


Dialogue on Globalization

OCCASIONAL PAPERS

GENEVA

N° 5 / April 2003

Sophia Murphy

The Uruguay Round Agreement on Agriculture and its Renegotiation

FRIEDRICH EBERT STIFTUNG

FOCUS on WTO

Dialogue on Globalization

Dialogue on Globalization contributes to the international debate on globalization – through conferences, workshops and publications – as part of the international work of the Friedrich-Ebert-Stiftung (FES). *Dialogue on Globalization* is based on the premise that globalization can be shaped into a direction that promotes peace, democracy and social justice. *Dialogue on Globalization* addresses "movers and shakers" both in developing countries and in the industrialized parts of the world, i.e. politicians, trade unionists, government officials, businesspeople, and journalists as well as representatives from NGOs, international organizations, and academia.

Dialogue on Globalization is co-ordinated by the head office of the Friedrich-Ebert-Stiftung in Berlin and by the FES offices in New York and Geneva. The programme intensively draws on the international network of the Friedrich-Ebert-Stiftung – a German non-profit institution committed to the principles of social democracy – with offices, programmes and partners in more than 100 countries.

This Occasional Paper is published by the Geneva office of the Friedrich-Ebert-Stiftung.

April 2003

Table of Contents:

1.	**Executive Summary**	**5**
2.	**Introduction**	**7**
3.	**Agriculture and the Uruguay Round**	**8**
4.	**The Provisions of the Agreement on Agriculture**	**11**
	Domestic Support	11
	Market Access	12
	Export Subsidies	13
	Other Issues	13
5.	**Implementation of the Agreement on Agriculture**	**15**
6.	**The Doha Mandate**	**19**
7.	**Government Negotiating Positions**	**21**
	United States	21
	The Cairns Group	22
	The European Union	23
	Like-Minded Group	25
	Friends of Multifunctionality	27
	Former Eastern Bloc and Soviet States	28
	Least Developed Countries	29
8.	**Harbinson Draft Modalities**	**30**
9.	**Conclusions: Thoughts on Agriculture, Trade and Development**	**32**

Preface

The Agreement of Agriculture (AoA) is without doubt at the centre of the WTO negotiations, the most controversial and conflicting key issue, especially for many developing countries dependent on agriculture and agricultural exports. Progress is crucial for the overall continuation and success of the Doha Development Round – if not for the WTO as such.

When this study was written in March, negotiations were still trying to meet the deadline of 31 March for establishing a consensual agreement on “modalities” in the agriculture negotiations. These are targets (including numerical targets and rules) for achieving the objectives set out in the Doha Ministerial Declaration: “substantial improvements in market access; reduction of, with the view to phasing out, all forms of export subsidies; and substantial reduction in trade distorting domestic support”.

Now it is clear that negotiators were unable to meet this deadline: too distant and uncompromising remained the positions between countries and conflicting groups. And even, when participants declared the willingness to continue working on agriculture modalities, this is certainly a “setback” as Dr. Supachai Panichpakdi, the WTO Director General, concluded: “The failure to meet the deadline for agreeing agriculture negotiation modalities is a great disappointment for us all. Negotiators must redouble their efforts in agriculture and all other areas of negotiation between now and the September Ministerial Conference in Cancun, Mexico. […] The Doha Development Agenda negotiations are a single undertaking. No element of them will be agreed until all areas are agreed. But significant progress in some areas often provides negotiators with an incentive to overcome their differences even on the most politically sensitive questions”.

Four-fifth of the WTO’s member governments are developing countries. For many developing countries dependent on agricultural exports, or with an export potential, agricultural negotiations are of prime importance. It remains to be seen if the industrialised countries can muster the necessary political will to offer developing countries’ exports real market access, taking into consideration development issues, such as special and differential treatment, food security, rural development, poverty reduction and tariff escalation. Without serious reform in the areas of export competition, market access and domestic support measures for agriculture, the Doha negotiations will fail.

Bringing agricultural trade into the WTO regime was a controversial issue since the WTO was established in 1995. Agriculture in underdeveloped countries is an entirely different activity from that in industrialised countries. A majority of the population is depending on agriculture, markets are highly vulnerable to the dumping of agricultural product on the global market and governments do not have the financial means to support a fast expansion of productivity or the provision of subsidies. It was only after the Marrakesh Agreement of the Uruguay Round of

1994 – which clearly stated that the developed world would take care of any adverse effects if occurred in the developing world due to the Agreement on Agriculture – that low-income level countries agreed to get agriculture trade included in the WTO regime. Under this agreement, the developed countries had to reduce their agricultural subsidies and tariffs for agricultural imports. The experience, however, showed that the level of subsidies and tariffs increased in industrialized countries and estimates show that subsidies on agriculture in developed countries surmount by double all official development aid provided by the North to the South. Developing countries governments seem more and more reluctant to compromise in other areas if the agricultural negotiations remain stalemate and no acceptable and reliable offers and concessions by the industrialized world are tabled.

This paper gives a fundamental introduction to the Agreement, highlights the implementation difficulties and deficiencies and analyses the main negotiation positions of different member states or groups of states. It is written from a developmental perspective and comes to conclusions and development concerns that clearly place developing countries interest to the forefront. The paper aims at providing basic and background information to those who are not experts in the WTO negotiations on the Agreement of Agriculture, but concerned with the crisis of poverty and underdevelopment in this global world. The multilateral trading system of the WTO can only keep or win support and legitimacy if it contributes substantially in closing the global development gap.

Geneva, April 2003

Dr. Erfried Adam
Director, Geneva Office
Friedrich-Ebert-Stiftung

1. Executive Summary

At the time of writing, in March 2003, WTO Member States are at a crucial juncture in the negotiations to review the Uruguay Round Agreement on Agriculture. At the fourth WTO Ministerial Conference, held in Doha, Qatar in November 2001, governments committed themselves to agreeing new rules for the agricultural agreement by March 31, 2003. This now looks like an impossible deadline and most commentators agree that the earliest governments might reach agreement is at the fifth Ministerial Conference, scheduled to be held in Cancún, Mexico, 10-14 September 2003.

This paper provides an overview of the Uruguay Round Agreement on Agriculture, its implementation, and the state of negotiations at this time, including different country and country group positions. The paper concludes with some development concerns that have received inadequate attention in the negotiations thus far. The Ministerial Declaration that emerged from Doha promised a number of development-friendly measures. However, deadline after deadline has passed without governments making progress on the promises to enshrine development at the heart of the Doha trade round.

The Agreement on Agriculture (AoA) has three so-called 'pillars': market access, domestic support and export subsidies. In short, the commitments in the agreement require WTO member states to increase market access, and to reduce both domestic support and export subsidy expenditures. All parties to the agreement had to take steps in this direction, although Least Developed Countries (LDCs) were exempt from some obligations and developing countries overall had smaller reduction commitments than developed countries. The AoA also includes references to non-trade concerns, listed as food security, the environment and special and differential treatment for developing countries. The agreement includes a clause that calls for a review of the agreement, based on implementation experience, to begin in 1999. Those negotiations are now well underway.

Despite the hope placed in the AoA as an instrument to reform world agricultural markets, commodities from the United States and the European Union continue to be dumped in world markets at less than cost of production prices.[1] The EU continues to rely on export subsidies, despite some recent reforms. The U.S. has refused to address the market failures that now plague its agricultural markets – the result of concentrated market power in the hands of the few, large companies that dominate commodity sales, processing and transportation both at home and in world markets. Very high levels of income support to some US farmers have now become the norm because the domestic market price consistently fails to cover even production costs.

This was not the intended outcome of the AoA as set out by the advocates of market liberalization. More worryingly, this experience is not reflected in many of

1 For US dumping numbers, see Mark Ritchie, Sophia Murphy and Mary Beth Lake (2003), United States Dumping on World Agricultural Markets, WTO Cancun series paper no.1, Institute for Agriculture and Trade Policy: Minneapolis.

the positions taken by governments in the new negotiations underway, many of whom seem to think that more of the same will do. However, a few developing countries have challenged the three-pillar framework. They argue that it does not reflect their concerns as developing countries, with large agrarian populations who are vulnerable to losing their markets as imports of cheap foodstuffs rise. These countries object to lowering tariffs at the same time as export subsidies and very high levels of domestic support persist, giving the transnational companies that buy and sell the commodities of developed countries an unfair advantage in local developing country markets. However, most other countries refuse to acknowledge these problems. Many continue to press for deeper market access to other countries' markets. At the same time, these governments use various arguments to try to protect their particular needs. It is a battle that heavily favours the already dominant players – the EU, US, Cairns Group members and a few others. It divides developing countries, and makes it difficult for new thinking to emerge.

On February 12th, 2003, the Chairman of the agricultural negotiations at the WTO, Stuart Harbinson, released a first draft of what a new Agreement on Agriculture might look like. The Chairman released the draft modalities on his personal responsibility; meaning governments were under no obligation to accept them as a basis for negotiations. Nonetheless, the draft attempts to reflect a compromise drawn from the government negotiating positions submitted last year and it has considerable weight in the next steps for negotiators.

From the perspective of many NGOs, if the draft modalities now being negotiated were agreed to more or less as they are, it would be another set-back for agricultural trade rules. Persistent structural problems in world agricultural markets remain unaddressed. The significant imbalances between developed and developing country power persists. Agriculture is central to the development of most countries in the world. It plays a vital role in ensuring food security, creating livelihoods, generating foreign exchange and determining the allocation of natural resources. Yet the dominant interest in maximizing market access and increasing the volume of commodity flows does little to protect the roles that agriculture plays in development.

For the multilateral trade rules to ensure both the welfare gains that the WTO was created to promote – full employment, for example – and to address the distortions that plague agricultural trade, some new thinking is needed. The rules should outlaw the practices that facilitate dumping – the sale of goods at less than cost of production prices. These include export subsidies, unlimited income support payments to farmers, and the lack of international competition rules for the transnational companies that dominate all commodity sectors.

We have a chance to put development at the heart of the trade system. The Doha Agenda claimed to do as much, but governments have failed to keep their promises. Perhaps we can start to show the way with change where it might do the most good: in agriculture – lifeblood of the developing world.

Any paper on the Agreement on Agriculture written at this stage of the negotiations is inevitably at risk of rapid obsolescence. The negotiations are in progress at the time of writing and the pace of progress is hard to predict. Nonetheless, the author hopes the paper will provide a useful introduction to the Agreement and the issues it raises, and that it will remain a useful background piece to understand the talks as they evolve.

2. Introduction

At the time of writing, in March 2003, WTO Member States are at a crucial juncture in the negotiations to review the Uruguay Round Agreement on Agriculture. At the fourth WTO Ministerial Conference, held in Doha, Qatar in November 2001, governments committed themselves to agreeing new rules for the agricultural agreement by March 31, 2003. This now looks like an impossible deadline and most commentators agree that the earliest governments might reach agreement is at the fifth Ministerial Conference, scheduled to be held in Cancún, Mexico, in early September 2003. Despite the widely differing negotiating positions, however, government negotiators have made some progress in the talks.

This paper provides a straightforward overview of the Agreement on Agriculture and the state of negotiations at this time. It introduces the agreement and its component parts, reviews the implementation experience, describes the main negotiating positions of different members states and comments on the current draft text in front of government negotiators. The paper highlights some of the concerns that merit more attention because of their development content. The Ministerial Declaration that emerged from Doha promised a number of development-friendly measures that have yet to be made manifest in the negotiations; with governments far from agreement as yet, there is still time to urge greater attention to these critical issues.

Any paper on the Agreement on Agriculture written at this stage of the negotiations is inevitably at risk of rapid obsolescence. The negotiations are in progress at the time of writing and the pace of progress is hard to predict. Nonetheless, the author hopes the paper will provide a useful introduction to the Agreement and the issues it raises, and that it will remain a useful background piece to understand the talks as they evolve.

3. Agriculture and the Uruguay Round[2]

The GATT Uruguay Round Agreements, including the Agreement on Agriculture, (AoA), came into effect on 1 January 1995. The original General Agreement on Tariffs and Trade (GATT) had not excluded agriculture. However, almost from the outset, countries sought waivers and other exemptions, effectively protecting agricultural programs from challenge under multilateral trade law. This allowed a complex variety of domestic agricultural programs to flourish without regard for GATT rules, including extensive use of export subsidies and export sales by firms at below cost of production prices (a practice known as dumping).

With the signing of the Uruguay Round Agreement on Agriculture (AoA), international agricultural trade was put under much stronger GATT disciplines.

With the signing of the Uruguay Round Agreement on Agriculture (AoA), international agricultural trade was put under much stronger GATT disciplines. These disciplines capped and reduced export subsidies, import barriers and domestic support. Trade in agricultural products remains somewhat of a category apart, subject to different rules than other goods in the multilateral trading system. However, with the AoA, agriculture ceased to be the exception to trade rules.

Governments decided to consider serious disciplines on agriculture under GATT in the 1980s for a number of reasons. By then the European Community (now the European Union and referred to as such henceforth) was worried about the cost of the Common Agricultural Policy (the CAP), which tripled in the 1980s while average real farm incomes remained stagnant. The CAP was also failing to meet one of its founding objectives: maintaining on-farm employment. Between 1980 and 1987, the number of people active in farming in the European Union (EU) fell by 50%.[3] EU member states were also interested to secure agreements related to trade in services, intellectual property rights protection and trade-related investment measures, all of which were under negotiation during the Uruguay Round. European negotiators saw the possibility of trade-offs through making concessions in agriculture to secure gains in these other sectors.

The United States was experiencing a similar trend towards fewer and larger farms with continuing high levels of surplus production. Environmentalists and consumer groups in both the European Union and the United States pushed measures to tackle ecological and human health problems related to over-intensive production. These problems include nitrate pollution of water due to the run-off of excessive fertiliser use, massive soil erosion and high levels of antibiotic use in livestock, creating concerns about the emergence of new, antibiotic resistant bacteria that would endanger human health.

---

2 Text draws on Murphy, S. (1999), Food Security and the Uruguay Round Agreement on Agriculture, London: CIIR.

3 Commission of the European Communities (1991) The agricultural situation in the community, Brussels: CEC. OECD, (1987) National agricultural policies and agricultural trade: the European Community, Paris: OECD. Both as cited in Watkins, K. with the assistance of Fowler, P. (1996). OECD (1997b) shows a further 27% decline between the 1986-88 average and that of 1992-94.

Many developing country negotiators wanted to stabilise and increase world prices for their food exports, particularly temperate agricultural commodities that competed with subsidized production in developed countries. Higher, stable prices were impossible while developed countries continued to dump surplus production on world markets. Developing countries were also ambitious to increase their market access to developed country markets. Many developing countries had liberalised their markets under structural adjustment programmes, and they wanted to secure reciprocal liberalisation from developed countries. Agriculture is vastly more important to developing countries' economies than to the economies of developed countries, so the economists that saw trade as an essential engine for economic growth wanted to promote increased trade in agricultural commodities to stimulate development.

Many developing country negotiators wanted to stabilise and increase world prices for their food exports, particularly temperate agricultural commodities that competed with subsidized production in developed countries.

In the 1980s, studies began to show that the presence of large quantities of dumped agricultural commodities in the world market, originating from the U.S. and Europe, were undermining producers and food security in developing countries. For example, beef dumped from the Europe was damaging domestic livestock producers in West Africa, particularly Côte d'Ivoire and Burkina Faso.[4] This brought development NGOs into the debate, concerned that the cheap grain available in world markets was displacing demand for local staple crops. In turn, this hurt local producers in developing countries, who had nowhere else to sell their crops and few alternative crop choices.[5]

Perhaps the most influential set of actors in putting agriculture on the agenda at Punta del Este, where governments launched the Uruguay Round in 1986, were transnational commodity traders and processors. These are the companies that trade, ship and process livestock, grain and other agricultural products. They wanted access to new markets, particularly in developing countries, where most of the potential for growth in sales of agricultural products lies.

The most influential set of actors in putting agriculture on the agenda were transnational commodity traders and processors.

The U.S. government position was the first to reflect this impetus from exporting firms. Then, as the Uruguay Round got under way, the Cairns Group added its voice to the calls for liberalising agricultural trade. Australia gave the impetus to the creation of the Cairns Group in 1986, specifically to ensure that trade in agriculture would be included in a serious way under GATT disciplines. The Cairns Group brings together some 17 countries, both developed and developing, and includes most of the net exporters of temperate agricultural products in the world.[6]

Negotiations on agriculture during the Uruguay Round proceeded slowly, with many setbacks. At several points, it looked as if agriculture might break the round

4 Stevens, Kennan & Yates (1998), contains a review of the different NGO studies made.

5 Economist S.M. Ravi Kanbur offers this example of the problem. In Senegal, millet and rice are both significant sources of calorie supply. Rice is imported while millet is mostly produced domestically. As the two grains are substitutes for each other in the local diet, if rice prices increase in world markets and therefore in Senegal, demand for millet increases, ultimately increasing the price of millet as well. Eventually the two crops reach a new, higher equilibrium price. The converse is also true; low world market prices for rice push the price of millet down. Kanbur (1990), 'Global Food Balances and Individual Hunger, in: Drèze and Sen (eds.), The Political Economy of Hunger, Clarendon Press: UK, ch. 3, p 70.

6 As of October 2002, the members of the Cairns Group were Argentina, Australia, Bolivia, Brazil, Canada, Chile, Columbia, Costa Rica, Guatemala, Indonesia, Malaysia, New Zealand, Paraguay, the Philippines, South Africa, Thailand and Uruguay.

altogether.[7] It took a bilateral deal between the United States and the European Union (known as the Blair House Accord) to break the deadlock. The U.S. and EU imposed the deal on the other parties to the negotiations, saying it was the only way to conclude an agreement at all. One of the most important parts of the Blair House Accord was what became article 6.5 of the Agreement on Agriculture (commonly known at the WTO as the 'blue box'). The Blue box allows unlimited spending on direct government payments to farmers if the payments are conditional on restricting production. The Blair House Accord also set a very generous baseline against which to measure domestic support and export subsidy reductions. Finally, it created the so-called Peace Clause, which restricts the right of importing countries to protect themselves with duties against subsidized exports, despite their right under GATT rules to do so. The Peace Clause is set to expire on 31 December 2003.

7 Governments committed themselves to a single undertaking for the Uruguay Round, meaning that the agreements had to all be agreed together; governments could not pick the three they liked and not sign the others. Nor could they sign the finalized agreements until all the agreements were final. The Doha Ministerial Agreement commits governments to the same process for the current negotiations.

4. The Provisions of the Agreement on Agriculture

The Agreement on Agriculture (AoA) has three so-called 'pillars': market access, domestic support and export subsidies. In general terms, the commitments in the agreement require WTO member states to increase market access, and to reduce both domestic support and export subsidy expenditures. All parties to the agreement had to take steps in this direction, although Least Developed Countries (LDCs) were exempt from some obligations and developing countries overall had smaller reduction commitments than developed countries. The AoA also includes references to non-trade concerns, listed as food security, the environment and special and differential treatment (explained below) for developing countries. Some countries view non-trade concerns as a fourth 'pillar'.

The Agreement on Agriculture (AoA) has three so-called 'pillars': market access, domestic support and export subsidies.

The implementation period was five years for developed countries and nine for developing countries. That is, developed countries had to make their reductions by 2000 while developing countries have until 2004. LDCs were not subject to reduction commitments. However, they did commit themselves to not introducing certain policies in the future and they did have to bind their tariffs, meaning that they could lower but no longer raise their tariffs above a given ceiling. The AoA contained a provision to renew negotiations for further reform starting in 2000. This process was to include a review of implementation experience, which took place over a series of meetings in 2000 and 2001. That process was called the Analysis and Information Exchange.

The AoA is introduced here through a series of explanatory paragraphs that review the main provisions. To understand the agreement, it is necessary to be familiar with a certain amount of jargon, which is introduced here under the different pillars.

Domestic Support

The stated overall objective of the domestic support disciplines was to reduce the amount of money going into production that was subsequently exported. The area is complex and led to a series of debates on which programs were legitimate for domestic objectives versus those that had a significant effect on trade by artificially increasing production levels – which crowds out potential imports – or facilitating the export of under-priced exports, which generates dumping. In the end, a number of categories of domestic support were introduced, and ascribed various colours as described below.

The stated overall objective of the domestic support disciplines was to reduce the amount of money going into production that was subsequently exported.

- *Amber Box:* producer payments and other domestic subsidies that governments had to reduce but not eliminate. These expenditures are calculated in an 'Aggregate Measure of Support' (AMS), which is a cash equivalent of all the programs subject to reduction. All government spending on agriculture is presumed to be in the amber box, unless it fits the criteria for one of the other boxes (blue or green – see below). The AoA required amber box reductions of 20% from developed countries over five years and 13.3% from developing countries over nine years. The baseline for measuring reduction commitments was set by using the average expenditures over 1986-1988, years when spending was particularly high in both the European Union and the United States.

- *De Minimis:* a threshold for spending on domestic support that is exempt from AMS calculations. De minimis levels were set in the AoA at 5% of the total value of production with an additional 5% of total value on a per crop basis for developed countries. Developing countries and LDCs were granted 10% for both general and crop specific support. Programs that cost less than the de minimis threshold are exempt from reduction.
- *Blue Box:* Article 6.5 of the AoA. The Blue Box allows countries unlimited spending for direct payments to farms if the payments are linked to production-limiting programs with fixed baseline levels. The United States abandoned the programs that it categorized under the Blue Box in its domestic agricultural policy reforms of 1996 (the so-called "Freedom to Farm" legislation). The primary users of the Blue Box are now the EU, Japan, Switzerland and a few others. A few developing countries have blue box programs.
- *Green Box:* Annex 2 of the AoA. The Green Box is a list of domestic payments that are also exempt from the amber box disciplines. The Green Box list includes payments linked to environmental programmes, pest and disease control, infrastructure development, and domestic food aid (paid for at current market prices). It also includes direct payments to producers if those payments are linked to a fixed, historic base period (called decoupled payments because they are not linked to current production). Government payments to income insurance and emergency programs are also included in the Green Box.

Market Access

LDCs were exempt from tariff reductions, but had to convert non-tariff barriers to tariffs or bind their tariffs, so that in the future no increase would be allowed from the ceiling set.

The Agreement required developed countries to reduce their tariffs by an average of 36%, with a minimum per tariff line reduction of 15%, over five years. Developing countries were required to reduce their tariffs by 24% overall, with a 10% minimum, over nine years. LDCs were exempt from tariff reductions, but had to convert non-tariff barriers to tariffs – a process called tariffication – or bind their tariffs, so that in the future no increase would be allowed from the ceiling set.

- *Special Safeguards (SSG):* Article 5 of the AoA. A measure made available to those countries that converted non-tariff measures into tariffs when they agreed to the AoA. Each crop that was 'tarrified' could be protected through the application of a special safeguard. These are tariffs that provide temporary protection against sudden import surges or falls in world prices. It was mainly developed countries that tariffied in this way. Only 21 developing countries have access to this provision, the rest having opted to declare general ceilings for tariffs across all their imports, a choice which precluded them from having the SSG option.
- *Tariff peak:* A high tariff on a particular product within a given tariff line. For example, within dairy products, there might be a high tariff on cheese but not on cream or milk powder. This creates problems for exporters of cheese, although the importing country's overall dairy tariffs might meet AoA reduction requirements. The problem was not addressed by the AoA because countries were allowed to average out tariff reductions over a number of individual product lines.

- *Tariff escalation:* Rising tariff scales associated with the degree of processing. For example, most developed countries charge higher tariffs on chocolate than on cocoa. The practice protects jobs in higher-paid industries, discriminating against the development of processing capacity in developing countries. Again, the AoA allowed countries to average tariff reductions over groups of tariffs and so the problem persists.
- *Tariff Rate Quotas (TRQs):* TRQs create a tariff band between duty-free access and the high tariffs that resulted from tariffication, to ensure that a minimum level of import access was established. Thus if the tariff that resulted from tariffication was 150%, a TRQ was created to ensure at least 5% of domestic demand could be met by imports through a much reduced tariff level.

Export Subsidies

The AoA required developed countries to reduce their export subsidy spending by 35% over five years in value terms, with a reduction of at least 21% in the volume of products subsidized. The baseline used for reductions was set at an average over the 1986 to 1990 period. The reduction commitments were taken on a product specific basis (so you could not reduce one product subsidy level by a large margin, so as to protect another product with a much smaller reduction). Developing countries were to cut their export subsidies by 24% in value terms and 14% by volume over nine years. LDCs were exempt from any obligation in this area.

The AoA required developed countries to reduce their export subsidy spending by 35% over five years in value terms, with a reduction of at least 21% in the volume of products subsidized.

Other Issues

- *The Peace Clause:* Article 13 of the AoA, also known as the Due Restraint clause. The clause overrides the Agreement on Subsidies and Countervailing Measures. In effect, the peace clause prohibits countries from protecting their markets against exporters that subsidise their agriculture, so long as the subsidies are within the obligations undertaken in the AoA. That is, so long as exporting countries conform to export subsidy and domestic support rules, importing countries cannot impose protective measures against their products, even when they are priced below fair market prices. The Peace Clause is due to expire in December 2003, which commentators view as a significant pressure on the EU and others that rely heavily on export subsidies to reach a new agreement on agriculture.

- *Article 20 of the AoA:* Known as *Continuation of the Reform Process,* Article 20 called for a review of the AoA at the conclusion of the implementation period. Negotiations were to be undertaken a year before the end of the implementation period (for developed countries) – that is, in 1999 – taking into account four criteria:

1. the experience to that date from implementing the reduction commitments;
2. the effects of the reduction commitments on world trade in agriculture;
3. non-trade concerns, special and differential treatment to developing country Members, and the objective to establish a fair and market-oriented agricultural trading system, and the other objectives and concerns mentioned in thepreamble to this Agreement; and
4. what further commitments are necessary to achieve the above mentioned long-term objectives.

- *Non-Trade Concerns (NTCs):* Listed in the preamble to the Agreement on Agriculture, non-trade concerns include food security, rural development and environmental protection. The European Union has added animal welfare and eco-labeling as NTCs they wish to protect in the next iteration of the agreement.
- *Special and Differential Treatment (SDT):* As the General Agreement on Tariffs and Trade (GATT) evolved through several rounds from its inception in 1947, and as a growing number of developing countries became signatories to the agreement, member states established the principle that developing countries ought to be granted greater flexibility than developed countries. SDT is formal recognition of the disadvantages developing countries face in the world trading system. The WTO has continued to use the language of SDT, although in many agreements, including the Agreement on Agriculture, the SDT provided has proven to be woefully inadequate.

5. Implementation of the Agreement on Agriculture

The Uruguay Round Agreement on Agriculture (AoA) that governments signed in Marrakech was considerably less radical than the vision liberalisers had put forth during the negotiations. At the same time, the agreement was a tremendous setback for those who did not believe that trade considerations should drive agricultural reforms. The agreement outlawed a number of policy instruments – for example, the use of variable levies to control imports – and restrictions were placed on the introduction of a number of kinds of domestic agricultural support programmes.[8] Many critiques of the agreement have been written, some pre-dating the conclusion of the Uruguay Round and many more emerging in the years since the AoA came into effect on January 1, 1995. The following provides a very brief review of the predicted outcomes and actual implementation experience to date.

The Uruguay Round Agreement on Agriculture was considerably less radical than the vision liberalisers had put forth during the negotiations. At the same time, the agreement was a tremendous setback for those who did not believe that trade considerations should drive agricultural reforms.

The econometric models developed during the Uruguay Round negotiations predicted considerable wealth-gains from trade liberalisation. Examples of the models used to measure the effect on agriculture include the FAO's World Food Model, UNCTAD's Agricultural Trade Policy Simulation Model and the joint OECD and World Bank model, called Rural-Urban North-South or RUNS. Each model produced several outcomes, depending on the variables and assumptions used.[9] All of the models expected world prices for agricultural commodities to rise as a result of trade liberalisation. However, as the negotiations concluded and the relatively modest commitments in the AoA became clear, most modellers revised their predicted price increases downwards. Their predictions said the combined effect of reduced domestic and export subsidies with increased market access to developed countries would reduce exports from developed countries. They expected the impact of this decrease in world supply would be offset by increased exports from centrally planned (former Soviet bloc) and developing countries. Those countries had historically taxed agriculture and subsidised consumer prices, keeping domestic prices artificially low. Economists expected liberalisation to increase prices in the domestic market, which in turn would stimulate production and increase exports.

The FAO model predicted that the already established trend towards increased developing country dependency on food imports would deepen, albeit not dramatically, as a result of the AoA. Their models predicted that food imports would grow by 62% in value terms for developing countries as a whole and that

8 Variable levies are tariffs that change to keep import prices in line with domestic prices; if world prices drop in relation to the importing country's domestic price, the variable levy raises the tariff on imports to ensure they do not start to flood the market.

9 A good summary of the different models and their predictions can be found in Konandreas, P., Sharma, R. and Greenfield, J. (1997), "Overview of the Impact of the Uruguay Round on World Agricultural Markets and SADC Region", pp 55-73 in Konandreas, P., Lindland, J. and Pearce, R. (eds.) The Uruguay Round and Agriculture in Southern Africa, p 35, workshop proceedings, 21-23 January 1997, FAO: Italy.

Many developing countries lacked reliable sources of foreign exchange and needed to increase their domestic food production.

15% of this increase would be due to the AoA. This share of the increase, although perhaps not in itself enormous, was worrying from a food security perspective. Many developing countries lacked reliable sources of foreign exchange and needed to increase their domestic food production. The FAO model forecast that developing countries' agricultural trade balance would improve with implementation of the agreement. However, the model also showed that the gains would not be evenly distributed among regions, or among countries within a region.[10]

Many NGO commentators warned that the provisions of the AoA were not likely to curtail over-production or the dumping of agricultural products in world markets. These voices said cutting price support mechanisms would not decrease production in developed countries.[11] This had become clear in the European Union, where reforms in 1992 had lowered the prices paid to farmers in anticipation of the conclusion of the AoA negotiations, yet production levels subsequently remained high. A report from the UK NGO Christian Aid entitled *Winners and Losers: The Impact of the GATT Uruguay Round on Developing Countries*, predicted that the losers would fall into overlapping categories, all from developing countries. They would include countries that benefited from the Lomé Convention and other preferential trade schemes; countries that were net food importers; and/or countries that faced supply-side constraints in increasing their exports.[12]

Structural adjustment program have radically reshaped many sectors of the developing country economies that have implemented them.

With over seven years implementation experience, were the predictions right? It must first be underlined that isolating the impact of the Uruguay Round agreements from other factors shaping countries' economies is so complex as to be almost impossible. Many developing countries were undergoing structural adjustment program during the Uruguay Round negotiations and these programmes have continued since. Structural adjustment program have radically reshaped many sectors of the developing country economies that have implemented them. The impact of the AoA has to be understood in its interaction with other policy forces.

During the years of implementation, world cereal prices reached near record highs, in 1995 and 1996, only to hit near record lows in 1998. They have been falling since (prices for some cereals, including maize, climbed again in late 2002 but have since fallen again). Financial crisis afflicted many Asian countries, including rich countries such as Japan and South Korea, severely reducing one of the largest expected sources of new demand for agricultural commodities.

In 1990, 66% of exports from Africa, excluding South Africa, consisted of mining products and unprocessed agricultural commodities. In 1999, it was still over 60%, despite a general trend for developing countries as a whole towards significant growth in manufactured exports relative to agricultural commodities.[13] The U.S. share in the overall value of world exports in agricultural products fell fractionally

---

10 Greenfield, J. et al., (1996) The Uruguay Round Agreement on Agriculture: Food Security Implications for Developing Countries, Food Policy vol. 21, No. 4/5, pp 365-375, Elsevier Science Ltd.

11 Watkins, K. (1991), The World Agricultural Trade Crisis and the Uruguay Round: Implications for the South, p. 6 (draft version), CIIR: UK.

12 Madden, P. and Madeley, J. (1993), Winners and Losers: The impact of the GATT Uruguay Round on developing countries, p. 22, Christian Aid: UK. The Lomé Convention has since been replaced with the Cotonou Agreement.

13 WTO, Market Access: Unfinished Business, Special Studies 6, p. 6, WTO: Geneva.

in the 1990s, from a 1986-90 average of 19.9% to a 1995-98 average of 19.8%. For the EU, those numbers rose from 16.6% percent to 17.7% over the same time. For 36 Sub-Saharan African WTO members (again excluding South Africa), the share in global agricultural trade actually fell in this period, from 0.12% to 0.09%. The Cairns Group share hardly changed, rising from a 1986-90 average of 1.7% to 1.8% by 1995-98.[14]

Production levels in Europe and the United States have remained high, despite dramatic world price falls and policy shifts that have increased the exposure of farmers in these countries to world market realities.

In other words, the optimistic predictions were far from on target. To some extent, this is because they ignored some basic facts about agricultural economics. Production levels in Europe and the United States have remained high, despite dramatic world price falls and policy shifts that have increased the exposure of farmers in these countries to world market realities. Despite the end of floor prices as a result of the 1996 domestic agricultural program reforms, U.S. farmers have not responded to the collapse of world commodity prices by reducing output. If anything, acreage under production has increased, despite a significant fall in the number of farmers. Land is not a particularly mobile factor of production. Farmers turn first to increasing income through one or more family members working off-farm. As farmers leave the land, unable to survive, neighbours buy or rent the farm to see if plowing a few more acres might help cover the costs they have sunk in equipment. Over time, land might come out of production, but in the short and medium term, the pressure on farmers is to plant, however low prices go.[15] Of course, for some farmers (less than half in the U.S.), there are also income support payments, supposedly "non-trade distorting" and therefore not disciplined under the AoA, which have also become an essential lifeline for farmers trying to survive with market prices well below the cost of production.

The AoA did nothing to discipline developed country spending on domestic support programs. In practice, the AoA caused a shift in spending from disciplined categories (the amber box, described above) to the unrestricted green box (also explained above). By 1996, green box spending was already larger than total amber box spending. The largest element of this was food aid, mostly from the United States.[16] According to the OECD, the AoA has failed in its objective to reduce domestic support to agriculture.[17] Domestic spending on agriculture in the United States climbed to $28 billion in 2000, not including food aid. In 2003, the U.S. government passed new domestic legislation that promised at least $18 billion per year in domestic support over the next ten years. In developing countries, on the other hand, persistent high debt servicing costs and unilateral cuts in import tariffs have further reduced government revenues, making it harder than ever to support their poor farmers.

---

14 These calculations are made on the basis of a WTO document, Statistical Addendum to The Effects of the reduction Commitments on World Trade in Agriculture, reference: G/AG/NG/S/11/Add.1, 24 July 2000, WTO: Geneva. The WTO credits the FAO as the source for their data. The calculation for Sub-Saharan Africa included (in order of importance of share): Côte d'Ivoire, Kenya, Zimbabwe, Ghana, Cameroon, Nigeria, Tanzania, Uganda, Mauritius, Malawi, Swaziland, Mali, Namibia, Burkina Faso, Benin, Botswana, Chad, Sénégal, Democratic Republic of Congo, Zambia, Madagascar, Togo, Burundi, Niger, Mozambique, Mauritania, Guinea, Rwanda, Central African Republic, Guinea-Bissau, Congo, Sierra Leone, Gambia, Lesotho, Gabon, Djibouti, and Angola.

15 Daryll Ray at the University of Tennessee has produced a very useful series of policy briefing papers on agricultural economics entitled Policy Works. Available on-line at http://agpolicy.org/.

16 OECD, The Uruguay Round Agreement on Agriculture: An evaluation of its implementation in OECD countries, Executive Summary, May 2001, OECD: Paris.

17 OECD, The Uruguay Round Agreement on Agriculture: An evaluation of its implementation in OECD countries, Executive Summary, May 2001, OECD: Paris.

Relying on a number of mechanisms, agricultural production from the United States and the European Union continues to be dumped in large amounts on world markets at less than cost of production prices.[18] The EU continues to rely on export subsidies, despite some recent reforms. The U.S. has refused to address the market failures that now plague agriculture as a result of concentrated market power in the hands of a few, large companies that dominate grain sales, processing and transportation both at home and in the world market. These companies have enjoyed the post-AoA context, with very low commodity prices keeping trade volumes high and reducing input costs for their value-added operations.

A 1999 Food and Agriculture Organization study of 14 developing countries drew the following conclusions:[19]

1. Few countries showed increased agricultural exports in the post Uruguay Round period. The typical finding was that there was little change in the volume exported, or in diversification of products and destinations.
2. Food imports were rising rapidly in most cases. Some regions were facing difficulties coping with import surges due to 'detrimental effects on the competing domestic sectors'. Overall the studies concluded that while liberalisation brought about an almost instantaneous surge in food imports, these countries were not able to raise their exports, in part because of supply side constraints.
3. There was a 'general trend towards the concentration of farms in a wide cross section of countries'. While the consolidation into fewer, larger farms led to increased productivity and competitiveness, the FAO studies found that the process marginalised small farmers and added to unemployment and poverty. Very few countries have safety nets to support farmers who lose their land.
4. For many developing countries, key agricultural sectors that were vital for the economy in terms of food security, employment, economic growth and poverty reduction, were being undermined because they could not compete with cheap imports.

For many developing countries, key agricultural sectors that were vital for the economy in terms of food security, employment, economic growth and poverty reduction, were being undermined because they could not compete with cheap imports.

18 For US dumping numbers, see Mark Ritchie, Sophia Murphy and Mary Beth Lake (2003), United States Dumping on World Agricultural Markets, WTO Cancun series paper no.1, Institute for Agriculture and Trade Policy: Minneapolis.

19 Agriculture, Trade and Food Security: Issues and Options in the WTO Negotiations from the Perspective of Developing Countries, FAO, Rome, 1999.

6. The Doha Mandate

Governments built in a review process to the original Agreement on Agriculture. Along with a few other Uruguay Round agreements, including services, the Agreement on Agriculture was already under review when WTO Member States met in Doha, Qatar, for the fourth WTO Ministerial Conference in November 2001. In Doha, governments agreed the basis on which the new agreement should be framed.

Paragraphs 13 and 14 of the Doha Ministerial Declaration provide this mandate:

- *Paragraph 13:*
  "We recognize the work already undertaken in the negotiations initiated in early 2000 under Article 20 of the Agreement on Agriculture, including the large number of negotiating proposals submitted on behalf of a total of 121 Members. We recall the long-term objective referred to in the Agreement to establish a fair and market-oriented trading system through a programme of fundamental reform encompassing strengthened rules and specific commitments on support and protection in order to correct and prevent restrictions and distortions in world agricultural markets. We reconfirm our commitment to this programme. Building on the work carried out to date and without prejudging the outcome of the negotiations we commit ourselves to comprehensive negotiations aimed at: substantial improvements in market access; reductions of, with a view to phasing out, all forms of export subsidies; and substantial reductions in trade-distorting domestic support. We agree that special and differential treatment for developing countries shall be an integral part of all elements of the negotiations and shall be embodied in the Schedules of concessions and commitments and as appropriate in the rules and disciplines to be negotiated, so as to be operationally effective and to enable developing countries to effectively take account of their development needs, including food security and rural development. We take note of the non-trade concerns reflected in the negotiating proposals submitted by Members and confirm that non-trade concerns will be taken into account in the negotiations as provided for in the Agreement on Agriculture."
- *Paragraph 14:*
  "Modalities for the further commitments, including provisions for special and differential treatment, shall be established no later than 31 March 2003. Participants shall submit their comprehensive draft Schedules based on these modalities no later than the date of the Fifth Session of the Ministerial Conference. The negotiations, including with respect to rules and disciplines and related legal texts, shall be concluded as part and at the date of conclusion of the negotiating agenda as a whole."

Governments agreed in Doha to a single undertaking. That is, they committed themselves to agreeing a series of WTO agreements as a package rather than allowing negotiations on individual issues to proceed at their own pace.

In addition to this mandate, governments also agreed in Doha to a single undertaking. That is, they committed themselves to agreeing a series of WTO agreements as a package rather than allowing negotiations on individual issues to proceed at their own pace. Although the content of the round remains unclear (some governments insist that investment, competition, government procurement and trade facilitation – the so-called Singapore issues – are part of the round, others are just as adamant that they are not) this commitment ties a new Agreement on Agriculture to resolving another of other trade negotiations now in progress.

In the year after Doha, WTO Member States met four times in the committee to negotiate a new Agreement on Agriculture. The following section outlines the positions put forward by various countries and country groups.

7. Government Negotiating Positions

The following analysis focuses on the countries and country groupings that are active on agriculture. The analysis highlights the main features of the negotiating proposals and the response they have elicited as of February 2003.[20]

United States

The U.S. released its proposal for the WTO agriculture negotiations in July 2002. The main elements of the proposal are:

1) to eliminate export subsidies over five years;
2) to reduce tariffs on agricultural products over five years such that no tariff will exceed 25% after the phase-in period (in other words making the largest cuts on the highest tariffs); and,
3) to reduce "trade distorting" (amber box) domestic support to 5% of the total value of agricultural production over five years. In other words, to eliminate all AMS down to the de *minimis* level. For the U.S., this would be equivalent to some $10 billion, given the current value of its agricultural sector.

The U.S. also proposed to include production-limiting payments (those now categorized in the Blue box) in the AMS reduction commitments. This proposal, with the call to eliminate export subsidies, targets primarily the European Union, which continues to depend on both kinds of support for its agricultural policies.

The United States failed to make significant proposals for operational Special and Differential Treatment (SDT). In the section of its proposal entitled "Special and Differential Treatment", the U.S. simply restates its objectives: the elimination of export subsidies, albeit with the continuation of export credit and food aid programs; the reduction of tariffs; and, the reduction of "trade-distorting" domestic support. Additionally, there is a reprise of the SDT measures that failed to provide adequate assistance under the existing AoA: no limits on spending for programs that target low income farmers, permission to use export taxes, and reserving part of future tariff rate quota allocations in developed countries for "nontraditional developing country suppliers". In general, the U.S. is also supportive of longer timeframes for developing country implementation of new disciplines.

The U.S. proposal ignores the widespread criticism it incurs as one of the only food aid providers that refuses to abide by international norms designed to ensure food aid is not used to off-load surplus production rather than to assist hungry

20 Summaries of the WTO Agricultural Negotiations are available in a Secretariat note entitled "WTO Agriculture Negotiations," published on the WTO website. More detailed information is available at *http://www.wto.org/english/tratop_e/agric_e/negoti_e.htm.*

Counter-cyclical payments are payments that rise as market prices fall, in an attempt to ensure a minimum price for U.S.-farmers.

people. Fortunately, other WTO members are alert to this loophole and they have made it clear they expect a policy change from the U.S. in this area. The U.S. proposal calls explicitly for the elimination of the Special Agricultural Safeguard, although the creation of a special safeguard just for developing countries is one of the principal demands from developing countries.

For the most part, WTO members greeted the U.S. proposal with scepticism. There was no proposal to discipline the billions of dollars the U.S. spends annually in subsidies to agri-business. The 2002 U.S. Farm Bill budgeted about $180 million for agriculture over ten years. The bill, essentially a continuation of the failed 1996 so-called "Freedom to Farm" Bill, does not include any reduction in export subsidies or domestic support (the apparent increases in domestic support are, however, misleading; the U.S. bill simply formalizes what had been paid as "emergency measures" over the past few years). The 2002 Bill features counter-cyclical payments to farmers enrolled in program crops.[21] These are payments that rise as market prices fall, in an attempt to ensure a minimum price for farmers. Most commentators view these payments as trade distorting because they interfere with the market signal to grow less as prices fall (it turns out that agricultural production is not very price responsive in any case, but that is another discussion). The U.S. administration denies this characterization, but it is clear the bill violates the spirit of the AoA, which is to reduce government support to agriculture.

The Cairns Group

The Cairns Group represents a mix of developed and developing countries that identify their primary interest in agricultur trade negotiations as increasing market access for their exports.

As of March 2003, the Cairns Group of agricultural exporting countries had 17 members: Argentina, Australia, Bolivia, Brazil, Canada, Chile, Columbia, Costa Rica, Guatemala, Indonesia, Malaysia, New Zealand, Paraguay, the Philippines, South Africa, Thailand and Uruguay. The Group was formed in 1986 at a meeting in Cairns, Australia. The Australian government provides a permanent secretariat and much of the group's research capacity. While the membership has changed over time, the Cairns Group has consistently represented a mix of developed and developing countries that identify their primary interest in agricultural trade negotiations as increasing market access for their exports.

Australia, which is pursuing a bilateral Free Trade Agreement with the United States, was among the few countries to welcome the U.S. WTO agricultural proposal. Australia has sought to direct Cairns criticism at the European Union and Japan, who they see as the principle source of trade-distorting practices. The United States stresses areas of agreement with Cairns, such as their common market access and tariff reduction position and avoids areas of disagreement, such as the U.S. proposal to discipline single desk exporters, which includes the Australian AWB and the Canadian Wheat Board. The Cairns Group is very wary of high levels of U.S. domestic support, but the Group's proposals on new disciplines in this area were in the end relatively modest.

There are several fissures within Cairns, as one might expect from a 17-member group that has both developed and developing country members. Canada's wish

---

21 Farm Bill Likely To Increase U.S Trade Distorting Support, INSIDE U.S. TRADE, 15 February 2002.

to protect its supply management programs prevented it from joining the Cairns proposals on market access and on domestic support. Indeed, there is some discussion in Canada about whether to withdraw from Cairns altogether.[22] Malaysia did not sign the Cairns proposal on market access, because it wanted a 70% tariff reduction, rather than the 50% reduction agreed to by the Group.[23] Indonesia also did not sign this proposal either, because the Group did not accept its proposal to allow higher tariffs on four food security crops (including rice and maize).

The tepid Cairns proposals on SDT and domestic support led some Cairns members to make additional proposals. For example, both the Philippines and Argentina proposed variations on ways to protect domestic markets from imports from countries that subsidize their production. In November, these two countries were joined by Bolivia, Costa Rica, Paraguay and Thailand and they produced a proposal entitled: Preliminary Modalities of the Special and Differential Countervailing Measure (formal reference JOB(02)/169). The proposal suggested that a new special and differential provision grant developing countries access to temporary countervailing duties against subsidized agricultural products from developed countries. The measure would relieve much of the burden of proof of injury, required under the GATT Agreement on Subsidies and Countervailing Measures. Instead, the proposed rules would allow the presumption of subsidy where a developed country had notified the right to use export subsidies or certain kinds of domestic support. For the proponents, the proposal had the double virtue of protecting their own producers from dumped production while making their own exports more competitive in third country markets. The Cairns Group subsequently endorsed the proposal as a group.

Both the Philippines and Argentina proposed variations on ways to protect domestic markets from imports from countries that subsidize their production.

Cairns Group support for the border protections and increased spending allowances sought by a number of developing countries is limited because of the fear they will lose markets. Many of their markets are in the developing world, and so they are as anxious to open those markets as those in developed countries. The Cairns proposal on domestic support limits SDT to the following: “Consider specific proposals to include additional development programs in Annex 2 [the ‘non-distorting’ Green Box payments], subject to criteria that these do not distort production and trade.”[24]

The European Union

The European Commission (which speaks for the EU in trade negotiations) was unable to present an agreed position from its members until January of 2003, long past the deadline agreed by governments to submit proposals. This reticence reflects the internal political differences among EU member states on how to reform the Common Agricultural Policy (CAP). A recent agreement between Germany and France has made it unlikely that there will be any significant reductions in the use of export subsidies before 2007. The EU, in other words, has little to offer

The reticence of the European Commission reflects the internal political differences among EU member states on how to reform the common Agricultural Policy (CAP).

22 Cairns Members, Canada Offer Contrary Proposals on Domestic Support, INSIDE U.S. TRADE, 4 October 2002 and Barry Wilson, Feds opt to stay in Cairns Group – for now, THE WESTERN PRODUCER, 24 October 2002.

23 Aileen Kwa, WTO Agriculture Negotiations: Line-up of Positions, FOCUS ON THE GLOBAL SOUTH (October 2002) at http://www.wtowatch.org.

24 Cairns Group Proposal, rpt. In INSIDE U.S. TRADE, 4 October 2002.

by way of reform proposals. Nonetheless, reform is coming. The EU has just welcomed ten new members into the Union, including Poland, which has more farmers than the all the existing EU members combined. Even the EU cannot afford to leave the CAP unreformed in these circumstances. However, the WTO process is not likely to be the main driver of reform.

The EU proposal indicates how little reform they are ready for. The EU proposes to cut export subsidies by 45%, but on average rather than per product line. Recent reforms to CAP have already made such average reductions, so the proposal would not actually require any change to the existing policy. That is, export subsidies on some products have been cut dramatically, while for other products they have even increased, leaving the overall average lower but not really solving the problem. Similarly, the EU is gradually moving its domestic farm support payments, as the U.S. has, towards green box measures. So its proposal to cut AMS levels by 55 percent will not require significant change in current policy. On tariffs, the EU proposed a straight 36 percent reduction from existing tariff levels. The EU does not support the U.S. call to "harmonize" tariffs by cutting higher tariffs more than lower tariffs.

EU positions simultaneously reflect a strong concern to preserve domestic agricultural production capacity while increasing market access elsewhere.

The EU has agricultural export interests and is home to a number of transnational companies engaged in commodity trading, shipping and processing. This gives the EU an interest in increasing market access to developing countries. However, the EU is also the world's largest agricultural importer, and its market is of great interest to agricultural exporters. This puts constant pressure on many of its domestic producers. There is strong public support in the EU for high quality, locally produced foods and to maintain the countryside as green space. All this makes the EU an ally of the advocates of *multifunctionality* (described below). Thus, EU positions simultaneously reflect a strong concern to preserve domestic agricultural production capacity while increasing market access elsewhere. These conflicting interests make it difficult for the EU to clarify its interests in the negotiations.

The EU has been explicit about the need to link progress in talks on agriculture to commitments in other sectors. In agriculture, the EU is on the defensive as a bloc that relies heavily on GATT-illegal measures to maintain its policies. Because it has a large and rich market, the Union is of great interest to exporters, who therefore push their governments to make the concessions the Europeans want in other sectors, to secure access for agricultural exports. The EU has used this dynamic to force a discussion of the so-called Singapore issues (notably investment and competition) against the wishes of many developing countries, claiming concessions in agriculture depend on the inclusion of these issues in a new trade round.

For developing countries, the EU proposed duty-free and quota-free access for all farm exports from LDCs, as well as zero tariff access for at least 50% of developed country imports from developing countries. The EU proposed a "food security box" that included measures for rural development and to protect food security crops through a special safeguard. Unfortunately, while a step in the right direction, the measures are not particularly useful. As an analysis of the proposal by UK

NGOs ActionAid and CAFOD points out, the food security box proposed by the EU fails to take a number of central points into account.[25] The proposal ignores the structural problems in world agricultural markets created by the persistence of high levels of domestic and export support to developed country agriculture. The resulting over-production depresses prices, and facilitates the consolidation of agricultural processing and retail sectors based in developed countries. Second, the EU does not consider the possibility of holding tariffs level on food security crops, let alone increasing them where they might be ineffective because too low. The EU only proposes, "substantively lower commitments" for tariffs, if needed for food security reasons. Third, the proposal to allow higher domestic spending limits is of limited use for the many developing countries, which have no means to increase their support to agriculture. Many countries are unable to use the allowances they have under the existing rules. Finally, the special safeguard is a very specific tool, designed to cope with temporary import surges. While useful, it is not adequate to address the longer-term structural problems that plague domestic agricultural production in developing countries.

The EU is looking for concessions from WTO members for new "Non-Trade Concerns."

The EU is looking for concessions from WTO members for new "Non-Trade Concerns." These include geographical indicators (GI) regarding food products (so that only wine from Portugal could be called porto, and only champagne from Champagne in France could be called champagne). The EU also wants strong precautionary measures to guide food safety rules, and the right to provide financial incentives for farmers to implement stringent animal welfare regulations. The United States and the Cairns Group have vigorously rejected these proposals.

Like-Minded Group

The group of developing countries define their shared interest as seeking more liberalized agricultural sectors in developed countries while seeking additional protection for themselves.

The group of developing countries that identifies itself as the Like-Minded Group in agriculture define their shared interest as seeking more liberalized agricultural sectors in developed countries while seeking additional protection for themselves. Member countries include Pakistan, the Dominican Republic, Cuba, Honduras, Haiti, Nicaragua, Kenya, Uganda, Zimbabwe, Sri Lanka, and El Salvador. India occasionally joins submissions from this group, but it has not joined any since the latest phase of negotiations began.[26]

Most developing countries are net food importers. Many depend heavily on export revenues from just one or two crops, and nearly all have seen their terms of trade deteriorate as commodity prices continue a now 30-year downward trend. According to the World Bank, 105 of the 148 developing countries are net-food importers. According to a WTO report in 2001, agricultural trade originating from developing countries accounted for only 40% of a U.S. $558 billion total.[27] This has remained more or less static since the implementation of the Uruguay Round began in 1995.

---

25 Green, D. and Rice, T., Development and Agriculture in the WTO: A Comparison between the Development Box, the EU's Food Security Box and the Harbinson Draft Modalities, briefing paper, March 10, 2003. CAFOD and ActionAid UK.

26 India's agricultural interests give it more in common with the European Union – some limited export interests combined with a large rural sector that it wishes to protect.

27 Joachim von Braun, Peter Wobst, and Ulrike Grote, Development Box and Special and Differential Treatment for Food Security of Developing Countries: Potentials, Limitations and Implementation Issues, ZENTRUM FUER ENTWICKLUNGSFORSCHUNG, Discussion Paper on Development Policy, No. 47 (May 2002), 5.

The heart of the Like Minded Group (LMG) proposals have been grouped by into what is called the Development Box. The Development Box (DB) was first proposed at the WTO agricultural talks in 2000 by the LMG, including Pakistan, Kenya and the Dominican Republic. India put forward a similar proposal, calling it a 'Food Security box'. These governments were concerned that the liberalization of agricultural trade was jeopardizing their food security and the livelihoods of their producers, especially small farmers, who are among the most vulnerable sectors in the population. The governments who proposed the DB wanted to create exceptions to the trade rules for countries with scarce resources and significant food security concerns.

The use of Development Box as a name was a deliberate echo of the existing jargon that categorized domestic support in amber, blue, and green boxes. In essence, the coloured boxes were designed to accommodate the specific needs of wealthy countries – where spending cuts would be difficult, a separate box was created to protect the programs involved from reductions. The LMG created the development box as a catchall for measures designed to meet their specific agricultural challenges. These governments have realized they needed more flexible trade policies and access to effective protective measures in the face of uncertain and distorted international markets.

The measures proposed in the Development Box touch on five concerns:

1. The need to protect and enhance domestic food production, particularly in staple crops;
2. The need to protect the livelihoods of the rural poor;
3. The need to protect local producers from dumped imports and excessive fluctuation in import volumes and price;
4. The need to improve distribution systems for local production; and,
5. The need for increased flexibility in existing trade rules to allow developing countries to manage liberalization more carefully.

Safeguards allow quick – but temporary – protection from import surges.

Specific proposals include the creation of a special safeguard for developing countries only. Safeguards allow quick – but temporary – protection from import surges. The Special Safeguard for agriculture proposed by the Like Minded Group would be simpler to apply than existing safeguards and would thus be more effective in a developing country context.

The LMG also proposed rules that would allow them to raise tariffs on food security crops, where experience had shown the existing tariff binding to be too low. As a Special and Differential measure, the tariff increase would not be "paid for", in WTO parlance, with concessions in other areas of trade, but would be simply be given to developing countries.

In November 2002, seven members of the group submitted a joint proposal, restating the need for a Development Box and calling for a series of reforms to developed country agricultural trade.[28] In the proposal, the governments suggested

28 The formal identification of the proposal is JOB(02)/174. It can be viewed on-line by going to *http://www.tradeobservatory.org/Library/index.cfm?c_id=42&language=Eng* and then scrolling to the proposal called Proposal for Comprehensive Reform.

that if production of a crop is below an FAO determined world average for national production and if exports of that crop are less than 3.25% of world trade in that crop for five years or more consecutively, then domestic support for that crop should not be included in reduction commitments. The proposal also suggested excluding from domestic support restrictions money spent on transporting staple foods to food deficit areas within the country.

Food security crops are hard to define and therefore open up the possibility of excluding a large number of crops from reduction commitments. In turn, this raises the suspicions of exporting countries looking to remove market barriers. However, the Like Minded Group is clear that food security crops are not limited to crops that represent a major source of caloric intake for a country's population, but should also include crops that employ a significant proportion of the population, particularly poor and vulnerable groups. Food security is not just about food supply, but access to food, which for most people means access to an income to buy food. In Pakistan, for example, cotton is arguably a food security crop because of its essential role as a source of income for a large number of poor farmers and landless labourers.

Food security is not just about food supply, but access to food, which for most people means access to an income to buy food.

Friends of Multifunctionality

Multifunctional agriculture (MFA) describes an approach to agriculture that goes beyond production-related measures to consider the broader benefits to society provided by the sector. For example, payments to farmers for managing water quality, soil erosion, habitats for particular species or other services that the market does not recognize or reward have a clear public value. The framework provides a rationale for such payments, and considers some level of domestic food production in all countries to be an essential component of food security.

Multifunctional agriculture describes an approach to agriculture that goes beyond production-related measures to consider the broader benefits to society provided by the sector.

The core support for multifunctional agriculture comes from Japan, South Korea, Norway and Switzerland. These are wealthy countries with politically powerful farmers and relatively difficult production conditions. Historically, their farmers have relied on governmental support programmes that have maintained high domestic prices and kept out cheaper imports. They are net-food importing countries, whose export volume is small. Norway and Switzerland have small domestic markets as well, making them of limited interest to exporters. The EU associates itself with this group, although there are divisions within the Commission and among member countries as to the usefulness, validity and application of multifunctional agriculture.

A fundamental criticism of proposals made under the multifunctional umbrella is that for they require sums of money and access to technology that is not available to most developing countries. The proponents need to consider compensatory measures for countries that cannot afford to make up market failures in their agricultural sectors through government payments. Moreover, supporters of multifunctional agriculture should stop allowing their export firms to dump agricultural exports at below cost of production prices. Market failures in agriculture are not limited to domestic markets. Multifunctionality has to tackle over-production as a trade matter, not just an environmental or social issue. This is especially so when one of the effects of the policies, even if no exportable surplus results, is to

A fundamental criticism of proposals made under the multifunctional umbrella is that for they require sums of money and access to technology that is not available to most developing countries.

maintain production that, arguably, displaces imports from developing countries. Moreover, the countries that advocate multifunctional agriculture are also users of export subsidies. This is not consistent with their multifunctional aims, since it aggravates the problem of under-valued commodities in world markets. None of the supporters of multifunctional agriculture have tabled any negotiating proposals that tackle this fundamental source of both market distortion and environmental degradation: the undervaluing of commodities in world markets, exacerbated by the dumping of commodities from rich countries at less than cost of production prices.

Japan's comprehensive proposal of November 2002 would leave significant leeway to countries to determine which products to liberalize and how. The proposal leaves domestic support at the levels reached under the existing AoA and seeks to raise market access barriers on rice. In a footnote to its Tariff Quota Volume proposal, Japan explains "[a]s for primary agricultural products in each Member, a certain level of domestic production needs to be maintained for addressing NTCs (non-trade concerns) such as food security, rural development and environmental protection."[29]

Given this emphasis on the non-trade functions of agricultural production, one would expect multi-faceted and creative positions from proponents of multifunctionality in relation to SDT developing countries. Such proposals would help to build alliances among developing countries. In addition, the unpopularity in proposing measures that go directly against the stated purpose of the AoA (the progressive elimination of market-distorting support) makes allies all the more important. Unfortunately, very little has been proposed that might attract developing countries. Proposals for SDT continue to be limited to Uruguay Round style extended implementation periods and exemptions from some provisions, ignoring the proposals that have come from a number of developing countries for more useful assistance.

Former Eastern Bloc and Soviet States

The former Eastern Bloc and Soviet States have made only a limited number of proposals. They largely reflect two, sometimes overlapping, concerns. The first concern is from the states that hope to accede to the European Union. This group is careful to reflect EU interests in their statements. The second is from those who recently acceded to the WTO. The accession process famously requires much deeper liberalization than existing WTO rules, which leaves new members in a much-weakened negotiating position. Newly acceded countries, with support from China, another new member, proposed that they be credited for their accession commitments and thus avoid further tariff cuts for themselves in the new round of agreements. All of these countries want to increase market access for their exports. Many of them depend on agriculture for a significant share of their foreign exchange earnings.

29 Market Access, Domestic Support and Export Competition, Submitted by Japan, WORLD TRADE ORGANIZATION, JOB (02)/164 (214 November 2002).

Least Developed Countries

Least Developed Countries (LDCs) are singled out as a group in the AoA for special treatment. The WTO relies on the UN categorization to determine who is an LDC. Despite this status, LDCs do not work as a group in the Committee on Agriculture in any formal sense. Their exemption from a number of disciplines under the AoA, as well as their institutional weaknesses, leads to larger countries ignoring them in the negotiations. A number of LDCs cannot afford to maintain a mission in Geneva. They have very limited domestic capacity to develop and pursue a trade policy agenda. They are subject to intense bilateral pressures because of their dependence on foreign aid. They are of limited trade interest because their people are relatively few and poor, reducing the interest of traders in their domestic markets, and their production is too limited to create problems in world markets. On the other hand, LDCs are very much affected by international trade policies. They often depend on only one or two exports for their foreign exchange revenues, and their export markets are usually heavily concentrated. Thus, they have an important stake in the outcome of the negotiations, yet very little bargaining power to ensure an outcome favourable to their interests. Competing interests complicate solidarity even across developing countries. For example, the EU proposal known as “Everything but Arms,” which offers LDCs duty-free access for most products, upset other vulnerable, non-LDC developing countries, such as the Caribbean states. The Caribbean has lost market share as the EU establishes these new preferences that exclude them. It is well recognized that LDCs face severe constraints in the trade system. For example, there is now a legal center that provides LDCs with help in using the WTO’s trade dispute system. But much remains to be done.

The LDCs have very limited domestic capacity to develop and pursue a trade policy agenda. They are subject to intense bilateral pressures because of their dependence on foreign aid.

8. Harbinson Draft Modalities

Modalities are the commitments undertaken by governments in an agreement.

At this point, two additional technical terms are needed: modalities and schedules. Modalities are the commitments undertaken by governments in an agreement. For example, a modality for export subsidies might call for a 60% cut over five years. The negotiations now in progress are all about modalities. Modalities determine what is forbidden, what is allowed, and how things should change.

Each country that signs an agreement must submit a schedule.

Modalities are complemented by schedules, and together these complete an agreement. Each country that signs an agreement must submit a schedule. A schedule sets out, for each product affected by an agreement, what the base level of support is, so that the agreed percentage cut can be measured. For example, the schedule gives the tariff levels for all the concerned products, so that the agreed cuts to tariffs can be calculated and monitored. The schedule is also where governments assign different domestic programs to the different "boxes" of domestic support.

On February 12th, 2003, the Chairman of the agricultural negotiations at the WTO, Stuart Harbinson, released a first draft of what a new Agreement on Agriculture might look like. The Chairman released the draft modalities on his personal responsibility; meaning governments were under no obligation to accept them as a basis for negotiations. Nonetheless, the draft attempts to reflect a compromise drawn from the government negotiating positions submitted last year and it has considerable weight in the next steps for negotiators.

In summary, the Harbinson draft modalities propose:

1. the elimination of export subsidies over ten years;
2. a 60% reduction in domestic support classified as amber box over five years;
3. either moving the blue box into the amber box, so that it would have to be reduced, or introducing a cap on blue box spending and then imposing a 50% reduction over five years;
4. cutting high tariffs by a larger percentage than low tariffs, through a series of three bands. Tariffs over 90% would be cut by an average of 60% with a 45% minimum per tariff line. Tariffs between 15% and 90% would be cut by an average of 50% and a minimum of 35% per tariff line. Tariffs lower than or equal to 15% would be cut by 40% with a minimum per line of 25%.

In addition, the proposal includes:

- some small tightening of the conditions for programs to be eligible for green box status;
- some tightening of disciplines on the use of export credits;
- an outright ban on single-desk selling, which would close down export state trading enterprises such as the Canadian Wheat Board; and,
- some significant tightening of the conditions under which food aid can be included in the green box.

On Non-Trade Concerns, the modalities propose adding payments for environmental and animal welfare programs to the green box, in recognition of the European Union's proposal. No mention is made of the Peace Clause, which is due to expire in December 2003, and which both the EU and US have expressed interest in maintaining.

Each developing country could draw up a list of its strategic products to protect with the safeguard; no other products would be covered.

The proposed Special and Differential Treatment measures, beyond longer timeframes and, in some cases, lower reduction commitments were few. A new Special Safeguard (SSG) for developing countries is included. The proposal suggests that the SSG be restricted to a list of so-called "strategic products" (a proxy for food security crops, defined in the modalities to take account of livelihood and rural development concerns). Each developing country could draw up a list of its strategic products to protect with the safeguard; no other products would be covered. Strategic products would also not be subject to the same degree of tariff cuts, although a minimum 5% cut would be required on every tariff line, regardless of its importance for food security and regardless of how low the tariff on that crop might already be. The modalities also included higher spending limits for domestic support aimed at agricultural development in developing countries.

Initial responses from governments have not been warm. The draft modalities must attempt a compromise among very different positions. As such, it in some ways must aim to give everyone something and no one everything. Overall, the United States and Cairns Group have expressed the most satisfaction with the text, although they want deeper and faster liberalization. The European Union, Japan and other Friends of Multifunctionality have been the most vocal in their disappointment. Many developing countries have expressed concern in private, particularly at the sharp emphasis on increasing market access without any concession to rebalancing measures. Rebalancing measures are proposals such as the countervailing duty on subsidized exports that would allow developing countries to protect themselves from the continued use of export subsidies and trade-distorting domestic support.

At the negotiating committee meeting held 24-28 February in Geneva, so many countries wished to express their dissatisfaction with aspects of the text that the negotiators were unable to complete their agenda. A second draft text was released on March 18th, in time for the March 25-27 meeting of the negotiating committee, but it does not differ much from the existing draft because of the continued divisions among WTO Member States. No one now expects the governments to meet their self-imposed deadline of agreeing new modalities by March 31, 2003.

9. Conclusion: Thoughts on Agriculture, Trade and Development

The paper has set out in broad terms where the Uruguay Agreement on Agriculture came from, what its component parts, and where governments now stand in relation to the negotiations. From the perspective of many NGOs, if the draft modalities now being negotiated were agreed to more or less as they are, it would be another set-back for agricultural trade rules. Persistent structural problems in world agricultural markets remain unaddressed. The significant imbalances between developed and developing country power persists. Agriculture is central to the development of most countries in the world. It plays a vital role in ensuring food security, creating livelihoods, generating foreign exchange and determining the allocation of natural resources. Yet the dominant interest in maximizing market access and increasing the volume of commodity flows does little to protect the roles that agriculture plays in development.

Agriculture is not a sector that models well under the assumptions of perfect competition.

What would the right rules look like? The place to start is by revisiting a few basic assumptions. Agriculture is not a sector that models well under the assumptions of perfect competition. Much like the provision of energy or water, agriculture is driven by characteristics that make it a poor candidate for regulation entirely through open markets. This is because the public interest in ensuring food security is so fundamental – few states can afford to neglect the provision of at least a minimum amount of food to all their population. It is because neither demand nor supply, particularly in the short-run, is elastic. In other words, people cannot change their basic calorie intake much with the price of food – within a relatively narrow band people must eat or die, or are sated and will spend their money on something else, no matter how cheap food gets. Similarly, if the harvest of a staple food crop fails, then prices will rise, often significantly, because a new harvest will take months, maybe a year, to grow. Trade helps to smooth out some of these concerns (a good crop of Brazilian soybeans might offset a bad year in the United States). However, trade cannot solve all problems – for example, over 90% of the world's rice is grown in Asia, where production depends on a single monsoon system. These characteristics of agriculture make some kind of public stockholding system necessary, so that access to food is ensured when regular supplies fail. Markets are essential, but not sufficient to ensure every person's right to food.

Another feature of agricultural markets is the tendency of market power to consolidate around the buyers and processors of food, and, increasingly, around the final retailers – the supermarkets. Market power determines how much say an actor in the market has to set the price of a given product, as buyer or seller. In agriculture, the pattern tends to be one of thousands of producers in a given market, selling to a much smaller number of food traders and processors. In a country such as the United States, this concentration is now at extreme levels, with the same three or four firms dominating the purchase of most major commodities. In this situation, the seller has little power to bargain for a fair price – a price that at a minimum reflects his or her production costs. This tendency explains the long history of government interference in agricultural markets, to set a minimum price for farmers that an unregulated market alone does not guarantee.

Agricultural production also brings countries face to face with environmental constraints. In countries around the world, irrigation schemes are stretching water reserves to the limit, and beyond, creating both immediate and long-term problems that are going to be very costly to resolve. An increasingly modern agricultural production system in a growing number of countries creates new levels of dependence on oil, an expensive and polluting form of energy. The demands of modern distribution chains, highly centralized and dependent on meeting stringent quality control standards, militates against the protection of diversity, whether in livestock or plants. The introduction of genetic engineering to assure certain qualities in our food further challenges the capacity of nature to protect diversity in our genetic heritage.

In countries around the world, irrigation schemes are stretching water reserves to the limit, and beyond, creating both immediate and long-term problems that are going to be very costly to resolve.

All of these questions are fundamental to development. In some ways, they explain the position of the "reluctant" liberalizers: South Korea, Switzerland, Norway, Japan, and, to a lesser extent, the European Union. These countries are ardent advocates of the WTO and its approach to multilateral trade rules – deepen liberalization in all sectors – except in agriculture. There, domestic concerns about many of the above issues have challenged the assumptions underlying free trade. For developing countries, the concerns are even more acute – rather than protecting one or two percent of their population, they are concerned about 60% and more. If harvests fail, they have only very limited foreign exchange reserves with which to make international purchases of food. These concerns have pushed some developing countries to insist on protection for their agriculture, even while pushing for increased market access to developed countries.

For the multilateral trade rules to ensure both the welfare gains that the WTO was created to promote – full employment, for example – and to address the distortions that plague agricultural trade, some new thinking is needed. The rules should outlaw the practices that facilitate dumping – the sale of goods at less than cost of production prices. These include export subsidies, unlimited income support payments to farmers, and the lack of international competition rules for the transnational companies that dominate all commodity sectors. They also include the prohibition on necessary regulations to manage supply, including price support systems coupled with effective production-limiting programs and border measures that ensure the integrity of the system.

These are controversial ideas, but they merit further debate. We need to learn from the experience of the Uruguay Round and the failure of many measures to deliver their promised results. The countries that have eliminated many if not all of their domestic subsidies to farmers – Canada, Australia, Argentina – have seen production levels rise, not fall. In the US, where the amount of money spent on domestic support is higher than ever, there has been some decline in output. The cuts in developed country tariff levels have failed to generate much of an increase in exports for developing countries. Worse, price falls have often resulted in reduced earnings for developing countries, even when export volumes have increased. Commodity prices have continued to fall relentlessly, causing untold hardship for millions of poor farmers around the world, and for the even poorer labourers they employ.

We have a chance to put development at the heart of the trade system. The Doha Agenda claimed to do as much, but governments have failed to keep their promises. Perhaps we can start to show the way with change where it might do the most good: in agriculture – lifeblood of the developing world.

Further Occasional Papers:

N° 1 / December 2002
New Steps to Faster and Broader Debt Relief
for Developing Countries

N° 2 / January 2003
Pedro Morazán
Deuda externa: Nuevas crisis, nuevas soluciones?

N° 3 / March 2003
Money Laundering and Tax Havens:
The Hidden Billions for Development

N° 4 / April 2003
Michaela Eglin
The General Agreement on Trade in Services (GATS) –
A Background Note

On the author:

Sophia Murphy is the Director of the Trade Program at the Institute for Agriculture and Trade Policy (IATP), a non-profit organization founded in 1986 and based in Minneapolis. The institute is dedicated to the promotion of ecologically and economically sustainable agriculture around the world. The Trade Program is focused on multilateral institutions, food security, and agricultural policies. Sophia is responsible for IATP's programme on food and agriculture, in relation to the World Trade Organization and the United Nations. She is a former Policy Officer of the United Nations in Geneva, Switzerland and before that she was a Policy Officer at the Canadian Council for International Co-operation in Ottawa.

She is a board member of the International Centre for Trade and Sustainable Development in Geneva. Sophia has a B.A. in Politics, Philosophy and Economics (Oxford) and an M.Sc. in Social Policy, Planning and Participation in Developing Countries (London School of Economics). She has written frequently on food and trade issues and has spoken to many international panels on these issues.

For further information on Dialogue on Globalization, please contact:

Friedrich-Ebert-Stiftung
Head Office Berlin
Hiroshimastrasse 17
10785 Berlin
Tel.: ++49-30-26-935-964
Fax: ++49-30-26-935-959
Reindlp@fes.de
www.fes.de

Friedrich-Ebert-Stiftung
Geneva Office
Chemin du Point-du-Jour 6 bis
CH-1202, Geneva
Tel.: ++41-22-733-3450
Fax: ++41-22-733-3545
fes.geneva@ties.itu.int
www.fes-geneva.org

Friedrich-Ebert-Stiftung
New York Office
823 United Nations Plaza, Suite 711
New York, N.Y. 10017
Tel.: ++1-212-687-0208
Fax: ++1-212-687-0261
fesny@fesny.org
www.fesny.org