World Trade Organization:

Sleeping After Seattle?

High hopes for more liberalized trade were dashed when the Seattle meetings ended without agreement. Here's what was expected and what's happened since.

By Jonathan Coleman and Karl Meilke

The global trading system is in transition. At the end of World War II, industrial tariffs averaged about 40 percent. Now they average about 4 percent. The work started in the 1940s to lower tariffs on industrial goods is nearly complete. While it is not entirely correct to say agriculture was excluded from trade liberalization, not much of substance was accomplished until the Uruguay Round of trade negotiations. Agricultural trade is now at the point where industrial goods trade was 50 years ago — just starting the process of liberalization.

The Uruguay Round Agreement on Agriculture (URAA) became effective on January 1, 1995. Parties under the Agreement agreed to reduce export subsidies and tariffs, convert non-tariff border measures to tariffs, increase minimum import access, and limit the most trade-distorting domestic supports.

Observers agree that the Uruguay Round made progress, but actual liberalization was modest. About 60 percent of world dairy trade and 40 percent of wheat trade will still be eligible for export subsidies when the URAA is fully implemented in 2001, and a recent USDA analysis of agricultural tariff structures found that average ad valorem tariffs are quite low, ranging from 3.8 percent in Australia to 9.5 percent in Japan. Rates are significantly higher when non-ad valorem tariffs are included in the calculations. Canada's average tariff rate, including only ad valorem tariffs (762 tariffs) is 4.8 percent, but it jumps to 25.3 percent (917 tariffs) when all tariffs are included. Some over-quota tariffs in the agricultural sector are staggering (Table 1). In terms of the costs to consumers and taxpayers, the estimate of support going to producers in Organization of Economic Cooperation and Development (OECD) countries was $283 billion in 1999, up from $246 billion in 1986-88 when the Uruguay Round of trade negotiations began. The increase in support was possible because many domestic programs are exempt from World Trade Organization (WTO) disciplines.

Table 1 – URAA final bound tariffs, for selected commodities and countries, 1998

	United States	Canada	EU	Japan	Korea
	ad valorem equivalent (percent)				
Wheat	4	77	112	442	22
Rice	5	1	156	874	5
Sugar	149	9	219	369	18
Butter	83	299	136	437	117
Beef	26	26	120	50	40

Note: Ad valorem equivalent tariffs are calculated from specific rates using final bound WTO tariffs, 1998 exchange rates, and world reference price data.

Source: Authors' estimates.

Despite URAAs noteworthy start at liberalization, world agricultural markets remain characterized by subsidized exports, export credits, limited market access for imports, intervention in commercial trading activities, non-tariff barriers, and distortions resulting from domestic support measures.

The Seattle Ministerial

In early December 1999, leaders from the 136-nation WTO met in Seattle, Washington, for the third WTO Ministerial Conference. The purpose of the meeting was to launch a new round of comprehensive trade negotiations involving the URAA's built-in agenda (agriculture and services) as well as other areas such as investments, competition policy, and government procurement policy. The meeting was suspended on its final day without agreement. Thus, agricultural negotiations, mandated to begin in January 2000, are based solely on Article 20 of the URAA which requires the liberalization process to continue toward the long-term objective of substantial reductions in supports and protection. Article 20 does not specify how this objective should be achieved, what disciplines should be negotiated, what targets should be met, or when the negotiations should be completed.

Several explanations tell why the Seattle meeting ended without agreement. These fall into two broad areas: 1, policy differences and 2, the inadequacies of WTO procedures. Irreconcilable policy differences among the major participants were the primary reason for the failed talks. Members of WTO could not agree on wording to guide the negotiating on export subsidies. More importantly, negotiators remained far apart on how to deal with non-agricultural topics. Several issues — such as the lack of market access, concessions for textiles, and concerns over the United States favoring WTO enforcement of labor standards — placed the United States in opposition to developing countries.

The failure of the Ministerial is also associated with WTO procedures. After the meeting, WTO Director General, Mike Moore, noted "the organization is running on an outdated culture of making decisions and with procedures suitable for a much smaller group." The so-called "Green Room" process, which excluded the majority of members from discussing issues important to them, caused particular concern, especially among developing countries.

Glossary

Countervailing Duties — When the government of an exporting country has been found to provide support to its domestic producers that materially injures producers in an importing country, the importing country can apply a duty on imports of the product up to the amount of the domestic subsidy.

Multifuctionality — A term most often applied to the positive externalities provided by primary agricultural production.

Peace Clause — The Uruguay Round Agreement on Agriculture contains a time-limited clause, officially known as "Due Restraint," that restricts the use of countervailing duties to counteract domestic support measures deemed to conform to the Agreement on Agriculture.

Bound Tariffs — The upper limit or the maximum tariff a country can impose on imports. The tariff actually applied is often lower than the bound tariff.

Ad valorem equivalent of a specific tariff — In order to compare tariffs across commodities and countries, specific tariffs ($/unit) can be converted to their "ad valorem equivalents" by dividing the specific tariff by the unit value of the imported product.

Issues Affecting WTO Ag Negotiations

Countries at the sessions displayed fundamental differences on how far agricultural trade reform should go. Three broad negotiating groups — the reform group, those favoring the status quo, and the developing countries — came to Seattle. The reformers (including the United States and the Cairns Group) wanted substantial cuts in trade-distorting policies. In contrast, the status quo countries, led by the EU and Japan, generally favored a go-slow approach. Developing countries, making up the vast majority of WTO members, sought special treatment under any new agreement, as well as additional concessions under the existing agreement.

Questions arose over how to tighten disciplines on domestic programs.

The failure of the Seattle meeting should not have come as any great surprise. In the months leading up to the meeting, the WTOs General Council had failed to get agreement on a draft Ministerial Declaration. As a result, one commentator suggested that Ministers arrived in Seattle with "not more than a laundry list of stubbornly irreconcilable proposals." What were the proposals and why were they irreconcilable?

Export competition

Reformers and status quo countries were unable to agree on whether tightening URAA export subsidy disciplines should include complete elimination of the subsidies and, if so, over what time period? Another concern was that export credits, identified as a subsidy by the WTO but not subject to WTO disciplines, could become more widely utilized as export subsidy disciplines become more restrictive. The EU wanted WTO disciplines on export credits, a proposal strongly resisted by the United States which argued that such disciplines should remain under the OECD. Finally, several import-dependent countries (Japan and others) wanted disciplines on export taxes, restrictions, and embargoes.

Market access

Members agreed that the new round should increase market access, but they disagreed on how this goal should be attained. There was disagreement over the extent and timing of tariff reduction. Low tariff countries argued that the formula for tariff reductions used in the URAA is unfair, and that other approaches should be explored. There was also discussion of establishing a maximum tariff from which future reductions would be based.

Domestic supports

Questions arose over how to tighten disciplines on domestic programs. Important among these were: Should the Aggregate Measurement of Support (AMS) concept continue? Should other methods be used to bring greater discipline to green box and blue box programs (see "Boxed In," p. 36)? How much should amber box support be cut, and over what period, and using which base period? Should domestic support reductions be aggregated across commodities, or changed to a commodity-by-commodity basis?

Discussions also included the support categories. The Australians argued that many green box policies are not trade-neutral (such as emergency and disaster payments) and that their scope should be narrowed. The EU preferred a wider definition to include payments to producers as compensation for compliance with higher animal welfare standards and the provision of rural amenities. There was also little agreement on the blue box, with the Cairns Group pressing for its elimination, the EU and Japan insisting on its continuation, and the United States remaining conspicuously silent on the matter. Finally, there was little agreement among the major parties over whether the Peace Clause should be extended beyond its December 31, 2002 deadline.

Countries are not moving much from negotiating positions they took in Seattle.

Other issues

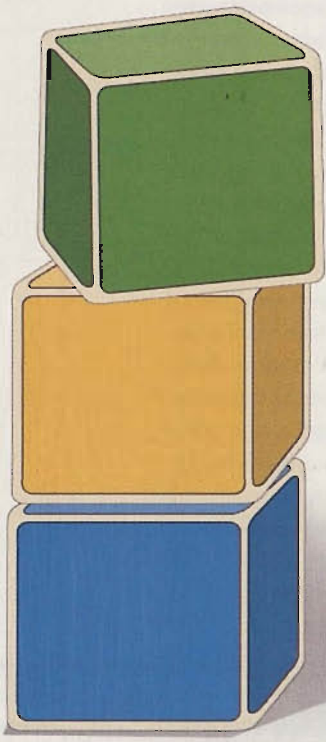
Controversy has surrounded disciplines other than those spelled out by the URRA. These debates centered on state trading enterprises (STEs), biotechnology, and non-trade issues (multifunctionality).

STEs are allowed under WTO rules, but they allegedly use their exclusive power and lack of transparency to distort trade, engage in unfair trading competition, and circumvent market access and export subsidy commitments. Interest in STEs is high because several countries requesting WTO membership, such as China and Russia, use STEs as a vehicle for domestic support programs. Increasing the transparency of STE operations has been advocated, but how to achieve this goal is unclear. Possibilities include forcing countries to remove the statutory rights of STEs, requiring STEs to publish price and sales information, and prohibiting tax revenues from being used to support STE operations.

The widespread increase in the production of genetically modified (GM) products came after URAA, so no specific rules governing their trade were established. The

Boxed-In

Domestic support categories under the Uruguay Round Agreement on Agriculture (URAA)



"Green Box"

policies permit support payments that are not considered to be trade-distorting and are not subject to limitations. Conservation programs, research, inspection, domestic food aid, and disaster relief are green box programs.

"Amber Box"

policies are support payments that are considered to be trade-distorting. They are subject to disciplines. Commodity-specific market price supports, direct payments, and input subsidies are amber box policies.

"Blue Box"

policies are support payments that are not subject to reduction because they are direct payments under production-limiting programs. To be blue box policies, payments must be made on fixed areas and yields; or 85 percent or less of the base level of production. Livestock payments must be made on a fixed number of head.

reform countries contend that existing agreements adequately cover GM products. They also favor establishing a WTO biotechnology working group to determine whether specific disciplines governing trade in these products should be required. However, Europeans advocate a policy that allows countries to ban imports of GM products when product risks are uncertain, or when scientific investigation is incomplete. Others see Europes policies as a means of closing borders to food imports that can not be proven to have zero risk.

The status quo countries strongly advocate that the new agreement reflect the "multifunctionality" of agriculture and argue that farmers should be compensated for beneficial spillover goods and services. Farmers in some countries' green box programs compensate producers for some non-agricultural goods and services. For example, the USDA makes payments to farmers for providing improvement to water quality. However, other practices, such as for the ethical treatment of animals, are not compensated. Opponents of multifunctionality fear that the concept could be used to justify open-ended support for domestic producers.

The Road Ahead

Even though these negotiating differences were still very apparent, the WTO agriculture committee began a new round of talks in late March. At the time, several officials indicated that an agreement had been very close in Seattle, but no declaration was signed, so the negotiators began again in March. How will the negotiations proceed and when can a conclusion be expected?

Three positive factors can be identified: 1, compromises made in Seattle may be repeated in future negotiations, 2, the expiration of the Peace Clause on December 31, 2002, means that unless a new agreement on agriculture is reached by then, countries could be challenged over their trade and domestic policies, and 3, CAP reform beyond Agenda 2000 could reduce the EU's reliance on export subsidies and lower support as measured by the AMS, thereby making possible a WTO agreement on agriculture.

However, countries are not moving much from negotiating positions they took in Seattle. The EU continues to insist that agricultural talks can only take place as part of a comprehensive agenda, while the United States appears reluctant to give ground, especially in a presidential election year. In addition, forces have emerged in

An Update:

Trade Negotiations After Seattle

Now, months after Seattle, the prospects for a timely and harmonious end to negotiations seem remote. Negotiations, based on Article 20 of the URAA, started with disagreement between the Cairns Group and EU over who should chair the special trade-negotiating WTO Agricultural Committee. It took until May to appoint Peruvian Jorge Voto-Bernales as a candidate acceptable to all sides.

At the first Committee meeting in March, negotiators asked for the WTO secretariat to deliver background papers on the main areas of negotiations and agree on a tentative timetable. Countries were asked to develop negotiating proposals for discussion at Committee meetings in June, September, and November. Tough negotiations were scheduled for March, 2001 (after the U.S. Presidential elections) with possible completion by the end of 2002.

Several country proposals and position papers were submitted for discussion at the June, 2000 Committee meeting. Positions on export competition and market access taken by the Cairns Group, Canada, and United States represent no fundamental change from earlier positions and were no different from those taken in Seattle. The countries continue to be at odds over how to discipline export credits, over the use of SSGs, over control of STEs, and over the rules on tariff treatment of products developed through new technologies.

Country proposals also differed widely on domestic support discipline. The United States continues to argue for eliminating the blue box, with commodity supports split into two categories — those exempt from disciplines (with no or minimal trade distorting effects) and those subject to the discipline. The U.S. also proposes that the AMS be reduced to a specified percentage (say 10 percent) of the domestic value of agricultural production in a base period, thus requiring greater cuts by countries with higher support levels. The EU is vigorously defending the blue-box exemption, arguing that blue box supports are an important tool for further reform of the CAP. A coalition of 11 developing countries proposes creating a general subsidies box which would be subject to discipline. The intent is to argue that green-box programs are not neutral and drop the distinction between trade-distorting and non trade-distorting supports.

All WTO members seem to favor continuing special treatment for developing countries. In addition, developing countries have proposed creating a food security/development box for instruments exempt from disciplines. Under the proposal, developing countries would be allowed to exempt specified products from disciplines, re-evaluate and adjust tariff levels, increase the *de minimus* level of domestic supports, and prohibit developed countries from using SSGs.

The differences among members on non-trade concerns remain. The U.S. proposal acknowledges a role of government in agriculture but stresses that support should be minimally trade-distorting. Meanwhile, the EU continues to insist that non-trade concerns should be reflected in any new agreement on agriculture. EU has also provided position papers covering animal welfare and food quality.

After two Committee meetings, the policy positions of the reformers and of the status quo countries appear to be the same as before. Country proposals and position papers already presented indicate that the sides may have grown further apart, especially on how to handle domestic support disciplines. It is early in the process and countries are still staking out their initial policy positions. Quite clearly, the negotiators have their work cut out if negotiations are to be completed by the December 31, 2002 deadline. ■

the United States to oppose agreements that further open world markets. The well-publicized demonstrations that marked the Seattle ministerial may not have affected the eventual outcome for WTO, but they did refocus the U.S. trade agenda by forcing politicians to recognize the concept of globalization rather than trade liberalization. Much must be done to rebuild the confidence that developing countries have in the WTO and in the entire multilateral system.

Although the process of agricultural negotiations continues, the path to a successful negotiating round will be extremely slow and difficult. Success will depend on the political will to make compromises and the commitment to multilateral negotiation, neither of which are strongly evident in the wake of the Seattle meetings. ■

■ For More Information

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