

ISSUE OBJECTIVES FOR THE 2002 G8 KANANASKIS SUMMIT

- Trade -

1. Trade Liberalization

The general priority among G8 members at the upcoming summit will be the promotion of trade liberalization. Support for the new round of global multilateral trade talks that were launched at the WTO Ministerial Conference held in Doha, Qatar last November 9-13 will aid in achieving this objective. At Doha, the 'ambitious' agenda for the new round was set and it has been hailed by the US and the EU as the development round, although the developing countries themselves would hesitate to call it that. But from the beginning, two issues on which there seems to be little hope of reaching agreement - a demand to link trade with labour standards and calls to include rules on the environment - were left out of the main commitments and are mentioned only in the introduction of the Draft at Doha.

Last year, the pressure on the developed countries to increase trade flow came from the need to stimulate their poorly performing economies; a trend which had been exacerbated by the events of 9-11. Last fall, there was a possibility that the major global economic powers (US, EU, Japan) would go into recession simultaneously, or at least entering a simultaneous economic slowdown. During that time, the World Bank predicted that global economic performance would be halved from 3.8 percent in 2000 to 1.3 percent in 2001. In 2000, trade grew by 12 percent in volume terms, but trade growth was expected to fall to 2 percent at the most in 2001 after global trade in the second quarter actually contracted. US Federal Reserve chief Alan Greenspan said successful WTO talks were vital to kick-starting a contracting global economy. With decelerating economies and recessions looming, the developed countries were desperate to spur global trade so that they could save themselves from the fate of recession. This year however, with what has turned out to be a lukewarm recovery and with the fear of global recession kept at bay, the sense of urgency to engage in the new round has waned. Hence, much less attention has been given to the trade round compared to the widespread euphoria in the air last November. Nevertheless, all OECD members recently committed to pledges made in Doha, Qatar, to pursue free trade and take account of developing countries. They also affirmed their pledge to reject the use of protectionism. This is a clear indication that the Doha agenda is still alive, even if it may not draw the fervour it did last November. The new trade round remains one of the central trade issues to be discussed at Kananaskis since we are not economically in the clear just yet.

The major roadblock for developing countries leading up to the talks was the set of past commitments made at the Uruguay trade round in the 1990's that were not complied with by the industrialized countries, particularly on market access for agricultural products and textiles. The powerful industrialized trading partners extremely pressured the poorer countries, even threatening to withdraw aid and debt relief in order to start a new trade round. It was these backroom bruising (along with the other US tactics discussed elsewhere) that finally forced developing country delegates to resentfully cease their resistance and acquiesce.

Many developing countries called for a study to examine the effects of tariff reductions on local industries and jobs before being required to open their markets further. They asserted that local industries have already collapsed in most African and least developed countries as a result of previous tariff cuts. In Senegal, for example, a previous commitment to open markets by cutting industrial tariffs by almost half has led to the loss of one-third of all manufacturing jobs. However, this wish was not granted and the trade round plowed on. This issue, along with many others proposed by the LDCs, did not appear on the Doha draft declaration. Aside from the patent issue, the main concession won by developing countries was extra time to implement existing agreements. Although the LDCs may have received time to study the tariffs, they still do not have the money to do so. This issue of funding for tariff research may appear as a marginal issue in the G8 discussions under the G8 Africa Plan, depending on whether Africa or Terrorism dominates the agenda at Kananaskis.

In the dispute over drug patents, India, Brazil and African countries were at odds with the EU and the US over whether existing WTO intellectual property rules (embodied in the Trade Related Aspects of Intellectual Property Rights (TRIPS) treaty) allowed enough flexibility for poor countries to buy cheaper generic drugs to combat the epidemic diseases; TB, malaria and Aids. Under growing public pressure, the EU was becoming more sympathetic to this concern last year, but the UK, along with Germany and the US, opposed this trend last year. Europe was hindered from making progressive decisions on the drug patents by British and German trade officials who were desperate to protect their drug companies through what's known as the 133 Committee. But at Doha, a major victory was achieved by the developing countries that won a widespread exemption to patent rules in the interests of public health. This victory is expected to bring down the price of patented medicines, hence the TRIPS issue would seem to be off the G8 agenda in the near future.

Demands were made by the EU and the US that the WTO begin devising new global rules for competition, investment, government procurement and trade facilitation; which would be domains for the WTO. But developing countries insisted that they did not have the technocratic capacity to deal with such complex issues. They were already burdened with the task of implementing and negotiating the already complex issues that are in the current purview of the WTO. When the Indian trade minister threatened to walk out, the EU and US agreed that no negotiations would begin on these issues until after the WTO's next ministerial meeting in two years', and any country can veto the talks at that time. This was a small, and temporary, victory won by the developing countries. These demands are not issues that will be forgotten by the G8 EU members and the US. But because the next Ministerial is a year and a half after the Kananaskis summit, these issues will probably not appear at this year's summit. But it will rear its head once again in the 2003 G8 summit, which is a few months before the ministerial conference.

What has been showcased at the new trade round is the shift in the balance of power in the WTO slowly away from the Quad countries; a process that is set to continue now with the inclusion and active membership of China. Some have predicted that the once bipolar WTO forum controlled by the EU and the US is going to become tripolar with the inclusion of China (which can possibly ally with India in the WTO). The shift in power away from the Quad can be seen by the fact that the industrialized countries chose to have development as the central theme

for this trade round. They did so only because they knew they needed to have the developing countries on board if they wanted to achieve sweeping and substantive changes in global trade liberalization. In Doha, restricted negotiating groups were mostly chaired by developing countries, and sometimes EU and U.S. delegates were not even present - an absence that would have been unthinkable in the past. Representative countries were chosen by groups of developing countries to be responsible for their interests, and reported back to their constituents, in a much more structured fashion than in Seattle. Also, the shift in power also goes to explain why the US was prepared to concede so early on the patents issue. With power slowly slipping out of the grasp of the EU and the US in the WTO, one would expect them to collude to preserve their authority. But the recent spat of trade disputes between these two precludes collusion on many WTO issues in the near future.

An issue that threatened to sink the Doha talks was the demand by most countries for the EU to *phase out* its farm export subsidies. Northern governments had increased agricultural subsidies, instead of cutting them, to almost \$350bn (£244bn) a year. The EU - with France the most recalcitrant member - found the use of the word "phasing out" to be unacceptable. France, the world's second-biggest agricultural exporter after the United States, has a militant farm lobby and had presidential elections just six months away. A compromise was found to keep the words "phasing out" in the declaration, but preceded by "without prejudging the outcome of the negotiations" in the draft. In return, other countries were willing to accept EU demands that the new talks should take include some environmental issues on the agenda, such as the Kyoto accord on global warming. A deadline of March 31, 2003, has been set for agreeing on the basic structure of the farm subsidy cuts. Nations must then submit draft schedules for making the cuts by the next ministerial meeting in Cancun, Mexico. APEC trade officials in Puerto Vallarta reaffirmed their aim of meeting these goals. The structure of the farm subsidy is a major issue for the EU states. We can expect the G8 EU members (UK, Germany, France, and Italy) to use Kananaskis as a stage to outline their vision of what the structure of the cuts should look like, and lead the EU on this issue.

As the EU members draft the phase-out of their farming subsidies, they will put more pressure on the US to reverse its current trend of doing just the opposite. The US has not heeded these calls to cease farm subsidies. Recently, President George W. Bush signed into law a \$51.7 billion U.S. farm bill that boosts subsidies for certain crops and dairy products by 67 percent. The impact of this bill will be particularly damaging on developing countries, net food exporters and importers alike, especially because of the sheer girth of the subsidy. Kananaskis will become yet another stage for the trade dispute between the US and the EU.

The EU has not been a soft negotiator in its path to 'phase out' farm subsidies. The EU is demanding full-scale privatization of public monopolies across the world as its price for dismantling the Common Agricultural Policy in the new round of global trade talks. This effectively opens up sensitive sectors of its trading partners' economies including water, energy, sewage, telecoms, post and financial services. This would allow private companies to have free reign on these lucrative fields. This move has been resisted by developing countries because it devolves functions of the state that are essential to the smooth operation of the economy to the fickle whims of foreign private enterprise. The G8 states, which are familiar with the privatization of the public sector, will urge this issue onward at Kananaskis. This privatization

of public monopolies would open new markets for the G8's domestic private firms, which will often out-compete the private firms in developing countries.

Japan has been vague about its motivations in the new trade round, other than that it wants to offer its agricultural lobbies as many loopholes in WTO disciplines as possible. It is likely to take a cautious approach on farm-trade liberalization since farmers form a core part of support for the ruling Liberal Democratic party. To that end it, has pushed the concept of "multifunctionality" of farming with a singular energy. We can expect to see Japan supporting the US on farm subsidies at Kananaskis if the US is attacked by the EU members for its excessive subsidies.

2. Trade Disputes

While all the industrialized nations believe getting agreement in the Doha Round of negotiations is the principal aim of their trade policies, trade disputes, primarily a result of protectionist measures, among the G8 members will also be an area of issue. The summit will likely become a platform for discussion among the Group of 8 in order to eliminate such measures and further trade liberalization.

Disputes over world trade were particularly evident in the new trade round talks. The US was predictably characterized as the bully, and moreover it was accused of adopting divide-and-rule tactics. Subtle US diplomatic arm-twisting offered compromises to some countries and threats of withdrawal of aid to others, with the hope and intention for opposition coalitions to split. It was reported by sources in Geneva that Bolivia and the Dominican Republic were pressured to agree with US demands on trade declarations or face reductions in aid. A number of African countries were told that they would get cheap life-saving drugs if they wave through US liberalization proposals. The vortex that is the trade war between the US and European Union has drawn the World Trade Organization into its grip and the new trade round has at times become a forum for trade policy fisticuffs. Hope for greater US involvement in multilateral trade sprung from a US bill that the senate has recently passed giving the White House broad powers to negotiate new trade policy without having to undergo the once rigorous consultation with the various chambers of government. But this has not been a revolution of US foreign policy as the US continues to subsidize cheap exports, especially steel and agriculture that make that smashes the principle of fair competition that is a central tenet of the WTO philosophy. Defying logic, the US claims that it wants borders to open up in the new trade round despite its continuing unfair trade practices.

The ongoing trade dispute between the US and the rest of the world was also evident at the recent Latam summit bringing together nearly 50 heads of state and government from Europe and Latin America. The EU sought to forge closer political and economic ties with a region that has traditionally looked more to the United States. French President Jacques Chirac sharply criticized recent US trade policy, claiming US protectionist measures would highly disadvantage poor countries. The EU and Latin American leaders endorsed multilateralism, which is a coded criticism of what they see as U.S. unilateralism in trade and the environment.

The US' protectionist measures such as the imposition of steel tariffs and farm subsidies have caused much controversy in recent months. US President George W. Bush recently announced a

three-year plan that will include the imposition of tariff safeguards of 30 percent on major steel products in order to allow US steel industries to strengthen and compete internationally. The US also passed a new six-year law boosting US crop and dairy subsidies by 67 percent. The bill is an attempt to provide a safety net for the US agricultural industry.

Opposition to US steel tariffs and farm subsidies by G8 members as well as other nations has been quite strong. U.S. trading partners have criticized President Bush's decision to impose steel tariffs as an abandonment of free-market principles. European Union Trade Commissioner Pascal Lamy stated that while a trade war was unlikely, the EU would be willing to impose sanctions on the US if necessary. Japan and other countries have also complained about protectionist US trade practices to the WTO. German Deputy Finance Minister Caio Koch-Weser also criticized the US for adopting what he deemed unfair trade policy, stating it posed a risk to the global economy. China said it would impose import tariffs on nine steel products and threatened to tax imports of US soybean oil in response to US tax steel imports. The new Chinese tariffs were proposed after the United States failed to give a clear response to China's demand for compensation or exemption from such tariffs. China was also opposed to the US farm bill. According to the Chinese trade ministry and the Ministry of Agriculture the bill distorts international farm trade and goes against the US government's commitment to liberalizing farm trade. It also damages the new WTO round of talks on farm trade. Countries such as Canada, Australia and the EU have also complained the new farm subsidies contradicts US calls for freer farm trade.

In its defence, the US has stated that its trade policies are lawful under WTO regulations and will attempt to quell G8 members' fears at the summit. US Trade Representative Robert Zoellick stated the US had pursued measures in line with US domestic law and WTO trade rules, which recognize that safeguarding provisions are warranted in particular cases in order to protect domestic industry. The US has claimed that other countries such as Japan, the EU and Brazil have also used safety measures to protect domestic industry and there are approximately 21 similar safeguards in effect in the world today. Zoellick said the Bush administration's decision to impose tariffs on steel showed its willingness to use its trade laws to protect domestic producers against unfair foreign trade practices. In regards to the farm bill, President Bush and Zoellick have insisted that the US is committed to global free trade and will continue to maintain this stance, likely reaffirming its commitment to liberalization of trade at the summit. The US has criticized EU complaints launched against the US, especially since European countries have themselves engaged in protectionist measures to protect their agricultural industry.

Many trade diplomats question whether countries such as Japan and the EU will actually impose retaliatory tariffs on the US. Tariffs of this nature could prove damaging to the Doha trade round as well as the general pact among countries to liberalize trade, a necessary ingredient for global economic recovery.

Prepared by: Nicol Lorantffy & Thineishan Ramanathan
University of Toronto G8 Research Group
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