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Reform of Agricultural Trade Policies: Continuum or Stalemate

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The subject that I've been asked to address is "Continuum or Stalemate". I'm going to interpret this as meaning "Is it likely that continuing the agriculture negotiations along the same track as has been followed hitherto will lead to an agreement or will it just result in continuing stalemate?" I'll then discuss two follow up questions. How did it go wrong? What should be done next?

My answer to the first question is that I believe that if the negotiations continue on the basis that seems to have been followed hitherto in which a deal on agriculture is supposed to be the motor that will drive the rest of the Round to a conclusion, then the stalemate is likely to continue. Of course, it could be that the severity of the economic downturn will itself provide the impetus to conclude the Round. I expect that there will be another call for Doha deal by the G 20 group of world leaders at their next meeting. But it's one thing to call for agreement, another to agree who should give up their cherished position in order that agreement can be reached. And, although the downturn may be a good reason for trade liberalisation and for clearer rules on subsidies, it may very well strengthen the anxieties that have prevented agreement up to now.

I know that some people are more optimistic. President Lula of Brazil, for example, thinks that agriculture was on the brink of being agreed in July and that with one more push the negotiators will solve the last problems and that this will lead to conclusions on the Round s a whole.

I'm not convinced. The Mini Ministerial in July dealt only with agriculture and non agricultural market access and agreed neither. What I've seen of the progress on other components of the Round doesn't suggest to me that they are on the brink of being agreed either. And on agriculture, although the negotiations broke down on one issue, the question of the circumstances in which developing countries could use the special safeguard (SSG) to take their tariff above their Uruguay Round bindings, there were quite a number of other issues waiting to be solved, for example, support for cotton; ad valorem bindings for products currently subject to specific tariffs; the balance between better access for tropical products and respect for long standing preferences; and the rules on sensitive products. I believe that the US and India, the two protagonists, chose the SSG as the issue on which to break the meeting not because it was the last one outstanding but because they wanted to break on the one with the strongest political resonance :- "Should developing countries only gain market access in this Round or should they do something to open up their own markets?"

To see what got us to this point, we have to go back into the history. The Uruguay Round set deadline for new negotiations to start in the year 2000 on Agriculture and Services. The mandate in Article 20 of the WTO Agreement on Agriculture struck a balance between the ambitious objective of fundamental reform and recognition that this was a long-term objective to be achieved by a continuing process, implicitly a gradual process. Well before the 2000 date was reached, the EC argued that the chance of a deal on Agriculture and Services would be enhanced if these negotiations were rolled into a new Round, because this would enable wider trade offs. Naturally this was interpreted by other WTO members as a signal that the EC would move much further on agriculture in a Round than in a negotiation based only on Article 20. So a great deal of time in the Seattle WTO Ministerial, which that was meant to launch the Round was devoted to trying to agree an ambitious mandate for the negotiations on Agriculture.

By the end of the Seattle Conference a text had emerged on agriculture on which there were only a few reservations and these would probably have been lifted if mandates for the rest of the Round had been agreed. But in fact it emerged that very little progress had been made on other subjects and the Conference collapsed.

Normally after an event like this, US and EC politicians enjoy a few months of blaming each other but the EC Trade Commissioner Pascal Lamy side stepped this by saying that the basic problem was that not enough attention had been paid to the views of developing countries. This wasn't particularly true of agriculture but it was true that before Seattle developed countries hadn't fully taken on board the reluctance of many developing countries to enter into a new Round at all. So, in the run up to the next WTO Ministerial a lot more attention was paid to developing country views – including on agriculture. And what emerged from this was that developing countries were keen to have better access to the high priced markets of certain developed counties, notably those of the EC and Japan, but were not keen on opening up their own markets. Nothing surprising about this. An odd quirk of the WTO is that it is founded on the belief that, through the operation of comparative advantage, countries improve their wealth by importing and exporting but virtually all members negotiate as though they were fervent believers in the long discredited mercantilist theory that a nation is made powerful by exporting and weak by importing.

There is a good theoretical reason why a typical developing country should liberalise its agricultural trade with caution. A typical developing country has a large agricultural population and low agricultural labour productivity because it lacks sufficient resources to create sufficient employment or to pay unemployment relief. In such a country, a lot of employment in agriculture is really disguised unemployment. So over rapid agricultural liberalisation may drive people out of agriculture not into more efficient sectors but into total unemployment. So, it makes good developmental sense to give typical developing countries longer to liberalise.

But there is always a danger that this point is confused with the mercantilist idea that exporting is good and importing is bad and therefore that it would assist countries to develop their economies if they could get more market access without any reduction in the protection of their own markets. This I believe is as much a fallacy for developing countries as it is for developed countries. Also, it assumes that all the WTO members who self designate themselves as developing countries in the WTO resemble what I have called an a typical developing country. Some do. India, for example, has around 60% of its huge population engaged in agriculture, producing only 18% of GDP. But some, Brazil, for example, which has about 18% of it population in agriculture, producing 10% of GDP is further, on this measure, from being a developing country than several developed countries. For example, Romania, now part of the EU had, at the time of its latest WTO trade policy review, 31% of its working population in Agriculture, producing 13% of GDP. And much of Brazil's production comes from farms that are as modern, labour efficient and productive as anything that can be found anywhere in the world. The same is true of other Latin American countries like Argentina and Uruguay. I don't mean to say that they don't have any reason to call themselves developing countries, only that they have no more need to be cautious about agricultural liberalisation than many developed countries.

At the next WTO Ministerial Conference in Doha in 2001 no time was spent on this theoretical discussion but the Ministerial Conclusions that provided the mandate for the new Round were liberally spattered with promises of special and differential treatment for developing countries.

So the way the Round was launched encouraged three expectations on agriculture that were always going to be hard to realise: -

1. The EC should make good on what it was understood to have promised, that it contribute more than it would have done under Article 20, which in the negotiations that followed seems to have been interpreted as meaning also that it should contribute more than others.
2. The amount of progress towards "fundamental reform" should be dramatic – or "ambitious" because no progress was likely to be made outside a major round.
3. The outcome would match developing countries' ambitions, which were to export more and import less.

In fact, if one looks at the latest version of the draft modalities, one can see that some of these expectations would be fulfilled if they were adopted as they now stand. But progress has been painfully slow, in part at least because topics have been added that were not in the mandate agreed at Doha and which made respect for the Doha timetable impossible. The Doha timetable was in fact the same as that in the draft agreement at Seattle but moved forward by two years. It called for modalities to be agreed by 31 March 2003 and offers based on the modalities by the time of the Fifth WTO Ministerial, i.e. late in 2003. Roughly speaking this meant that the negotiations leading up to the establishment of draft modalities would have to be completed in about 7 or 8 meetings of the negotiating committee. Had this timetable been taken seriously, then it would have been clear to all participants that – as the EC did in fact argue – that the deal should be based on the Uruguay Round framework and the negotiators would have concentrated from the outset on the numbers to be put into that frame work. I.e. what should be the average tariff cut and how far could cuts in each line diverge from the average, what percentage cut should be made in trade distorting support as measured by the Aggregate Measure of Support (AMS) of each member, how far should one go towards the eventual goal of complete elimination of all forms of export subsidies? Should special and differential treatment mean, as it did in the Uruguay Round, that developing countries should cut be 2/3 of the cuts agreed for developed countries and over a slightly longer timetable? These questions would have been plenty to deal with in 7 or 8 meetings.

But what happened in practice was that members continued to press for far more complex modalities, for example higher cuts for higher tariffs, elimination of tariff peaks and tariff escalation and this despite the fact that the agricultural mandate that had only just been agreed made no provision for these issues, in clear contrast to the mandate for non agricultural market access which did. There was a good reason for this difference. Industrial tariffs are virtually all bound in ad valorem terms. So these issues can be addressed in that sector without the lengthy, controversial and essentially unsatisfying process of finding a means of expressing bindings that are expressed absolute terms – e.g. cents per lb – into ad valorem equivalents.

Faced with the conflict between the timetable he was supposed to respect and the demands of members, Chairman Harbinson tabled draft modalities that introduced the idea of dividing tariffs into bands, with the highest cuts in the highest bands and a proposal for higher cuts where current bound tariffs are higher on processed items than on raw materials. With his eyes tight shut to the technical problems involved, he proposed that non ad valorem tariffs be assigned to bands using, as the price basis a three-year reference period or an Olympic average over five years. I suppose that he knew that identifying what processed product tariff would be compared with what basic commodity and which price data should be used to calculated ad valorem equivalents was both technically difficult and politically contentious. But what was he to do? He couldn't rule all this stuff out of order and incompatible with the mandate and its timetable. But, from the moment these modalities were tabled, any chance that they could be agreed in a form that made it possible to table offers based on them by the time of the next Ministerial had gone. The commitment at Doha to have a Round remained but the authority of the Doha agreement on how it was to be conducted evaporated.

In effect, therefore, a new mandate was needed and this wasn't put in place the negotiations were - or so it was said at the time -"put back on track" by the framework agreement reached in the General Council at the beginning of August 2004. This simplified the Round by dropping some of the items to which the EC had been particularly attached, trade and investment, transparency in government procurement and trade on competition policy but greatly complicated the original agricultural mandate, by adding all the complexities that had crept into the negotiations.

I'll now move directly to the latest draft modalities, looking at them from the angle of whether they fulfil the three expectations I've just set out.

Would they require the EC to make good on the promise the other members regarded it as having given to make the main contribution on agriculture? Emphatically yes they would.

On **domestic support**, the EC would make a cut of 80% in the "Base Level" of overall trade distorting support (i.e. The total of its Aggregate measure of Support (AMS) plus blue box provision plus de minimis), a bigger cut than any other member. And it would make a 70% cut in its AMS, also bigger than any other member. The ostensible technical reason for this is that its current "Base Level" and AMS are higher than any other country but this is completely bogus. The AMS of the EC cover 27 countries. Of course it's bigger than the AMS of, for example, Norway, even though Norwegian farmers have a much higher level of support. And less obviously, but perfectly well know to the technicians, the rules devised in the Uruguay Round for calculating AMS do not provide a means of comparing the level of support in one WTO member with that in another. This is because the size of a member's AMS depends more on the means it uses to deliver support to its farmers than on the level of that support. They were designed only to allow each country to define a starting point from which it would make the agreed percentage cut (20% in the Uruguay round). If the EC can agree to making the biggest cut, it's not because it is technically justified but because, thanks to the way it has reformed its policy, it believes it can live within a much lower AMS and base level of support. Incidentally, the US would apparently make the second biggest cut in support – but this is after its initial AMS and "Base Level" support have been boosted by a change in the definition of the Blue Box.

On **export competition**, scheduled export subsidies (which is the form of export subsidy that the EC principally uses) would be ended by 2013 – long before the earliest possible end of the application period for a new round. Other forms of export subsidy, government provision of export credit, "promotional" food aid and state trading would be better disciplined but not eliminated. The proposed modalities on export credit are surprisingly generous, given that WTO jurisprudence has confirmed that it is under current WTO rules, an export subsidy of the same kind as other scheduled export subsidies. So again, the EC makes the biggest contribution.

On **market access,** the picture is more blurred. The EC has given up on its starting position, that the cuts should be done on the basis of an overall average with a minimum cut per line and accepted the tiered system. But, as its average tariff wasn't the highest, it won't make the biggest cut of all developed countries

Do the proposals amount to dramatic reform of the agricultural trading system**?** Well, as regards developed countries they are certainly a lot more dramatic than the Uruguay Round**. On domestic support, AMS** would be cut by up to 70% against 36% in the Uruguay Round and there will be a cap per commodity. The Blue box, which was exempted entirely in the Uruguay Round, will be included in total support which will be subject to cuts of up to 80%. **Scheduled export subsidies**, which was cut by 21% by volume and 36% by value in the Uruguay Round, would be eliminated. And, on **market access**, the average **cut in tariffs**, even allowing for special treatment of sensitive products, would be at least 57%, and would be more for countries with high initial tariff levels, against 36% all round in the Uruguay Round.

Under **special and differential treatment,** on **domestic support**, in theory developing countries would make 2/3 of the cuts prescribed for developed countries but this provision has a rather limited application, because there are exemptions from cuts for net food importing developing countries and countries with no AMS commitments from the Uruguay Round. This is the case for most developing countries because most of them support their farmers by tariff protection, which does not enter into AMS calculations. Furthermore, the green box would be amended to allow developing countries to make use of programmes that would otherwise be considered to be amber box, for example food purchases for food distribution programmes even if these are made at above market prices.

Would the proposals match the ambition of developing countries to export more and import less? Here's the rub. The answer is probably yes if one could take developing countries as a bloc but it's no if one takes them individually. The efficient exporters of Latin America and a few Asian countries like Thailand and Malaysia would export more. The countries that currently depend on preferences granted to them by the EC and the US would export less. As regards import protection, developing countries would have to cut their bound tariffs by up to 36%. Note that 36% is 2/3 of the 57% for developed counties, which is superficially the same difference that applied in the Uruguay Round but the 36% figure is a maximum, and takes no account of the fact that the developing countries will be able to designate some of their main products as "special" and cut these tariffs by less, or even not at all, whilst the 57% figure is a minimum and includes any derogations given to sensitive products.

Even so, some developing countries are concerned that the proposals could lead to surges of imports. This is not so much because they would be required to cut their existing tariffs. Most in practice apply tariffs that are well below their existing bound rates. Their main concern is that they would lose some of the flexibility they currently have to put their tariffs up if need be. One might have thought that they would be less nervous about the risk of imports when developed countries were being required to give up export subsidies and cut their domestic support but this misses the point that for many developing countries the fear isn't of imports from developed countries but of imports from neighbouring developing countries. For example, the Caribbean countries are concerned about the risk of imports from the Latin America and India is worried by the potential for imports from Thailand and Malaysia.

Let me now conclude with a few thoughts on the lessons negotiators should draw from this history:-

1. The theory that the EC could "buy" a Round by making major concessions in it current WTO rights in Agriculture has been tested and found not to work. So has the theory that if agriculture could be agreed and then the rest of the Round will fall into place. We need now to test the theory that the EC advanced at the outset, that a Broad Round would make it easier to reach agreement on agriculture. In other words, let's see whether progress can be made in other parts of the Round in order create pressure to solve agriculture. I assume that this is what was in WTO Director-General Lamy's mind when he proposed in December that negotiations in 2009 should begin "on a broad front".

2. Careful reflection is needed on what to do in the agricultural negotiations whilst an attempt is made to bring the rest of the Round up to speed. Ground work can be done but the time for the chair to table new compromises is when the participants want to settle. Perfectly good compromises go to waste if they are produced when the participants want to go on arguing.

3. Part of the problem in the agricultural negotiations is that they have gone on too long and have therefore become too complex. Ideally the negotiations should have stuck to the Uruguay Round framework but it is no doubt impossible now to get back to it. Genies can't be put back in bottles and indeed some issues not currently on the list of unsolved issues are clamouring for attention. For example, the recent, if short lived, food price crisis highlighted the weakness of current and proposed rules o export taxes. But, if this is to be added to the list, something should be taken off. My favourite item to be dropped is the issue of ad valorem tariff bindings. No one can say

4. The current draft modalities include a bigger distinction between what is asked of developed and of developing countries than what was in the Uruguay Round modalities but this still hasn't removed the hesitations of the many developing counties who silently applauded India for its stand in July. The reason for this is, in part at least, because they are afraid of extra imports from very competitive developing countries. To address this what is needed is some contribution by the efficient agricultural exporters themselves.

Now there's something President Obama could say to President Lula next time they discuss the Round!

Thank you for your attention.