

**Bruce Gerson:** Welcome to Carnegie Mellon Online. For more multimedia from Carnegie Mellon University visit [www.cmu.edu/multimedia](http://www.cmu.edu/multimedia). Hello, I'm Bruce Gerson and welcome to this Carnegie Mellon University G-20 Podcast. In these interviews, you'll hear from several leading Carnegie Mellon faculty members about some of the issues related to the G-20 summit this September 24<sup>th</sup> and 25<sup>th</sup> in Pittsburgh. Back with us today is Lee Branstetter, Associate Professor of Economics at the Hines College. What are the key issues and conflicts associated with Doha Round?

**Lee Branstetter:** Well the Doha Round negotiations have been stuck with no progress. Some would say they've collapsed for awhile now. And the main area of disagreement that led to the collapse of the trade talks was agricultural trade. Over the decades, we've come a long way in terms of liberalizing international markets for most manufactured goods, but trade in agricultural products is still heavily restricted. Now, many developing countries are producers and exporters of agricultural products and so liberalizations of agricultural trade has been a major priority for the developing countries. But this is hard because farmers are a very effective lobbying group in many developed countries. In the U.S., farmers as a group are very heavily subsidized and the U.S. also restricts the import of some agricultural products. In Europe, Japan and South Korea, farmers are even more heavily subsidized and even more protected from import competition. Now, this angers large developing countries like India and Brazil because their poor farmers have to compete in world markets with heavily subsidized farmers from rich countries. In 2007, India and Brazil demanded a significant reduction in U.S. and EU agricultural subsidies. The EU was willing in principal to restructure their subsidies so that they continue to give lots of money to farmers, but these subsidies are no longer geared to production and the EU has made some progress in that direction. Basically, instead of paying farmers lots of money to produce and export commodities that push down world prices, the EU is willing to give their farmers lots of money to not produce and export commodities. Now, from the standpoint of India and Brazil, this move if fully and completely implemented would be a positive development. Poor Indian and Brazilian farmers would not have to compete with the heavily subsidized exports of rich EU farmers. In return, the EU asked Brazil and India to reduce their tariffs on manufactured goods, but not by much. The U.S. negotiating team tried to drive a harder bargain. The U.S. wanted India and Brazil to lower their import tariffs on agricultural goods before the U.S. was willing to consider any real reduction or restructuring in its agricultural subsidies and the U.S. wanted steeper cuts in tariffs on manufactured goods. India said no deal; Brazil supported the Indian position and talks ground to a halt for about a year. Talks resumed last summer and the U.S. brought to the table and offered to reduce its subsidies from current levels, but in return it asked India and other developing countries to give up their current right to implement a so-called special safeguard mechanism. A tariff on agricultural imports that they can legally impose whenever there's a price fall or an import surge. Once again, India refused and talks collapsed again. Now, to some

extent domestic politics in the U.S. and India were a big factor in this. The U.S. was facing a presidential election and farm state votes were going to be crucial in deciding the outcome. Neither party wanted to anger the American farm lobby by giving away too much. India was also facing a big election and the Indian electorate is primarily poor farmers. Neither party in India wanted to alienate these voters either. Those elections are now over and President Obama has now come out publicly and strongly in favor of bringing the Doha talks to a successful conclusion. The path to a compromise will probably require the U.S. to reduce and restructure its agricultural subsidies. I think it's unrealistic to expect the U.S. to reduce -- to stop subsidizing farmers, they're too many swing states with strong farm lobbies, but we can subsidize farmer income rather than farm production and we can lower the total level of subsidies, although that would require an act of congress. That's the first step. And if we want a successful end to the Doha round, the U.S. probably has to be prepared to accept a much smaller reduction in developing country agricultural tariffs than we've insisted on in the recent past. And we probably won't get the Indians to budge in terms of their insistence on retaining the special safeguard mechanism. Now, this won't be popular with U.S. agricultural exporters. It means that anytime U.S. exporters start selling lots of goods in the Indian market, the Indian government can invoke this special safeguard mechanism and limit U.S. market share gains by pushing up tariffs, at least for awhile. So compromising on India's terms could force the president to sacrifice some political capital. Now, since serious negotiation, the Doha Round came to a halt, a new area of disagreement has opened up between developed countries and developing countries. President Obama has made it clear that he wants serious action on climate change, but congress has insisted that if U.S. firms are going to be penalized for their greenhouse gas emissions, then manufacturers in developing countries should face the same penalties, otherwise U.S. firms will be disadvantaged. They'll be competing in the market with Chinese and Indian firms that pay no price for their emissions. This is the same principal that the Indians are objecting to in agricultural. Now, over the objections of the President, the House of Representatives inserted into the current climate change bill a provision that impose carbon tariffs on imports into the U.S. of goods produced by greenhouse gas emitting industries and countries that do not have a greenhouse gas restricting policy that's at least as tight as the one we have in the U.S. or the one we may have in the U.S. if this bill is passed by the senate. Well, China and India have flatly refused to accept any binding restraints on their greenhouse gas emissions whatsoever. Furthermore, they've declared any attempt to lever a carbon tariff on their exports to the U.S. illegal under WTO rules. Now, whether they're right or not in their legal interpretation is a separate question, but no one doubts the strength of their beliefs. China has threatened the U.S. with a trade war if it enacts climate change laws with this feature. Now, it's hard to overstate how important, how deep and how difficult this disagreement is. If western countries actually pass climate change bills that contain this carbon tariff provision, something that will definitely happy if the Waxman-Markey Bill passed by the house, also passes the senate. Then I predict that global trade negotiations will simply ground to a halt. China and India

Interviewee: Lee Branstetter Interviewer: Bruce Gerson / Agricultural Trade Climate Change 5.mp3

will flatly resist any attempt to reopen serious negotiations until their concerns on this issue are met.

**Bruce Gerson:** Professor Branstetter, again we thank you for your time and your insights. Hear more from Professor Branstetter in the next segment of this interview series. This has been a Carnegie Mellon University G-20 Podcast. Learn more from our faculty experts at [cmu.edu/G-20](http://cmu.edu/G-20). Thank you for listening.

#### End of Tape Agricultural Trade Climate Change 5.mp3 ####