

# Public Lecture

Global Governance After the Failure of  
the Doha Development Round and the  
Climate Change Negotiations

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# Calls for Global Governance

As a result of falling border barriers to trade in goods, services and factors, the national economies of the world are becoming more integrated. Hence, the economies of each nation are more affected by policy decisions of other nations.

This has led to proposals for new binding global governance rules in a number of areas, including international migration and labour movements, foreign investment, competition policy, corporate taxation, climate change and lately the global financial architecture.

# Alternative Views

Some economists remain skeptical of the need for more global governance.

For example, Dani Rodrik, a Professor of Political Economy at Harvard University, declared :

“The quest for global governance is a fool’s errand.”

(reported in The Nation, 9 February 2011).

# Two Current Negotiations

I shall be concerned with two current negotiations to set up new global governance rules:

- ◆ the Doha Development Round in the WTO
- ◆ The UN Framework Convention on Climate Change (UNFCCC) negotiations on climate change

These are the two largest negotiations undertaken in the field of international commerce in the last 75 years. Both have failed to date. There are remarkably close parallels between these experiences.

# Doha Development Round

The Doha Declaration of November 2001 set out 21 areas in the “work programme”. The major negotiations relate to market access in

- ◆ Agricultural goods trade
- ◆ Industrial goods (“Non-agricultural market access” or NAMA)
- ◆ Services.

Agricultural and NAMA market access negotiations are the two pivotal areas on which the negotiations have turned so far.

# Chairpersons' Draft Modalities Texts

In both the agricultural trade and the NAMA market access negotiations, the latest proposals are contained in Chairpersons' draft "modalities" reached in December 2008.

In each of these drafts, formulae with multiple tiers have been proposed.

# Treatment of Developing Countries

Developing Country Members are treated differently.

**Agriculture:** For Developing Country Members, the cuts in each tier of the tariffs and in the Amber Box for domestic support would be 2/3 of the cuts made by Developed Member countries.

**NAMA:** the coefficient for Developing countries is in the range 20-25, meaning that the maximum rate is 20-25 per cent. (It is 8 per cent for Developed Countries.)

In addition Developing Countries, in both areas, would be able to make smaller cuts in some circumstances because of various "flexibilities" and "contingencies". LDCs and recent new Members would not have to make any cuts.

# Special and Differential Treatment

The different treatment of Developing Country Members is an application of the provision for Special and Differential Treatment in the GATT.

Specifically, the Doha Declaration states  
“The negotiations shall take fully into account the special needs and interests of developing and least developed country participants, including through *“less than full reciprocity in reduction commitments”* (italics added).

# Failure of the negotiations

These draft modalities are not accepted by many members. In particular, the US believes that the reduction commitments made by other countries are inadequate and would not boost US exports sufficiently. Developing Country Members want Developed Country members to open their markets more and to make lesser commitments themselves.

Negotiations in Services have stalled. There is a host of other unresolved issues.

The only final agreements relate chiefly to trade facilitation measures and new rules on transparency of regional trading agreements in the WTO.

After almost 9 years the negotiations have failed and there is small sign of progress.

# Completion in 2011?

Recently a number of groups have said that an agreement needs to be completed in 2011, if it is to be concluded at all.

For example, on the sidelines of the World Economic Forum in Davos two weeks ago, the Trade Ministers from 23 major Countries declared:

“There is a sense that we are in the end game and that if Doha is done, it needs to be done this year.”

This view has been endorsed by the Trade Negotiations Committee in the WTO itself.

# Causes of Doha Round Failure

Some blame the large agenda, some blame the attitudes of certain countries (chiefly the US and India), some blame the choice of modalities.

However, the problems are deep-rooted and lie in the rules of negotiation.

# The Director-General's View

After the July 2008 failure, the Director-General outlined the negotiation problem in the following terms:

“Three principal constraints today represent a challenge to our work: the first is the bottom-up approach, under which members must themselves always take the lead in tabling negotiating proposals and compromise solutions; the second is the concept of a “single undertaking”, which implies that in a round of negotiations with 20 different topics, nothing is agreed until all is agreed; and the third is the decision-taking by consensus, which is reasonably close to unanimity.” (Lamy, 2008).

The last two give a veto to those members who do not agree with a result in any one area.

It is the first, however, which is basic. The first allows Member governments to pursue their own objectives which are generally mercantilistic, pushing for improved export access and resisting all attempts to lower their own import barriers. It allows domestic political economy to dictate the direction of the negotiations.

# The Bottom Up Approach

Mercantilism leads Members to resist almost every attempt to lower their own border barriers.

Paul Krugman, a winner of the Nobel Prize in Economics, lampooned this view by his summary of the rules of GATT/WTO negotiations:

- “1. Exports are good.
2. Imports are bad
3. Other things being equal, an equal increase in imports and exports is good.”

We can see how the bottom-up approach has led in the Doha Development Round negotiations.

In trade negotiations, economic theory shows clearly that all countries gain from reciprocal trade liberalisation, after the costs of adjustment to changes in market access have been incurred.

Calculations that have been done by the World Bank and other economists show that the Chairpersons Drafts, if implemented along with agreements in other areas, would lead to gains in all Member countries. Furthermore the gains would be much greater in Developing Country Members than in Developed Country Members.

If all countries gain and if the gains favour Developing countries, as planned in the Round, why is there an impasse?

There are several reasons:

- ◆ The distribution of the gains (the US gets less from NAMA than China, Japan and the EU – but it also concedes less than these three.
- ◆ the greater increase in imports than in exports for the US and EU
- ◆ emphasis on short term adjustment costs

# The Fundamental Negotiation Problem

There is a fundamental bargaining problem in multilateral negotiations if all participating nations do not clearly see benefits to their nation from the outcomes.

# Negotiations on Climate Change

In 1992, the UN set up the United Nations Framework Convention on Climate Change. The object of the discussions was the control of man-made or “anthropogenic” gases known as greenhouse gases (GHGs) that are believed to increase significantly global air and water temperatures.

These discussions led to the adoption of the Kyoto Protocol in December 1997. The Protocol set up a framework for a set of national quantitative targets for emissions reduction in each country.

# December 2009 Conference of the Parties (COP 15)

In December 2009 the annual Conference of the Parties (COP) was held in Copenhagen. This was COP15. 192 Parties participated. COP15 was to determine binding rules relating to three areas:

- ◆ Climate change mitigation
- ◆ Adaptation, and
- ◆ Technology transfer and finance for Developing Countries

In all three areas, there is a difference in treatment between Annex I countries (Developed Countries) and non-Annex I countries (Developing Countries).

# Common but Differentiated Responsibilities

- ◆ This differential treatment of Developed and Developing countries derives from the Framework Convention. This laid down the principle of "*common but differentiated responsibilities*". In the Kyoto Protocol, this was interpreted as requiring no specific emission reduction commitments from Developing Countries. At the Copenhagen Conference this was modified in the Accord, which asked non-Annex I countries to make mitigation plans as nationally appropriate.

# The Arguments Behind Differential Responsibilities

The principle is based on two views:

- ◆ that the largest share historically of the cumulative emissions of GHGs originated in Developed Countries
- ◆ that the share of emissions originating in DCs will need to rise because of their pressing development needs.

However, the Copenhagen Conference revealed major differences between (and within) Annex I and non-Annex I countries on all features of the proposal.

# Differences of views

There was sharp disagreement among the 192 Parties attending the Copenhagen Conference on many specific issues; for example,

- ◆ the target for global warming (the Alliance of Small Island States, and other groups of Developing Countries had wanted a target of no more than 1.5 degrees Celsius above pre-industrial times),
- ◆ the size of a fund to assist Developing countries,
- ◆ border tax adjustments
- ◆ verification of all commitments (advocated by the US in particular but strongly opposed by China),
- ◆ treatment of deforestation and forest degradation and the future of the Kyoto Protocol (which expires at the end of 2012).

The Conference failed to reach agreement on any of the major features

# Progress in 2010

Some progress has been made since the Conference. Paragraph 4 of the Accord states that Annex I countries would submit new quantified economy-wide emission reduction targets for 2020, and that non-annex I countries will submit "plans" for mitigation reduction as nationally appropriate to the Secretariat by January 31 2010.

# Post-Copenhagen

A comparison of the post-Copenhagen 2010 commitments of Annex I and non-Annex I Countries is difficult because the former are expressed in terms of reductions of the total flows and the latter in terms of reductions in emissions intensity per unit of GDP or some other base.

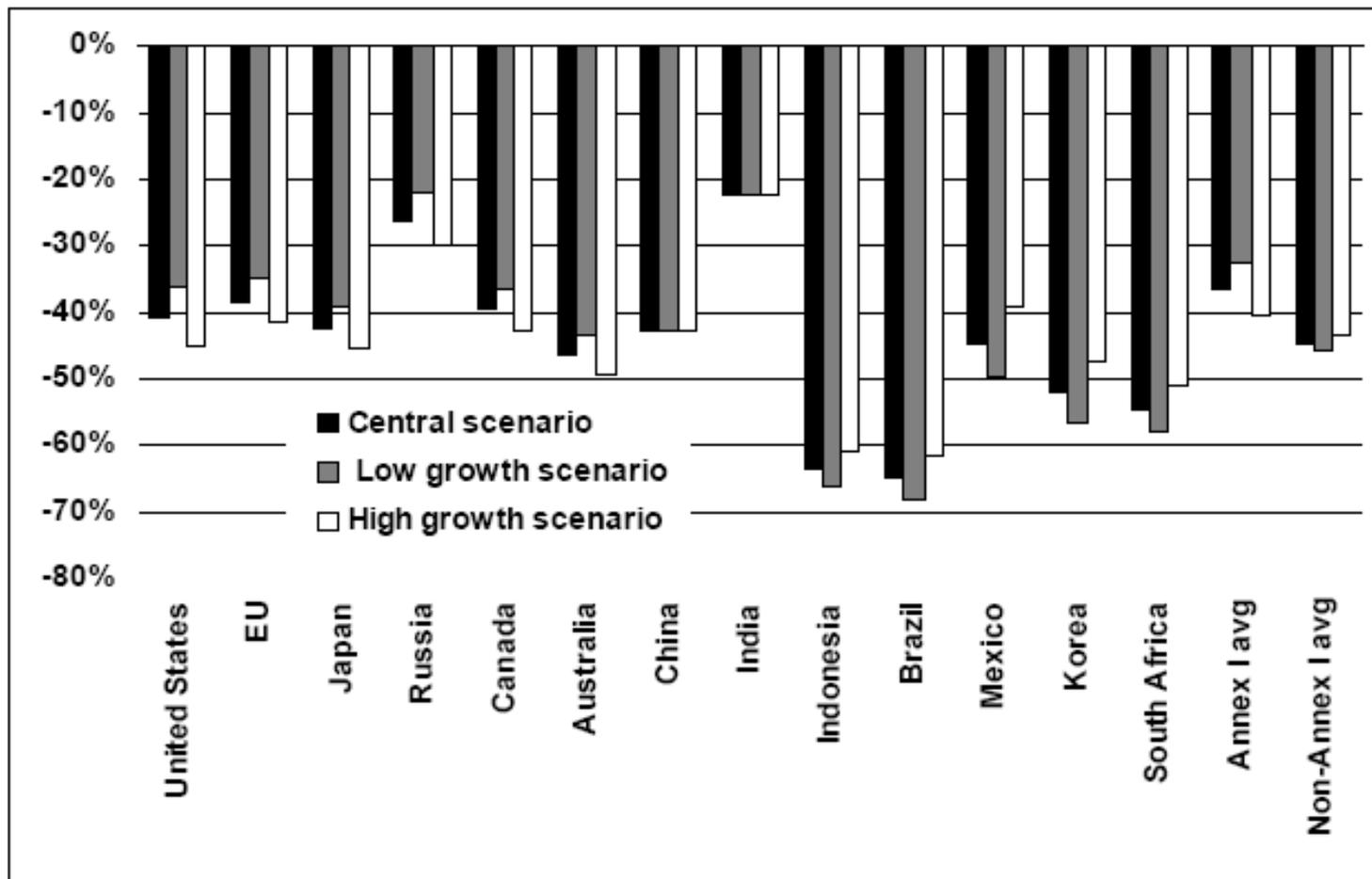
Total emissions are equal to the emissions intensity per unit of GDP multiplied by the GDP. Hence, rates of changes in the total emissions flow over time are the sum of changes (falls) in emissions intensity plus changes (growth) in the size of the GDP.

# The results Post-Copenhagen

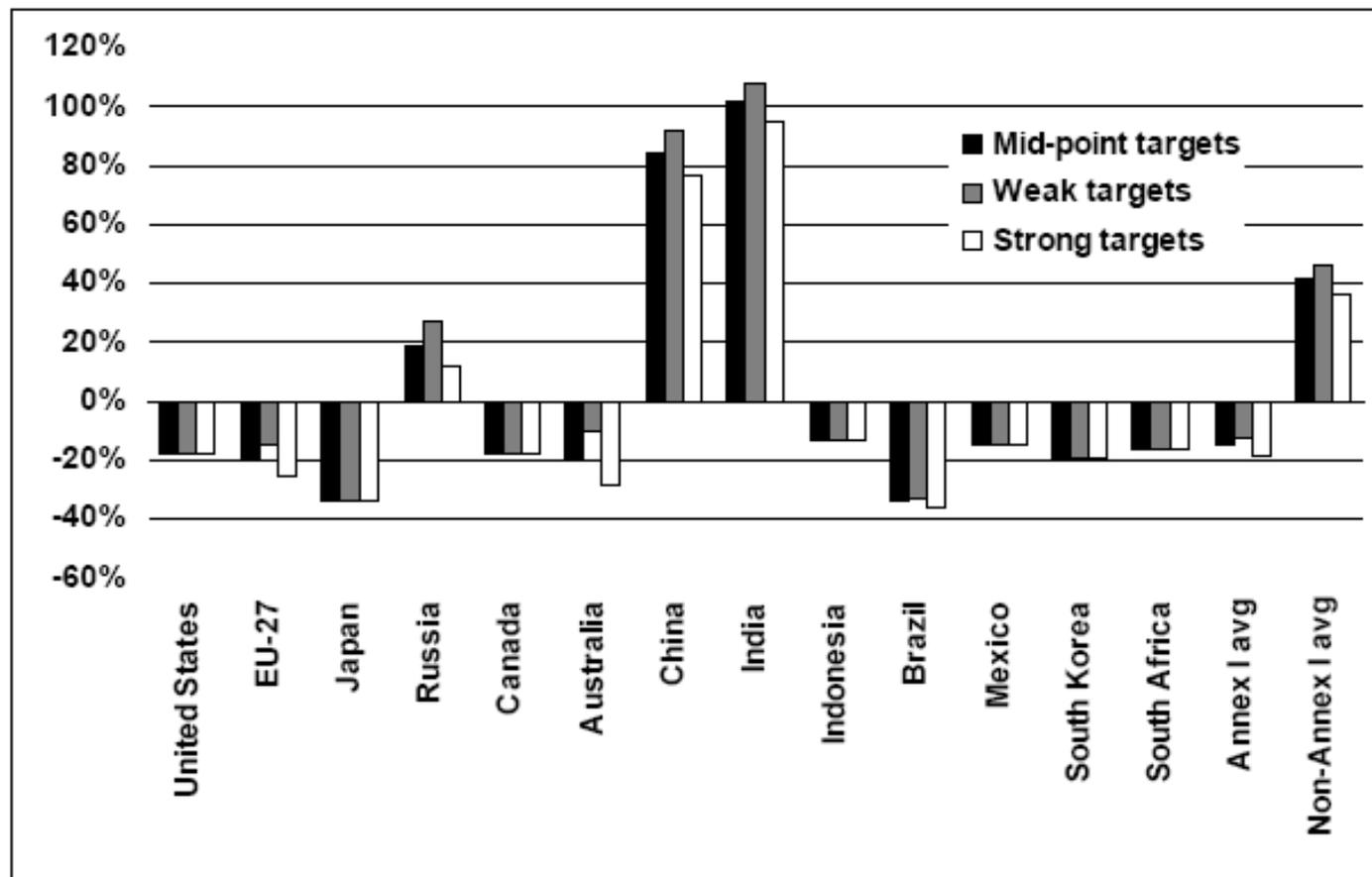
If one looks only at emissions intensity, the commitments of the Annex I and the non-Annex I countries are remarkably similar (Jotzo, 2010). The reductions in emissions intensity planned by China and India are a significant policy commitment.

If one looks at total emissions, however, the higher expected rate of growth of these non-Annex I economies would increase their total emissions because the cumulative percentage growth of GDP by 2020 is expected to be considerably greater than the planned reduction in emissions intensity per unit of GDP in percentage terms. This would occur at a time when Annex I countries are expected to reduce total emissions.

**Figure 4 Intensity targets (targeted change in emissions intensity, 2005 to 2020, mid-points of target ranges)**



**Figure 1 Absolute targets (targeted change in absolute emissions, 2005 to 2020, central scenario)**



# The Cancun Conference (COP 16)

- ◆ COP 16 was held in Cancun, Mexico in November-December 2010. The agenda was scaled back in order to achieve some agreement.
- ◆ The text strengthened the Green Climate Fund established at Copenhagen, and made some progress on measures to reduce emissions from deforestation and forest degradation (REDD) but it dropped an agreement on agriculture. It avoided the demands of several Developed countries to scrap the Protocol but left its future undecided.
- ◆ COP 16 did not address the central Copenhagen issues of mitigation commitments by Parties or the role of market-based mechanisms, and other issues such as border tax adjustments.

# Failure of the negotiations

Thus negotiations on climate change have not produced a multilateral agreement after five years of intensive negotiations since the Kyoto Protocol came into force in 2005, and 13 years of negotiation since the Kyoto Protocol was adopted

# Causes of Climate Change Negotiations Failure

As with the Doha Round failure, some blame the complex agenda, or the attitudes of certain countries (this time chiefly the US and China). But again, one must look at the root cause.

Again the decision-taking of the UNFCCC operates on a consensus basis, meaning a no-dissent rule. They also follow “bottom-up” procedure, with each country making proposals, and the negotiations are seeking a large package of measures to which all parties are being asked to agree.

These three features parallel the three features of the WTO negotiations highlighted above.

# Climate Change Negotiations

The UNFCCC negotiations face the same fundamental problem that Parties do not see the gains to their individual nations from the mooted outcomes. As with the WTO negotiations, the debate in most nations has concentrated on the short term adjustment costs of emission-intensive industries that are asked to reduce their emissions.

The benefits of mitigation are the benefits of the avoidance of the costs that would be imposed by a higher level of climate change.

# Benefits of Climate Change Mitigation

Benefits of climate change mitigation are exceedingly difficult to quantify, for three basic reasons:

- ◆ The effects of national mitigation efforts depend on the cumulative global levels of stocks of GHGs. Hence, the benefits of the mitigation achievements of one country accrue to residents of all countries
- ◆ The reduction in the stocks will occur at some time in the future. There may be no substantial benefits for some years.
- ◆ There is huge uncertainty concerning the effects of mitigation on climate change, and on the benefits of any achieved climate change.

# A Difficult Negotiating Problem

These features also make the processes of gathering political support for national legislation very difficult. Governments are asking the political body in each country to support climate change mitigation measures when the benefits are uncertain, will accrue at some time in the future and most of the mitigation must come from the policy actions of other countries. On the other hand, the costs are present period costs within the nation resulting from its own national commitments.

One recent study, commissioned by the Australian Government, concluded:

“Climate change is a diabolical policy problem. It is harder than any other issue of high importance that has come before our polity in living memory.”  
(Garnaut, 2008, p. xvii).

# Negotiation in Practice

Under the bottom-up approach to the negotiations, national mitigation schemes are subject to strong political pressure to carve out some industries and to introduce border adjustment taxes and other policies that would reduce costs, but often at the expense of reducing mitigation.

# Four Steps to Improve Multilateral Negotiations

## 1. Improved analyses of the benefits and costs of proposals

In the Doha Round most analyses of improved market access have been done in the World Bank and elsewhere,.

In the UNFCCC negotiations, the long run benefits have been clouded in debate that has encouraged climate change sceptics.

## 2. More preparation on proposals to be considered

## 3. Statement of Clear Objectives

This applies to the WTO. It has no clear objective. I believe the WTO should adopt the objective of free trade, i.e. no barriers to trade and no discrimination

## 4. New methods of negotiation

A range of variable geometry style methods of negotiation could be used in both negotiations: e.g critical mass negotiations in past GATT rounds.

# The Future of Multilateralism

Multilateral negotiations in these two areas are difficult because of a lack of clear objectives and good analyses and limited negotiation methods. Add to this, shifts in relations among the big powers and new groups such as the BRIC group. In the present negotiations in the WTO and the UNFCCC, no big power has been prepared to lead negotiations.

Multilateral institutions, that conduct these negotiations, are extraordinarily difficult to change once created. This applies to both the WTO and UNFCCC.

# Conclusion

If future multilateral negotiations are to succeed, there must be a clear rationale for the multilateral agreement and clear objectives. New approaches and new methods of negotiations must also be developed.

# Appendix

# NAMA Market Access Proposals

Negotiations are centred on tariff rates.

Here, they chose the Swiss formula which automatically gives a higher percentage cut the higher the (ad valorem) tariff rate. The coefficient is in fact the maximum tariff rate after the cuts.

For Developed Country Members, the coefficient proposed is 8, meaning that all (bound) tariff rates would be below 8 per cent after the cut.

# Agriculture Market Access Negotiations

There are three areas (“pillars”). For Developed Country Members, the proposed cuts in each area are

- ◆ Market access (tariff rates) –50 per cent for those rates below 20 per cent, rising to 70 per cent for rates above 75 per cent
- ◆ Domestic support – those in the lowest tier cut by 55 per cent, those in the middle tier by 70 per cent, and those in the highest tier by 80 per cent
- ◆ Export competition – all export subsidies eliminated by end 2013, half by 2010.

# Levels of border trade restrictions in agricultural and NAMA trade

Table 1  
Average Levels of Trade Restrictions

	NAMA	Agriculture	
	Average Applied Tariff Rate (Nov.2001)	Average Applied Tariff Rate (Nov.2001)	Average Trade Reduction Index (All Measures)
<b>Developed Countries</b>			
US	1.4	1.3	16
EU	1.5	6	n.a.
Japan	0.9	10.4	163
7 Sample Countries	1.4	5.5	n.a.
All high-income countries			58
<b>Developing Countries</b>			
China	3.5	9.6	8
India	7.8	60.2	27
Brazil	7	4.1	7
All sample countries	4.4	12	n.a.
All Developing Countries			22

Source:

Column (2): NAMA average applied tariff rates: Hufbauer, Schott & Wong (2010, Table 2145),

Column (4): Agriculture average trade reduction index: Lloyd, Croser, & Anderson (2009, Table 11.7, 11.3)

The commodity group here is all covered tradeable from products in 2000 - 04

No EU average is available as the figures are calculated for individual EU countries

# Estimated Gains from the Doha Round

**Table 2**

US\$billions						
	Agriculture & NAMA			Formula Cuts & Sectoral Cuts,		
	Formula Cuts			Services v Trade facilitation		
Country/Group	Trade Gains		GDP Gains	Trade Gains		GDP Gains
	Exports	Imports		Exports	Imports	
<b>Developed Countries</b>						
US	7.6	14.2	9.3	39.4	45.9	36.2
EU	13.4	26.3	16.3	62.7	53.5	45.6
Japan	8.1	4.9	5.6	30.6	13.7	18.6
All 7 sample countries	32.6	48.7	34	129.7	147.6	113.9
<b>Developing Countries</b>						
China	16.8	6.9	9.7	55.7	68.4	52.7
India	1.9	0.7	1.1	7.7	20.3	11.8
Brazil	2.7	1	1.5	6	13.9	8.9
All 22 sample countries	35.2	17.5	21.5	181.9	131.8	134.9
<b>World Total</b>	92.8	86.9	63	384.1	409.9	282.7

Source: Hufbauer, Schott & Wong (2010, Tables 1.2, 1.3 and Box 1.2)