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## Conversation with Rufus Yerxa, WTO Deputy Director-General, on the Doha Round

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Mr. Yerxa opened his remarks by emphasizing that, despite the many criticisms lodged against it, the multilateral trade system is the foundation of all of the most important trade relationships in the world, including US-European Union, US-Japan, and US-China. The goal of the Doha Round is to strengthen and deepen existing relationships while broadening the distribution of benefits to more countries. The proper balance of the WTO's three parts—executive, judicial, and legislative—is what enables such progress. The WTO's Secretariat is relatively small, with only 800 staffers and an agenda that is member driven, but effective; its judicial arm, the dispute settlement body, has grown in both the frequency of its use and the size of the cases it handles, achieving an impressive 80%+ compliance rate. He

stated that it is primarily the legislative side of the WTO which most strikes outsiders as not functioning properly and which will be the topic of the day's conversation.

Mr. Yerxa reminded the audience of the importance of the Doha Round, which was designed to address the failings of the GATT and to extend the benefits of free trade more broadly to developing countries. In doing so, the negotiations seek to strengthen existing rules and add new disciplines to the WTO's purview, including trade facilitation and fisheries subsidies. The Uruguay Round provided a framework for working through complex sectors such as agriculture and services, but left the substance of agreements in these areas to future rounds.

### *Agriculture*

Mr. Yerxa outlined the status of the agriculture talks on its three major components: export subsidies, domestic support payments, and market access. On export subsidies, a deal has been reached that would eliminate all spending in this category by 2013, though some particulars (so-called parallelism, covering food aid and state-owned enterprises, among other things) have not been finalized. On domestic supports, there has been momentum to get away from trade distorting payments while also recognizing the right of governments to use non-distorting measures in a reasonable way. On market access, there has been limited progress on bringing down tariff averages.

The key issue currently under debate is the template for country reduction schedules on tariffs and subsidies, known as modalities. So far, there has been general agreement on the structure of a deal but not on the depth of cuts or the extent of exceptions—the overall level of ambition remains

but not on the depth of cuts or the extent of exceptions—the overall level of ambition remains unclear. On market access, the United States has expressed the highest level of ambition and the European Union the lowest, with the G20 group of nations in the middle. As recently as six weeks ago, many thought bridging the sizeable gaps in market access offers would prove impossible, but the buzz in Geneva over the last two weeks has been largely positive. There have been hints that the Europeans are willing to adjust their offer, but how far they will go towards the G20 position is unknown. Most agree that any eventual deal will have to be somewhere between the two extremes.

Complicating matters is the fact that progress on market access has been linked to movement on domestic supports, and vice versa. When the US revitalized negotiations prior to the Hong Kong Ministerial with a strong offer on domestic support payments, its offer was conditional on a better market access package. (While much of the attention to domestic supports has focused on US programs, Mr. Yerxa pointed out that commitments would apply to all governments issuing such payments, including the EU and Japan.) The EU has criticized the US for not offering cuts deep enough to impact the real level of domestic supports and for not giving enough credit to the EU's own reforms of the Common Agricultural Policy. Some have suggested that the G20 might be able to serve as a broker between contrasting US and EU positions, but Mr. Yerxa's opinion was that the G20 is not homogenous enough on the agriculture issue—it represents both offensive and defensive interests—to play this role effectively. On the other hand, the G20 proposal is itself the product of a careful compromise and should be regarded in this light.

Mr. Yerxa next turned to a discussion of the negotiation process. An agreement on modalities was due in April, but WTO negotiators have developed a habit of missing deadlines and this case was no exception. The April failure has created, in his estimation, a sense of urgency not seen since before the Cancun Ministerial. Activity has intensified, and there is a recognition that this may be the last opportunity to close a deal. Mr. Yerxa expected that draft texts would emerge in mid-June, signaling areas of convergence as well as persisting gaps. He believed these differences are not insurmountable. Average applied tariff levels in the EU, for example, would fall to 8% under the most ambitious proposal and 13% under its own proposal; for India, these numbers are 29% and 34%, for Japan 13% and 19%. Obviously, average numbers can be deceptive, but the big picture is one of significant cuts in agricultural tariffs. Concluding a deal would demonstrate that the WTO can cope with difficult issues such as agriculture under its rules.

#### *Discussion Session.*

Kimberly Elliott of the Institute for International Economics and the Center for Global Development asked for clarification on the draft texts expected in June: would they be issued by the Agriculture and NAMA committee chairmen or would Director-General Pascal Lamy offer a comprehensive draft text? Mr. Yerxa admitted that a discussion of the negotiation process was in order in this case because it was likely to have an impact on the substance of any agreement. He stated that negotiators are making up the process as they go along and that there was no predetermined roadmap. With that said, he expected the chairmen of the negotiating committees to produce the draft texts because there was insufficient convergence to put out more complete legal texts at this time. Mr. Yerxa recalled the Dunkel text that emerged during the Uruguay Round and commented that it was made possible by compromises forged by the individual committee chairmen. The current chairmen are trying to put something on the table that can be used to create a broader deal—a prerequisite for any Lamy draft—but are not there yet. The moves in the coming weeks will be critical, and members will need to declare their flexibilities soon if committee drafts are to be forthcoming.

Jim Berger of Washington Trade Daily asked the speaker to comment on any progress emerging from the recently concluded OECD ministerial meeting in Paris. Mr. Yerxa explained that trade ministers attending the talks were engaged in more of a stocktaking than a decision-making exercise. He did not anticipate any major headlines, but left open the possibility of unilateral signals from individual members.

David Salmonsen of the American Farm Bureau Federation asked about the implications that sensitive product exemptions would have on achieving greater market access. Mr. Yerxa replied that negotiators often lead with their defensive interests and spend more time discussing exclusions than rules. He recalled a saying of GATT's first director to the effect that the GATT was a "series of

rules. He recalled a saying of GATT's first director to the effect that the GATT was a "series of exceptions tied together with waivers." On sensitive products, the main dispute is between advocates of a small band of exceptions and supporters of a larger one. Mr. Yerxa hesitated to offer a prediction on exclusions without knowing the broader level of ambition for the Round because the two points are inextricably linked. From the perspective of developing countries, the higher the level of ambition, the larger the band of exceptions they are likely to seek.

Gary Hufbauer of the International Institute for Economics asked about the relationship between extension of US presidential trade promotion authority (TPA) and extension of the upcoming farm bill, and to what extent considerations specific to American domestic politics were accounted for in Geneva. Mr. Yerxa reaffirmed that the WTO Secretariat tries to avoid treading on the domestic politics of any member, but admitted that his colleagues in Geneva were well aware of US procedures and their potential impact on the outcome of Doha. Negotiators are operating under the assumption that a TPA extension is unlikely or could only be achieved at a cost that would hurt the negotiating process. Mr. Yerxa added that there are many factors—in addition to the dynamics of US politics—exerting pressure to wrap up talks in 2006.

Jaime Castaneda of the National Milk Producers Federation asked what would happen in a worst case scenario if no deal on draft texts is reached in July. Mr. Yerxa reiterated that July was his time horizon and that the Secretariat does not have a contingency plan in the event of another failure over the summer.

Sherman Katz asked whether the discreet circulation of informal "non-offer offers" might provide a strategy for achieving progress that avoids the high risks/costs associated with public offers. Mr. Yerxa stated that such offers have circulated both during and subsequent to the Hong Kong Ministerial. He emphasized the importance of trust and mutual respect among members, which enables negotiators to share information confidentially and to construct compromises. While there has been some such activity, there has not been enough. Many outside observers believe that the chemistry among the key players is poor and that fundamental misunderstandings may prevent a successful conclusion to the round. Mr. Yerxa was optimistic on this subject and took hope in the continuing engagement of key players in the face of discouraging results. He stated his belief that genuine efforts would eventually pay off.

Rosine Plank-Brumback of the Organization of American States pointed out that the speaker had omitted services from his discussion of possible draft texts expected this summer and inquired where services fit into this arrangement. Mr. Yerxa replied that it was difficult to incorporate services into any procedural discussion, because services negotiations do not present a framework or modalities problem; rather, they progress according to their own request-offer process. In his estimation they do not constitute an important component in the dynamics of the ongoing multilateral discussions on NAMA, agricultural market access, and agricultural domestic supports. The crucial date for services is the July 31 deadline for revised offers.

#### *Non-agricultural Market Access (NAMA)*

Mr. Yerxa noted his abiding interest in the NAMA negotiations. As the sole carry-over deputy director-general from the previous administration of Supachai Panitchpakdi, Mr. Yerxa was well qualified to take on oversight responsibilities associated with WTO Secretariat administration (e.g. budgets, senior appointments), but he also retained NAMA in his management portfolio. In this capacity, he liaises between the Secretariat and the NAMA committee chairman, Don Stephenson of Canada.

Broadly speaking, Mr. Yerxa observed a broadening and deepening of tariff commitments. He referenced the acceptance of the Swiss Formula principle, which calls for dramatic harmonizing of peak tariffs, and applauded many developing countries for unilaterally reducing high tariffs. On the multilateral level, deep tariff cuts are likely to occur in bound rather than applied rates. To critics who claim that cuts in bound rates make only a minimal difference, Mr. Yerxa countered that binding lower tariffs increases the level of certainty for transactions, provides the foundation for the next round of cuts, and lessens the incentive to seek bilateral or plurilateral preferential agreements outside the WTO. Even under a less ambitious scenario, he predicted there will be a significant

outside the WTO. Even under a less ambitious scenario, he predicted there will be a significant improvement in the tariff profiles of many countries—including major developed ones.

Even with substantial tariff reductions, there will still be quite a few exceptions in any deal. One possibility under consideration would be for developing countries to exempt 5% of their products or to take 50% of the formula mandated cuts on 10% of products. Some countries, the so-called “Paragraph 6” countries as well as those classified as “small and vulnerable economies” (mainly in Africa, the Caribbean, and the Pacific) might receive further exemptions, though these should not alter the overall commercial value of an agreement. Some high tariffs will likely remain and some sectors will retain their protections, but the number of both will be fewer. Mr. Yerxa expected that developing countries would probably compromise on NAMA in exchange for concessions on agriculture and a solid development package. Some wonder why industrial goods, which make up 80% of world trade, should be held hostage to agricultural products, which constitute less than 20%, but this is the political reality.

#### *Discussion Session.*

Sherman Katz asked how critical India would be in the NAMA discussions, given the sizeable gaps between India’s tariff offers and US and EU proposals. Mr. Yerxa responded that the formula coefficient would be an important determinant in India’s case. India’s average bound tariff is 32%, with an applied rate of 11-12%. The US wants India to lower both its average bound rate and peak applied rate below current applied levels. He did not hazard a guess as to what the compromise point would be.

Mr. Katz followed up by quoting the criticisms of some Indian officials who believe too much focus has shifted onto cuts sought from developing countries. Mr. Yerxa replied that the focus has justifiably been on developed countries in the agriculture arena, but that industrial tariffs in these countries averaged only 2-3%. He said it would be unfair to characterize the round as misguided and did not believe there was a fundamental problem with its architecture.

Erik Autor of the National Retail Federation wondered whether observers should take some hope from the clear desire of members to reach an agreement—something that could not necessarily be said of the Uruguay Round. Mr. Autor also expressed concern about the impact of extra-WTO preferential agreements on the dynamics of multilateral negotiations, citing the recent Turkish proposal (subsequently endorsed by several African nations) to take textiles off the table in an attempt to protect existing preferences.

Mr. Yerxa recalled the common wisdom that anyone who has been to one WTO ministerial has been to one failed ministerial. In the long arc of history, the clear trajectory of government policies in the modern era is toward greater liberalization. The current deadlock represents the real conflicting interests of many governments, and pessimism should be confounded by the tendency of negotiators eventually to stumble onto a deal because that is what governments want. Mr. Yerxa found the loss of faith in liberalization ironic, given the fact that the most successful economies have generally been the most liberal ones; the economic losers are the ones who have not globalized enough. The proliferation of bilateral and plurilateral arrangements is a sign of pent up demand for liberalization from domestic constituencies. In 1987, an MIT economist proclaimed that GATT was dead; history has thus far proven the pessimists wrong.

On preference erosion, Mr. Yerxa pointed out that the original purpose of the GATT was to lock in existing preference arrangements, and that nondiscrimination was the basic tenet of the system. He lamented a drift away from these principles while drawing comfort from the fact that the world’s major trading relationships are still based on the bedrock of multilateral most-favored nation (MFN) status. The WTO is very good at establishing rules and general standards (e.g. customs valuation, import restrictions, technical standards), but the great challenge now is to ensure evenness of commitments and equitable distribution of benefits.

Christopher Wenk of the National Association of Manufacturers asked if the speaker was concerned about the emergence of the NAMA-11, a new bloc of countries reluctant to liberalize NAMA. He also asked for any comments on the prospects for central negotiations. Mr. Yerxa rejected the notion

asked for any comments on the prospects for sectoral negotiations. Mr. Yerxa rejected the notion that the NAMA 11 was an obstructionist force; on the contrary, he considered them a constructive player interested in seeing how far its members can go on industrial tariff cuts. On sectorals, Mr. Yerxa said that in order to gain broad acceptance, they would have to contribute something positive to the framework of a deal. Members need to decide for themselves where there is a critical mass for sectoral negotiation. Mr. Yerxa did not expect any action in this area until the Fall, after the modalities have been settled.

Ian Fergusson of the Congressional Research Service asked about the talks on non-tariff barrier (NTB) modalities. Mr. Yerxa said he did not expect such modalities any time soon since NTBs are not central to the process. Members generally notify each other which NTBs they want to be eliminated, and these are handled under other areas of negotiation.

Hans Peter Lankes of the International Monetary Fund quoted some as saying that China is the elephant in the room on NAMA and asked whether developing countries might be resisting NAMA tariff cuts out of fear of Chinese competition. Mr. Yerxa countered that it was better to have the elephant in the room than outside. China, as a newer member, is a positive example on NAMA, having made significant tariff commitments and bound 100% of its tariff lines upon accession. Members may look at tariffs with an eye to China's prospects in that sector, but what is needed is a broader perspective. China cannot dominate all industries overnight and as its exports grow, so does its ability to import goods from other nations. What we have seen following China's accession is that the pie has grown faster than we thought it would.

Finally, Sherman Katz asked the speaker to share his insights on WTO Director-General Pascal Lamy's worldview. Mr. Yerxa said that Lamy is a committed internationalist and, informed by his past associations with the European Commission and French Socialist party, believes in the importance of creating better multilateral mechanisms. Lamy wants to put a human face on the WTO and open it to greater scrutiny and transparency in order to help the world better understand the WTO's mission. He remains convinced that multilateralism is a central component of the global economic governance regime and wants to put the concept of national sovereignty in its proper perspective: every year, trade flows are less and less determined by government policies.

### *Services*

There is some concern in the US and EU whether commitments on services will go beyond current levels of openness. Mr. Yerxa said this was an oversimplification and that current opportunities would benefit from the added certainty of being codified in the WTO. At the same time, GATS negotiations are highly specialized (four modes, scheduling, etc.), and this complexity can often lead to skepticism about whether commitments can be effectively implemented. Since there are no tariffs or quotas to remove and no visible changes in border protection, implementation is necessarily more complex than it is for goods.

Services liberalization will strengthen GATS disciplines on nondiscrimination regarding foreign suppliers of services, incorporating new sectors such as express delivery, accounting, and professional services. Mr. Yerxa warned the audience not to expect miracles: even the US is reluctant to open its markets in certain areas. He also stressed the need to disabuse people of the notion that GATS would grow out of control and encourage governments to auction public services in key areas such as education, i.e. that liberalization would force privatization. In Mr. Yerxa's opinion, this fear has not been borne out by the facts: governments have been able to maintain control of essential public services and to liberalize the sectors or subsectors they choose (e.g. educational testing services) without binding precedent.

### ***Discussion Section.***

Sherman Katz asked if the plurilateral request-offer system was helping the negotiations. Mr. Yerxa was convinced it was helping spur activity, as measured in number of meetings and general buzz, though the results cannot yet be quantified. He noted there has been a dramatic rise in interest in services liberalization among developing countries as compared with the Uruguay Round.

Mr. Katz asked about the significance of India's demands on Mode Four, the free movement of people. Mr. Yerxa argued for the need for greater dialogue between the WTO and business/political communities to explain that Mode Four is not a form of immigration; rather, it allows for the temporary movement of workers associated with delivery of a service into a market. The business community knows how essential these personnel are, and national governments retain the right to translate Mode Four access into their own legal frameworks. Mr. Yerxa emphasized that the US also needs to be prepared to make concessions on Mode Four.

Mark Bush of Georgetown University asked the speaker to comment on Brazil's declared strategy of using litigation where the desired legislative outcome could not be achieved. Mr. Yerxa responded that dispute settlement was a fact of life in the WTO and a good thing, a way for governments to test if commitments are being met. With increased commitments, especially in agriculture, the frequency of cases is also likely to increase, a fact that should be kept in mind for the upcoming US farm bill. Mr. Katz added that, in remarks delivered at the Carnegie Endowment, Senator Saxby Chambliss, chairman of the Senate Agriculture Committee, and Mike Johanns, Secretary of Agriculture, stated that the new farm bill needs to be litigation proof.

**Lawrence Kogan of the Institute for Trade, Standards, and Sustainable Development asked about the purpose of the WTO: is it fundamentally a rules-making or a rules-harmonizing organization? He also inquired about the changing scope of the WTO's mandate, specifically so-called regime shifting tactics. Mr. Yerxa responded that the WTO respects the role of governments but seeks to underpin their policies with the mutually agreed principles of nondiscrimination and transparency. An acceptable balance must be maintained between national and multilateral interests, but the WTO can provide the incentives needed for international cooperation. Some forms of international cooperation are less controversial (border measures) and some more so (environmental agreements), and the WTO is the forum where such debates can take place.**

Jane Early of Promar International inquired what would happen in a worst case scenario in which the Round collapses: could some elements such as an agreement on fisheries subsidies be salvaged? She also asked about the future direction of the WTO and whether it risked turning into another development assistance organization. Mr. Yerxa replied that there was some momentum post-Uruguay to abandon the Round concept but that he believed some form of comprehensive round was the only way forward. On fisheries subsidies, there was substantial support among key players to strike a deal but also many countries in opposition. It would be difficult to imagine resistant countries investing the time and effort to negotiate a deal on fisheries without the prospect of worthwhile gains in other areas. From this, Mr. Yerxa concluded that the only mechanism through which the international community can continue deepening liberalization is a multilateral forum like the WTO.

Regarding the future of the organization, Mr. Yerxa saw its main functions as being: maintenance and improvement to existing commitments, expansion of the dispute settlement body, and increasing coordination of development assistance. The WTO is currently engaged in a lot of work in technical assistance and capacity building, areas to which a significant share of Secretariat resources is and will continue to be devoted. Lamy is a big proponent of aid for trade, as long as the increased funds come from separately administered trust funds. Negotiation will remain a major component of WTO activity, and Mr. Yerxa worried about the WTO's credibility if governments are seen as consistently unable to close deals using its mechanisms.