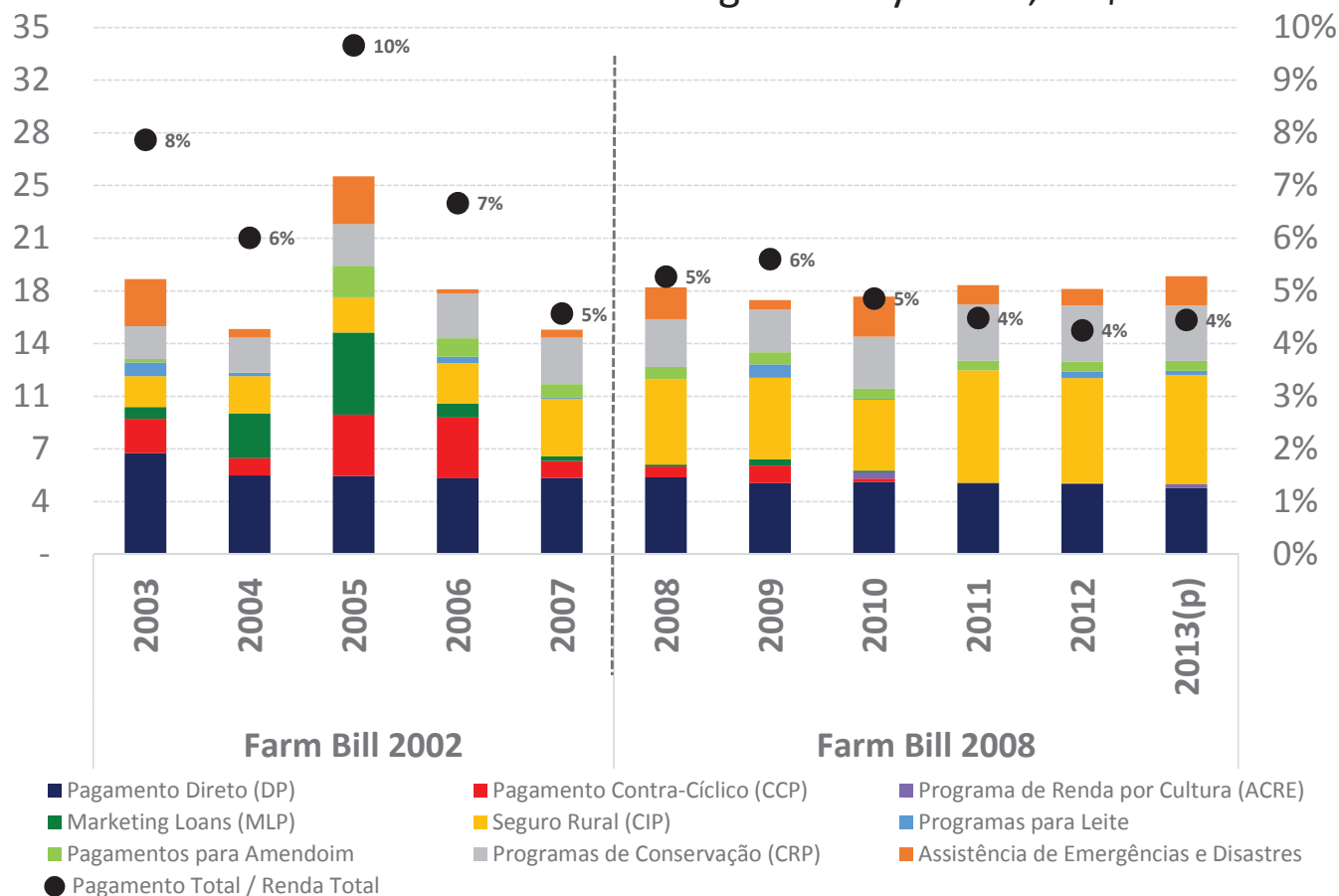
- The study will be published by CNA soon
- CNA is internalizing expertise in monitoring and measuring impacts of agricultural policies on world markets
- The study is one of the initiatives within this context

Introduction

- New FB2014 and CAP2013
 - Negotiations were taken in different context than the previous versions
 - Results of cotton and sugar disputes have acted as constraints in shaping product-specific programs
 - Underlying rationale: to reduce risks associated to WTO compliance (both AoA and Hong Kong Declaration)
- CAP2013
 - Transition from “blue” to “green” box payments is done
 - Exports subsidies ready to be eliminated (no budget in the CAP2013)
 - On going reforms on sugar and dairy
- FB2014
 - Compliance according to how US is notifying or should be notifying according to the decisions of the cotton panel?
 - Elimination of direct payments (green box), CCP became PLC (non-product-specific AMS), ACRE became ARC (AMS product-specific)
 - Crop and revenue insurance programs (CIP) will be strengthen (non-product-specific AMS)

Changes introduced by the FB2014

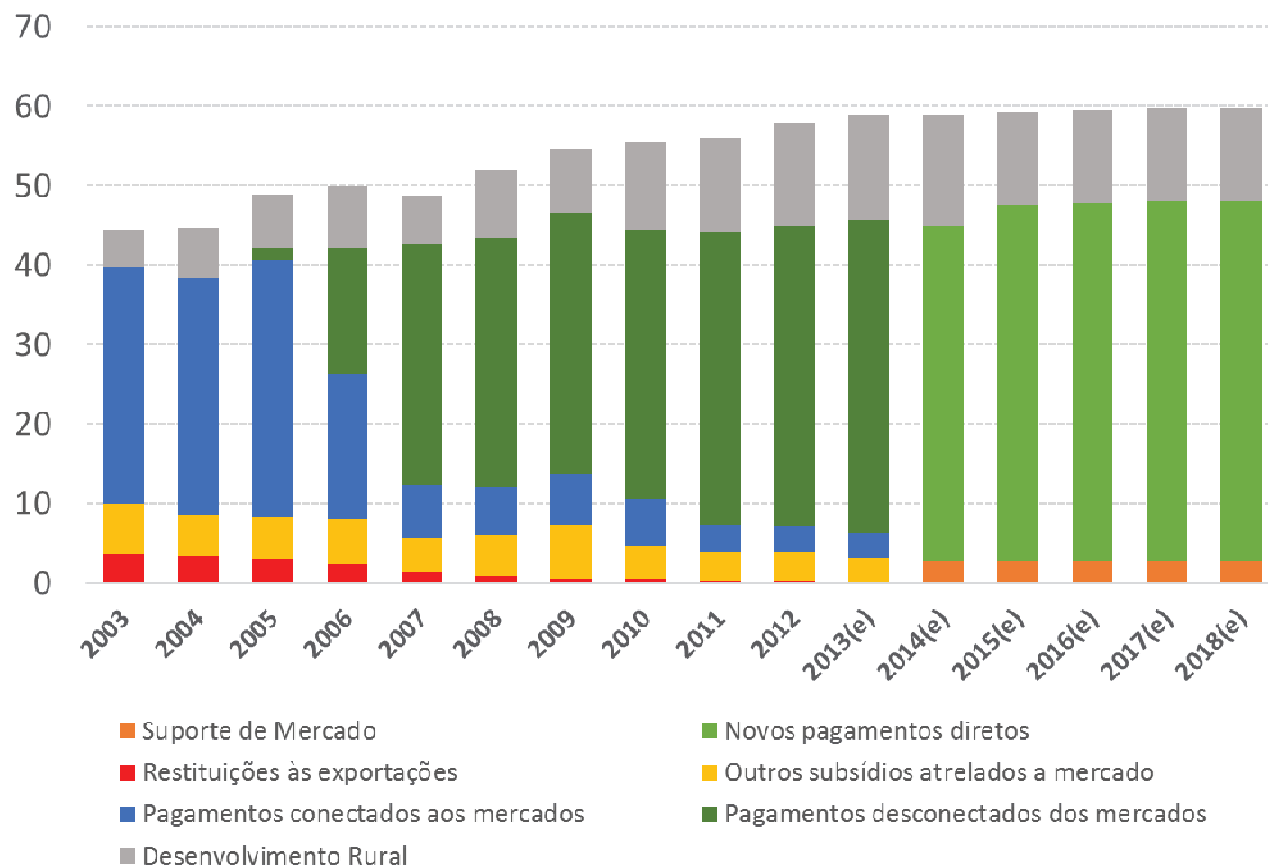
Commodities and Conservation Programs Payments, US\$ billion



- Programs linked to price or income
 - Marketing loans: small changes
 - Price Loss Coverage (PLC), higher reference prices
 - Agricultural Risk Coverage (ARC), olympic average national prices or reference price
- Price and income insurance programs
 - Supplemental Coverage Option (SCO)
 - Stacked Income Protection Plan (STAX) => cotton
 - Both cumulative crop insurance (CIP)

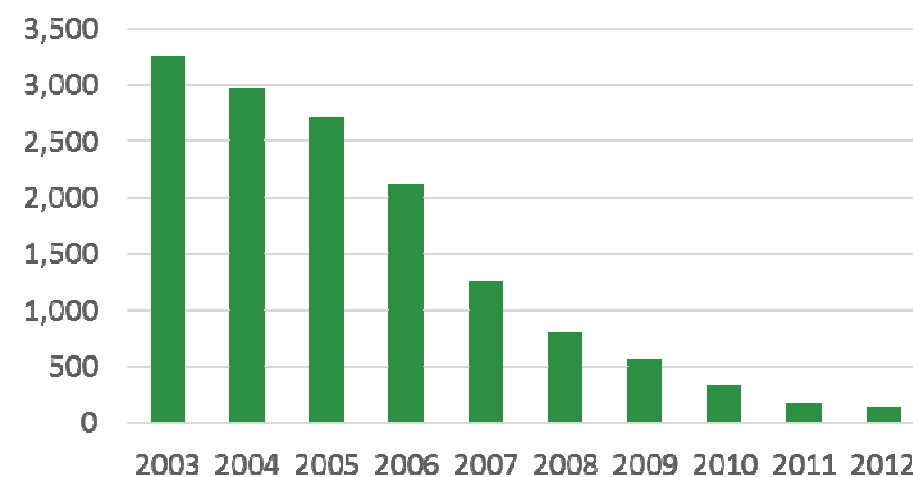
EU: Payments for Farmers under the new CAP

EU: Estimations on CAP Expenditures According to EC (€ billion)



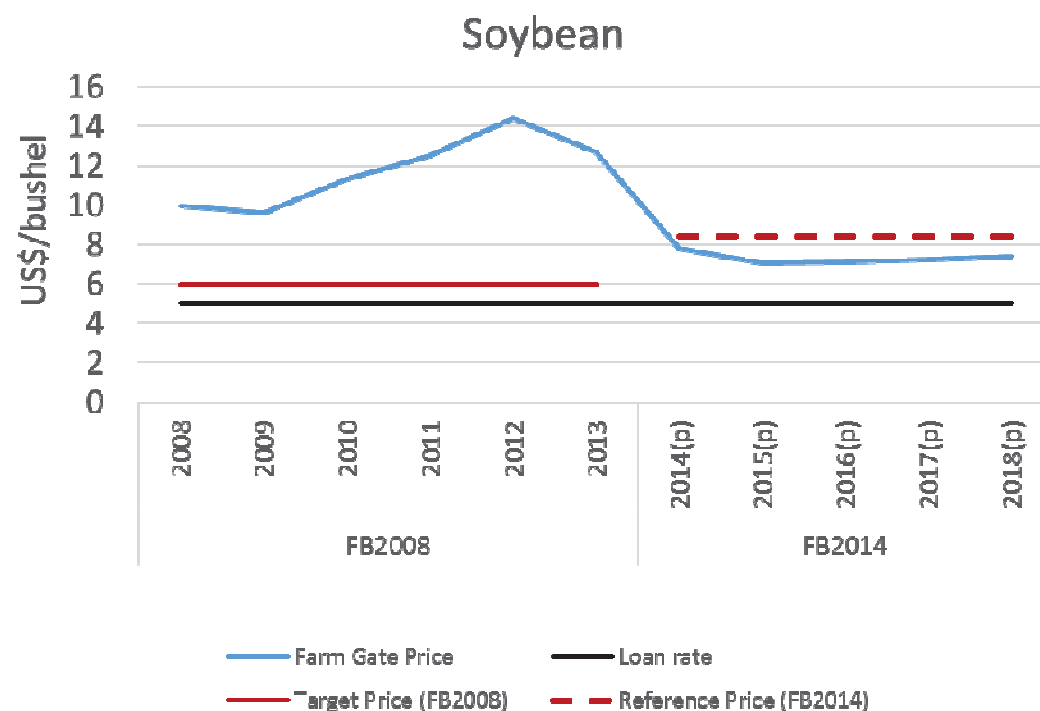
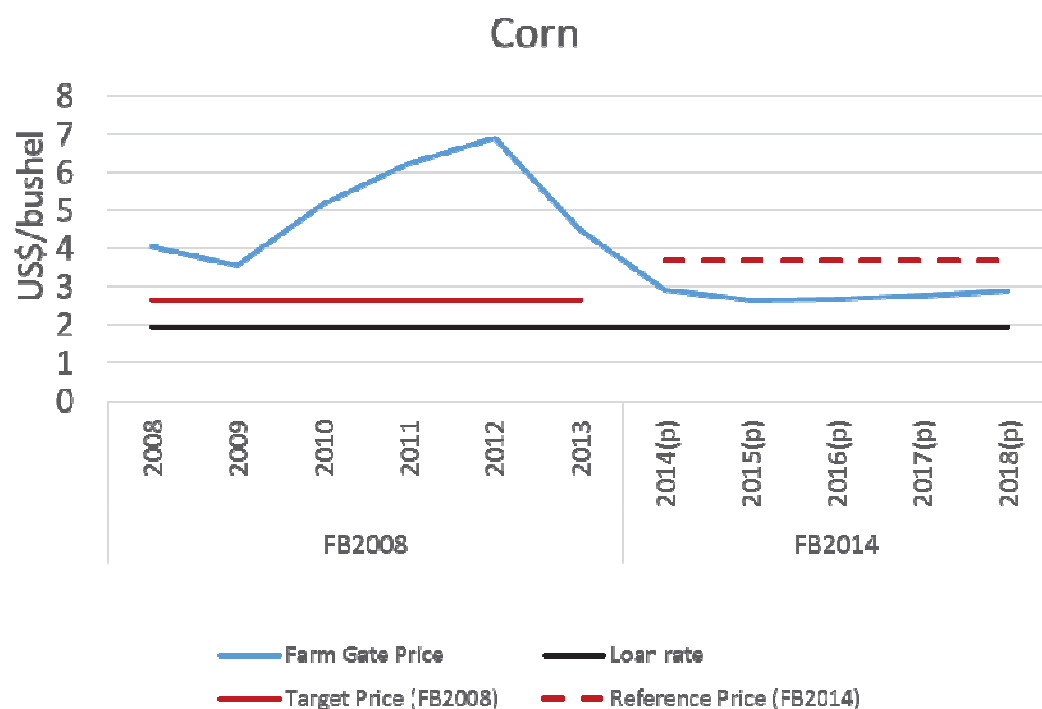
- CAP2013 continues with the reforms started by the CAP2003
- Strong reduction on payments linked to markets and product-specific: decoupled payments (single farm payments scheme).
- Single farm payment being modified to a per hectare payment and with degree of freedom for member states to decide how to distribute them
- Exports refunds, big concern for Brazil, have been eliminated (no budget)

EU: Exports Subsidies (€ million)

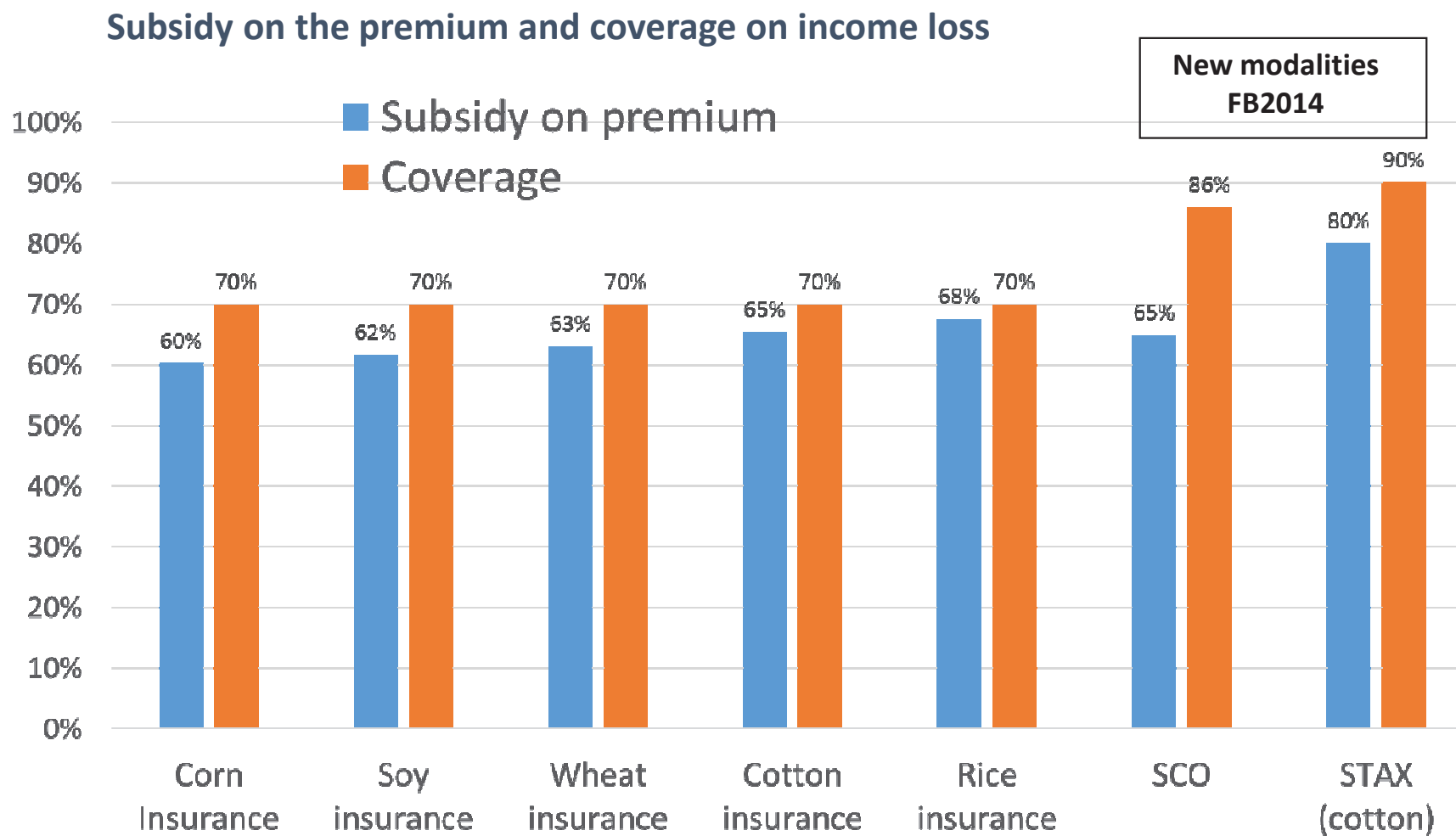


Why payments are likely to increase in the FB2014: new price and income support programs

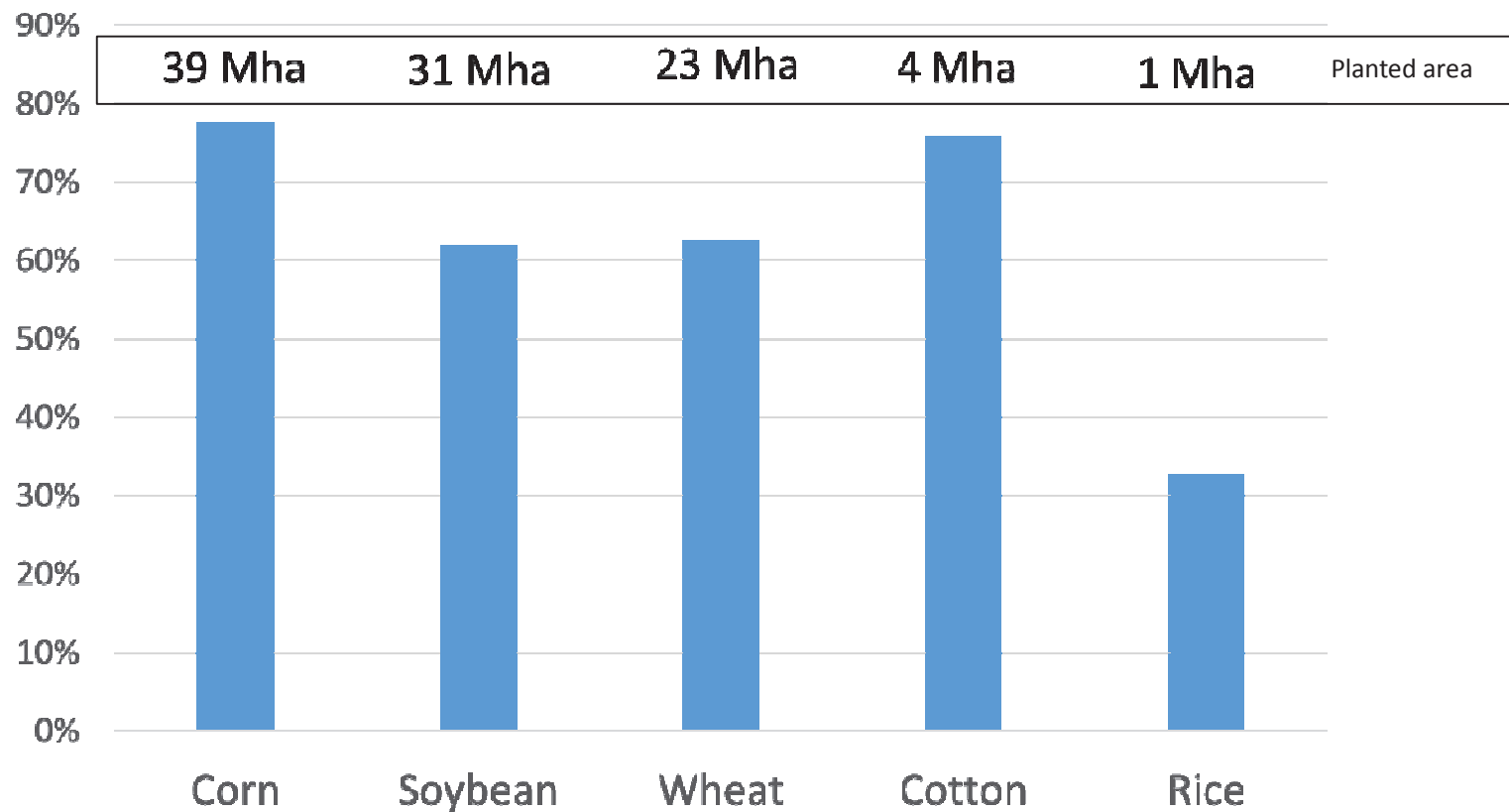
- Reference prices (FB2014) are higher than target prices
- USDA is forecasting lower prices



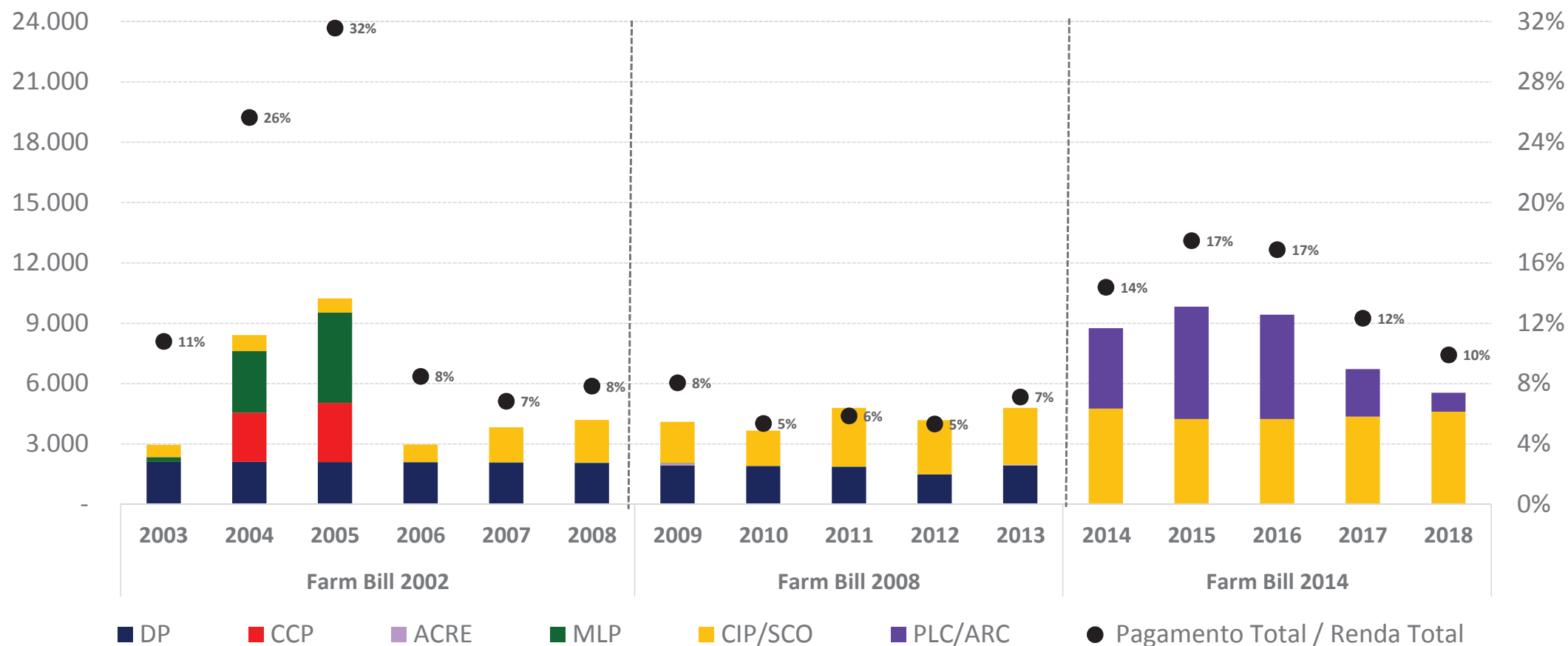
Why payments are likely to increase in the FB2014: new insurance programs



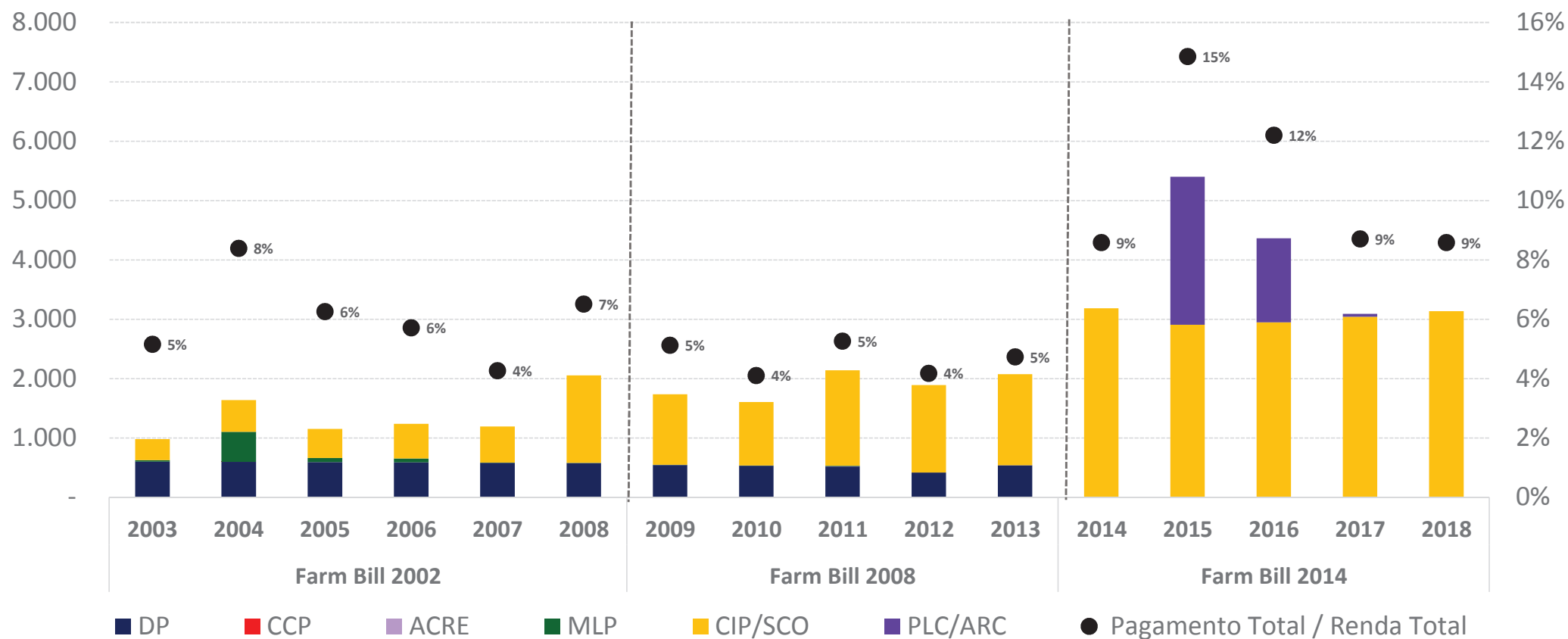
US: planted area covered by insurance (2013)



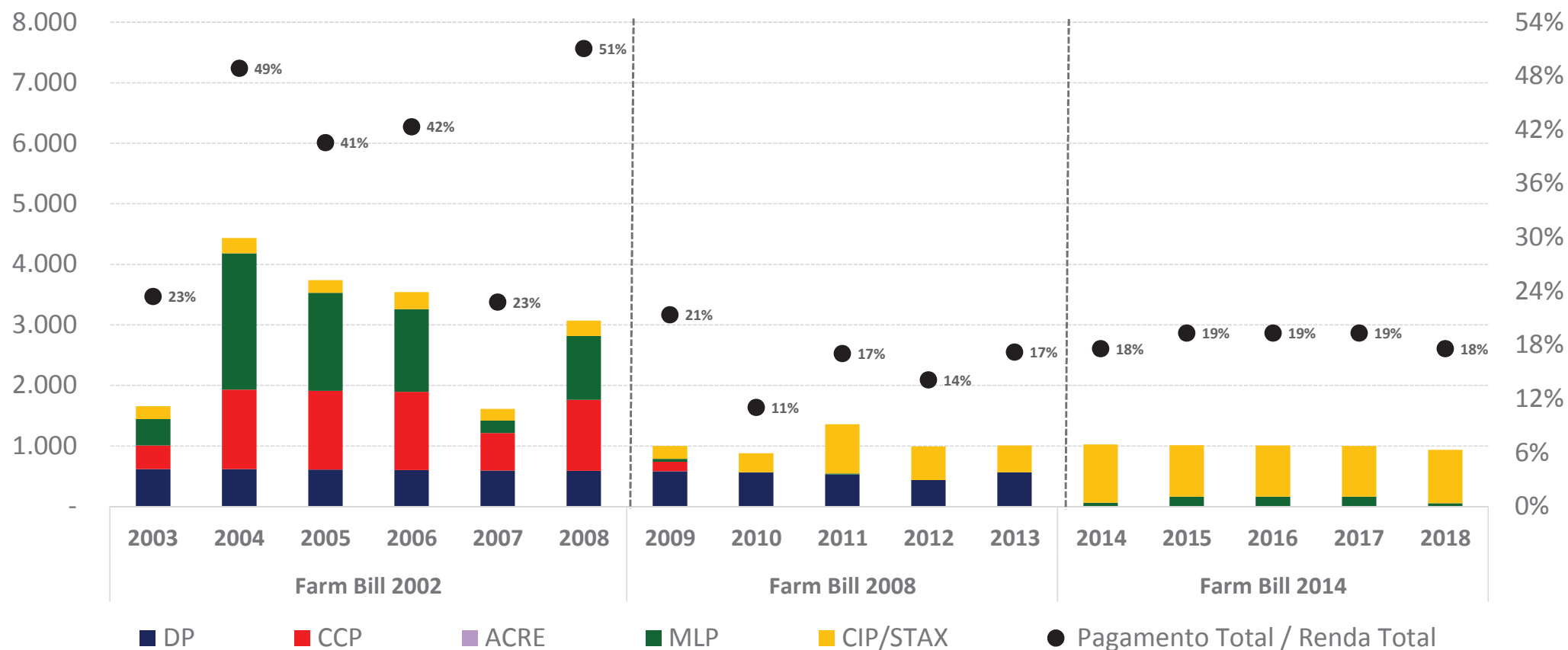
Corn: projections for farmers payments in the FB2014 (US\$ billion)



Soybean: projections for farmers payments in the FB2014 (US\$ billion)



Cotton: projections for farmers payments in the FB2014 (US\$ billion)

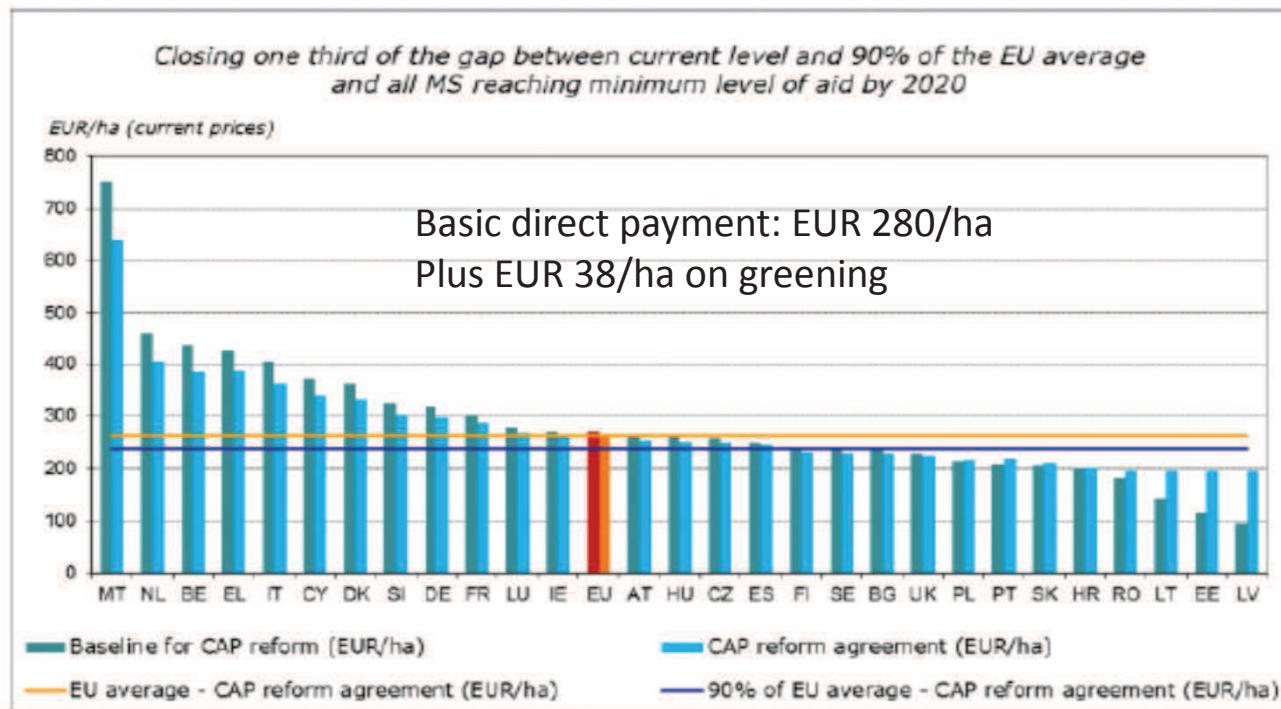


US Programs will reduce agricultural commodities world prices (if USDA prices projections are confirmed)

- Estimated impacts on world prices within FB2014 period (2014 a 2018)
 - Corn: -3% a -5% reduction
 - Soybean: -2% a -4% reduction
 - Cotton: -3,7% a -4,3% reduction
- Two reasons give support to the argument that higher payments will create distortions in the world market:
 - Subsidies push production up pulling prices down (traditional approach)
 - Subsidies, specially the insurance types, minimize risks for producers stimulating production even if prices are in good levels
- Distortions levels can be even higher because only the first effect was captured in the estimates

Comparing EU and US subsidies: payments per ha

Chart 5 **Changes in the Distribution of Direct Payments**



- Average calculated per ha payments in FB2014 (projections 2014-2016)
- Corn: U\$ 275/ha
- Soybean: U\$ 140/ha
- Cotton: U\$ 290/ha

Source: DG Agriculture and Rural Development.

Concluding remarks: how to negotiate agriculture if nobody wants?

- Domestic support
 - Only alternative, in deed, is the multilateral system
 - Advancements will require trade disputes
 - EU payments will be all green. Do they distort or not?
 - US payments will be accommodated in AMS non-product-specific, which gives enough space for achieving compliance with low risks of being disputed
 - FB2014 and CAP2013: new laws, no changes can be envisaged in the short term
- But market access is also very important to agriculture markets
 - Tariff peaks, tariff quotas, non-tariff measures, etc.
 - MA can be managed in other types of trade agreements



BRAZIL ROUNDTABLE

RESTORING MULTILATERAL TRADE COOPERATION: THE FUTURE OF THE WTO

**Panel 4: Agriculture negotiations: the Bali package
and ahead**

Ricardo Rozemberg



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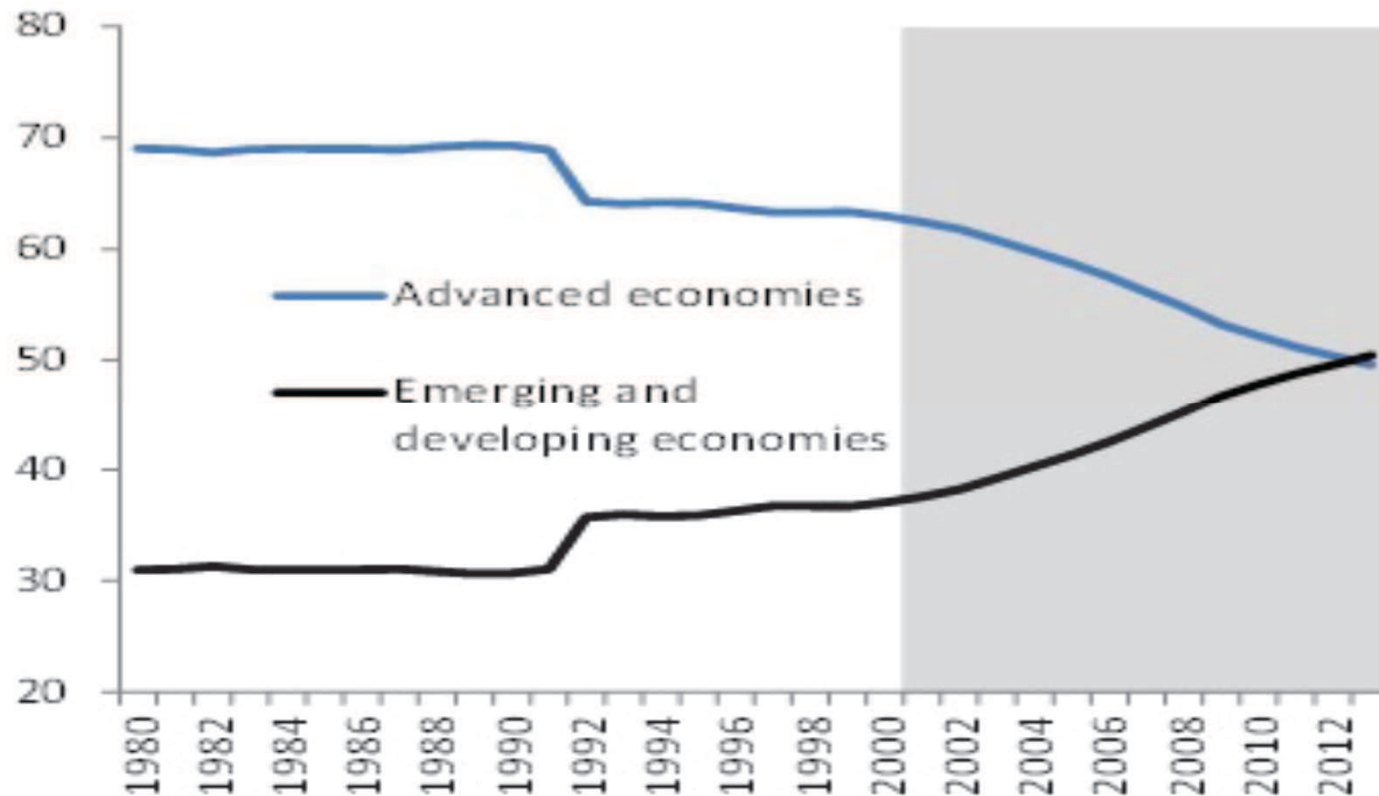
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Agriculture negotiations: the Bali package and ahead

- o The «single undertaking» modality in the new international scenario
- o The Bali Package and the political commitment of WTO members
- o Trade liberalization and poverty
- o Looking forward

Rarely found in the past, economic convergence is taking place in the XXIst century

Share in Global GDP (PPP)



Source: IMF

It is more difficult to follow the single undertaking modality
No topic would be agreed until consensus was reached over all the issues under discussion

Can the «Bali Package» be a first step towards a new multilateral negotiation approach ?

- Consensus was reached with flexibility and pragmatism
- A more specific and limited agreement is better than no agreement. One had not been reached since 1995.
- The question now is about the political commitment of WTO members with the conclusion of the different negotiations
- The Bali Package is more of a starting point for work than a terminal one.

The Bali Package and the need to implement the decisions reached in Agriculture

- While the Trade Facilitation Agreement has a clear path for its implementation and will be part of a new treaty within the WTO legal framework, Agricultural commitment in this field was just a political declaration (with no date set).
- Regarding export subsidies in agriculture, the Bali Package reaffirmed the commitment to achieve the elimination of these measures.
- It must be remembered that the 2005 Hong Kong Declaration established their elimination by 2013, a goal that has not been met.

CAN WE EXPECT SOMETHING DIFFERENT ON THIS ISSUE WITH THIS
NEW MULTILATERAL NEGOTIATION APPROACH ?

The reform process in agriculture is still unfinished business

In USA:

Farm Bill 2008 and 2014 - Comparing 10- years projections
US\$ million

Program	Farm Bill 2008 (1)	Farm Bill 2014 (2)	(2)-(1)
Commodity	58.765	44.458	-14.307
Conservation	61.567	57.600	-3.967
Crop Insurance	84.105	89.827	5.722
Nutrition	764.432	756.433	-7.999
Other	4.036	8.084	4.048
Total	972.905	956.402	-16.503

Source: INAI

The EU spends 42.000 million of euros in subsidizing the agricultural sector
High tariff and non tariff barriers for agricultural imports

Food price volatility (and recent rise) are not related to WTO commitments on Agriculture

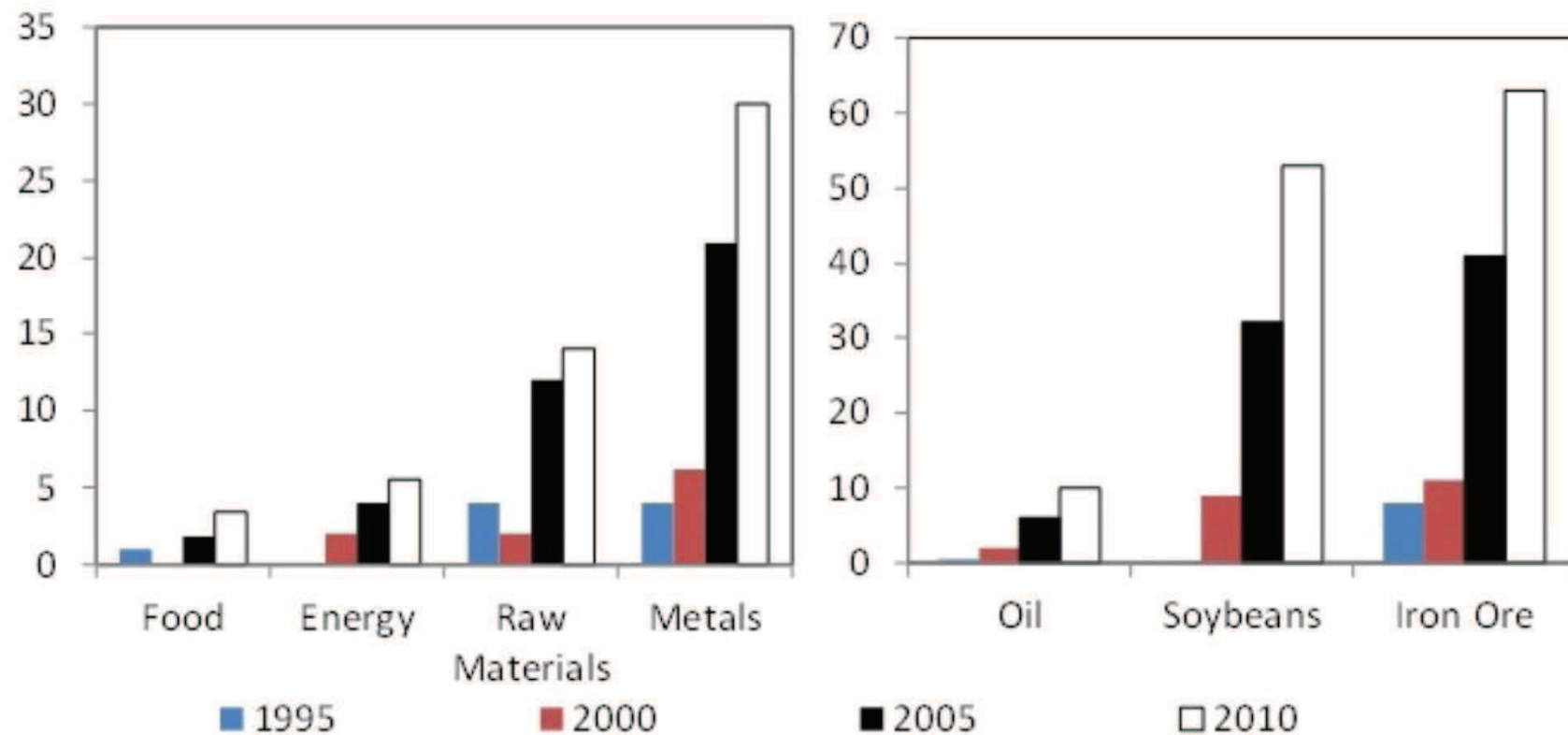


Food: Crops, vegetable oils, meat, seafood, sugar, banana and oranges

Based on IMF

China is a major importer of key commodities

The importance of Chinese demand in commodity markets
(net imports / total world imports)



Food price rises and Poverty

- Different empirical findings on this relationship:
 - A) Ivanic, Martin and Zaman (2011): the food price upturn in 2010 pushed 44 million people below the poverty line;
 - B) Derek Headey (2014): higher food prices are good for the poor but in the long run;
 - C) Jacoby's (2013) analysis of food price, wage, and welfare dynamics in India casts doubt on the hypothesis that higher food prices increased poverty in India;
 - D) Van Campenhout, Pauw, and Minot (2013) also predict that factor price adjustments mean that higher food prices are ultimately reducing poverty in Uganda.

Trade liberalization and poverty

- The World Bank estimated in 2004 that the elimination of tariffs, non-tariff barriers and subsidies for exports and production would generate a reduction in poverty of almost 300 million people in developing countries, 2/3 of this effect would emerge from trade liberalization in agriculture.

Looking forward

- The structure of world agricultural markets has changed dramatically, not only because of higher prices, but also due to the important advances of developing countries in production and trade
- Developed countries have increased technical restrictions on imports on environmental, social and economic grounds. For example, in the case of biofuels and the debate of sustainability
- The larger presence of developing countries in the global market brings them more capacities to negotiate a more balanced agreement, but also more responsibilities in the international arena.

Looking forward

- The reform process in agriculture is still unfinished business
- That is why, in any case, agriculture must be an essential part of the multilateral Agenda for most developing countries.
- The higher valuation of natural resources in recent years can help eliminate export subsidies and reduce domestic support
- More “early harvest” agreements or getting back to the “single undertaking” criteria? Is it the end of the Round negotiation approach?

CAN WE EXPECT SOMETHING DIFFERENT IN AGRICULTURAL ISSUES IN A DIFFERENT MULTILATERAL NEGOTIATION APPROACH ?



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THANK YOU !!

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and ahead**

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April 2014



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