

World Trade Organization (WTO)

Background Guides



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Letter From The Chair

Distinguished Delegates:

It is my pleasure to welcome you to the 2010 Massachusetts Institute of Technology Model United Nations Conference. I've chosen two exciting topics from the Doha Agenda that I anticipate will lead to a riveting and engaging discussion in the WTO: Special treatment for developing nations and various aspects of agricultural trade. I anticipate that this committee will be full of well-researched debates, novel ideas, and inventive collaborations between the countries you faithfully represent.

The role of the World Trade Organization is amplified as the global economy struggles to gain strength after the recent market downturn. The resolutions passed and precedents set in our committee hold weight like never before. You must fully analyze the implications of your actions, as we in the WTO have the perfect opportunity to draft striking reforms that could potentially lift the economies of the developing world and at the same time improve the global economic situation as a whole. This should be the overarching direction of your work: the use of trade with the end of bolstering third world economies in such a way as to strengthen the larger global market in which they exist. Admittedly, this goal is lofty, but its gallant nature comes from the importance of your work.

Yours, and best of luck,

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Topic One:

The Question of the Doha Agenda: Special and Differential Treatment

1. Background

The World Trade Organization is tasked with administering trade agreements, providing forums for trade negotiations, handling trade disputes, monitoring national trade policies, assisting and training developing countries in issues regarding trade, and generally cooperating with other arms of the United Nations in order to promote worldwide peace and prosperity. It was with these goals in mind that the Doha Development Round of trade talks began in November of 2001.

Previous World Trade Organization agreements already give special and differential treatment to developing countries. In the Doha Declaration, a clarifying statement released in response to the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), the WTO issued the sentiment that these existing special provisions should be reviewed and clarified. That is one of the goals of this meeting. The Declaration further calls for the analysis of the provisions in order to review which should remain mandatory and which should become non-binding and vice versa, as well as the implications of changing each designation. After these revisions have been made, the WTO must also create a program to assist the developing countries in benefiting maximally from the provisions.

Before any meaningful debate can begin on the topic of Special and Differential Treatment for Least Developed Countries, it is necessary to establish the history and impetus of such provisions. The origins of special treatment can be traced back to the General Agreement on Tariffs and Trade (GATT), which was initially negotiated in 1947 and remained in effect until 1994 when it was disbanded and replaced by the World Trade Organization. The general consensus is that for trade to be as free and fair it must be multilateral and open. Special provisions for developing countries are meant to reinforce the principle of multi-

lateralism in trade, ensuring that least developed countries have open and ready access to markets for the goods that they need to import and export. To this end, there have been four distinct phases of provisions for least developed countries.

The first round of special treatment provisions lasted from the formation of the GATT until the 1973 Tokyo Round of negotiations. This first phase was dominated by provisions regarding market access; specifically, the ability of developing countries to send exports to the developed world. In 1957 the GATT determined that protectionism of agricultural commodities (ie, nations—developing and developed alike—withholding agricultural products and machinery from world markets), wildly modulating prices on goods, and a negative balance of trade in developing countries were all factors that are detrimental to fair and multilateral trade. Thus, a so-called Panel of Exports was formed in order to explore the causes of and possible solutions to these factors. Among the findings of the Panel was the conclusion that the negative balance of trade in many developing countries, whose import expenditures were far greater than their export revenues, stalls development. The Panel placed the blame for this unfortunate situation on trade barriers in developed countries against the developing world, though they did not absolve trade barriers by developing countries of guilt.

In response to the findings, the GATT created the umbrella Programme of Action Directed Towards an Expansion of International Trade. A committee of the Programme drafted a Plan of Action containing eight points calling for an abolishment of trade barriers by developed countries against exports of “products of interest” to the developing world. While an ambitious and likely helpful plan, it was unfortunately never put into full effect. Other findings and proposed reforms were similarly disbanded and never put into place. Though these findings came about over forty years ago, the debate today centers on the same issue because the Plan of Action was never implemented. One striking reform to come from this phase was the establishment of the principle of non-reciprocity: in trade negotiations, developing countries would not be expected to make concessions that go against their development,

financial and trade needs. In trade talks, developed countries are expected to accept negotiations that may not be in their own immediate best interest. Thus, non-reciprocity refers to the principle that developing countries are not expected to do the same. This is one example of a concrete provision for special treatment for the developing world.

The Tokyo Round (1973-1979) marked the second phase of talks on special and differential treatment for developing countries. Negotiations shifted towards allowing developing nations to export more of their goods. This round of talks also paid closer attention to the bureaucratic burdens that trade codes place on developing nations. It was agreed that international trade codes would be written and signed on a case-by-case basis, and that the codes would only apply to countries that volunteered to be signatories on the legislature. Unfortunately, this led to the abstention of many developing countries from signing trade codes related to customs valuation, import licensing, and anti-dumping measures. The benefit, according to supporters of the new code system, was that developing countries could be more flexible in trade negotiations without having to act as a unified bloc of nations. Unfortunately, the GATT did not provide an adequate framework to help developing nations, particularly those relatively new to international trade, negotiate favorable codes. This continues to be an ongoing problem in the establishment of differential trade provisions.

The third phase lasted until roughly the end of the Uruguay Round in 1994. As developing nations made progress towards becoming developed, their interests in the international trading markets shifted. With increasingly diversified economies, many nations were better able to participate in global trade. Still, regionalism was growing rapidly, threatening the goals of multilateralism. The GATT was increasingly criticized for not dealing with issues regarding agricultural trade, textiles, intellectual property rights, and investment in general. Another major development in the third phase was the repealing of the initial code-based Tokyo approach to trade negotiations. With the formation of the WTO, all member nations were now required to approve of trade legislation.

2. Goals

And so we find ourselves now in the fourth phase of trade talks. How can the WTO help both developing and developed countries better implement, integrate, and streamline the obligations established in the Uruguay Talks? What further provisions does the WTO need to establish, if any, in the current Doha Round? The goal remains the same, but the playing field has changed. The WTO must adhere to the initial impetus of free and fair multilateral trade. Though developing nations have undergone countless leadership changes, their economies continue to evolve and diversify. Any new provisions must take these into account.

The developed world has a great stake in the debate as well. As nations attempt to recover from the recent economic crisis, how much are developed countries willing to cede in terms of favorable trade negotiations to the least developed countries? Has the magnitude of the sacrifices that the developed world is willing to make decreased? How can we insure that the developing nations continue to receive special provisions, and that the effects of these provisions continue to expand, while the nations with which they trade are no longer as willing to give favorable market conditions? Or, more fundamentally, does the developing world even have a right to special provisions? The resolution of these questions represent the sum of the goals of this meeting of the World Trade Organization.

3. Conclusion

Due to the nature of the topic, countries will most likely self-stratify into blocs according to their statuses as either a developed or developing nation. Keep in mind that only through sacrifice and some measure of reciprocity will negotiations and compromises be reached. The delegates representing developing countries should each research what further special provisions their nations would like to gain or would stand to gain from, tailored individually to each country. Likewise, each delegate representing a developed country should research what types of provisions

and special treatment their governments would be willing to grant to developing countries, drawing on past policy decisions and future plans as enumerated by the nations' respective heads of states. Delegates representing nations more towards the center of the developing—developed spectrum should be able to offer advice on how to effectively draft and implement trade agreements to help pull a country from relative poverty. All delegates should research what specific provisions are already in place worldwide as well as specific provisions that apply to the delegates' nation. Fruitful debate will depend on informed discussion, and many reforms can arise from amending previous provisions that may only require slight changes to reach their fullest potential. Some provisions may need to be drawn from scratch as per the needs of the countries represented. The position paper that the delegate submits should touch on each of these topics as they apply to the delegate's nation.

4. References

- Fergusson, Ian. World Trade Organization Negotiations: The Doha Development Agenda. Congressional Research Service, United States Congress. January 2008.
- Keck, Alexander and Patrick Low. Staff Working Paper ERSD-2004-03: Special and Differential Treatment in the WTO: Why, When and How? Economic Research and Statistics Division, World Trade Organization. January 2004.
- WT/COMTD/W/135: Special and Differential Treatment for Least-Developed Countries. Committee on Trade and Development, World Trade Organization. October 2004.

Topic Two: The Question of the Doha Agenda: Topics in Agriculture

1. Background

Until the Uruguay Round negotiations (1986-1994), the GATT was mostly ineffective in dealing with many important facets of international agricultural trade. Many countries established export subsidies as well as import restrictions such as tariffs. This unbalanced trade ran the risk of creating a volatile market, the crash of which could send many countries into famine. One of the first significant steps of the WTO was to curtail these import restrictions and export subsidies in order to create a more balanced global agricultural market.

With even this brief background knowledge, it is easy to see from where the conflict arises. Governments in general aim to support their domestic growers by providing farmer subsidies. This allows for greater crop production and lower prices. In some cases, subsidies lead to excess, which is then sold on international markets. The government subsidies, therefore, can, to some degree, be used to control the availability of staple crops in international trade. In addition to domestic subsidies, governments can also establish export provisions, whereby the exporting of goods is not taxed or only leniently taxed. The danger comes from the ever-present threat of governments revoking these subsidies. Should they do so, the worldwide supply of food would plummet, prices would skyrocket, and mass famine could result. Thus, one of the ongoing goals of the WTO is to reduce reliance on governmental subsidies in the international agricultural marketplace.

There are further benefits to decreasing government subsidies. Export incentives distort trade by allowing government-modulated prices to rule the market. For example, if one relatively rich government can provide greater subsidies than a relatively poor government, the farmers of the richer country profit not only from the subsidies but also from the increased demand for their

inherently cheaper subsidized crop. This reinforces the imbalance between nations, as there is now effectively an export barrier to agricultural products from the poorer government which is unable to match the richer government's subsidies. This has major implications for developing nations that are trying to pull themselves out poverty. The playing field must be level in order for them to compete.

Subsidies may also lead to a reduction in quality of crop. Export incentives skew competition in the international market to be based on subsidies alone. The nation with the government that provides larger subsidies puts more crops on the market. These crops are not necessarily the best quality—they are only the cheapest. This prevents competition based on the fair factors of open-market price and quality and instead leads to competition based on the sizes of government subsidies and the artificially deflated prices they commission. Not only does this continue to reinforce the stratification of nations, but it also decreases the overall quality of crops on the market.

The debate on export subsidies continues. Some countries such as India argue that states should be allowed to increase subsidies on one particular type of product as long as they make an equal reduction in subsidies for other goods. Many developing countries argue that subsidies should be abolished altogether, since the artificially depressed prices of richer nations make it harder for their farmers to compete on the international market. These same countries would also like for certain loopholes in export subsidy reduction commitments to be closed; for example, the developed world's widespread use of food aid to help balance the subsidies they provide. However, this too draws criticism as it reduces the incentive of developed nations to give such aid.

Some of the more extreme proposals under current debate include the immediate reduction of all export subsidies by 50%. An even more extreme consideration is legislation to ban all subsidies outright and immediately for all WTO member states. In any event, general consensus is that export subsidies must somehow be reduced.

In addition to export subsidies, market access is a major concern in international trade of agricultural products. Just as subsidies help artificially drive down the prices of a country's goods

on the international market, import tariffs increase the prices of foreign goods. Tariffs, like subsidies, also help protect domestic farmers at the expense of foreign producers.

There are two types of tariffs, applied and bound. A bound rate is the negotiated highest-possible tariff rate a country can set on the import of a product. The applied rate is the actual rate levied. By definition, it must be less than or equal to the bound rate. Most negotiations thus far have occurred on a product-by-product basis (or a product type-by-product type basis) since, despite the inefficiency and increase bureaucracy of the system, countries desire the flexibility it affords. Many developing countries advocate the total elimination of import tariffs on their exported goods. It is clear that special and differential treatment for these countries will make a great impact on the way developed nations handle their negotiations. Recently admitted members to the WTO were already required to reduce their import tariffs, so their ambassadors have expressed the sentiment that they should not be required to further decrease their import tax rates.

Two main overarching proposals have come about regarding reducing trade tariffs. One calls for a net lowering of rates on all products, with some flexibility on a product-by-product basis as long as the minimum average reduction is met. This is a simple but controversial strategy. The other proposal would make use of a flat-rate percentage reduction for every product with additional considerations for increased reductions on disproportionately high existing tariffs, increasing import quotas, and giving special and differential treatment to developing countries. Indeed, it is not only developing countries that require special (though not necessarily favorable) provisions. Countries that are new WTO member states as well as countries currently transitioning to market from barter economies all need special consideration in all trade legislation.

Another topic to be discussed is the use of special agricultural safeguards. These are “contingency restrictions on imports taken temporarily to deal with special circumstances such as a sudden surge in imports.” These safeguards have only been used in rare cases, but it is necessary to review and alter the current rules so that in the

event of a crisis they may be used efficiently and effectively. High safeguard duties are allowed to come into effect automatically when the market is flooded with goods or if the prices of certain goods fall below a set price floor. The purpose of safeguards is to keep supply below a critical amount so that even in the event of a flooded market, the prices do not drop to such a degree that they would cause the collapse of a country’s industry for that product.

There have been a few overarching proposals debated already in regard to safeguards. Developed nations would like the current rules changed such that only they would be allowed to use safeguards. Some countries would like safeguards to only be applied to perishable or seasonal goods. The logic behind this proposal is that if the market is flooded with a nonperishable, non-seasonable good, the excess supply can be kept off the market in storage until the price for the product can return to normal. This technique for price modulation cannot be done with perishable or seasonal goods. Other proposals center around further specification of which goods can have special safeguards applied to them.

2. Goals

The goal of the debates over agricultural issues should be, simply, to reduce inefficiency and increase equality between nations while paying special attention to countries’ different needs. The current tariffs system is a hodgepodge of two-party, single-good negotiations; the safeguard system needs to be overhauled; and the WTO needs to establish concrete, binding, and global rules regarding export subsidies. All negotiations must be multilateral, as they must take into account the vastly differing needs and abilities of each member nation. Additionally, developing nations who are relatively new to the international trade of agricultural goods—that is, countries which have only recently begun producing domestic surpluses and are newly able to export their excess supplies—need special attention from the WTO in helping to forge trade agreements with other nations. There must be a support network for helping these countries negotiate and draft export, import, and safe-

guard agreements favorable to their needs. This framework must prevent predatory, manipulative, and exploitive negotiations with other countries to ensure that no trade relations shall ever occur again that even minutely resemble those found in disbanded colonialism ties.

3. Conclusion

As in the previous topic, countries will most likely settle into blocs according to their status on the developing—developed spectrum. However, for this topic there will be the added complication of overlapping blocs. The group of nations recently admitted to the WTO will have sentiments regarding restrictions on their trade agreements different from those of nations who have been GATT states since that Agreement's inception. The lines between these blocs will be blurred: some recent members will be developed nations, others will be developing.

Each position paper should clearly identify the country's stance as far as agricultural trade negotiations are concerned. Every nation will have different goals and needs with regard to agricultural trade, and each delegate must be well-versed in his or her country's position in order to have an informed and productive debate. By nature of the topic, trade agreements are highly country-specific, so a knowledge of the country's needs is absolutely imperative. The delegate should come prepared with an idea of what his or her country would like to gain from negotiations and what that country is willing to sacrifice for the overall health of the global market.

4. References

- Fergusson, Ian. World Trade Organization Negotiations: The Doha Development Agenda . Congressional Research Service, United States Congress. January 2008.
- The Issues and Where We Are Now. WTO Agriculture Negotiations, World Trade Organization. December 2004.
- TN/C/M/3: Minutes of the June 30 Meeting of the Trade Negotiations Committee, World Trade Organization. June 2004.