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# WTO NEGOTIATIONS

## on Agriculture and Developing Countries

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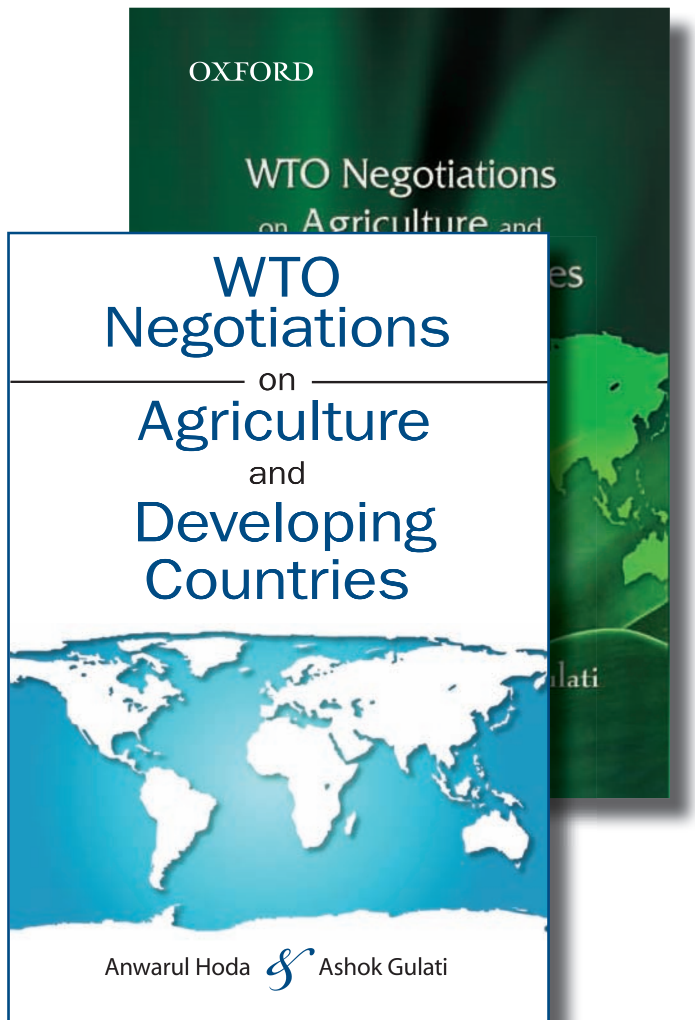
**For more than six years the trade talks of the World Trade Organization (WTO) have been stalled, mainly on account of differences in countries' levels of ambition for reducing support to and protection of agriculture. The expiration of the U.S. president's trade negotiating authority on June 30, 2007, raised the prospect of longer delay. More recently, however, the unprecedented food crisis may have created an environment for reducing the divergences in countries' negotiating positions, and efforts for agreement have**



**intensified at Geneva. To aid developing-country negotiators, the book *WTO Negotiations on Agriculture and Developing Countries* (published for IFPRI by the Johns Hopkins University Press and Oxford University Press—India) offers the first authoritative analysis of the rules and modalities on which governments of developing countries can rely and suggests a negotiating strategy for developing countries.**

## THE HISTORICAL AND NEGOTIATING CONTEXTS

The story of agricultural trade liberalization began in 1947, when the representatives of 23 major trading nations met in Geneva and entered into a trade compact that was to provide the foundation of the multilateral trading system in the postwar world. In the decades that followed, the General Agreement on Tariffs and Trade (GATT 1947), as the treaty came to be known, became the fountainhead of successive initiatives for the liberalization of world trade, and the industrialized countries made great strides in lowering trade barriers. For the most part, however, these countries excluded temperate-zone agricultural products from the mainstream of liberalization. Indeed, trade policies in this sector in the industrialized countries evolved in the opposite direction, toward greater protection.

The first serious attempt to set world agricultural trade and production policies right was made during the Uruguay Round (1986–94) and resulted in the Marrakesh Agreement Establishing the World Trade Organization, of which the Agreement on Agriculture was a constituent element. The WTO Agreement envisaged that negotiations for the "Continuation of the Reform Process" would be initiated one year before the end of the implementation period, which translated into the year 2000. An early attempt at initiating these negotiations at the Seattle Ministerial Conference ended in fiasco in December 1999 without agreement even on the next step in the process. About two years later WTO members agreed to launch comprehensive negotiations in Doha in September 2001, but progress has been beset with difficulties. The Cancún Ministerial Conference collapsed in September 2003. After a halting resumption in July 2004, negotiations made some progress leading up to the Hong Kong Conference in December 2005 but finally stumbled in July 2006.

The ministers declared in Doha that the needs and interests of developing countries lay at the heart of the work program they approved. For many developing countries, and particularly poorer countries, nothing is more important than agriculture, upon which most or many of their people depend for their livelihood. The farm subsidies doled out by the industrialized countries, coupled with tariff barriers maintained at unconscionable levels, have historically depressed the world prices of temperate-zone agricultural products and severely affected the economies of many developing countries.

Given the importance of agricultural negotiations to developing countries, we have endeavored to develop the strategy that would be in the best interests of developing countries to adopt in the Doha Round. Although developing countries have diverse agricultural situations, most of them share commonalities, which should enable them to take a broadly similar position. Most developing countries outside the Organization of Economic Cooperation and Development (OECD) are low-cost producers of farm products and many of them earn large amounts of foreign exchange from exporting these products. They have large populations dependent on agriculture for their livelihood but also substantial sections of low-income consumers. They generally use domestic support and export subsidies on a far smaller scale than do the industrialized countries. In fact most of them do not have the financial resources to subsidize agriculture on a scale comparable to the OECD countries. A common feature of the tariff profiles of many developing countries is the big gap between the bound and applied levels of agricultural tariffs. Certain groups of developing countries have concerns that set them apart from others, but all countries should have an equal stake in ridding the world economy of economic distortions in agriculture. Some countries may need to address the specificities of their situation by supplementing the negotiating objectives for developing countries in general with additional goals to take into account their concerns.

## KEY FINDINGS OF THE STUDY

An analysis of the experience with implementation of the Agreement on Agriculture raises doubts about the soundness of the framework created in the Uruguay Round to reverse many decades of protectionism in agriculture and to establish new rules to liberalize agricultural trade and production policies. From the beginning it was widely felt that only meager liberalization was actually achieved, and most heavily protected products seem to have experienced no liberalization at all. The principal industrialized countries retained policies of support and protection with a high degree of economic distortion.

In the European Community (EC) the process of compulsory conversion of nontariff measures led to prohibitively high tariffs. Certain direct payments, which were exempted from reduction commitments, provided an opportunity to reinstrument trade- and production-distorting measures subject to reduction commitments: industrialized countries reduced the use of export subsidies but replaced them with exempted direct payments. There was little change in the overall subsidization of the export market.

In the United States the Uruguay Round failed to bring about any significant reduction in market access barriers and domestic subsidies for traditionally supported products. The new rules proved ineffectual and did not constrain the United States from considerably increasing the level of domestic support by introducing four consecutive packages of market loss assistance payments in 1998–2001 or from consolidating and entrenching these emergency packages and adding another layer of domestic support through new legislation in 2002.

The decision to exempt decoupled income support—where payments are not related to production, price, or the use of factors of production—from reduction commitments on the grounds that it results in no or minimal distortion in trade and production is a major flaw in the design of the WTO Agreement on Agriculture. In the real world full decoupling is unachievable, and virtually all support measures that result in payments to farmers have more than a minimal effect on trade and production.

The Agreement on Agriculture has also implied no significant change in the agricultural policies of developing countries. The low level of domestic support and export subsidies in these countries ensured that the general level of obligations did not significantly bite into their policies, and in market access they were accorded a flexibility that far exceeded their need for tariff protection.

In the Agreement on Agriculture the principal industrialized countries retained beneficial treatment for themselves in many ways, while giving a lower level of flexibility to the developing countries by way of special and differential (S&D) treatment. The developing countries' preoccupation with S&D treatment in the Uruguay Round did not serve them well because it deflected attention from the central task of getting the industrialized countries to reduce their extremely high levels of support and protection substantially and meaningfully. Although it enabled the developing countries to fend off pressures for liberalization, S&D treatment proved to be a more potent negotiating tool for the industrialized countries by helping them influence the developing countries to demand fewer real reforms.

If reform is deep enough it can be applied equally by the developing countries without becoming too burdensome for them. Strident demands for S&D treatment undercut efforts to obtain such reform. The moment one negotiating country or group of countries seeks flexibility in applying the modalities for liberalization, others also seek corresponding changes in the dispensations applicable to them. One departure spawns another and generates a downward spiral that shrinks the liberalization package. Indeed, in a politically difficult area like agriculture, the tendency may be to grant requests for flexibility easily with the hidden agenda of securing reciprocal flexibility elsewhere. With the emphasis that many developing countries put on flexibility for special products, it was inevitable that the industrialized countries would come out strongly for matching treatment of sensitive products.

# IMPLICATIONS FOR POLICYMAKERS

Developing countries must make a fundamental shift in their approach in the ongoing Doha Round negotiations. They need to focus less on S&D treatment and more on equal treatment. Industrialized countries will need to be subjected to much more moral and political pressure before they give up their highly distorting agricultural policies. One way to apply such pressure is to challenge them by proposing deep reforms in agriculture that are designed, to the maximum extent possible, for uniform application to the entire WTO membership. Because developing countries are already far advanced in the ongoing negotiations in seeking S&D treatment, the way to secure meaningful liberalization from the industrialized countries is to moderate the distance between the general and S&D levels of treatment.

With regard to market access, the most important aspect negotiators must grapple with is tariff peaks, which are now more than 200, 300, and even 500 percent in some industrialized countries. Tariffs must therefore be capped at a reasonable level.

The success of developing countries in securing additional flexibility for special products is undoubtedly politically important for the domestic agricultural constituency and in negotiating terms as a tool for limiting flexibility in the tariff treatment of sensitive products. Developing countries need to exercise caution, however, in asking for great flexibility over a wide range of products. The real limiting factor is the impact that the coverage of special products (and indeed the decision on their tariff treatment) would have on the negotiations as a whole. If the aim of developing countries is radical reform, as it should be, those countries should limit their demand for flexibility for special products and confine it to a small proportion of agricultural tariff lines.

Much more important from the perspective of India and other developing countries is the Special Safeguards Mechanism, whose establishment is mandated by the July Framework. In addition to the threat to domestic agriculture constituted by the major industrialized countries' high levels of domestic and export subsidies, developing countries are also vulnerable to sharp periodic fluctuations in prices, which are a regular feature of international commodity markets. The Special Safeguards Mechanism should allow members to impose additional tariffs temporarily when there is a surge in imports or when such a surge is threatened by the fall in international prices. The new mechanism should be simple and provide for automatic recourse to safeguard measures once the price or volume triggers are reached, without any requirement of injury test. Also, to persuade the industrialized countries to accept a ceiling on tariffs, it may be necessary to give them access to the mechanism.

Getting the industrialized countries to sharply reduce trade-distorting domestic support is of paramount importance, so that developing countries can get access not only to industrialized-country markets, but also to third-country markets. The predicament of the cotton-producing countries of West Africa highlights the urgency of bringing about a radical reduction in trade-distorting domestic support in the industrialized countries in order to check the slide of some of the poorest countries of the world into deeper poverty. We recommend maximum emphasis on achieving a deep cut in overall trade-distorting support (OTDS) to bring it as close as possible to 5 percent of the total value of production in both industrialized and developing countries. The only departure that developing countries should make from the overriding requirement that the rules apply uniformly to all countries is to ask for a continuation of the exemption for generally available investment and input subsidies (for low-income and resource-poor farmers). One of the book's most important suggestions is that decoupled income support and other direct payments, which have been exempted under the Green Box (but are used principally by the industrialized countries), be limited only to small farmers, similar to the criterion that applies to the exemption of input subsidies for developing countries. Adding such a criterion would eliminate an important shortcoming of the agreement.

The agreements securing the parallel elimination of all forms of export subsidies and setting the end date of 2013 have been significant achievements. Developing countries should consolidate these achievements by leaning toward a stricter approach in the negotiations on disciplines on export financing support, exporting trading enterprises, and international food aid.

If deep reform of world agriculture proves unattainable, then the developing countries' strategy in the negotiations in the Doha Round would have to change. They would then have full justification for asking for full-blown S&D treatment. With the prevailing levels of agricultural subsidies in the industrialized countries, the developing countries cannot afford to lower their guard by accepting anything more than minimal reductions in tariffs. The formula for reducing tariffs by developing countries must therefore be substantially differentiated from the one applicable to the industrialized countries in terms of depth of cut as well as period of implementation. The absence of commitments to meaningful reduction of domestic support by industrialized countries would also create the conditions for reviving S&D provisions with respect to export competition. In that eventuality developing countries would be fully justified in asking for indefinite continuation of the current provision, which exempts them from reduction commitments on freight subsidies and subsidies related to marketing costs on export shipments.

In the absence of agreement on deep reform of world agriculture, it would be crucial from the point of view of developing countries that the "peace clause" is not revived. Given the potential for the domestic support of the industrialized countries to adversely affect the trade interests of developing countries in all markets, there is no reason for developing countries to acquiesce to a poor outcome on agriculture in the Doha Round. A prolonged crisis would be better than a conclusion that perpetuates the existing distortions in world agriculture.

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