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## **An Overview of the Issues and Positions of the Major Countries in the WTO Negotiations**

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Negotiations on agriculture were successfully launched in the WTO early in 2000. In the initial phase, negotiating proposals have been submitted by member countries and are being discussed in special sessions of the WTO Committee on Agriculture. A stock-taking exercise will be held in March 2001 to establish the next steps in the process. Many developments will influence the shape and dynamics of the negotiations, particularly the possibility of a comprehensive trade round.

The first part of this paper examines the policy setting for the negotiations. The ongoing integration of economies and accompanying agricultural policy reforms provide an environment for further trade liberalization. Expansion of regional trade agreements and EU enlargement negotiations add urgency to the multilateral negotiating process. Newer trade issues and non-trade concerns, often connected to the food business, focus attention on the agricultural talks but may also retard them. A further factor that will add urgency is the anticipated expiry of the Peace Clause in 2003. The paper reviews the main agricultural issues for negotiation and the initial negotiating positions. Substantial progress in improving access is essential for the negotiations to succeed. The issues of export subsidies, other forms of export competition, unfair pricing practices, and dumping are receiving much attention. There are pressures to reduce or eliminate all forms of trade-distorting domestic support. Many non-trade concerns are being introduced, and legitimate trade issues will need to be addressed. The developing countries are determined to extract a better deal for their agriculture. The paper concludes that the elements for progress in further agricultural trade liberalization are coming to the negotiating table but much uncertainty remains both within and outside agriculture.<sup>1</sup>

Keywords: agricultural negotiations; peace clause; non-trade concerns; subsidies; WTO

## Introduction

The WTO negotiations on agriculture were launched last March in a “constructive and business-like” manner as reported by WTO Director-General Mike Moore (WTO, 2000a). In a special session of the Committee on Agriculture, WTO members agreed to an approach and a timetable for the first phase of the negotiations. While this may have surprised some observers, particularly those who took over the streets of Seattle to obstruct the negotiating process, agreement among the main players on the basis for launching the agricultural negotiations was very close last December when WTO ministers backed away from initiating a comprehensive round. With many developing countries complaining that the Uruguay Round (UR) had failed them, the European Union asserting that it was no longer bound by the Seattle draft text for agriculture, and an early impasse emerging over the selection of a chairperson, a successful launch of these negotiations was nonetheless achieved. Of course WTO members were committed at any rate to renew negotiations in 2000 under Article 20 of the Uruguay Round Agreement on Agriculture (AoA); but in addition there is a substantial level of support among the main governments to continue down the trade liberalization path, at least for agriculture. Countries agreed that the main negotiating proposals are to be submitted by year’s end (2000) and a stock-taking exercise will follow at a special session in March 2001. In the two special sessions, held in June and September, several negotiating proposals were presented and discussed. A program of technical work is underway. The next session took place in mid-November and meetings are scheduled through to the end of 2001.

While there is considerable skepticism that a substantial outcome for agriculture can be achieved on its own, a review of proposals and proceedings to date indicates that useful progress is being made. Indeed a number of developing countries are demanding progress in agriculture and on some other issues, such as antidumping measures, as a precondition for supporting a broad round. Following the recent Banff meeting of the Cairns Group countries, the Brazilian agriculture minister is reported to have said, “If there are no important negotiations in agriculture, we don’t see a reason for any round at all” (Reuters, 2000).

In related developments, the Council of Trade in Services met in special session in early October to discuss guidelines for negotiations in that area. These negotiations are also part of the built-in agenda from the UR, and some member countries want them to go ahead in step with the negotiations in agriculture. Several proposals for agriculture link the negotiations to other aspects of the WTO agenda, particularly sanitary and phyto-sanitary issues, technical regulations, subsidies, dumping and countervail disciplines, intellectual property, and discussions on the environment. A number of members, led by the EU, are committed to pursuing a comprehensive approach to a new WTO round which could significantly influence the issues and positions adopted by the major countries and groups in the agri-

cultural negotiations. There are many developments that affect the dynamics of the current negotiations. Consequently this overview will examine:

- the setting – the shape and dynamics of the negotiating environment;
- the issues – what will or should be brought to the table; and
- the positions – what is known or anticipated for the major players.

This overview is based primarily on country proposals and statements in the WTO sessions. It includes a summary of the positions of key members and groups of countries on market access, export competition and domestic support, drawing on a paper by Stefan Tangermann (1999).

## **The Setting**

Several developments and issues are shaping and adding urgency to the agricultural negotiations (Miner, 1998). Farm and food systems are restructuring rapidly in most regions of the world in response to new technologies and changing consumer demands and product markets. Both international and domestic developments are driving economies more closely together and part of this integration is the expansion of trade in agricultural products and services, and more direct investment. There are enormous opportunities and potential benefits from more open economies and freer trade, but also significant risks and adjustment pressures.

### *Integration and Policy Reform*

Although the negative aspects of globalization are receiving the bulk of public attention today, most WTO governments have recognized the positive role of integration in improving economic performance and living standards and reducing poverty and environmental degradation. Almost universally, they have embraced policy reforms and are continuing to do so. Trade agreements are part of national policy responses, including in many cases the need for further negotiations in agriculture. Although the process of globalization is being blamed for many of the ills of today's societies, and public protests are mounted regularly in opposition to freer trade and more open economies, most of the grievances and concerns identified by the protesters can be reduced through greater exchanges between nations rather than the opposite. Increased trade and investment are viewed as the way to modernize economies. Fortunately, more and more countries recognize the advantages of rules-based international institutions to further their interests, as evidenced by the continuing expansion in WTO membership. A majority of these new members are developing countries, or countries in transition to market economies, and most have a major stake in agriculture and the food business.

A shorter term factor that is lending urgency for some in the current talks is the decline in farm income resulting from low commodity prices. Governments are under strong pres-

sure to take remedial steps, either through additional subsidy transfers or border actions to stabilize commodity markets and prevent so-called dumping. Based on OECD calculations, agricultural support to farmers has returned to pre-Uruguay Round levels. This has increased the political pressure in Cairns Group countries to eliminate export subsidies, and to place meaningful constraints on other forms of support that influence production and trade. The U.S. Administration is supporting calls for removal of export subsidies even though Congress has pushed financial support to U.S. farmers to record levels. With the expiration of the U.S. Farm Bill in 2002, changes in Congress, and the election of a new president, there is a clear risk that the authorization for current support levels will be continued or even augmented. This lends urgency to the demands from the Cairns Group, most developing countries, and even the U.S. Administration, for stronger multilateral disciplines to constrain trade-distorting farm support.

### *Regional Agreements*

The timetable for expansion of the EU to the east is also adding to the pressures for agricultural policy reform. The EU needs comprehensive trade negotiations to complement its agenda for enlargement. The potential membership of several Central and East European Countries (CEECs) to the Union, scheduled to occur within five years, places the viability of the Common Agricultural Policy (CAP) at risk in the absence of further reform. Agriculture continues to play a key role in the CEEC economies, which are restructuring and endeavouring to expand through exports. Restructuring is also continuing in EU countries, but at a more advanced stage. Yet, broader political considerations are driving the enlargement process, and the agriculture sector cannot be isolated. The EU must develop a basis to integrate CEEC agriculture into the Common Market while its own agriculture is restructuring to operate in an integrated world. This will require further negotiations within the Union, with CEEC members, and with third countries. The EU needs a comprehensive round to incorporate the GATT Article XXIV:6 negotiations on enlargement and to provide a more secure basis of rules and commitments to facilitate internal policy adjustments.

Similar pressures to integrate economies and restructure rural sectors are at work in other regions of the world. This is demonstrated by the remarkable increase in regional trade agreements, a trend that may be accelerating in the wake of the WTO setback in Geneva (Josling, 2000). There are many examples of new agreements being forged involving Latin American countries and the EU, Canada and the remaining EFTA countries, among Central European countries, the Baltics, the Caribbean countries, and to some extent in the Pacific Rim and Africa. In the Americas, there are efforts to accelerate the Free Trade Area of the Americas (FTAA) negotiations with Canadian ministers in the forefront.

Bilateral free trade agreements continue to emerge. Recently New Zealand and Singapore announced a new trade pact. The principal focus of regional agreements is the freeing up of trade and investment in order to encourage economic expansion on a competitive basis. Regional agreements are intended to complement domestic policy reforms and the structural adjustments needed to participate in today's integrated product and services markets, and to improve economic performance and living standards. Increasingly agriculture is an integral part of these initiatives. As the agreements generally go beyond WTO provisions, they act as catalysts in multilateral trade liberalization. They also add greater urgency to the WTO agricultural negotiations.

### *Newer Issues*

A myriad of newer issues and non-trade concerns have become linked to the trade agenda, whether or not they belong there. Most are legitimate issues, but they are also complex, sensitive and emotional ones, without easy or obvious solutions. These newer issues are attracting support and publicity, and public institutions are obliged to react. Undoubtedly the information technology revolution and the ease of internet communications are catalysts in the emergence of this new dynamic in trade negotiations.

A surprising number of these emerging issues are connected to the food business and many are being raised in relation to agricultural trade negotiations, no doubt for both substantive and tactical reasons. In addition to those already identified in the AoA, including food security, food safety and quality, environmental concerns, resource conservation and rural development, WTO members have raised such disparate issues as animal welfare, biotechnology, species preservation, safeguarding the landscape, poverty reduction and preservation of rural culture. Governments are under growing pressure to address all of these issues either directly or in the trade talks. There is a need to improve the understanding and management of many of these newer issues, preferably through targeted multilateral initiatives that treat trade as a residual consideration. They do focus attention on the agricultural trade talks at this stage, but they clearly have the potential to retard the negotiating process.

### *Peace Clause*

Probably the most potent factor to create urgency in the agricultural negotiations is the provision in the AoA (Article 13) that the Due Restraint or Peace Clause expires at the end of the transition period in 2003. The Article on Due Restraint provides protection during the implementation period for measures that conform to the AoA in relation to actions based on GATT94 and the Agreement on Subsidies and Countervailing Measures. If the article is not extended or replaced, domestic support measures and export subsidies could be challenged under countervail legislation or for nullification or impairment of benefits whether or not

they meet the existing commitments. This would place many agricultural exports from the major subsidizing countries at risk of challenge, a situation that would be particularly difficult not only for the EU, but also for the United States, Canada, and a number of other countries. Since the Peace Clause would disappear in the year that a new U.S. Farm Bill is due, and at a crucial time in the EU enlargement exercise, there will be strong pressures on the key negotiating countries to reach agreement on agriculture in the WTO by that time.

Most observers are skeptical that a comprehensive round can be completed by 2004. Not only must the United States obtain “fast-track” trade legislation, the EU will need additional reforms to the CAP to accept stronger multilateral commitments. Solid progress in agricultural trade liberalization, including reform of the antidumping rules, is essential to meet the demands of developing countries and would seem necessary for any deals to emerge by 2004. On the other hand, the EU and Japan, probably with considerable support, will insist that a comprehensive result must be in prospect before accepting additional commitments for agriculture. There are many hurdles to be overcome before a broad round can move ahead, but there are also compelling reasons why progress in agricultural negotiations is urgently needed.

## The Issues

The mandate for the first phase of the agricultural negotiations is based on Article 20 of the Agreement on Agriculture. This article establishes the long-term objective of “substantial progressive reductions in support and protection resulting in fundamental reform” and provides direction for the negotiations. The AoA represented a basic shift in the rules governing trade in agricultural products toward those applying to other goods, and member governments agreed to continue the process of ongoing reform to move closer to this goal. If members accept from the outset that new rules and additional commitments should be based on treating agriculture as other goods are treated under the WTO general rules, the negotiations will focus on the timing and conditions under which this is to be achieved. This is implied by the positions adopted by the Cairns Group, and has been explicitly stated in some presentations to the special sessions by the MERCOSUR countries and Australia. However Article 20 contains greater flexibility by taking into account:

- experience from implementing reduction commitments;
- their effects on world trade;
- non-trade concerns, special and differential treatment, the objective to establish a fair and market-oriented agricultural trading system, and other objectives and concerns in the preamble to the AoA; and
- what further commitments are necessary to achieve the long-term objectives.

The main issues for negotiation will be the three principal elements of the Agreement on Agriculture: (1) market access, (2) export competition, and (3) domestic support. To these should be added the issues of special and differential treatment for developing countries, and non-trade concerns, making a five-issue agenda. In the first three areas, the AoA used provisions primarily based on market-oriented mechanisms and competition rather than managed trade. Hence, tariffication (conversion to tariffs) was used as the means of removing exemptions and exceptions to the general rules as applied to agriculture, and first steps were taken to eliminate all subsidies that distort trade.

### *Access Issues*

Tariffication was a fundamental change that set the stage for negotiating greater access for all agricultural products and placed a ceiling on border protection, since tariffs were bound. Although reductions were agreed, and tariff quotas introduced as a temporary measure to ensure a minimum level of access for all products, experience shows that only limited improvement in overall access was achieved. For sensitive sectors such as sugar, rice, and dairy, the levels of protection are extremely high. While country exceptions and the U.S. Section 22 authority were removed, many border mechanisms that were in place to limit and manage imports are continuing as tariff quotas or other devices. This is a key issue to be addressed in the negotiations. Developing countries are adamant that they achieve meaningful access, and they target sensitive products and technical barriers as priorities. The access negotiations will focus on tariffs, tariff-rate quota volumes and their administration, safeguards, and the operation of importing state trading enterprises (STEs).

With respect to tariffs, the principal issues identified to date are the depth and formula for cuts, rate escalation and disparities, and zero-for-zero initiatives. For tariff quotas, the concerns relate to increasing volumes, providing minimum access, removing country allocations, and quota underfills and better rules for their administration. There are wide differences over the need for import safeguards and how to deal with STEs. A number of other access issues related to the AoA, such as dumping and food security, have been emphasized, particularly by developing countries. The developing countries are also seeking greater flexibility in how they can manage access to their markets in relation to market stability and development. Several issues have been identified concerning the conditions of access; these include food quality, genetically modified foods, geographic indications and labelling, and animal welfare.

Experience from implementing the UR outcome for agricultural access clearly demonstrates that further commitments are necessary. If substantial reductions in protection are to be achieved, tariffs that exceed a reasonable level, say 50 percent, cannot be justified, let alone rates of several hundred percent. If a market-oriented system is to emerge, the



temporary tariff quotas should be expanded, administered openly, and eventually removed. If the system is to be fair, all products must be liberalized and tariff escalation and disparities between products should disappear. And this must be done in a manner that yields real access benefits. Where special and differential treatment is given, it should facilitate effective development. Responses to non-trade concerns, if included in a renewed AoA, would have to be consistent with the overall access objectives. There must be substantial progress in improving agricultural access for the negotiations to succeed.

### *Export Competition*

To date, negotiations on export subsidies and other forms of export competition have received the greatest attention. The reductions in export subsidies, as anticipated, have had the strongest impact on member country policies. These have affected the EU directly for dairy and cereals, and indirectly for sugar. Stronger prices in cereal markets limited the effects of the constraints, but they were a factor in policy decisions in both the United States and Canada. The constraints were also a factor for dairy products in the United States, Canada, and Australia.

In addition to the binding effects of the existing constraints, the serious decline in cereal prices and the continued use of export subsidies by the EU have stimulated an almost universal demand from members for the elimination of agricultural export subsidies. There are also calls for disciplines on export credits and other forms of export assistance, and on exporting STEs. The negotiations on export competition are likely to spill over into a discussion of the impact two-price systems and price pooling have on trade. Since higher internal prices can be used to benefit or cross-subsidize export shipments, and pooling across time and markets can provide benefits to specific shipments, these mechanisms may emerge as issues in negotiations to eliminate export subsidies. Cross-subsidization and pooling are also linked to concerns over alleged subsidies and unfair pricing in state trading for export. A number of members advocate related disciplines on export restrictions and taxes, and some seek a ban on dumping.

It is in the area of export competition that the prospect of treating agriculture in a similar manner to other goods is most likely to be achieved in this negotiation.

### *Domestic Support*

Although it was recognized in the run-up to the UR that import barriers and export subsidies were often an integral part of domestic policies, and substantial reductions in both support and protection were necessary for fundamental reform, the commitments on domestic support were less binding than other constraints. This reflected the difficulty of negotiating disciplines for internal policies of sovereign states and the complexity of writing meaningful commitments. The decision to distinguish between acceptable policies (green) that

are considered to have minimal trade distortion or production effects, and other policies (amber) that should be reduced, provided the basis for the commitments. The focus on both direct and indirect support in an aggregate measure permitted the inclusion of widely differing policy tools with varied trade effects. This approach was in line with the general subsidy rules, which differentiate between non-actionable and actionable policies (but prohibit the use of export subsidies). The use of an aggregate measure of support (AMS) reflected the reluctance of some governments to accept constraints on a product-specific basis. The inclusion of a blue box between the green (acceptable) and amber (distorting) categories was a further attempt to allow flexibility for policies intended to be production limiting.

The experience with the domestic support commitments to date is that they have had little direct impact. This is partly due to the high subsidies in the base period for the AMS binding, and the improvement in prices in the first years of implementation, combined with tighter budgets. There is considerable evidence that the domestic support disciplines have contributed to the significant shift in farm policies from indirect support through market interventions toward direct and decoupled government payments (Brink, 2000). Although direct support is not included in AMS calculations if it meets certain criteria, the substantial increase in transfers in recent years and the major imbalances that have resulted in producer support levels between exporting nations are creating renewed trade tension.

In addition to the compromises that weakened the constraints on domestic supports, strong concerns are emerging in relation to the growing level of subsidy transfers and their impact on production and prices. The focus of these concerns is pressure to reduce or eliminate all trade-distorting domestic support. There appears to be a consensus that the disciplines should continue and be strengthened, although greater flexibility is proposed by many importing and developing countries to accommodate non-trade and consumer concerns and development needs. A reassessment of the policy criteria and composition of the green, amber, and blue boxes is wanted by most, and a number would eliminate the temporary blue box. A key issue is whether the AMS disciplines should be applied on a commodity-specific basis. There are a number of sensitive issues in this area related to the Peace Clause and to the use of trade remedy legislation.

### *Other Issues*

A broad range of relatively new issues is coming to the agricultural negotiating table in addition to the basic elements now in the AoA. In the negotiation of Article 20, these concerns were raised primarily by countries seeking to moderate the pace of trade liberalization and agricultural policy reform (Tangermann, 1999). The AoA preamble identifies some non-trade concerns. In the current discussions, the interest in non-trade issues has

become widespread, no doubt stimulated by the public protests that identify an extremely broad and disparate range of non-trade concerns alleged to be aggravated by trade agreements. In any case, non-trade concerns were included in Article 20 and now form part of the mandate for negotiations.

What are the non-trade issues for negotiation? Many of those raised, such as improving food security and protecting the environment, are already referred to in the AoA. Most members indicate support for measures to achieve these objectives that complement the trade rules. Many developing countries identify rural development, poverty reduction, and enhancing food security as non-trade concerns to be addressed. Some propose a special development box to provide flexibility to use trade measures to improve their situations. A reduction in agricultural support and protection, with appropriate transition arrangements for developing countries, combined with development aid, should reduce these concerns. It is evident that the developing countries will pursue these issues in the negotiation. Some developed importing countries have also identified food security, as well as rural viability and culture, preservation of resources and bio-diversity, and several other non-trade concerns to be taken into account in the negotiations. Generally, these concerns are raised by members that maintain relatively high levels of support and protection, and apparently want the issues dealt with in the negotiations on access and domestic support. Some concerns, such as preserving biodiversity or protecting animal welfare, are issues to be pursued on their merits in separate negotiations. Should multilateral agreements with trade implications emerge on these issues, account could be taken of such disciplines in the agricultural negotiations. If individual countries choose to subsidize for these specific purposes, the programs should be considered in relation to the domestic support disciplines and might find a home in the green box subject to agreed conditions. While there is no doubt that a broad range of non-trade concerns will come to the negotiating table, it is difficult to envisage specific rules to accommodate them, apart from the decisions taken to respond to developing country needs.

The agricultural negotiations do not encompass the Sanitary and Phyto-sanitary Measures (SPS) Agreement but several countries have raised SPS issues and a range of other consumer concerns. These issues include concerns over food safety, GMOs, health and sanitary requirements, and animal welfare. The key consideration at this stage is whether the SPS Agreement will be opened for negotiation or these special concerns will be addressed through the SPS Committee and separate working parties. The question of the lack of financial and technical resources to implement SPS and technical requirements in developing countries may also be part of the negotiations (Tangermann, 1999).

## The Positions

The initial negotiating positions of the major WTO members and groups of countries are beginning to emerge through proposals tabled in the special sessions of the Committee on Agriculture, and country statements in the first three sessions (WTO, 2000b). The process is far more open than it has been in the past, with most proposals and statements now available on the WTO web site. This is supplemented by a review of issues raised in the preparatory Analysis and Information Exchange (AIE) process and in submissions leading up to the ministerial conference in Seattle. The WTO Secretariat has prepared summaries of the pre-Seattle submissions on some issues at the request of members and this work is continuing. A number of public statements have been made on negotiating objectives, particularly by those demanding policy changes or specific attention to new issues.

In discussing these initial negotiating positions it is important to keep in mind that this is the first phase of the negotiations and it is taking place before governments have agreed on the scope of overall negotiations and on whether there will be a comprehensive round. A number of issues that may influence the modalities of the negotiations are under discussion in the General Council, including demands for early progress in agriculture. There is uncertainty over U.S. trade legislation and over the status and role of China in the WTO. Although these considerations make any review of country positions tentative, if not speculative, a surprising degree of clarity is nonetheless emerging on the key issues.

### *European Union*

The EU has not yet tabled a comprehensive position for the negotiations and apparently does not intend to do so until later in the discussions. It has submitted proposals on the blue box and other agricultural support measures, food quality and market access, animal welfare and trade, and export competition. In addition to EU statements in the special sessions, there have been numerous public comments by the commissioner for agriculture, Fischler, on the EU position. The decisions on Agenda 2000 in the Berlin Declaration establish the basis for the EU approach (Tangermann, 1999).

For the first time the EU submissions emphasize their role as the second largest exporter of agricultural products and their major interest in negotiating lower trade barriers. This reflects a growing recognition in Europe that its agriculture must become internationally competitive. The submissions also provide a means to balance external demands for better access, as the EU wants improved market opportunities for their exporters to accompany increased access to their market. However, the emphasis the EU gives to the preservation of the European model of agriculture, and to a range of non-trade concerns to enable agriculture to continue to fulfill its “multifunctional role”, appears to contradict a

posture of lowering trade barriers. The introduction of a grab-bag of reasons why agriculture should not be exposed to international competition, and claims that greater access should be made conditional on numerous non-trade concerns, seem to confront the objective of liberalizing agricultural trade. The EU statements emphasize that their concerns are to ensure that trade does not undermine efforts to protect their consumers and animal welfare, and are not a pretext for new trade barriers. But the EU has so far said much more about non-trade concerns in relation to access than on the specific access issues. They nonetheless support modest and balanced tariff reductions, improved rules for tariff quota administration, and stronger disciplines for importing STEs, still with a continuation of safeguards.

The 1992 CAP reform and the Berlin Declaration represent a shift from high internal price supports toward market prices with direct payments decoupled from current output. The EU position to date would not alter the basic elements of the domestic support provisions in the AoA. In their experience the blue-box payments are working by increasing the market orientation of producer decisions and restoring market balance. It is their position that the concepts of the blue box and the green box must be maintained. They support reductions in amber-box measures. The EU statements encourage further work on the measurement of the impact and efficiency of support measures, particularly the “spillover” or cross-border effects of support payments. Their comments do not rule out changes in the categories, which could accommodate programs for non-trade purposes in the green box, subject to specific criteria.<sup>2</sup>

The EU is prepared to negotiate further reductions in export subsidies provided all forms of support to exports of agricultural and food products are dealt with in a comparable manner. They identify an urgent need to develop rules and disciplines for subsidized export credits, abuse of food aid, state trading, and some market support systems such as loan deficiency payments. It is their view that officially supported export credits can act as export subsidies and should fall within the WTO rules as is the case for industrial goods. They want to quickly conclude a satisfactory OECD understanding on export credit for agricultural products and integrate it into the agreement. On food aid, the EU wants to revise the existing WTO provisions to ensure that aid is not tied in any way to commercial exports. They consider that food aid should be provided in wholly grant form and not as credits or as marketing tools.

The EU proposal on export competition identifies several ways in which STEs with exclusive rights or privileges can circumvent the export subsidy constraints, including cross-subsidization, price discrimination and price pooling. They also refer to anti-competitive effects that may arise, and appear to connect the STE issue with competition law. The EU wants to strengthen WTO rules and regulations applying to STEs based on further

analysis. They would focus additional disciplines on the scope for circumvention of existing constraints, and the need for greater transparency and stricter notification requirements related to indirect subsidization. And they identify a possible need for disciplines to limit the anticompetitive effects of STEs in the agriculture and food trade, which may link this issue with possible negotiations on trade and competition.

The focus of the EU approach to export subsidies is to achieve a balanced result with equivalent action on all sources of export trade distortion. Their position on access is to achieve improved opportunities for EU exports to accompany better access to their own market. For domestic support programs, the EU accepts the need for progressive reductions and seeks to tailor these and other disciplines to respond to the political pressures arising from structural adjustments and consumer concerns. While the Commission is prepared to negotiate further reductions in support and protection, and may even allow export subsidy constraints and more import competition to drive structural reform and ease the pressures of enlargement, a further tranche of CAP reform would be required to reach agreement. The recent EU announcement of some adjustments to the sugar regime, with more to come by 2003, is an encouraging indication that additional CAP reforms may be on the horizon (International Centre for Trade and Sustainable Development, 2000).

### *United States*

The United States succeeded in being the first to table a comprehensive proposal, with the apparent objective of focusing the negotiations on the basic issues of trade liberalization and accelerating the process. Their initial position places the emphasis on “long-term agricultural trade reform” based on the elements of the current AoA and attaches a high priority and urgency to this task. Since the U.S. Administration found itself in the awkward situation of having no clear negotiating mandate, and elections which could change the presidency and possibly the balance of power in Congress, they chose to stake out a broad position within the established framework of the existing AoA. The United States proposes that an agreement be reached by the end of 2002. Their comprehensive approach and short timetable is intended to attract the support of the Cairns Group and many developing countries, while placing pressure on the EU and others to accelerate their policy reforms. It also provides cover for a new administration to organize its priorities for trade legislation and a new Farm Bill.

The key elements of the U.S. proposal are familiar, and include substantial reductions or the elimination of all tariffs and disparities in tariff levels, substantial increases in tariff quotas, elimination of export subsidies, disciplines on the use of export restrictions and STEs, and the simplification of rules applying to domestic support. Breaking some new ground, the United States proposes to establish a ceiling on trade-distorting support, and to include disciplines covering trade in products of new technologies.

In the U.S. statements, three themes are emphasized that may find their way into the negotiating modalities: (1) there can be no product exemptions; (2) existing disparities in WTO tariff schedules must be substantially reduced or eliminated; and (3) the focus should be on the most trade-distorting measures such as export subsidies, uncapped trade-distorting domestic support payments, high tariffs, and unjustified restrictions on products of new technologies. No doubt as intended, this list will get the attention of negotiators from the EU, Japan, and Canada, but also from some U.S. groups.

The emphasis in U.S. access proposals on removing disparities in tariff levels with no product exemptions is a means of attacking peak tariffs, tariff escalation, and wide variations between tariffs in and out of quota. Tariffs are to be reduced from applied rates, and the United States wishes to eliminate the special agricultural safeguard. In addition to increasing tariff quotas, the proposal calls for disciplines on tariff quota administration, including trigger mechanisms for quota underfills. The exclusive import rights of STEs should end, in the U.S. view, and notification requirements should include information on import contracts. The United States supports sectoral negotiations such as zero-for-zero and harmonization initiatives that go beyond the basic commitments.

The U.S. proposals in the area of export competition focus on eliminating export subsidies over a fixed period and disciplining export STEs. As on the import side, the United States would end exclusive export rights for STEs and require the notification of the specifics of contracts. They would also eliminate government financial backing of STEs. Although the U.S. position would require the elimination of their ability to provide export subsidies under EEP and the dairy program, their statements indicate that the proposals were "well received" by senior congressional leaders and farm representatives. As the United States has made only limited use of export subsidies since the UR, and the EU is virtually alone in their use, this proposal is on solid ground. However, the United States is the main obstacle to achieving an OECD agreement to limit export credits and credit guarantees for agricultural products. These talks have been ongoing for six years but they have a target for completion by the end of 2000. The principal hurdle is the repayment period, with the United States offering to halve the current understanding to 18 months. Other participants, including Canada, want the period to be shorter, in line with commercial loans for food products. This issue is linked to developing country interests in longer credit terms, and to export subsidy disciplines, including the U.S. desire to force STEs to report the terms of their loans. While the United States wants to keep export credit disciplines in the OECD, these linkages will make it difficult to do so.

The U.S. proposal on domestic support is aimed at further substantial reductions in trade-distorting programs, and addressing the issue of disparities in support levels in a way that simplifies the disciplines. They propose two categories, one for exempt measures

which are targeted, transparent and at most minimally trade distorting, and a second which is non-exempt and subject to reduction commitments. A formula approach for reductions is proposed to reach a final bound level, fixed as a percentage of the value of total agricultural production, which is to be applied to all members. Programs that promote sustainable agriculture and rural communities in a non-distorting manner would be exempt, subject to criteria. Similarly, programs in developing countries considered to be essential to their development and food security would be exempt.

The apparent U.S. objectives are to further reduce the trade distortion in domestic support, reduce imbalances between levels of support, and refine the categories to better accommodate new policy directions and developing country needs. It is unclear why a switch in category designations from green to exempt, and amber to non-exempt, would simplify the system, apart from discarding the blue box. It would seem to risk opening up the criteria to renegotiation, which would be counterproductive. The proposal to bind non-exempt support in relation to the value of total production could address over time the growing problem of inequities in support levels provided the large subsidy programs were captured. It is not clear what would happen to blue-box support, or how the current U.S. loan deficiency payments and other income transfers would be treated. Since almost any program has the capability of distorting production and trade given sufficient funding, a limit in support in relation to output has some logic. The merit of the U.S. proposal at this stage in the process is to open up the domestic criteria for reassessment and greater clarity. The challenge will be to construct the correct boxes and constraints, and put the programs back where they belong.

The U.S. proposal also addresses special and differential treatment and food security. In addition to further criteria for development support, the United States proposes that members intensify technical assistance and give special consideration to tariff reductions of interest. To strengthen food security, the United States would renew existing commitments for food aid in the Uruguay Round Decision and the WTO disciplines. They also would strengthen WTO disciplines on export restrictions.

### *Cairns Group*

The Cairns Group countries played an aggressive and constructive role in the UR and are continuing to do so in the current negotiations. Some members presented proposals on their own, or as participants in other associations, but the group has maintained solid support for the AoA and the need for further reforms of all three basic elements. The group has tabled proposals on export competition and domestic support, and an access proposal is being developed. The members of the group share common but not uniform positions on access. A Canadian access proposal has been tabled and is discussed separately, as are the positions of some developing countries.



The Cairns Group position on export subsidies is straightforward and unambiguous. They propose the elimination and prohibition of all forms of export subsidies for all agricultural products. The elimination is to be achieved through a substantial down payment in reductions for outlays and volumes in the first year followed by an accelerated process of reductions until subsidies are eliminated. It is noted that from 2004 the exemptions for agricultural export subsidies from actions under WTO rules will disappear with the Peace Clause. It is proposed that the reduction begin from the bound levels at the end of 2000 for developed countries, and from 2004 for developing countries. The proposal also calls for the elimination of any subsidy elements in other forms of unfair competition, including export credits, export guarantees and insurance, and other non-commercial transactions.

The group favors the provision of effective mechanisms, such as longer implementation periods, to assist developing countries to adjust to the reform process. They also request that countries entitled to use export subsidies during the negotiations exercise restraint and reduce their use.

The Cairns Group also proposes major reductions in domestic support and eventual elimination of all forms of trade- and production-distorting mechanisms. For reductions, the group proposes a formula approach, beginning with a substantial down payment. The reductions would apply to all AMS and blue-box programs and, on a disaggregated basis, to all agricultural products. A review of green-box criteria is proposed to ensure that all its programs are at most minimally trade distorting. Again, maximum restraint is called for during the negotiations. A number of special and differential provisions are identified in the proposal, including specific green-box provisions, a differentiated AMS formula to encourage diversification, and enhanced technical assistance.

The subsidy targets of the Cairns Group are both the EU and the United States. For export subsidies their position reinforces the U.S. comprehensive proposal, although differences emerge in relation to export credits and food aid. Even the EU position goes some way down the same road on export subsidies. But for domestic subsidy transfers the Cairns Group confronts the programs of the two largest trading entities. The proposal for a substantial down payment in all trade-distorting support, both amber and blue, and a tightening of the criteria, no doubt to capture the large EU transfers and U.S. market loan deficiency payments, sets the Cairns Group apart. And their position has the support of many developing countries whose demands will help shape the final outcome.

The position and influence of the Cairns Group in the access negotiations is not entirely apparent at this stage. Various statements made by Australia and New Zealand imply that they will demand deep tariff cuts—particularly for peak tariffs—and the removal of tariff escalation. Both countries will pursue substantial increases in tariff quota volumes and

open transparent systems for their administration. Developing country members of the group are likely to share these objectives but to tailor their proposals to various specific needs.

### *Canada*

Canada has tabled a negotiating proposal on market access which differs in several aspects from other members' positions although it complements the overall thrust of the Cairns Group. The position reflects domestic sensitivities over supply-managed commodities, and the mix of tariffs and tariff quotas used to protect these sectors, combined with the need to expand product exports on a competitive basis. The access negotiations at the close of the UR were condensed and incomplete. There are wide disparities in tariff levels between countries, between competing products, and in the tariff quota system. The Canadian proposal seeks to address these issues through a formula approach for single-stage tariffs and a rules approach for two-stage tariffs and tariff quotas.

By applying a formula reduction to single-stage tariffs, the proposal would yield greatly reduced tariffs and less tariff dispersion. If the final bound rate does not provide effective access, it is proposed that a duty-free tariff quota should be opened. For tariff quotas, rules would be used to achieve a minimum common level of access as a share of consumption on a product basis. In-quota tariffs should be eliminated. The proposal also endorses zero-for-zero sectoral initiatives, and supports this approach for oilseeds and oilseed products, and barley and malt. Stronger disciplines on export restrictions and taxes are also advocated.

These proposals were put forward as ideas for discussion and they have already attracted some reaction. There is broad support for examining the rules for tariff quota administration, but there is concern over creating more of them. There is support for comprehensive tariff cuts and for reducing peak tariffs and tariff escalation, but some opposition to sectoral negotiations. The Canadian proposal highlights the need for serious access negotiations, and the importance of reducing tariff dispersion and escalation. It also retains and might even expand the tariff quota regime that represented an unfortunate step backwards in an AoA designed to promote market-oriented mechanisms. Since many countries including Canada now apply tariff quotas, the objective must be to expand or remove them, and to ensure that their administration allows uninhibited access.

### *Some Developing Countries*

Through their performance at the Seattle ministerial meeting, and in subsequent meetings of the WTO General Council and other committees, the developing countries have demonstrated a determination to influence the trade agenda and to extract a better deal in a new round. As these countries form a majority of the WTO membership, and a focus of their

demands is improved access to industrial markets for textiles and agricultural products, this group of countries will have a significant influence on the negotiations. However, they are not a homogeneous group, and only a few have tabled positions on specific agricultural issues.

In addition to the proposals from the Cairns Group, which includes many developing export countries, a number of statements have been presented representing the views of various developing countries. A group comprising Cuba, Dominican Republic, Honduras, Pakistan, Haiti, Nicaragua, Kenya, Uganda, Zimbabwe, Sri Lanka, and El Salvador tabled a proposal on special and differential treatment and a development box, and the green box. India supported this proposal and joined with several of these countries to comment on market access. The MERCOSUR countries presented a paper on export subsidies related to food security and dependency. Several other developing countries have expressed views on aspects of the discussions. Although the sponsorship and content of the proposals varies, an attempt is made here to summarize these positions.

The principal thrust of the proposals from developing countries is to reinforce the role of special and differential treatment in the AoA. They emphasize food as part of national security and propose various forms of flexibility in the rules to encourage agricultural development. Some support a development box, which would encompass programs designed to protect and enhance domestic food production, including programs created to prevent dumping of cheap and subsidized food. These countries are concerned that the green box has sheltered programs that have increased support in OECD countries, and protected the OECD countries from countervail actions. The green box is also criticized for meeting the non-trade concerns of industrial countries, and not the food security needs of developing nations. The main group of countries, including India, recommend that all domestic support be placed in a general box, and only a common, modest level of support be allowed.

On market access these countries emphasize that the AoA has not led to increased market opportunities for the developing nations. They identify a number of weaknesses in the access arrangements and propose that the negotiations address tariff peaks and escalation in developed countries using a harmonization formula. The tariff quota administration must be simplified in their view and operated to improve access for developing countries. Difficulties in meeting SPS requirements are identified. Several of these submissions recommend that dumping be prohibited and export subsidies eliminated, and that domestic support provided by developed countries be substantially reduced and bound.

The MERCOSUR countries, with some support from regional partners, submitted a different view on the merits of seeking food security through importing subsidized commodities and using grant aid. They advocate steps to strengthen domestic economies in

developing countries to increase self-reliance. These countries also propose the elimination of export subsidies and liberalization of trade in agriculture as the “real” solutions to food security.

### *Japan*

Although Japan has not presented a negotiating proposal, they have commented on their approach and put some issues on the table. Japan considers that agriculture should be part of a broad round of negotiations. They stress the need for fair and equitable rules that recognize the multifunctional role of agriculture. Japan seeks some redress in the balance of rights and obligations between exporters and importers.

For domestic support, Japan wishes to maintain the current framework, including the blue box which is seen as an intermediate stage to facilitate adjustments from amber to green policies. They support including non-trade concerns in the green box. Japan prefers a product-by-product approach to tariff negotiations, including tariff quotas. They support a review of the administration of tariff quotas.

Japan considers that export subsidies and export restrictions were treated with more leniency in the AoA than import restrictions. They stop short of advocating the elimination of export subsidies, at least for now. Japan supports the strengthening of export disciplines in a comprehensive way including export subsidies, export credits, export taxes, and export restrictions.

These comments, when supplemented with the views expressed by Japan in the AIE process, indicate that their position will be similar to their UR approach. Japan continues to emphasize the non-trade roles of agriculture, the country’s major dependence on food imports, and the need to safeguard the food industry and a stable food supply. Although Japan like most countries is undertaking agricultural policy reforms, and its food industry is slowly restructuring and opening up to the world market, their cautious and defensive approach to agricultural trade negotiations appears to be continuing.

### **Conclusion**

**T**hese are early days to attempt an assessment of the main issues and positions in the WTO negotiations. This review indicates that the agricultural talks are off to a satisfactory start. The foresight of the UR negotiators in agreeing in Article 20 to continue the reform process through negotiations at the end of the implementation period is serving its purpose. The structure and main elements of the negotiations appear to have been established.

The WTO members are participating in the renewed negotiations in a constructive manner. Several major countries or groups have tabled negotiating proposals, and others

apparently intend to do so after completing the analysis of the effects of existing commitments. The developing countries have demonstrated their serious involvement and determination to achieve a useful result.

This review is incomplete. A number of countries in transition to market economies in Eastern Europe and the Baltics have made interesting statements that are not covered, as is the case for Norway, Mauritius and several other members. The status and role of China in the negotiations is yet to be determined although it is likely to be significant, particularly in agriculture.

The positions being taken almost without exception reveal that domestic policy reforms are continuing, and in the direction of more open economies. But agricultural reforms are moving at a slower pace in certain countries and sectors which can be expected to retard the negotiating process. The emergence of non-trade concerns as part of the agenda will require careful management to ensure that only legitimate trade issues are addressed in the WTO. So despite a positive beginning, many obstacles must be overcome for the negotiations to make real progress.

Furthermore, a number of elements must fall into place outside the agricultural negotiations to make a substantial outcome possible. The most crucial in terms of results is a decision on the scope of the overall round and whether progress can be made on related issues. A key question is whether comprehensive negotiations can be organized to provide the political and economic basis for major progress on agricultural trade reform. The alternatives would be no result, or a modest agreement on its own, based on the current commitments. Since a failure would cut across the plans for EU enlargement and represent a serious setback for developing countries as the major industrial markets turn inward, this outcome appears improbable. A stretched out negotiating process is more likely to occur with the possibility of a limited, interim agreement in agriculture. This would require an extension of the Peace Clause in some form, and complementary farm legislation in the EU and United States.

A comprehensive round, if it can be launched, is likely to take at least five years. A substantial outcome would represent a major move forward in applying the general rules to agriculture. This would require that the EU take additional steps to link its farm prices to the world market, and accept with the United States a substantial reduction in farm support. Lower subsidy transfers are essential if EU agriculture is to become internationally competitive and U.S. agriculture is to stay that way. The EU and United States would have to undertake serious negotiations in sugar and dairy, with others joining in. The United States and EU would have to accept a timetable to eliminate export subsidies, accompanied by disciplines in other forms of export competition. For Canadian agriculture this would involve adjustments in the supply-managed sectors, and a more open CWB system.

Would the positions revealed so far yield such a result? Certainly the developing countries will not back away from their demands for greater access in textiles, clothing, and agricultural products. The World Bank and other international institutions are increasing their efforts to find effective ways of assisting these countries to restructure their economies and increase growth through exports. The EU policy changes underway are headed in the direction of further trade liberalization, but the emphasis is on caution and balance. And the EU will not move ahead of the United States in agriculture, so the Americans will have to show leadership through action on farm subsidies. The U.S. position presents a dilemma, as the administration appears willing but lacks the authority to proceed. Congress rules in farm policy, and is responsive to pressures from rural America. A similar situation prevails in relation to efforts to advance multilateral rules in the areas of antidumping, countervail, and competition legislation. A related question is whether the United States will seriously pursue a FTAA. If so, this would accelerate negotiations on the more difficult issues. The Cairns Group countries can be counted on to maintain the pressure for early action on agricultural subsidies. The non-trade issues will not go away, and some have the potential to create serious trade tensions. In the longer term, consumers will decide for themselves on such issues as GMOs and animal welfare but governments will have to establish some rules and standards so that markets function effectively.

The elements for progress in agriculture are coming to the negotiating table. The Peace Clause and related developments will force the pace. Obviously there is too much uncertainty outside agriculture to offer any predictions on the eventual outcome. But so far the indications are encouraging and provide a basis for confidence that the process of fundamental reforms in agricultural support and protection will continue.

## Endnotes

1. An earlier version of this paper was presented at the Canadian Agri-Food Trade Research Network Workshop on Agricultural Trade Liberalization: Can We Make Progress? Quebec City, Quebec, October 2000.
2. The statement refers to work in the OECD on a Policy Evaluation Matrix, and preliminary findings that area payments have less of a spillover effect than some other instruments (although actual support programs were not measured).

Table 1 Summary of Member Positions on Market Access

Element	European Union	United States	Cairns Group	Canada	Some Developing Countries	Japan
<b>Tariffs</b>	Balanced reductions.	Substantial reductions or eliminate from applied rates. Remove disparities and escalation. No exceptions. Add 0-for-0 and harmonization	Substantial cuts. Reduce peaks and escalation	Formula reductions for single-stage tariffs. Rules approach for two-stage. Minimum common access as share of consumption. Eliminate in-quota tariffs, add 0-for-0	Reduce for effective access. Harmonization formula to remove peaks and escalation. Reinforce S&D treatment	Modest reductions on product-by-product basis. Recognize multifunctional role and food security
<b>TRQ volumes</b>	Modest increases	Substantial increases	Substantial and effective increases	New TRQs if tariffs above specific level	Expand	Possibly some expansion
<b>TRQ administration</b>	Improved rules	Discipline, specific mechanisms for underfills	Discipline	Binding rules	Simplify	Not indicated
<b>Safeguards</b>	Retain	Eliminate	Not indicated	Not indicated	Not indicated	Probably retain
<b>Importing STEs</b>	Stronger disciplines	End exclusive rights. More transparency	Apply disciplines	Enforce existing disciplines	Not indicated	Not indicated

Source: Author's summary based on table 2 in Tangermann (1999)

Table 2 Summary of Member Positions on Export Competition

Element	European Union	United States	Cairns Group	Some Developing Countries	Japan
<b>Export subsidies</b>	Prepared to negotiate reductions provided all forms included	Eliminate and prohibit, using annual reductions to zero in fixed period	Eliminate and prohibit all forms for all products. Substantial down payment	Most advocate elimination	Strengthen disciplines. Redress imbalance of rights and obligations
<b>Export credits</b>	New rules and disciplines	Conclude and apply OECD agreement	Effective international discipline to end subsidy elements	Continue, some support credit limits	Stronger rules
<b>Other forms of export assistance</b>	Better rules and transparency. Provide food aid as grants	Prevent circumvention	Eliminate subsidy elements, prevent circumvention	Ban dumping	Apply stronger disciplines on comprehensive basis
<b>Export restrictions and taxes</b>	Not indicated	Prohibit export taxes	Not indicated	Not indicated	Strengthen rules and disciplines
<b>Exporting STEs</b>	Strengthen disciplines, limit anticompetitive behaviour	End exclusive rights. Notify sales information. Eliminate government funding and guarantees	Not indicated	Not indicated	Not indicated

Source: Author's summary based on table 3 in Tangermann (1999)



Table 3 Summary of Member Positions on Domestic Support and Other Issues

Element	European Union	United States	Cairns Group	Some Developing Countries	Japan
<b>Reductions - Amber Box</b>	Some reductions	Substantial reduction. Cap and reduce using two categories, exempt and non-exempt	Major reductions to eliminate all trade- and production-distorting subsidies. Formula approach with substantial down payment	Reduce, possibly to common, modest level. Provide flexibility for development. Consider development box	Assure rules equitable and balanced. Recognize multifunctionality and food security
<b>Blue Box</b>	Maintain	Non-exempt category to be bound at fixed share of total	Maintain and review criteria	Adjust as shelters developed country programs	Maintain; include non-trade concerns. Increase flexibility
<b>Peace Clause</b>	Maintain	Not indicated	Implied elimination with green support not countervailable	Not indicated	Not indicated
<b>Other issues</b>	Recognize consumer concerns, food quality, animal welfare. Protect geographic origins	Additional criteria for development and food security. Address new technology products	Enhanced green box and differentiated AMS formula	Reinforce S&D treatment	Address consumer concerns. Make agriculture part of broad round

Source: Author's summary based on table 4 in Tangermann (1999)

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