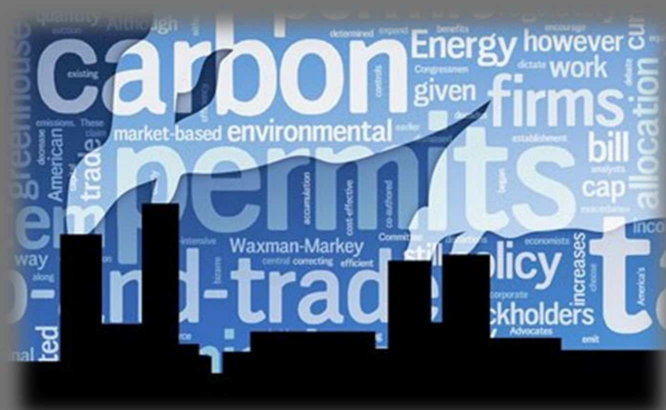
2013

WTO 2013 Background Guide

MIT Model United Nations Conference V



wto2013@mitmunc.org

Letter from the Dais

Dear Delegates,

Welcome to MITMUNC 2013! We are very excited to serve as your committee chairs this year and look forward to some great debates and helping you make the world a (slightly) better place.

My name is Henning Greiser, and I will be one of your Co-Chairs this year. Originally from Germany, I am at the MIT Sloan School of Management for a Master's degree with a focus in transportation management. While this is my first time participating in MITMUNC, I have attended numerous other conferences around the world including the WorldMUNs in Geneva and Puebla, Mexico as well as NMUN, Bonn International MUN and the UCLA MUN conference. This is my second time serving as Chair and I am excited to be working with you. I hope you will have a great time during the conference, make new friends and engage actively in the debate.

My name is Eva-Lotta Käsper (the umlaut is a real nuisance, trust me) and I come from the little Baltic state Estonia, also known as the nonconformist rat who jumped onto a sinking ship in 2011 by adopting the euro. I am currently a freshman in MIT and plan on majoring in Course 9, Brain & Cognitive Sciences. Not only budgets have to be balanced, and I, on the other hand, have minimal previous MUN experience, but the greater are my expectations for this year's MITMUNC. I, too, hope you will have fun exploring the topics and enjoy the conference.

See you soon!

Henning Greiser

Eva-Lotta Käsper

World Trade Organization Chairs,
MITMUNC V,
wto2013@mitmunc.org

Topic 1:

Reviving the Doha Round; Industrial Issues

Introduction

The Doha Development Round of trade negotiations, which commenced in 2001, represents the primary effort to advance global trade on a multilateral basis. While this process has been stalled for several years, the focus has shifted to bilateral agreements (US-South Korea, etc.) that do lead to advances in free trade but further undermine the idea of eliminating trade barriers at a global level. One of the most controversial subject areas concerns the trade of industrial goods and various countries' policies to protect their domestic industries.

A primary complaint has come from developed countries accusing developing companies of impeding trade by providing protection to their relatively small industrial sectors. But issues also persist between developed nations, for instance in the case of Boeing vs. Airbus which accuse each other of receiving governmental support and subsidies.
Disagreements over these issues have put the future of global trade negotiations into question. Some commentators have gone so far as to declare the Doha round dead. A continued push for bi-lateral agreements, particularly on the part of the US, serves as evidence that there is little faith in the prospects of a truly global agreement.

The Doha Round

The talks are named after the city where they were launched in November 2001 although they mainly take place in Geneva, Switzerland. They are also called the Doha Development Agenda to emphasize development as a main objective, but also to underscore that negotiations are only a half of the work program — the other half being the implementation of the present agreements in developing countries.[1]

The negotiations focus on the following areas:

- agriculture,
- industrial goods market access,
- services,
- trade facilitation,
- WTO rules (i.e., trade remedies, fish subsidies, and regional trade agreements),
- development.

Three Crucial Elements in the Negotiation

1. To cut tariffs according to a general formula based on a coefficient. Overall around 40 countries, which include the world's largest traders, will apply the formula. All the others have different specific provisions.

2. Flexibilities for developing countries (that would allow these countries to make smaller or no cuts in tariffs for limited percentages of their most sensitive sectors).

[1] http://www.wto.org/english/tratop_e/dda_e/dda_e.htm

3. Special treatment for small, vulnerable economies, least-developed countries (LDCs), recently acceded members (RAMs), members with low binding coverage, and others.

Tariff reductions for industrial products would be made using a "simple Swiss" formula with separate coefficients for developed or for developing country members. But whereas the coefficient for developed members will be the same applicable to all of them, there will be a menu of options for developing members that will apply according to the scale of the flexibilities they choose to use. The lower the coefficient, the higher the flexibilities, and vice versa. A Swiss formula produces deeper cuts on higher tariffs. (A higher coefficient, as envisaged for developing members, means lower reductions in tariffs).[2]

Industrial Market Access

Negotiations on non-agricultural market access (NAMA) were pushed forward by the EU and US who were looking to gain access to the huge markets of emerging economies like China and Brazil. Meanwhile, developing countries were keen to protect their infant industries and maintain their preferential access to rich countries.

Negotiators finally agreed that industrial tariffs should be cut according to the so-called 'Swiss formula', entailing higher cuts for the highest tariffs and the introduction of a tariff ceiling; but they failed to agree on the actual structure of the reduction formula or on the level of the cap. The EU and the US had suggested that maximum rates on manufactured goods should be 10% for developed countries and 15% for developing countries. Developing countries, on the other hand, wanted a tariff cap of 30% for themselves, which would entail softer average cuts.
While the EU was prepared to permit an intermediate tariff cap of 20% for developing countries, the US continued to call for a maximum difference of 5 percentage points between developed and developing country coefficients.[3]

Doha Declaration of Financing for Development

Follow-Up Conference on Financing for Development to Review the Implementation of the Monterrey Consensus took place in Doha in December 2008. Delegations from 160 United Nations Member States contributed to the drafting of the Doha Declaration on Financing for Development. "We reaffirm that international trade is an engine for development and sustained economic growth. We also reaffirm that a universal, rules-based,open, non-discriminatory and equitable multilateral trading system, as well as meaningful trade liberalization, can substantially stimulate development worldwide, benefiting all countries at all stages of development."[4]

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[2]http://www.wto.org/english/tratop_e/dda_e/status_e/nama_e.htm

[3]http://www.euractiv.com/trade/wto-doha-development-round-linksdossier-188396

[4]http://www.un.org/esa/ffd/doha/documents/Doha_Declaration_FFD.pdf (special attention to *International trade as an engine for development* section)

Global Trade Policy beyond Doha

The failure of Doha has not resulted in increased protectionism but instead in a shift to a regional rather than a global trade policy. Thus, the stalled Doha round is both the cause and an effect of the rise in regionalism and bilateralism. During the recent U.S. presidential race, the notion of international trade only received attention in the form of additional bi-lateral agreements. In this context, reviving the Doha round also represents a key challenge to the WTO in the attempt to keep the notion of global trade agreements alive. As Pascal Lamy, the WTO director general, has recently warned: "Credibility lies in the capacity to produce results, not statements."

Some observers have, in fact, declared the Doha round dead in the face of global economic decline. In a recent article, the Economist even proposed replacing the Doha round with an international discussion on economic recovery. [8] In any case, basic economics tell us that continued obstacles to international trade will dampen growth and thereby the chances for sustained recovery.

Where to Start

Should UN/WTO promote bilateral agreements that lead to advances in free trade in the short term or discourage their formation in fear of further undermining the idea of eliminating trade barriers at a global level?

Although the General Assembly believes that all countries at all stages of development would benefit from a more free and liberal global trade system, which countries would benefit the most? (Opening markets further to products "Made in China"?)

Why was the Doha round not as successful as it could have been? What are the main controversies? How could they be solved it the future?

In September 2009 US President imposed additional duties on imports of certain passenger vehicle and light truck tires from China for a period of three years in order to remedy the market disruption caused by those imports. China challenged the imposition of additional duties claiming that the United States had not acted consistently with its WTO obligations in imposing the additional duties. The World Trade Organization (WTO) Appellate Body found in favor of the United States. Are these kinds of disputes more likely to come up in the future? Is it a sign that despite all the great promises and idealistic agreements countries will always find a way to protect their markets?[5]

What are the main differences in the trade of agricultural *versus* industrial products? Are countries more likely to protect their industries? Why? Is protectionism sometimes justified?

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Topic 2:

Providing a Framework for Global Emissions Trading

Introduction

Global warming has been on top of the international political agenda for the last two decades. The international community has spent years arguing about the causes and consequences of this phenomenon threatening the livelihoods around the globe, particularly in many developing nations. In its Fourth Assessment Report (2007), the UN Intergovernmental Panel on Climate Change (IPCC) has determined that average global temperatures have risen by an average 0.74°C and will likely increase by at least another 2°C during the 21st century. The report further suggests that an increase of 2°C is associated with an increased risk of "extreme events", i.e. severe weather patterns such as storms or prolonged droughts.

While some of these findings remain disputed, 42 industrialized and 45 developing countries have committed to quantifiable emissions reductions under the 2010 Cancún agreement, which defined the specific goal of limiting global warming to no more than 2°C. After the IPCC released its report, the debate about whether humans are the primary driver through carbon dioxide emissions has largely subsided. Therefore the discussion has moved to the consequences of global warming, how these can be limited and how any inevitable impact can be mitigated.

Emissions Trading – "Cap and Trade"

The Kyoto Protocol, building on the 1992 Framework Convention on Climate Change (UNFCCC), represents one of the most comprehensive international agreements on reducing greenhouse gas emissions. In this document, many nations have committed to targets for these reductions and the Protocol proposes specific measures for how these can be achieved. "Cap and trade" emissions trading has been deemed one of the key tools in this context. The basic idea stems from fundamental economic theory, which has identified market failures as a primary reason for inefficiency in free markets.

Pollution, whether in the form of greenhouse gas emissions, noise or water pollution, is considered to be an externality, a by-product of economic activity that the responsible party is not appropriately charged for. In a free market, this means that these parties have no incentive to cut emissions, as they impose no explicitly costs on them. Theoretically, governments should find ways to price these externalities in order to impose the true costs on producers. As profit maximizing entities, these producers would then cut their emissions accordingly.

Emissions trading seeks to achieve just that. Instead of imposing a simple tax on carbon emissions, the government would create an artificial market where emission rights are traded. As the supply of these rights would be limited, their price would increase along with increasing emissions. After an initial allocation, heavy polluters would face the financial burden of having to acquire additional certificates at high costs while cleaner businesses can benefit from selling their certificates. As opposed to a taxation scheme, the government would not determine the price of a unit of emissions but the ultimate quantity of permitted emissions. This policy should, in theory, make it easier to achieve certain reduction goals.[6]

European Union Emissions Trading Scheme (EU ETS)

One of the most sophisticated and far-reaching carbon emissions trading regimes has been implemented by the European Union. Launched in 2005, it includes all 27 member states plus Iceland, Norway and Liechtenstein. The original focus remained on power plants and highly polluting heavy industries such as steel, cement and paper plant. Critics, such as the NGO "Friends of the Earth Europe", have pointed out a number of design flaws in the program. They point to an over-allocation of emissions permits and a significant share of free allocations as causes for low prices that did not create enough of an incentive for businesses to actually reduce emissions. Industry representatives, on the other hand, argue that free allocation of certificates is necessary to protect vulnerable industries facing international competition.

[6]Please also refer to http://www.guardian.co.uk/environment/2011/jul/05/what-is-emissions-trading for a more detailed explanation of emissions trading

The mechanism received even more unwanted attention when it was reported that the IT infrastructure of the exchanges had been hacked and certificates had been stolen. Recently, the scheme has been expanded to include all air traffic into and out of the Union irrespective of where the operating carrier is located. This move has sparked major criticism not only inside the EU, but also by countries representing major air carriers flying to Europe, mainly China and the United States. These states allege the EU ETS to be a unilateral trade penalty on external companies as they are effectively subsidizing a European project. China in particular has threatened retaliation in the form of cancelling aircraft orders from the European manufacturer Airbus or additional taxes levied on European carriers in China.

Similarly, the European carriers have raised the issue that as opposed to power plants, they have to compete globally and would suffer a significant loss in competitiveness as a result of this policy. As of November 19th 2012, the European Commission has suspended the inclusion of international flights, but the overarching question remains. How can global industries contributing heavily to carbon emissions be included in reduction schemes without distorting trade? Can the international community agree on common standards to create a global ETS with a level playing field?

In the next phases, the European Commission is planning to include further industries in the EU ETS, namely petrochemicals and aluminum.

Regional Emissions Trading Schemes

Beyond the EU ETS, a number of other such schemes varying in scope have been put into place in different countries. In the United States and Canada, the Western Climate Initiative (WCI) represented an effort by states to create a similar system on a smaller scale. Progress has been stalled however, by the withdrawal of several states in recent years. The Regional Greenhouse Gas Initiative in the Northeast has recently suffered a similar fate.

While Australia and New Zealand have made comparable attempts, the European system remains the only sophisticated emissions trading scheme operating beyond national borders.

The Challenges ahead

In November 2012, the Doha Climate Change Conference, the latest installment of talks under the UNFCCC, concluded without substantial advances on carbon emissions reductions. The distance between the Europeans, pushing for tougher measures, the United States and China as largest global emitters as well as many developing countries remain significant. In absence of a global solution, national and regional action has come to represent the primary driver for carbon emissions reductions with Europe currently at the forefront. But the international reactions to its emissions trading scheme have demonstrated clearly that there are limitations to these approaches. Substantial reductions in carbon emissions in conjunction with maintaining a level playing field for global industries can only be achieved through a comprehensive international response.

The primary challenges on the road to such a comprehensive international emissions trading scheme are as follow.

Carbon price as a trade barrier

The international community needs to agree on a definition of carbon prices within the context of international trade. Critics see them as a punitive tax while proponents argue this issue will disappear with the introduction of a truly international scheme.

Allocation of certificates

Most existing schemes have started with a free allocation of certificates. The EU ETS slowly introduces quotes for certificates to be auctioned off, but all these strategies have been plagued by a market price that was too low to achieve the set targets.

Industry inclusion

In order to avoid putting internationally active industries at a disadvantage, the scheme needs to become truly global Otherwise, the states involved will need to find ways to mitigate these impacts in order to retain competitiveness.

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