

Multilateralism after the Failure of the DDR and Climate Change Negotiations

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Abstract

This paper examines the two most important current efforts to devise new rules binding all nations; the negotiations in the WTO of trade rules and the negotiations under the UN Framework Convention on Climate Change to devise rules restricting the annual emissions of greenhouse gases. Both negotiations have failed after several years of intensive effort. There are remarkable parallels in these negotiations. Both have used the same approach to negotiations; consensus decision-taking, a bottom-up approach and differential treatment of Developing Countries, and complex modalities. These features have made the negotiations tortuous. Major changes in international relations have made agreement impossible to date: large global market imbalances and changes in geopolitical balances have produced a general distrust among major parties and an absence of leadership. What is needed most of all is a common or shared vision of the gains from binding multilateral rules for the world economy.

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1. Introduction

The development of the rules under which international commerce is conducted has lagged behind the integration of national economies. The economic policies of one nation spill over to the markets of other nations. These effects have led to a growing movement to improve the rules relating to commerce in order to ensure a more open, transparent and equitable environment for international trade.

Currently, there are two sets of major negotiations to set up new rules: the Doha Development Round (DDR) of negotiations in the WTO and the negotiations conducted under the UN Framework Convention on Climate Change (UNFCCC). These negotiations are the two largest ever undertaken in the field of international commerce. However, both the Doha Round and the climate change negotiations have failed to date after years of negotiation.

Sections I and II outline the scope and nature of the Doha Round negotiations and the UNFCCC negotiations respectively and reasons that have been advanced as to why these negotiations have failed. There are close parallels between these two experiences. Section III then addresses what I see as the fundamental issue of multilateralism, the necessity to find an outcome that will ensure that each participating nation believes it will gain from the negotiations. Section IV uses these negotiations to suggest analyses, methods of negotiation and institutional changes that will increase the prospects of multilateral agreement. What is needed most of all is a common or shared vision of the gains from binding multilateral rules for the world economy. Section V makes comments on the future of multilateralism as an approach to global economic governance.

2. The Doha Round negotiations

The scope of the Doha Round negotiations is set out in the November 2001 Doha Declaration that set up the negotiations (WTO, 2001). The DDR negotiations relate mainly to market access in the areas of

- Agricultural goods trade
- Industrial goods trade (“non-agricultural market access” or NAMA)
- Services

and to rules relating to trade facilitation, intellectual property and other areas. The negotiations on service trade commitments by Members have made little progress as Members wait to see what is happening in the negotiations relating to agricultural goods and NAMA (see

Gootiiz and Mattoo, 2009). These are the two pivotal areas on which the negotiations have turned so far.

As background, Table 1 reports average levels of tariffs and tariff equivalents for NAMA and agricultural products, for Developed and Developing countries separately. First, one can compare the level of distortions of international trade in agricultural trade with that in NAMA products. International trade in agricultural products is much more restricted than trade in industrial products. Fortunately, we now have a superb database on distortions of agricultural trade prepared by the World Bank (see Anderson and Valenzuela, 2008).^{*} This World Bank project estimated that, in the most recent period 2000-04, the average nominal rate of assistance to agricultural producers for the whole world was 18.6 per cent whereas that for non-agricultural producers was 4.0 per cent (Anderson, 2009, Table 1.7). This disparity is the result of the success of previous GATT rounds in reducing barriers to trade in industrial goods whereas it had little success over the whole GATT period in reducing barriers to trade in agricultural goods. The Doha Development Round is seeking to achieve a long overdue “fundamental reform” of agricultural trade (WTO, 2001, para 13).

Second, one can compare the restrictions on market access for exports from the Developing and from the Developed Country members. The high levels of distortion of world trade in agricultural goods disadvantages those Developing Country Members which are exporters of these products. Similarly, the tariff rates on labour-intensive NAMA products are generally higher than tariff rates on other goods in the major markets in the Developed Country Members, disadvantaging those Developing country Members who are exporters of these products. This pattern is one of the reasons this round of negotiations was designated the Doha Development Round.[†]

^{*} The World Bank database on agricultural incentives includes subsidies and assistance to exporters as well as tariffs, converted to tariff equivalents. This coverage corresponds to the coverage of the three pillars in the Agriculture negotiations.

[†] On the other hand, most Developing Country Members receive improved access to markets in Developed Country Members under the Generalised System of Preferences and other non-reciprocal preference schemes. Offsetting this, however, Developing Country Members, and in particular, the Least Developed Country Members, generally have less preferential access to major markets under the

In the agriculture negotiations, there are separate modalities for each of the three areas of trade measures, or “pillars” as they are known - market access (tariffs and other border measures), domestic support and export competition. (Details can be seen from the December 2008 Chairperson’s draft “modalities” text (WTO, 2010a).) Similarly, the current state of NAMA negotiations can be seen from the December 2008 Chairperson’s draft modalities text (WTO, 2010b). In contrast to agriculture, the NAMA negotiations are centred on tariffs.

These draft modalities have not been accepted by Members. They are the Chairpersons’ judgements of what Members might be able to agree upon.

In agriculture, subsidies are the most trade-distorting of the three areas. The countries with the largest subsidy programmes are the EU and the US and Japan. The EU is in fact the only Member in the Amber Box for overall trade-distorting domestic support. (The EU here is the EU-15 only. The 12 newly acceded members have increased the constituency pressing for agricultural support.) It was estimated that EU-15 has a base level of overall domestic support of €110.3 billion. Under the modalities in the latest draft, this would be cut to €22.06 billion. The US and Japan are in the middle tier overall. For the US, their latest proposal in July 2008 offered to lower the ceiling for its overall trade-distorting domestic support from US\$48 billion to \$14.46 billion. In NAMA, many countries are resisting the cuts and seeking either a more favourable formula or some exemption or weakening. And there is a host of non-formula issues to be resolved in agriculture and NAMA; in agriculture, these include the special safeguard mechanism, cotton, tropical products, preference erosion, tariff rate quota expansion and tariff simplification and in NAMA, they include ntms, sector reductions and preference erosion.

After nine years of negotiation, the Members failed to reach agreement on a package by the deadline set at end of April 2010. They had agreed on very little. The only final agreements related to a few areas, chiefly trade facilitation measures and new rules on transparency of regional trading agreements. The US is particularly dissatisfied with the latest package. It believes that the commitments other countries would make under the drafts are inadequate and

would not sufficiently increase US exports. It wishes to reopen issues that have been settled, a stance which no other country wants. In particular, it argues that no package will be acceptable to it unless the large emerging economies, such as India, China and Brazil, improve their market access commitments well beyond what the current Chairpersons’ texts would deliver.

For their part, Developing Member countries, including the large countries, wanted to make lesser commitments. For many the questions of flexibility such as the selection of sensitive products, which would enable them to do this, are the most important negotiating items. One particular issue that contributed to the breakdown of negotiations in 2008 was the insistence by some Developing Country Members, especially India, on a strict special safeguard mechanism for agriculture which would allow them to impose temporary tariffs in the event of an import surge or a price fall. On the export side, they want the US and EU in particular to increase their offers in agriculture. Developing Countries argued that actual US disbursements were already below the \$14.46 billion level offered due to higher commodity prices than in the base period. Countries such as India stress that the round has officially been a “development round” since it was launched.

In the Chairpersons’ draft modalities text for both Agriculture and NAMA, Developing Country Members are required to make lower cuts under the formulae and have greater flexibilities and other exceptions. Least Developed countries and recent new Members do not have to make any cuts.

These lower reduction parameters are the result of Special and Differential Treatment written into the Doha Declaration. The Doha Declaration (WTO, 2001, para 16) states that “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). Many Developing Country Members have interpreted “less than full reciprocity” as no reciprocity.

In May 2011, it was decided that the package could not be completed in 2011, the deadline which the Trade Negotiations Committee had set earlier in the year. Instead the Members would aim to complete by December 2011 Plan B, a mini-package focusing on reforms that would benefit the Least Developed Country members. In July, the TNC announced that continued dissent among Members concerning the content of this mini-

network of reciprocal bilateral and regional preference arrangements.

package has forced the WTO to abandon this goal.

What are the causes of negotiation failure? Some commentators blame the complexity of the negotiations. The work programme is huge, the largest ever presented to any multilateral negotiations. In the Doha Development Round this covers intellectual property and other sectors as well as goods and services.* The number of Members participating in the negotiation has increased to more than 150. Almost all of the new members are Developing or Least Developed countries who have interests and concerns that are different from those of the other members of the GATT.

The complexity is made worse by the necessity in the Agriculture and NAMA negotiations of converting bound rate commitments to applied rate commitments and of comparing reduction commitments for a variety of trade-restricting instruments measured in different units; specific versus ad valorem tariffs, subsidies and quotas.

Some commentators blame the method of negotiation. After the July 2008 failure, in a keynote address to the 2008 WTO Public Forum, 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 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. The last two give a veto to those members who do not agree with a result in any area.

These difficulties are compounded by the modalities that emerged in the critical areas of agriculture and NAMA. The formula used in

agriculture and NAMA have been greatly complicated by flexibilities, exemptions and other exceptions. Yet, this modified formula approach is still much simpler than the old request-and-offer strategy used as the dominant modality in previous GATT rounds.

Yet, the problems are much deeper than the scope and methods of negotiations. There are large differences in the policy stances of countries on almost all issues. Prolonged negotiations have not produced significant changes in the positions of members for more than two years. Negotiations are deadlocked. After a session on the NAMA negotiations in July 2009, the Chair “likened himself to the captain of a boat no one seemed to want to board.” (Bridges, 2009, p. 5). The reasons for this lack of progress are explored in Section III.

3. The UNFCCC negotiations

Discussion of a binding multilateral agreement relating to climate change began in the United Nations at the start of the 1990s. In 1992 the UN set up the United Nations Framework Convention on Climate Change (UNFCCC). The object of the discussions is to stabilise the stock of greenhouse gases (GHG), that increase global air and water temperatures by absorbing infrared radiation from the sun.

These discussions led to the Kyoto Protocol as an attachment to the UNFCCC. The Protocol was adopted in December 1997 and came into force on February 2005. The Protocol is a binding international agreement. It has been signed and ratified by 193 nations. Importantly, the US has signed but not ratified the Agreement and it is, therefore, not bound by the Protocol.

Climate change mitigation is to be achieved by setting national targets for annual gas emissions which will reduce aggregate global flows of greenhouse gases and eventually stabilise the stock. These targets were to be set initially for industrialised countries, called Annex I countries. Annex I signatories committed themselves to reduce their collective GHGs by 5.2 per cent from the benchmark 1990 level by 2012. Each of the countries sets their own targets. Developing countries, or strictly the non-Annex I countries, have no emission restrictions but were to make general commitments to reduce their GHGs. The Protocol allows for several “flexible mechanisms” to allow Annex I countries to meet their GHG emission targets by purchasing GHG emission reduction credits from other Annex I and non-Annex I countries. These mechanisms include emissions trading, the

* The agenda was trimmed substantially in September 2003 at the Cancun Ministerial conference when three of the four “Singapore issues” originally proposed at the Singapore Ministerial conference in 2003 were dropped after major opposition from Developing countries. It could be trimmed again at any time.

Clean Development Mechanism (CDM) and joint implementation.

In essence the Protocol opted for quantitative targets for emissions reduction. These might be achieved by a “cap and trade” mechanism. As trade in emission credits is across national borders, this mechanism might establish a global market for carbon.

Many governments were unhappy with the Protocol. Some regarded it as too weak and some as too strong. Others were unhappy with certain features such as the use of a cap and trade scheme or the exclusion of Developing Countries from binding reduction commitments.

In the UNFCCC, negotiations have proceeded in a series of annual Conferences of the Parties (COPs). In COP meetings before the Copenhagen Conference a consensus emerged that the new agreement should promote a global cap and trade scheme that would apply to both Industrialised and Developing countries. In November and December 2009 the 15th Conference of the Parties (called COP15) was held in Copenhagen. The Conference was to determine binding rules relating to three areas:

- climate change mitigation
- adaptation, and
- technology transfer and finance.

The Copenhagen Conference revealed major differences between and within Annex I and non-Annex I countries on all features of the proposal. There was sharp disagreement among the 192 attending parties on specific issues; for example, the target for global warming (the Alliance of Small Island States, known by its acronym AOSIS, 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, taxation of bunker fuels (which are outside the Kyoto Protocol), border tax adjustments to compensate for the loss of competitiveness in those Annex I countries which imposed a higher price on carbon than competitors (which were supported by the US and some other Annex I countries and strongly opposed by non-Annex I countries), 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 (whose first commitment period expires at the end of 2012).

The US commitment to emissions reduction is weak, weaker than that of Japan and the EU in particular. China staunchly resisted attempts to get it to adopt an emissions target in terms of total emissions, it insisted on removing the more

ambitious 1.5 degrees limit to global warming, and on removing the long term target of global 50 per cent reduction in emissions by 2050 that most other countries had accepted, and it resisted strict compliance measures.

No binding agreement emerged although this had been the express intent of the negotiations. In the last week of the Conference, the President (the Danish Prime Minister) produced a Draft Decision, known as the Copenhagen Accord (UNFCCC Conference of the Parties 15, 2009). This had been drafted by a small group of Parties spearheaded by US, China, India and Brazil. It was very general in its terms. It recognised the need to keep global warming below 2 degrees Celsius above pre-industrial times, committed Annex I countries to a vague strengthening of Kyoto Protocol targets but did not set new targets, spoke of “opportunities to use markets” in place of any specific cap and trade mechanism, announced a goal of a US \$100 billion fund to assist Developing countries to fund mitigation, adaptation and technology transfer without specifying the contributions of individual developing countries to the fund, advanced a weak compliance scheme limited to mitigation actions carried out with international support. Even this feeble effort was not agreed to. It was relegated to an attachment “noted” in the final decision of the COP. All issues are outstanding. In short, the negotiations were a dismal failure.

Some progress has been made since the Copenhagen Conference in emission reduction commitments. Paragraph 4 of the Accord states that Annex I countries would submit new quantified economy-wide emission targets for 2020 to the secretariat by 31 January 2010. All current 42 Annex I countries (including the United States) have done so (UNFCCC, 2010a). The commitments range widely from 5 per cent to 40 per cent emission reduction by 2020, with most in the range of 15-30 per cent. But the base years differ and almost all of the commitments are conditional on other countries setting up a comprehensive global agreement or taking sufficient action.

Paragraph 5 states that non-Annex I countries will submit plans for mitigation by 2020 to the Secretariat by 31 January 2010, also known as NAMAs (Nationally Appropriate Mitigation Action plans). They too have done so. (UNFCCC, 2010b) In contrast to the targets of the Annex I countries, the non-Annex I country mitigation actions are framed in terms of reductions in emissions intensity (emissions per unit of GDP) or relative to business-as-usual scenarios: for example, the China plan is for a

40-45 reduction in emissions intensity and the India plan is for 20-25 per cent reduction in emissions intensity by 2020.

This differential treatment of Developed and Developing (or Annex I and non-Annex I) 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 “common but differentiated responsibilities” principle is based on arguments that the largest share of historical cumulative emissions of greenhouse gases originated in the Developed countries, that per capita emissions flows in Developing countries are currently low, and the share of global emission flows originating in Developing countries will rise to meet their pressing development needs. This has set off a fierce debate about which countries should carry the burden of emissions reductions. The Kyoto Protocol interpretation of differentiated responsibilities to mean that all the heavy lifting should be done by Developed countries alone was not acceptable to the US and some other Annex I countries, especially as China has replaced the US as the largest emitter. The UNFCCC Parties have been searching for some middle interpretation which would give non-Annex I countries lower but real emissions reduction commitments.

A comparison of the post-Copenhagen 2010 commitments of Annex I and non-Annex I countries is not straightforward 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 from a business-as-usual 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 (decreases) in emissions intensity plus changes (increases) in the size of the GDP. If one looks at emissions intensity, the commitments of the Annex I and the non-Annex I countries are remarkably similar (Jotzo, 2010, Figure 4). The reductions in emissions intensity planned by China and India are a significant policy commitment. However, their 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.

If these post-Copenhagen commitments were implemented, their total emissions will increase substantially (Jotzo, 2010, Figure 1). This would occur at a time when Annex I countries are all expected to reduce total emissions.

COP 16 was held in Cancun, Mexico at the end of 2010. The agenda was scaled back in order to achieve agreement on some issues. The Conference formally acknowledged the commitments of Annex I and non-Annex I countries made in 2010. These are now known as the Cancun Agreements. It strengthened the Green Climate Fund established at Copenhagen, and introduced new measures to reduce emissions from deforestation and forest degradation (REDD+) but it dropped an agreement on agriculture. It left the future of the Kyoto Protocol undecided. COP 16 did not address other key issues such as the role of market-based mechanisms, border tax adjustments and issues of technology transfer and development.

There have been 14 years of annual negotiation since the Kyoto Protocol was adopted in 1997 and six years since the Kyoto Protocol came into effect in 2005. Huge differences among the Parties persist. At the past rate of progress conclusion of a binding agreement is years away.

What are the causes of the failure in the case of the climate change multilateral negotiations?

The negotiations are complex. The many country coordination required to get an aggregate global reduction in the stock of greenhouse gases is a difficult bargain.

This complexity has been aggravated by the difficulties of comparing Annex I commitments in terms of reductions in aggregate GHG emission flows with non-Annex I countries commitments in terms of emissions intensity per unit of GDP or reductions from a business-as-usual basis. It is also aggravated by the different treatment of different industries.

Green, McKibbin and Picker (2010) blame the rules of the negotiations. They point out that the decision-taking of the UNFCCC operates on a consensus basis, meaning again a no-dissent rule. This gives any party a veto power over the whole package. They too describe the negotiations as “bottom up” with each country making proposals and note that 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. Furthermore, the UNFCCC doctrine of “common but differentiated responsibilities” is very similar to the WTO principle “special and

differential treatment". Both have led to a major division in the negotiations between Developed and Developing Countries.

Yet, again, the problem is deeper than the *modus operandi* of negotiation. Long negotiations have not reduced the large disagreements among group of countries on all issues.

4. Fundamental issue of multilateralism

There is a fundamental bargaining problem in multilateral negotiations if all participating nations do not clearly see benefits to their nation from these proposals. This is the case with both the Doha Development Round and the climate change negotiations.

In measuring benefits from trade liberalisation, the standard economist's approach is to consider the gains to nations from trade liberalisation? Economic theory highlights the mutual long term gains from reducing barriers to trade. Trade economists have traditionally argued that the adjustments costs are once only whereas the gains continue in each future period. They also argue that the adjustment costs are less in multilateral negotiations than when nations liberalise their trade unilaterally. In multilaterally-negotiated changes every nation has improved market access for competitive producers at the same time as it faces greater competition in its home markets for less competitive producers.

Simulations done at the World Bank during the current negotiations using a cge model show that proposed WTO scenarios would benefit Developing countries to a greater extent in relation to their GDPs than the rest of the world (see Anderson, Martin, and van der Mensbrugge, 2006). Moreover, these gains would come more from cuts in their own border restrictions than from improved export market access.

In a "what is on the table?" type of study, Hufbauer, Schott and Wong (2010, Table 1.2) give their estimates of potential gains in trade and GDP to WTO Members. These include estimates of gains from the 2008 draft modalities in agriculture and NAMA and their estimates of possible gains from NAMA sectors and Services and trade facilitation. The results are reported in Table 2.

Notably, all countries and country groups would have an increase in total exports and imports and all would gain in terms of GDP. Developing countries would get greater increases in exports (but not imports) and greater gains in GDP than Developed Countries. Much of this is due to trade facilitation. Hence,

in their view "WTO Members expect that a final deal should provide relatively larger benefits for developing countries if Doha is to meet the advertised goal of being a 'development round'. Overall, we find this to be the case." (Hufbauer, Schott and Wong, 2010, p. 13). Those countries which would experience greater changes in trade flows would get, according to these estimates, greater changes in GDP. Thus, China would have much greater increase in exports, imports and GDP than India.

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

The underlying reason is that the approach of Members to the outcome is not based on economic gains from trade liberalisation. In every Member country there are political economy pressures for protection. Political economy forces play on the losses to specific factors in activities that might contract as a result of changes in market access. Consequently, all Members protect or assist some industries. All nations are worse off than they would be under free trade. This provided the fundamental reason for the establishment of the GATT/WTO system (see Ethier, 2004) after the disastrous contraction of world trade during the Great depression*. The GATT/WTO system exists because nations recognise that unregulated actions by each nation pursuing its perceived national interest make them all worse off. GATT/WTO rules - such as the binding of tariff rates and the prohibition of quantitative restraints and export subsidies and the restrictions on production subsidies - limit the possible policy actions of members, and negotiations have lowered the actual applied rates. This interpretation of the organisation is

* After the Second World War, the Bretton Woods Conference sought to establish a new world order that would prevent the mistakes of the Great Depression era. The period from 1932 to 1939 saw an ever-escalating level of trade restrictions due to beggar-thy-neighbour tariff hikes followed by retaliatory tariff wars and a round of competitive devaluations of national currencies. (For a brilliant survey of this period, see Condliffe, 1951, chapter XV. This contains the famous "contracting spiral of world trade" for the period 1929-33).

Bagwell and Staiger (2002) proposed an alternative theory based on a terms of trade externality which leads countries to use tariffs to improve their terms of trade. But even the largest countries such as the US, Japan, the EU and China have significant market power in few, if any, markets. Magee and Magee (2008) find that the US has no market power.

supported by language of GATT. In the language of GATT, Articles XXV- XXVIII, which authorise the negotiations, refer to reduction commitments as “concessions”.

This interpretation of the self-interest of the participating Members also explains why Members resist almost every attempt to lower barriers.* In the Doha Round negotiations they take a short term view that emphasises the adjustment costs resulting from “concessions” and ignore the benefits of lower prices to consumers/buyers. We are stuck in a mercantilistic policy environment. It is this which makes the negotiations so adversarial.

However, earlier GATT rounds of negotiations proceeded on the same ground yet reached a conclusion. What is different this time is that there have been fundamental changes in the global economy that have altered the national perceptions of gains and losses.

One difference in the conduct of negotiations from earlier GATT rounds is that the power relations among members have changed dramatically in the WTO (see, for example, de Jonquières, 2010). The US chiefly and also the EU, which shaped the earlier packages of bargains, are much less dominant in the world economy after more than two decades of growth rates which have been lower than those in the rest of the world collectively. Developing countries are no longer prepared to take a back seat. Developing countries as a group have increased their demands for improved market access to the markets of Developed countries and other forms of development assistance. They have offered very little in the way of increased access to their own markets under the doctrine of Special and Differential Treatment at a time when Developing countries, especially the US are requesting greater reciprocity. The BRIC group, which have emerged as a new rapidly growing segment of the world economy, have new ambitions. Collier (2006) argues that the new demands in the WTO of developing countries have introduced a development objective into

the WTO that has changed the nature of the bargain, with Developing countries expecting a large transfer from Developed countries.

A second difference is that there are new disequilibria in global markets. Since the onset of the global financial crisis in 2007, unemployment rates have risen around the world. High unemployment rates in labour markets and unutilized capacity always make trade negotiations more difficult by increasing adjustment costs and therefore home country resistance.

This situation is greatly aggravated, in the present round, by new large trade imbalances in the world economy. Indeed, Agur (2008) attributes US lack of support for the current state of negotiations, which contrasts strongly with its championing these negotiations in previous rounds, solely to the surge in the US trade imbalance. This imbalance went from 1 per cent of GDP in the early 1990s, when the Uruguay Round was completed, to more than 6 per cent in 2007. (It has declined to around half of this level in the current global crisis as US imports have contracted sharply.) On the other side of the ledger, China has the largest current account surplus of any country and the increase in exports in Table 2 is projected to be more than double the increase in its imports.

These trade imbalances mean that a given formula applied equally to all countries has a very different effect on countries with a balance of trade deficit than it has on those with a balance of trade surplus. For a deficit country, the increase in imports will be greater than the increase in exports while the opposite will hold for a surplus country. This is shown by the calculations of Hufbauer, Schott and Wong. They calculate that, for the US and the EU, the increase in imports under the draft modalities for Agriculture and NAMA combined is roughly twice the increase in their exports. Hufbauer, Schott and Wong (2010, p. 8) conclude that the imbalance between the increase in exports and imports contributed to the lack of US support for the multilateral negotiations in the Doha round. The US in particular has long insisted upon reciprocity in trade negotiations. It is concerned with the balance of gains.

US concern over trade imbalances is heightened by a widespread view that there is fundamental misalignment in currency markets as China has refused to revalue the renminbi despite increasing surpluses. In Europe, the public debt problems of several member countries are destabilising currency and asset markets.

* Krugman lampooned this view of the organisation with 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.”

(quoted in Bagwell and Staiger, 2002, p. 60). Sadly, Krugman is right. This is precisely how the Doha Round negotiations have proceeded.

The outcome of these factors is that none of the Big 5 traders has been prepared in the present round to lead with offers of substantial improved access to its markets. The main leader in previous rounds, the US, has moved from being a strong supporter of trade liberalisation to a less liberal stance in the WTO and outside it (see Hildebrand, Lewer and Zagado, 2010).

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 analysis of the WTO, we should ask the question - what is the rationale for the existence of a multilateral organisation creating and administering binding laws relating to the mitigation of climate change? Why is national action insufficient?

The answer to these questions lies in the nature of man-made climate change. Climate change is an example of an externality due to the Problem of the Commons, that is, free access to a common resource.* The “commons” in this case is the atmosphere of the universe. The businesses and households of each nation contribute to climate change through production and consumption activities which emit greenhouse gases into the atmosphere but do not pay for the costs they inflict on others. Moreover, the problem is global in that it is the cumulative emissions of all nations over time that determine climate change and in the second sense that citizens of all nations are affected. Consequently, the citizens of any one country at any one time have little incentive to act against the consequences of their own actions as their reductions contribute a small, mostly a very small, part of the global emissions. This produces a policy failure. The policy problem of global mitigation of climate change clearly calls for a coordinated multilateral approach. Only if all (or most) nations agree to act in concert, will the citizens of each nation receive benefits that warrant their nation’s participation and emission reduction commitments.

Yet, 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.

These costs take two forms. The first is the actual resource costs of policies to reduce emissions; the introduction of new costly technologies to reduce the emission intensity of industry output, substitution of less polluting but more costly substitute products, costs of sequestration, etc. The same applies to the costs under a cap and trade system if producers have to buy emission reduction rights or credits.

The second form of costs arises if the carbon price is different among countries. Producers of emission-intensive goods in countries with a higher (explicit) price of carbon will be at a competitive disadvantage in international markets. They will lose market share at home and in export markets to producers who pay a lower price for their emissions inputs. The prospect of differing carbon prices led to demands in the Copenhagen Conference by some Annex I countries for border tax adjustments. This was a source of strong disagreements among parties at the Copenhagen Conference. Using a global cge model, Mattoo, Subramanian, van der Mensbrugge and He (2009), find the border tax adjustments would substantially reduce international trade, especially Chinese exports.

With a focus on supply side costs, many countries have lost sight of the benefits from reduction in 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 are exceedingly difficult to identify, let alone quantify, for three basic reasons:

- The effects of national mitigation efforts depend on the global levels of stocks of GHGs, that is, the actions of all countries in the aggregate.
- The effects of annual emissions come through the changes in the cumulative (global) stock of GHGs over time. There may be no substantial benefits for some years.
- There is great uncertainty concerning the effects of mitigation on climate change, and on the benefits of any achieved climate change. Any analysis must be probabilistic. This poses immense problems in quantifying the probabilities and in combining them into a damage function when some of the probabilities involve potential calamities (see Weitzman, 2010 on this aspect).

Tol (2009, p. 29) has found “Climate change is the mother of all externalities: larger, more complex, and more uncertain than any other environmental problem.”

* Stern (2007, p. 27) classifies it as a public good externality because emissions have the dual characteristics of non-excludability and non-rivalry. But the atmosphere is not provided by the public sector of one or all nations. Similarly, it does not fit precisely into the category of common property resource externalities, partly because of its global character and partly because of the many ways of regulating emissions.

These features also make the processes of gathering political support for national legislation very difficult. Governments are asking the polity 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 which they do not control. On the other hand, the costs are present period costs resulting from the national commitments. It is not surprising that 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 at the expense of reducing mitigation.

The difficulties have been aggravated by the weak state of the world economy, especially in the major Developed countries, in the current global crisis. This has increased the risks in world energy and commodity markets and, as in the negotiations under the WTO, has made industries more reluctant to bear the adjustments of a new carbon price.

The two central problems in designing a multilateral regime to control anthropogenic GHG emissions are the allocation of commitments among countries, and the design of a mechanism to achieve this. These can be called the Allocation Problem and the Mechanism Problem.

The Allocation Problem, that is, the distribution among nations of the burden of adjustment, has been the central issue in these negotiations (as in the WTO negotiations). The main concern here is the differential treatment of non-Annex I countries in emission reduction commitments. The equitable treatment of lower income countries is a deep problem, partly related to arguments concerning Developed countries responsibility for the historical accumulation of the stock of GHGs in the atmosphere, partly on the moral stance that all people in the world have an equal right to the global commons, and partly to issues of poverty and the need for sustained economic growth in poorer countries (see, for example, Joshi, 2008 and Garnaut, 2008, chapter 9.4). Some acceptable distribution of the costs must be found before a multilateral scheme can be established. Developing country participation in emission reduction is essential if the global effort is to be achieved but the terms must be acceptable to the Developing Countries. This may require large income transfers to them.

The Kyoto Protocol approach to the Allocation Problem has created secondary problems of mechanism design. Under the

scenario of the 2010 targets/plans, the carbon price is likely to be much higher on average in Developed countries than in Developing countries, and also to vary within both groups of Parties. Differential carbon prices create adverse incentive effects. There is an incentive for Annex I countries to reduce the loss of competitiveness by introducing border tax adjustments or to carve out emission-intensive trade-exposed industries, both import-competing and exporting, from their carbon emission reduction plans. There is an incentive for their emitters who lose competitiveness to shift the location of plants to countries with a lower carbon price.

It is not certain that border tax adjustment would be WTO-compatible (see WTO, 2009). At present only the EU-30 and New Zealand are operating an economy-wide emission trading scheme. A handful of countries operate a national carbon tax. Both market-based schemes yield an explicit price for carbon but emissions which are traded or priced in a carbon market account for less than 10 per cent of aggregate global emissions.* (Instead, most current emission reduction schemes use subsidies and emission standards which yield an implicit price of carbon. Productivity Commission (2011) provides evidence of the wide variation across a sample of countries in the implicit prices of carbon.) Predictably, there are major sectoral exclusions from both emission trading schemes and all carbon tax national schemes are restricted to a subset of fossil fuels.

Differential carbon prices also would produce "carbon leakages" that lower emissions reductions. Countries with lesser emission reduction plans have an incentive to oppose mitigation measures in their own country in order to gain a competitive advantage (as well as to avoid the costs of mitigation). This effect is evident in China.

The efficient least-cost reduction in anthropogenic GHG emissions requires a single common carbon price in all countries. The problems of loss of competitiveness and carbon leakages are a consequence of departure from a

* EU-30 emission trading accounts for 97 per cent of global emission trading (World Bank, 2011, p. 9) and covers about 40 per cent of total EU emissions and the EU-30 account for around 16 per cent of global emissions. Thus emission trading covers around 6.5 per cent of global emissions. There is no estimate of the total emissions covered carbon taxes but it is a small fraction of that covered by the EU emission trading.

single price and a reflection of the inefficiencies of differential carbon prices in the global economy.

5. Methods of negotiation and institutional changes

Considering the two sets of negotiations together increases our understanding of the problems of multilateralism. Both sets of negotiations involve very complex issues and have been made more complex by the choice of modalities. The modus operandi of both the WTO and the UNFCCC negotiations are very similar. Both are based on differential treatment/responsibilities for Developed and Developing nations. Both organisations evolved in the early 1990s. However, the modus operandi of the WTO is that of the former GATT, apart from the Single Undertaking feature which was introduced in the DDR. Special and Differential Treatment goes back to the creation of Part IV of the GATT in 1979. It is likely that these GATT negotiation procedures influenced the modus operandi of the negotiations set up by the UNFCCC. More fundamentally, both are not producing outcomes that are seen to yield gains to all members. The policy divisions at the WTO negotiations between major countries such as the USA, China and India have also had a negative feedback on the negotiations in the UNFCCC, and *vice versa*.

There is also a direct link between climate change policy and trade policy because the doctrine of common but differentiated responsibilities in the UNFCCC negotiations leads to loss of trade competitiveness in countries with higher carbon prices and thence to demands for border tax adjustments. These links, and other links such as the role of trade taxes in discouraging international trade in green technologies, are referred to in the WTO as “trade-related aspects of climate change policy”.

In both the WTO and the UNFCCC, the primary obstacle to the progress of negotiations is the lack of agreement as to which nations should make the reduction commitments. There is a rift between the expectations of the Developed and the Developing countries and there are divisions within these groups. These must be resolved before the negotiations can progress. Mediating actions, in the case of the WTO by the Chairpersons of the negotiating groups and by the Director-General, have not broken through the impasses. Similarly, in the case of the UNFCCC, mediation by groups of

parties and by the President of the Conference of the Parties has failed to produce a consensus.

This obstacle in turn stems from the primary problem that member nations of these organisations do not have a shared vision of the future of trade and climate change policies.

The WTO lacks a clear objective and, because of this, it lacks a vision of where it is heading. The Preamble to the Marrakesh Agreement setting up the WTO, like the Preamble to the GATT before it, has two proximate objectives; the first is “reciprocal and mutually advantageous arrangements directed to the substantial reduction of tariffs and other barriers to trade” and the second is “the elimination of discriminatory treatment in international trade relations”. The first of these objectives have brought about negotiations in which attempts to reduce border barriers to trade are essentially directionless incrementalism.* But, prior to the DDR, there was a common vision shared by members that lowering trade barriers would benefit all nations and propel the world economy on a faster growth path. This is the so-called Washington Consensus. This view has weakened as anti-globalisation sentiments have strengthened.

Many Developing countries are not convinced of the welfare benefits from reducing their own import barriers. They seem to hold to a pro-growth view of tariff protection, despite the evidence from East Asia and other liberalising Developing countries that lowering protection increases growth rates (see Estevadeordal and Taylor, 2008 and Lloyd, 2011). Article XVIII permits Members in the “early stages of development” to use tariff protection to establish new industries. Today many Developing countries point to this article as the justification for maintaining higher market access barriers and “less than full

* Cf. “In recent years, the impression has often been given of a vehicle with a proliferation of backseat drivers, each seeking a different destination, with no map and no intention of asking the way.” (Sutherland Report, 2005).

As a trade economist, I believe the appropriate objective for the WTO is that of free trade. Indeed, it is hard to conceive of any other long term objective. A “free trade” objective implies the removal of all border and beyond-the-border measures that restrict or distort trade. Free trade is non-discriminatory as well as free. However, the WTO is not going to change its objective in the foreseeable future.

The WTO has failed abysmally on the second front of eliminating trade discrimination.

reciprocity". When the article was written 60 years ago, there was a general belief by economists in the "infant industry" argument for protection. It is now discredited. Contemporary economists believe that, if there is particular failure in a market for capital or innovation or whatever, this should be addressed in that market and not used to justify product protection from all foreign competitors.

Rather than assisting Developing country Members, the "less than full reciprocity" interpretation of Special and Differential Treatment imposes a severe barrier to their possible gains from trade liberalisation and would lower their growth rates.* The Doha Development Round would do more to assist Developing Country Members if Special and Differential Treatment took the form of special measures to open up the markets to their exports rather than supporting low reductions in their import barriers.

The UNFCCC, unlike the WTO, does have a clear objective: "it is the stabilization and reconstruction of greenhouse gas concentrations in the atmosphere at a level that would prevent dangerous anthropogenic interference with the climate system" (Article 2). However, there is no agreement among the Parties as to the magnitude of the reduction commitments need to achieve this objective. And, as in the WTO, there is no agreement as to the distribution of the burden among the parties.

Building on the analysis of the previous Sections, a number of steps could be taken to improve the prospects that multilateral negotiations will succeed in finding outcomes acceptable to all participating parties.

5.1. New methods of negotiation

Most of the commentary has focussed on the methods of negotiation. Different methods have been suggested. At the WTO, there has been much discussion about abandoning the Single Undertaking. (See, for example, the Warwick Commission, 2008) There have also been discussions about reviving the "critical mass"

* Table 1 shows that, for NAMA products, Developing Country Members have in general much higher average tariff levels and in particular they have much higher peak rates than Developed Country Members. However, the rate of distortions of agricultural incentives in Developing countries of 22 per cent is lower than it is in the High Income countries where it was 58 per cent.

method (the Warwick Commission, 2008) or plurilateral agreements used in previous rounds. These are variable geometry methods of negotiation that allow some nations to dissent. The critical mass method was used in the negotiation of the Information Technology Agreement and the services agreements in the period after the conclusion of the Uruguay Round and before the start of the Doha Round. Gallagher and Stoler (2010) propose this method for DDR agriculture negotiations.

Similar proposals have been made recently regarding the methods of negotiation used in the UNFCCC (Green, McKibbin and Picker, 2010).

5.2. Long term institutional change

Recently a number of economists have been arguing that there is a need for more fundamental reform of the WTO. (See the papers in Baldwin and Evenett (2011). The WTO law relating to trade in goods is essentially the same as that written at the time of the creation of the GATT in 1947. Many of its features must now be regarded as quite outdated. For example, trade economists frequently bemoan the outdated nature of Article VI relating to anti-dumping actions and Article XXIV relating to regional trade agreements. There are also demands for the rules to be extended to cover new "21st century" problems including trade-related aspects of climate change and others such as food security, export restrictions, commodity price volatility, and labour movements and trade-related foreign investment policy.

After the final collapse of the Doha Development round negotiations, some members have described the whole process as a "soap opera". The Director-General himself told members that "What we are seeing today is the paralysis in the negotiating function of the WTO, whether it is on market access or on the rule-making. What we are facing is the inability of the WTO to adapt and adjust to merging trade priorities." He added that members should return after the summer recess prepared "to engage in an 'adult conversations' over 'what next'" (Bridges, 2011, pp. 1-2).

Similar reforms may be demanded of the UNFCCC if it does not make more progress at the next COP in advancing a multilateral agreement.

5.3. Improved analysis of the benefits and costs of negotiation proposals

One step that could be taken to change the national perceptions of the costs and the benefits

of the negotiations, emphasising long run benefits rather than short term adjustment costs.

In the WTO, little analysis of alternative proposals is carried out. The secretariat of the WTO is the obvious group that could advise the members or commission expert advisers but it has not been used in this way and is woefully resourced. Most analyses of different modalities and the possible benefits of different packages have been done outside the WTO, in the World Bank and other organisations. The end result is that Members of the WTO act to minimise the short-term costs of their “concessions” and pay little heed to the long-term benefits of trade liberalisation which accrue to exporters and consumers. There is a need for detailed studies of the effects of proposals on individual Developing countries. These could help these countries to block sectional interests that oppose lowering trade barriers that boost their own incomes but lower national welfare.

Similarly, in the climate change negotiations, the emphasis has been on the short-term costs and burden-sharing with inadequate attention to quantifying the long term benefits. The analysis of the long run benefits is again woefully inadequate*.

The work of the IPCC has been confined to the science of climate change and derived from already-published research. Moreover, its judgement has been challenged by the widespread scepticism about climate change and therefore the benefits of mitigating it. A second body is needed to advise the parties on the implementation of a carbon management plan but it must be independent, non-governmental and able to conduct its own research. We know very little about the benefits of mitigation. This has made the political economy task of the government of each nation securing support for completion of multilateral agreements more difficult.

Historically, multilateral organisations have been very difficult to create. The list of multilateral organisations divides into two main groups. There is a UN Group (the UN itself,

ILO, WIPO and UNCTAD) and the Bretton Woods Group (The World Bank, the IMF, WTO); GATT was created in 1947 after the Bretton Woods proposal for an International Trade Organisation fell through. Aside from the ILO, all of these were created under the special conditions that prevailed after the Second World War, a time when there was a strong universal desire for better global governance. With the replacement of GATT by the WTO in 1994, trade law was extended to services trade. WIPO was created in 1967 as one of the specialised agencies within the UN but international organisations to administer intellectual property laws have existed since the 19th century. Otherwise, it has proven very difficult to introduce binding laws into new areas of governance, aside from those dealing with a single sector (such as the Codex Alimentarius) or particular markets (such as environmental agreements). Witness the failure of the MAI negotiations.

6. Conclusion

Overall, it is evident that the design of multilateral organisations and their associated law by many nations, each of which has its own concerns, is a very difficult task. This task has been made more difficult in the last decade by major changes in geopolitical relations and worsening disequilibria in global commodity, currency and asset markets. If multilateral negotiations are to succeed in future, new coalitions of countries and institutional reforms covering new methods of negotiation, new objectives and new methods of assessing proposals must be developed.

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* “The quantity and intensity of the research effort on the economic effects of climate change seems incommensurate with the perceived size of the climate problem, the expected costs of the solution, and the size of the existing research gaps. Politicians are proposing to spend hundreds of billions of dollars on greenhouse gas emission reduction, and at present, economists cannot say with confidence whether this investment is too or much too little.” (Tol, 2009, p. 46.)

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Table 1: Average Levels of Trade Restrictions

	NAMA	Agriculture	Average Trade Reduction Index
	Average Applied Tariff Rate	Average Applied Tariff Rate	Average Applied Tariff Rate
	(Nov. 2001)	(Nov. 2001)	(all Measures)
Developed Countries			
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
Developing Countries			
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
<i>Sources:</i>			
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 tradable farm products in 2000 - 04.			
No EU average is available as the figures are calculated for individual EU countries			

Table 2: Estimated Gains from the Doha Development Round

Country/Group	Agriculture & NAMA		Formula Cuts & Sectoral Cuts,			
	Formula Cuts		Services v Trade facilitation			
	Trade Gains		GDP Gains	Trade Gains		GDP Gains
	Exports	Imports		Exports	Imports	
Developed Countries						
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
Developing Countries						
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
World Total	92.8	86.9	63	384.1	409.9	282.7

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