



Sailing Close^{to} the Wind

Navigating the Hong Kong WTO Ministerial

A PUBLICATION OF THE INSTITUTE FOR AGRICULTURE AND TRADE POLICY

The Institute for Agriculture and Trade Policy promotes resilient family farms, rural communities and ecosystems around the world through research and education, science and technology, and advocacy.

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ABOUT THIS PUBLICATION

*Sailing Close to the Wind:
Navigating the WTO Hong Kong Ministerial*

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Close to the wind: A vessel which is sailing close to the wind will sail slower and runs the risk of being put about (turned) on the wrong tack (in the wrong direction) by the slightest wind shift.

About the Institute for Agriculture and Trade Policy

The Institute for Agriculture and Trade Policy is based in Minneapolis, Minnesota. We have been documenting the impacts of international trade rules on family farmers and rural communities in the U.S. and around the world for nearly 20 years. IATP staff have attended every World Trade Organization ministerial. IATP also has an office in Geneva, which reports on WTO negotiations to nongovernmental organizations around the world. In 2003, IATP, along with an international steering committee, organized the first international Fair Trade Fair and Symposium next to the WTO ministerial in Cancún. In 2005, IATP and global partners will host another Fair Trade Fair and Symposium in Hong Kong across the street from the WTO Ministerial. More details can be found at fairtradeexpo.org.

IATP's trade Web site—tradeobservatory.org—includes the latest news, reports and analysis on international trade issues. IATP's Radio Hong Kong—radiohongkong.org—includes weekly reports on WTO-related stories available for download in MP3 format and through XML feeds (podcasts). Radio Hong Kong will be at the Hong Kong ministerial reporting on breaking developments.

Additional IATP analysis on issues related to the WTO Hong Kong ministerial can be found at tradeobservatory.org.

Table of contents

Foreword from IATP President Mark Ritchie ☒	7
The United States WTO agriculture proposal of October 10, 2005	9
The new Blue Box: A step back for fair trade ☒	21
Finding NAMA: How to navigate market access negotiations.	27
The impact of GATS on agriculture ☒	35
Policy coherence and agricultural trade liberalization: Lessons for the Doha Round	45
Agreement on Agriculture glossary ☒	59
Ten ways to fix agricultural trade: Benchmarks for the Hong Kong ministerial	65
United States dumping on world markets. ☒	69
Food aid: What role for the WTO? ☒	73
Planting the rights seed: A human rights perspective on agriculture and the WTO	77

Foreword from IATP President Mark Ritchie

Dear reader,

The ups and downs of the World Trade Organization and of this particularly important Hong Kong ministerial have been the subject of almost daily coverage by the major newspapers, journals and broadcast media around the planet. While it is impossible to predict the outcome of the meeting it is clear that negotiations remain extremely difficult.

This briefing book looks in depth at some of the key issues being negotiated as we head into the ministerial. It includes fact sheets that provide a quick overview, in-depth reports on some of the major controversies and insider details from our office in Geneva to help guide you to additional sources and references. The materials address agriculture, food aid, nonagricultural market access, services, human rights, biotechnology and policy coherence with the international financial institutions. The briefing book also includes an in-depth look at the U.S. October 10 proposal on agriculture.

While the World Trade Organization is very young compared to other United Nations bodies—just ten years old—it grew out of (and is largely a continuation of) the General Agreement on Tariffs and Trade that emerged from the United Nations Conference on Trade and Employment held in Havana, Cuba in 1947. Within the post-World War II family of global institutions, GATT was created to enforce trade rules necessary to regulate the behavior of governments and global corporations that engage in international trade. At the time, it was felt that fairness in trade was a vital bulwark against war. Yet rule-making for global trade has lost this purpose. GATT, and today the WTO, has come increasingly to emphasize tariff reduction and the deregulation of capital to the exclusion of a much-needed focus on livelihoods, fairness and development.

Fortunately, every ministerial meeting is a new opportunity to renew the global communities' commitment to fairness in trade, to human rights and to the integration of economic, social and ecological sustainability. There are some positive signs.

First, the fifth ministerial conference in Cancún was a major breakthrough in its integration of the poorest WTO members into the actual negotiations process. In the past, WTO negotiations were largely held between the U.S. and Europe, with input from Japan and Canada. The Cancún meeting confirmed a trend begun in Seattle, where a group of African countries were the first to stop the conference for its failure to take their interests on board. In Cancún, developing countries organized ahead of the ministerial and came ready to fight. The newly formed Group of 20—led by Brazil, India and South Africa—are now an established and essential part of the negotiations. A group of cotton-producing countries in West Africa have also become major players, securing the attention of WTO members to the specific trade-related causes of the poverty they face. This is progress that was only dreamed about in the past and bodes well for the future.

It is also very encouraging to see the conscious efforts by some governments, especially in the South, to aggressively train and prepare their negotiators and staff that supports them in the negotiations. In the Philippines, for example, the government has used a sophisticated online e-learning program to train over 400 staff in a dozen ministries and agencies, plus a number of civil society organization leaders, on both the basics and the intricacies of the major negotiating topics. Similar efforts are underway in the People's Republic of China and in other countries.

As importantly, the WTO is slowly becoming more transparent, making new and important efforts to engage civil society organizations in the trade debate. Earlier this year, after a decade of pressure, WTO members agreed to open the proceedings of a dispute panel to the public. Yet trade policy-making remains too distant from national parliaments and their citizens. As the number of people who understand the impact of WTO rules on welfare and livelihoods grows, we can be sure demand will continue to grow for more openness and inclusion in WTO proceedings.

Unfortunately, as we head into Hong Kong there are troubling signs that the substance of the negotiations has failed to incorporate some of the lessons that can be drawn from previous ministerial meetings. Poor countries continue to be at a huge disadvantage in the negotiations because they are left out of crucial talks and lack the capacity to track the wide-ranging negotiations.

The outcome of the Hong Kong ministerial is far from certain. We hope this briefing book will help you with an overview, some specifics and access to information that can take you even deeper if you are interested.

Throughout the Hong Kong ministerial we will be regularly updating our Web site, tradeobservatory.org, with the latest news and analysis on the WTO. We will also be coordinating a Fair Trade Fair and Symposium across the street from the WTO meeting in Hong Kong. You can find out more details on the Fair Trade Fair at fairtradeexpo.org.



MARK RITCHIE

PRESIDENT, INSTITUTE FOR AGRICULTURE AND TRADE POLICY

Minneapolis, November 2005

The United States WTO agriculture proposal of October 10, 2005

Overview

- ▶ The U.S. proposal ignores a number of the most sensitive issues that will need careful handling to bring about an acceptable compromise in Hong Kong. Most glaring is the lack of acknowledgement of differentiated responsibility among WTO members for building a more transparent and fair global trade system for agriculture. This round was supposed to focus on development and on righting the perverse imbalances of the Uruguay Round Agreement on Agriculture that allowed rich countries to increase their spending on support to agriculture and to maintain their ability to dump unmanaged production in world markets. The U.S. proposal fails to even go as far as the 2004 July Framework in acknowledging the need for effective special and differential measures for developing countries.
- ▶ The U.S. offer is conditional on a number of unlikely trade-offs. The offer only stands if countries make commitments they have already explicitly rejected (e.g., both Japan and the EU have said they cannot cut their domestic support by 83 percent) and with several new requests that have already been strongly denounced (particularly the call to renew the Peace Clause,

which protects countries that use subsidies from retaliation).

- ▶ The U.S. does not address its lack of timely notifications of domestic support (their last notification was in 2001). Without these numbers, it is impossible to fully understand the impact of the proposal made to cut U.S. spending. Any new agriculture agreement must require complete and independently audited annual notifications. Before a Doha Agreement on Agriculture can be finalized, WTO members should insist on seeing notifications of the post-2002 Farm Bill spending on agriculture.
- ▶ The U.S. is refusing to acknowledge widespread criticism of existing WTO categories for domestic support, particularly the lack of effective criteria to define legitimate Green Box spending. Moreover, although the U.S. has offered to reduce the cap on Blue Box spending by half from what was agreed in the July Framework of 2004, it is refusing to consider criteria to restrict the kind of payments that would be eligible for inclusion in the Blue Box.
- ▶ The U.S. suggests it is in favor of a zero-tariff, zero-trade-distorting support model of agriculture. The vision—which is not supported by Congress or U.S. farm organizations—does

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not challenge the distortions created by highly concentrated commodity trading and processing. The model also leaves food production to be driven by import and export commercial interests rather than by public interest priorities, such as food security, jobs and the need to protect an already stretched and damaged natural resource base.

- ▶ The U.S. continues to ignore dumping, which is the single most damaging aspect of agricultural trade today. Under the U.S. proposal, dumping by U.S.-based multinational corporations will continue and could even accelerate.

Background

This vision is of questionable merit and dubious validity, and it does not have political support in the United States. After the U.S. proposal was announced, the powerful chairs of the U.S. Senate and House Agriculture Committees warned U.S. Trade Representative Portman in a letter that “the negotiations and modalities should not preempt the responsibilities and prerogatives of Congress,” and that “they should not write the next farm bill.”¹ Congress is following developments with concern. The U.S. proposal, while not forcing significant cuts today, would curtail the level of expenditures currently authorized under existing farm legislation in the future.

As IATP has consistently documented in its analysis, eliminating tariffs and trade-distorting support will not end dumping: most commodities (subsidized and unsubsidized alike) are over-produced and sold at prices below the cost of production, impoverishing farmers around the world.² Subsidies complicate the picture, but are not alone responsible for the problem. Global agricultural trade rules need to recognize some inherent features of agriculture, including a tendency toward over-production and depressed prices, interrupted by brief periods of scarcity accompanied by sharp price peaks that can lead to hunger and even starvation. Agriculture does not need expensive programs of support nor should it sanction the distortions that arise from highly concentrated control of processing and distribution. Appropriate regulation of ag-

ricultural markets, sound marketing structures and more careful investment in the future of agriculture would all contribute to a fairer, more stable and more economically viable sector for all concerned. Unfortunately, the U.S. proposal ignores these needs and the underlying reality of agricultural markets.

More specifically on the U.S. proposal:

Timing

A calendar of the U.S. proposal on timing looks like this:

- ▶ 2007: Coming into effect of Doha Agreements.
- ▶ 2008–2012: Five-year implementation period.
- ▶ 2013–2017: Five-year hiatus to assess effects of the Doha round.
- ▶ 2018–2022: Second five-year implementation period to eliminate all remaining tariffs and trade-distorting domestic support. Of course, this assumes the only negotiations required would take place alongside the assessment, which seems highly unlikely.

The proposed timing reflects the tentative nature of the proposal. Under this proposal, full implementation would not occur until 2022. For administrations with a four-year time horizon, this sounds like Never-Never Land. Industrial tariffs have been under negotiation for over 50 years, after all, and the world has still to see zero tariffs there. Of course, there is also the question of whether a zero-tariff and zero-trade-distorting support world is something many other WTO members are even interested to pursue. Given how many countries are resisting the changes now proposed, it seems doubtful the vision will rally much support.

It is important to point out that the end of the first five-year implementation coincides with the 2012 U.S. Farm Bill and the end of hiatus (2017) would coincide with yet another scheduled Farm Bill renewal (the legislation is usually renewed every five years). The language for the second stage of implementation leaves open the opportunity to “change course.” **If the U.S. were to de-**

side to reinstate domestic support programs in the U.S. in one of the Farm Bills (as it did with countercyclical payments in 2002), after developing countries have cut and bound their tariffs, it could prove disastrous for developing countries. If a change of course is to be considered, then the possibility of future increases in tariffs should also be explicitly on the table.

Bottom line: The timing proposed by the U.S. includes remarkable flexibility to change course midway. Such flexibility leaves developing countries negotiating in uncertainty. Overall, the calendar is not credible: we are now five years since the expiry of the last implementation period for agricultural reform at the WTO, and even an optimist would say we are at least two years away from a new agreement coming into place.

Domestic support

The u.s. proposal looks at support in its various wto categories: the aggregate measure of support or AMS (the Amber Box), the Blue Box, the two forms of *de minimis* exemptions and the Green Box. The first three elements are also considered jointly, with a proposal for an overall target to reduce trade-distorting supports (all support not in the Green Box).

Amber Box

There are three main types of domestic support for U.S. agriculture: loan deficiency payments (also called marketing loans), direct payments and countercyclical payments. Loan deficiency payments are classified in the Amber Box, while direct payments—because they are decoupled from current production and current prices—are classified in the Green Box. The U.S. tried to classify countercyclical payments in the Green Box, but a WTO dispute panel ruled they properly belong in the Amber Box. The proposal says the U.S. will cut its Amber Box support by 60 percent.

Numbers for total trade-distorting domestic support vary significantly each year because a number of support programs are price-related. When U.S. prices fall, a number of program supports are automatically triggered and spending rises, although no new budgetary

authorization is made. Additionally, a few programs (sugar, dairy and peanuts) do not give farmers subsidies but instead fix a minimum domestic price, which is higher than the world price (called the external reference price). The difference between the fixed domestic price and the external reference price is calculated and added to the Amber Box total. Obviously, the value of the market price support fluctuates as world prices fluctuate. These factors cause the value of domestic support to fluctuate considerably and make it hard to assess the U.S. offer. They also make the choice of base years for spending cuts critically important (spending can rise or fall by billions from year to the next).

The reported cost of U.S. support categorized in the Amber Box has therefore fluctuated wildly. In 1999 it reached \$21.5 billion, up from about \$7.5 billion in 1997 and \$12.3 billion in 1998. In 2002 and 2003, higher prices for commodities meant support payments fell to about \$13 billion in 2002 and \$16.4 billion in 2003.³ The U.S. government says its current Amber Box support is about \$15 billion. Since the proposed 60 percent cut to Amber Box support is from the \$19.1 billion bound level, a 60 percent cut would result in a new Amber Box ceiling for the U.S. of \$7.6 billion.

The U.S. won agreement from WTO members to expand the criteria for the Blue Box in the 2004 July Framework. The new criteria will allow the countercyclical payments to be moved there, out of the Amber Box. The USDA estimates countercyclical payments will reach \$3.9 billion in 2005 and \$5.9 billion in 2006.⁴ If countercyclical payments are removed from the Amber Box (as the U.S. intends to do), and we assume a countercyclical payment total of \$4 to \$5 billion, the U.S. is left with between \$10 and \$11 billion of Amber Box support, depending on which year is used to make an estimate of likely cuts: in other words, cuts would be required equivalent to \$2.4 to \$3.4 billion.

The U.S. has not notified its expenditures since the passage of the 2002 Farm Bill—an omission that should be rectified before WTO Members will have sufficient information to make an informed judgment on the

quality of the U.S. offer. The point cannot be stressed enough: **A simple and essential demand to be made on the U.S. (and EU) is to require complete and independently audited notifications within a calendar year (365 days) of each fiscal year's end. Any agreement on new agriculture rules must be contingent on annual notifications; otherwise it will be impossible to hold countries accountable for their commitments.**

The U.S. proposal also suggests a new product-specific cap on AMS spending, a proposal that came first from some groups of developing countries. The U.S. proposes such a cap should be based on 1999–2001 spending levels. The proposal does not say what the cap should be. The base years chosen were expensive years in recent U.S. spending on agriculture, which suggests the U.S. is offering a nominal concession rather than to actually constrain its product-specific spending levels.

Bottom line: WTO members should not finalize a deal on Amber Box reductions until the U.S. submits notifications that indicate how the U.S. has classified its domestic support since the 2002 Farm Bill. As best as can be determined, actual U.S. spending would hardly be affected by the proposal, but if implemented, the new rules would curb existing U.S. farm programs by limiting their capacity to respond to fluctuations in domestic prices (which in the U.S. are generally close to world prices). The WTO ceiling on elements of program spending would be lower than current Farm Bill ceilings.

Blue Box

The U.S. won a major concession from WTO members with the inclusion in the 2004 July Framework of an agreement to expand the current Blue Box. Under the Uruguay Round rules, the Blue Box is restricted to production-limiting programs based on historic acreage or livestock counts. With the July Framework, programs that are decoupled from production but still linked to price can also be included. The U.S. did this to be able to move countercyclical programs from the Amber Box, where spending is constrained, to the Blue Box, which is currently unconstrained, and where the U.S. has no existing programs to accommodate.

The G-20, the G-33 and some other countries continue to seek further restrictions on the expanded Blue Box, including a criteria to ensure Blue Box programs are less trade-distorting than Amber Box programs and an explicit obligation to include only programs with a production-limiting objective. The U.S. refuses these further conditions. Instead, the proposal offers a lower cap than had been envisaged for total Blue Box spending (2.5 percent of the total value of agricultural production, rather than the 5 percent set out in the 2004 July Framework).

The 5 percent cap proposed in the July Framework would mean a Blue Box cap of just under \$10 billion for the United States. The U.S. proposal would now lower that cap to more like \$5 billion. According to the USDA, countercyclical payments were \$1.7 billion in 2003 and \$0.8 billion in 2004. The proposed Blue Box ceiling could accommodate the countercyclical payments at the levels estimated for 2005 (\$2.5 billion).

The 2002 Farm Bill allows as much as \$7.6 billion in countercyclical payments, although this amount has not yet been spent in any year. The new proposed cap on the Blue Box would constrain this spending. The Farm Bill is due for renewal in 2007, before the Doha Agreements are likely to come into force, but the proposal would force Congress to make a more modest proposal for countercyclical support if these payments continue. Countercyclical payments give farmers some degree of income predictability and are supported by U.S. farm organizations as a safety net against low commodity prices. However, a substantial and growing number of farm groups would prefer a price floor and production limits that would allow them to obtain more of their income from the marketplace, i.e. from the agribusinesses they sell to rather than from taxpayers.

Bottom line: The expanded Blue Box gives the U.S. a new category for allowed trade-distorting domestic support. Current levels of countercyclical payments are below the proposed Blue Box spending limit. The proposed cap on the Blue Box is lower than the spending authorized for countercyclical payments under the provisions of the 2002 Farm Bill.

De minimis

The current *de minimis* exemptions are set at 5 percent of the total value of production for non-commodity specific support and 5 percent of the total value of a given commodity for commodity-specific support. For the U.S., this means up to \$9.9 billion in general support and up to \$9.9 billion in aggregate product-specific support. For 2001, the U.S. notified \$6.8 billion in non-specific *de minimis* eligible support. A large part of this spending was for so-called emergency payments, which the U.S. government then instituted more formally as countercyclical and loan deficiency payments in the 2002 Farm Bill. Non-product specific spending also includes public support for irrigation, subsidized insurance programs and grazing on public lands.

To meet the *de minimis* criteria, the total value of each commodity-specific program cannot exceed 5 percent of the total value of that commodity's production. Additionally, to be eligible the commodity in question cannot receive more than the 5 percent limit in Amber Box support payments. Many of the major U.S. commodities, including rice, sugar, soybeans, cotton, canola and corn, receive more than the 5 percent limit, so their product-specific support is not eligible for any product-specific *de minimis* exemption. Wheat, barley, oats, rye and tobacco do qualify for the product-specific *de minimis*. For 2001, the U.S. notified \$216 million in product-specific *de minimis* support (far less than the almost \$10 billion it is allowed to spend).

The U.S. proposal calls for a 50 percent cut to *de minimis* levels. No mention is made of a special and differential exception, suggesting developing countries would have to cut their *de minimis* exemption from 10 to 5 percent of their total value of production. The 2.5 percent threshold for developed countries would cap the *de minimis* (both general and product specific) for the U.S. at about \$4.95 billion for each category. The new ceiling on product-specific support would push wheat and barley programs into the Amber Box. The EU has proposed eliminating the *de minimis* altogether for developed countries because little of its agricultural spending is eligible for the category anyway. It withdrew this proposal after bilateral talks with the

U.S. in September 2005. **A 50 percent cut for developing countries would be drastic since the *de minimis* is often the only mechanism available to developing countries to provide support to their agriculture.**

Again, given the U.S. failure to submit notifications since 2001, the actual effect of such a cut is difficult to calculate. Using the most recent notifications, the U.S. strategy seems to be to move the countercyclical payments to the new Blue Box, thereby relieving the pressure on the non-product specific *de minimis* spending. Product-specific *de minimis* is much less used, but the new ceiling would affect wheat and barley programs in particular. Other commodities receiving product-specific *de minimis* support would meet the proposed 2.5 percent of total value spending limit.

Bottom line: A *de minimis* ceiling of 2.5 percent of the value of production would not force cuts to the current programs now included in non-product specific *de minimis* (or their addition to the Amber Box) if the U.S. is successful in shaping the revised Blue Box to accommodate its countercyclical payments (which now make up the bulk of this category of support). The product-specific *de minimis* is barely used by existing programs; using the 2001 notifications, a reduction to 2.5 percent of the value of production will affect spending in only two commodities: wheat and barley.

A cap on total trade-distorting support

The U.S. proposes to cap total trade-distorting support (all support not in the Green Box, including *de minimis*). The U.S. falls into the second of its three proposed tiers, implying that it would cut its total trade-distorting support by 53 percent (the highest overall cut, for the European Union and Japan, would be 75 percent). The G-20 counterproposal has called for a cut of 75 percent for the U.S. and 80 percent for the top-tier spenders (who spend over \$60 billion a year in trade-distorting support). The base total of trade-distorting support allowed to the U.S. is **\$48.2 billion, while its actual spending (in 2001) was \$21.5 billion.** A 53 percent cut would allow the U.S. a new ceiling of \$25.6 billion (i.e. no

change to current expenditure) while a 75 percent cut would force cuts in actual spending.

The bottom line for U.S. domestic support under U.S. proposal

- ▶ **Amber Box cuts:** New ceiling of \$7.6 billion real cuts: \$2.4 to \$3.4 billion
- ▶ **Blue Box:** New ceiling of \$4.95 billion real cuts: Zero but ceiling may be too low for countercyclical payments in some years.
- ▶ **De minimis:** New exemption: \$4.95 billion for each of general and product-specific; high enough ceiling for the latter, but not for the 2001 notified level of non-product specific support. This could increase the Amber Box and imply larger cuts to those programs.
- ▶ **Green Box:** Unchanged

Until the U.S. gives up-to-date notifications, the numbers can only be indicative. And in any case, they will vary significantly from one year to the next because of the nature of some of the programs, which are designed to move with world prices.

Green Box

The U.S. proposal calls for the Green Box to be left unchanged and rules out the possibility of a cap on Green Box spending. The Green Box is where the U.S. and EU have moved the bulk of their domestic support. For 2001, the U.S. notified almost \$50.7 billion in Green Box spending. A rough breakdown shows about \$9 billion is spent on the bureaucracy that works on agriculture, including research, extension, inspection and statistical services. About \$34 billion is spent on domestic food aid, especially the food stamps provided to low-income Americans. In 2001, decoupled income support was just over \$4 billion and emergency relief was around \$1.5 billion. The remainder of the spending was on environmental programs (around \$300 million) and programs that pay farmers to take their land out of production.

The U.S. has said it hopes to shift still more of its agricultural expenditures into the Green Box as part of the 2007 Farm Bill. Presumably, this reflects their intention to continue and even expand decoupled income support, which is the most controversial element of Green Box spending allowed by WTO rules. The congressional budget process this year targeted a number of the least trade-distorting Green Box programs, such as conservation payments and domestic food assistance, for the largest cuts in overall spending on agriculture.

The G-33 and the G-20 have made specific proposals to tighten the criteria for what can be included in the Green Box. They are concerned about the mounting evidence that decoupled income support affects production and therefore trade. The July Framework referred to these concerns, although no action was promised in this trade round. The U.S. is refusing to take these concerns into consideration in its proposal, missing an opportunity to build confidence and show its commitment to removing trade distortions in global agricultural markets.

Because of the expectation that the U.S. and the EU will move still more spending into the Green Box, any new agreement on agriculture should include some more general criteria to enable assessment of the possible damage to developing countries' domestic producers and exporters from continued support that results in dumped agricultural exports. The proposal by the G-33 to automatically make any commodity that receives export subsidies or Amber or Blue Box domestic support eligible for special product status in affected developing countries is an important step in this direction.

Bottom line: The U.S. refuses to address the criticism that its decoupled payments do not properly meet the minimally trade-distorting criteria required for inclusion in the Green Box.

A renewed Peace Clause

This is an extraordinary request from the U.S.—to renew one of the most controversial elements of the Uruguay Round, which lapsed in December 2003. The restoration of so-called protection from litigation in the

Agreement on Agriculture would renew the tension between it and other WTO agreements, particularly the Agreement on Subsidies and Countervailing Measures (SCM). Effectively, a Peace Clause would grant agricultural subsidies a privileged place at the WTO, even if the subsidies are found to nullify and impair another member's expected benefits from signing a round of agreements.

The inclusion of this provision comes at the request of the U.S. Senate and House agriculture chairs, who are frustrated with losing several WTO dispute resolution cases, in particular the Brazilian cotton case. They would like assurances that future Farm Bill programs will not be challenged through the WTO dispute resolution process. Given that the Brazilian challenge was not impeded by the existence of the Peace Clause, it is unclear how much assurance Congress can expect.

The response to date from developing country members has been hostile—rightly so. Such an exemption from WTO disciplines dramatically undermines U.S. credibility as a country that seeks fair rules for agriculture that treat all countries alike. Countries using billions of dollars to support agriculture, like the U.S., are not the countries that need an additional advantage by exempting their subsidies from all challenge. This demand for an exemption from WTO disciplines is all the more outrageous given the failure of the U.S. to meet notification requirements. The U.S. is three years behind in notifying its domestic support spending and has rejected all proposals to tighten notification requirements.

Bottom line: The U.S. proposal to renew the Peace Clause should be rejected.

Market access

The U.S. is proposing a 75 percent cap on developed country agricultural tariffs and a cap (unspecified) on developing country tariffs. The U.S. proposes that developed and developing countries face the same tiers for the tariffs, grouping tariffs of 0 to 20 percent, 20 to 40 percent, 40 to 60 percent and tariffs over 60 percent, with each

group facing a graduated percentage cut that rises as the tariff rises.

The proposal breaks with the July Framework agreement, which promised to take developing countries' tariff structures into account in the cuts and to require proportionately less reduction from their tariffs. In developed countries, tariffs are quite varied, with a few products very heavily protected (tariffs in the hundreds of percent) and most products with comparatively much lower tariffs. For developed countries, an approach that makes relatively large tariff cuts with room for exceptions (such as the sensitive products) is suitable. But the majority of developing countries have bound most of their agricultural tariffs between 50 and 130 percent. This tariff profile means developing countries need the tiers for reduction commitments to have higher average starting points. Developing countries need more tariff flexibility not only to meet development needs but also as a defense against the dumped agricultural production that plagues world markets, much of it originating in developed countries.

The U.S. proposal does not mention preferences, tariff escalation and tariff peaks, or possible exemptions for recently acceded WTO members, all of which are issues that have been the subject of a number of proposals. The U.S. language on special and differential treatment under market access is so grudging ("slightly lesser reduction commitments and longer phase-in periods" and "developing countries must make meaningful commitments which reflect their importance as emerging markets") that it betrays a total lack of interest in effective special and differential measures that would respond to development needs.

Market access is the most aggressive section of the U.S. proposal and is where its demands are least likely to be accommodated by the EU, G-10 and the G-33. For example, on October 10, the G-10 again rejected the notion of capped tariffs, and proposed very different tiers for the cuts they would make to their tariffs (0 to 20 percent, 20 to 50 percent, 50 to 70 percent, and 70 percent and over). While the U.S. proposal is credited

in the press for “jumpstarting” stalled talks, in truth the lack of U.S. compromise in the area of market access is going to make agreement in time for Hong Kong very difficult.

Another fight is looming on the narrow definition of sensitive products offered by the U.S., which wants to allow only 1 percent of tariff lines to be eligible for the more lenient tariff reduction proposed. In practice, this will allow the U.S. around 40 product exemptions (a given product, such as rice or sugar, will have more than one tariff line, depending on the type and degree of processing that has taken place). The U.S. also requires that any product designated as sensitive also be given an increased tariff rate quota (TRQ, an amount of import that has to be let in at lower or zero tariffs). Few developing countries have any TRQs in the first place. The U.S. insists that where there are no TRQs, even sensitive products must cut according to the formula, although some additional flexibility at the margin could be possible. This means that sensitive products will offer little by way of policy space to developing countries.

The main demands of a large group of developing countries in market access are for the establishment of a category of special products (SPs) and the creation of a special safeguard mechanism (SSM) exclusively for developing countries. The U.S. proposal does not accept the basic premise for these demands. The proposal suggests these would provide “transitional protection... while still providing meaningful improvement in market access,” undermining the purpose of both tools. Special products are intended to deal with structural challenges confronting developing country agriculture, including food security concerns, the high proportion of employment still provided by agriculture and the importance of rural development for generating growth in the economy as a whole. None of these are transitional issues for most developing countries, certainly not in a five-year time span envisaged by the U.S. proposal. These are challenges many developing countries can expect to face for a long time to come; for some, food security and other concerns may mean full agricultural trade liberalization is simply not a desirable path. The

U.S. either does not understand or has chosen to ignore this reality.

Bottom line: The U.S. proposal for market access shows no interest in accommodating developing country concerns (nor those of the G-10 developed countries, whose agricultural sectors are generally small, highly protected, and for the most part not especially trade-distorting as exporters, although market access for would-be exporters are tightly controlled in a number of products). The proposal insists that even special products for all non-least developed countries should be subject to significant tariff cuts.

In effect, the end of the Doha Round as the U.S. proposes it would see the U.S. with an unlimited Green Box that includes decoupled payments, de minimis exemptions worth almost \$10 billion, a Blue Box worth almost \$5 billion and Amber Box spending up to \$7.6 billion. On top of this, the U.S. would have a renewed Peace Clause to head off possible challenges to subsidy use under existing WTO rules in other agreements. In exchange, developing countries are given no concessions for their different tariff structure or needs, no support for their carefully crafted proposals for special and differential treatment, and are expected to “pay” for the so-called cuts to support with deep tariff reductions. This payment is demanded of countries whose reliance on agriculture for food security, employment and foreign exchange earnings is much greater than that of the developed world, and whose policy options are severely constrained by the scarcity of public funds to support agriculture directly.

Export competition

Export subsidies

The U.S. does not spend more than a few million dollars a year on export subsidies. Its proposal for a full elimination by 2010 is directed at other Organization for Economic Cooperation and Development (OECD) countries (and possibly the tiny handful of developing countries) that use export subsidies.

State trading export enterprises

The U.S. proposal to eliminate monopoly export rights would effectively kill both the Canadian Wheat Board (CWB) and the AWB Ltd. (formerly the Australian Wheat Board). No exception is made for developing countries, however the proposal is targeted on export enterprises, not agencies, such as Indonesia's Bulog, which manage imports. The elimination of the CWB and AWB Ltd would do nothing to increase export competition for grains; the giants of the industry (Cargill, Archer Daniels Midland, Bunge and Dreyfus) will basically absorb the Canadian and Australian supply into their existing global grain processing and trading businesses.

It is disappointing that the issue of monopoly power generally, and the more complex but possibly more disturbing issue of oligopoly power, in agricultural commodity markets continues to be ignored by WTO negotiators. The issue should not be ownership—public or private—but the trade-distorting impact of the companies' market power. CWB and AWB Ltd. offer an effective second-best solution to the market failures and imperfections inherent in bulk commodity trading. Their private counterparts are much less constrained by public oversight and, at least for the producers they deal with, offer less benefit.

Food Aid⁵

Food aid should strive to meet legitimate humanitarian and development objectives with minimal displacement of commercial trade (whether of local or imported food) through careful targeting. The problems with U.S. food aid are well known and well documented in the literature.⁶ In brief, the U.S. restricts a large percentage of its food aid to in-kind donation of commodities, reducing flexibility and considerably increasing the average cost for each bushel of food delivered. The U.S. allows a considerable portion of its food aid to be sold in recipient markets, both in programs that offer budgetary support to developing countries, and in the practice of monetization, in which food aid is sold on local markets in recipient countries to generate funds for develop-

ment projects. The end result is food aid that is slow in arriving, twice as costly, and that competes directly with farmers in the countries receiving the aid. The U.S. even sells a portion of its food aid, using export credits to subsidize the sale. Most other food aid donors around the world have switched to a grant-only, predominantly cash-based system, that allows the country to source aid locally where possible.

The U.S. food aid proposal sidesteps these real issues, and invents a few that simply confuse the debate.

1. The U.S. proposal puts food aid in three categories: emergency food aid; food aid to net food-importing developing countries (NFIDCs) and least-developed countries (LDCs); and the rest. This is an absurd categorization. None of the literature looks at food aid in this way. The suggestion made is that NFIDCs and LDCs are too poor to have local producers and commercial importers with an interest in their local and national markets. There is a presumption that displacement of local farmers cannot take place, which is absolutely contradicted by the empirical evidence. Even in emergencies, displacement can and does take place. For many NFIDCs and LDCs, protecting local producers from dumped competition is essential, as production needs to be stimulated not depressed.
2. NFIDCs and LDCs together comprise 76 countries, many of them with very significant numbers of farmers and rural laborers dependent on agriculture for their livelihoods. Food aid is not about national GDP levels. It is especially in the poorest countries that every effort must be made to avoid displacing local producers in their own markets.
3. The reference to the Food and Agriculture Organization's Consultative Subcommittee on Surplus Disposal (CSSD) makes no sense, given that very few transactions are now registered there and most food aid officials now dismiss the committee as irrelevant. In 1993, 80 percent of all food aid transactions were reported to the CSSD; by 2001, less than 5 percent of transactions were. It is not coincidental

that the international body for food aid oversight chosen by the U.S. is one that barely functions, and one that condones the sale of food aid and monetization to generate development program funds. These practices are widely condemned by the food aid community and its international bodies.

4. In section III, D of its proposal, the U.S. suggests that perfect avoidance of commercial displacement through food aid is possible. It is not. The point should be to ensure the most effective targeting possible so as to increase the proportion of addition consumption to displaced purchases. The U.S. proposes what appears to be a new test—a CIR—to test that the food aid will not displace local production or commercial importers. The current test for U.S. food aid distributors—the so-called Bellmon analysis—has been widely discredited for being easy to manipulate and not subject to independent verification. Any new standard should at a minimum test all non-emergency food aid for trade-displacing impact using an independent third party verification system that measures the displacement of local and regional production, not just of imports.

Ultimately, emergency food aid also needs this kind of verification, as emergency food aid has been proven to disrupt local markets, particularly when it is poorly timed or targeted. The most recent crisis in Niger again exemplifies the kind of problems that arise when U.S. food aid arrives at the same time as local producers are harvesting their crops. If food aid undermines local markets by depressing prices, it contributes to insecurity and poverty. Understandably, WTO members will want to tread carefully around rules for emergency situations. However, involving the appropriate multilateral authorities could help ensure that the WTO is not making judgments in areas outside of its competence.

Bottom line: The disciplining of poorly designed and implemented food aid with a prohibition on all food aid not made in grant form is an obvious goal for the new Agreement on Agriculture, particularly as part of negotiations that style themselves a “development round.” WTO members should firmly

reject the U.S. proposal and continue to push for meaningful disciplines on U.S. food aid.

Export credits

The seemingly straightforward proposal to treat export credits on commercial terms in the October 10 proposal is contradicted by the U.S. attempt to exempt credits made available to LDCs and NFIDCs. Furthermore, the U.S. rejects any disciplines on subsidized interest rates and other terms of credit arrangements, a crucial element for an importer deciding whether to borrow at higher domestic interest rates or to buy from Cargill and other firms operating in the U.S. at the subsidized rate.

Conclusion

The full implications of the u.s. proposal on agriculture depend on notifications that are not yet available to the WTO membership. The proposal, if implemented in full, would considerably lower the ceilings on allowed domestic support, and would introduce some constraints on actual spending. In exchange for this modest offer on domestic support—remember, the U.S. would keep a minimum of \$22 billion in permitted *trade-distorting* support, with unlimited Green Box support alongside—the U.S. is asking developing countries for very big concessions in market access. The U.S. proposal requires both considerable tariff reductions from developing countries and ignores the proposals for strong special and differential measures that would take account of food security, livelihoods and rural development concerns.

The U.S. proposal ignores the most trade-distorting problem of all: unmanaged production sold at less than cost of production prices into world markets, resulting in dumping, the impoverishment of commodity growers and the rapid consolidation of food processing and retailing at the expense of affordable food for consumers and fair prices for producers. The world must recognize the right of countries to curtail costly and unsustainable overproduction; to forge international agreements that curtail dumping on world commodity markets and raise world prices; and, to protect their local markets from

imports dumped at below the cost of production that threaten food security and rural livelihoods.

New thinking is needed on how to manage world commodity markets that, both in subsidized temperate products and largely unsubsidized tropical products, are characterized by very low returns to producers and concentrated ownership of processing capacity. A small number of firms overwhelmingly dominate trade in agricultural commodities. Governments urgently need to turn their attention to how to manage the distortions arising from this market power.

The U.S. proposes a vision of zero-tariffs and zero trade-distorting support that seems neither sincere nor desirable. Let us hope that emerging from Hong Kong, WTO members find a less impoverished and more comprehensive vision for agriculture, which after all is first and foremost responsible for feeding the world's six billion people using a resilient but limited natural resource base.

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The new Blue Box: A step back for fair trade

Summary

"The reality is that no industrial country—not the United States, not Canada, not the countries of the EEC, not the other European states, not, we all know, Japan—leaves its farmers to the free market. None. Those who affirm the beneficence of the free market for agriculture are, as regards the industrially developed countries, speaking of something that does not exist. Perhaps it will in the next world; theology has its claim on that. Not in this world. It does not exist because left to market forces, agriculture has a relentless, wholly normal tendency to overproduce." —John Kenneth Galbraith, "Agricultural Policy: Ideology, Theology and Reality Over The Years," remarks at the National [U.S.] Governors Conference, July 27, 1987.

Background

The Blue Box is the term commonly used to refer to Article 5.6 of the Uruguay Round Agreement on Agriculture (AoA). To break the deadlock on agricultural negotiations under the Uruguay Round, the U.S. and EU brokered a deal in 1992 called the Blair House Accord. The accord exempted from reduction domestic support payments that were linked to production-limiting programs. That is, the level of payment had to be based on fixed areas and yields, or head of livestock; the money was not available to promote production.

At the time, both U.S. domestic agricultural policies and the EU's common agricultural policy (CAP) relied heavily on production-limiting programs. In 1996, the U.S. Farm Bill more or less eliminated Blue Box-eligible programs. The big users of the Blue Box today are the European Union (although this has started to change since the introduction of CAP reforms in the past few years), Japan, Switzerland, Norway and a few other countries. Very few developing countries have Blue Box-eligible programs.

The Blue Box is widely seen as an anomaly within the AoA; one of several ways in which developed

countries could evade reform to their domestic support programs. On the other hand, the Blue Box also reflects one of the continued concerns of many policy-makers with regard to agriculture: how to manage the observed tendency for commodities to be over-produced in open, unregulated markets. The observation that agricultural markets are not self-correcting is well established historically and explains why agriculture is one of the most regulated sectors in many economies. Unmanaged over-supply has significant negative impacts on both producers and on national governments that depend on agricultural exports to generate foreign exchange (as many developing countries do). The largest beneficiaries of unmanaged over-production are the big consumers of agricultural commodities: livestock operations, food processors, some restaurant chains that source directly from farmers (such as McDonald's) and—especially in horticulture—food retailers.

Expanding the Blue Box

In the framework decision adopted August 1, 2004 (known as the July Framework) the U.S. pushed through a proposal to revise criteria for inclusion in the Blue Box. The U.S. proposal added a new set of cri-

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teria to those agreed in the Uruguay Round. The added criteria allowed the inclusion of direct payments to producers that were not tied to production at all. In practice, the expanded definition will almost certainly allow the inclusion of U.S. countercyclical payments, which were declared to belong in the most heavily disciplined Amber Box by a WTO dispute panel ruling on U.S. cotton subsidies.

The U.S. needs to expand the Blue Box to cope with the outcomes of its 1996 and 2002 Farm Bills. The 1996 Farm Bill removed land set-aside policies and other tools that had been designed to bring land temporarily out of production and thereby reduce production. The result was a jump in production, collapsed prices and a spate of new, expensive government interventions to avoid catastrophic effects in rural areas, especially the collapse of rural banks.⁷ Largely as a result of the 1996 Farm Bill, U.S. prices for major row crops (corn, soy, wheat and rice) collapsed between 34 and 42 percent from 1996 to 2000.⁸ The loss of a price floor and the increase in production in the U.S. had a major impact on global prices as well, as the U.S. is a major supplier of these commodities in world markets.

By 2002, the U.S. Congress decided that coping with the farm crisis through repeated one-off emergency payments was not the answer. It chose to reinstitute so-called countercyclical payments, which provide producers with a predictable cushion when prices fall: the payments give farmers the difference between the target price for a commodity set by the U.S. Congress and either the national average market price or the loan rate price set by Congress, whichever is higher. The target price is below average U.S. production costs, but has been higher than world prices in most years. These payments vary enormously from year to year, depending on where market prices are: payments went from \$1.7 billion in 2003 to \$0.8 billion in 2004.⁹ The estimated maximum authorization for countercyclical payments in any given year under the 2002 legislation is \$7.6 billion.¹⁰

The expansion of the Blue Box comes in the context of a dramatic expansion in government payments to farmers (most of them under the undisciplined Green Box category of support, for payments that are considered to be minimally trade-distorting). Understandably, there has been a loud outcry against these subsidies. Yet many of those who know the history of U.S. farm payments and understand how the current system works, say the subsidies are really a symptom of larger underlying problems. As a senior farm organization official complained, “While the total amount of U.S. ag subsidies gets much public attention, little or nothing is said about the collapse of ag marketplace prices for the primary crops, which exceeds the size of the U.S. subsidies.”¹¹

Since this increase in domestic support contradicted Doha objectives (and at a minimum the spirit, and quite possibly the letter, of the AoA), a diplomatic offensive was undertaken to legitimize countercyclical payments in the Doha Framework. In defending the U.S. negotiating position for the Doha Round, Ambassador Robert Zoellick explained “the framework even creates an opportunity to place partially decoupled U.S. safety-net programs created in the 2002 Farm Bill—known as countercyclical support—into the blue box, something not possible under current rules.”¹²

The July Framework also restricted Blue Box programs to be less trade-distorting than Amber Box measures and proposed a cap on Blue Box spending levels of 5 percent of a country’s total value of agricultural support. Under the AoA, Blue Box spending was unrestricted.

U.S. Sen. Saxby Chambliss, chair of the Senate Agriculture Committee, has told U.S. Trade Representative Robert Portman that to gain his support for a WTO agreement, it must include countercyclical payments in a new Blue Box.¹³

The Group of 20 (G-20) developing countries has proposed several criteria to ensure that the revolutionary expansion of the Blue Box in the July Framework does not result in a still greater expansion of trade-distorting support than was permitted under the Uruguay Round. However, the U.S. has refused to consider additional

criteria. The only U.S. concession, contained in its October 12 negotiating position, was to reduce the Blue Box cap to 2.5 percent of the total value of agriculture. This could make it difficult to accommodate all the countercyclical payments in some years; for the U.S. the 2.5 percent cap is equivalent to just under \$5 billion.

Why expand the Blue Box?

For the U.S., the need to expand the Blue Box is clear. The WTO dispute panel ruling in the case brought by Brazil against U.S. cotton programs rejected the U.S. categorization of countercyclical payments as unconstrained Green Box payments and allocated them to the Amber Box, to be included in the aggregate measure of support (AMS). Furthermore, the appellate body rejected U.S. arguments that countercyclical payments for cotton did not violate U.S. commitments.¹⁴ Until the Doha Round is concluded and a new agreement is put in place, the U.S. is vulnerable to further disputes because it has not respected the spending limits agreed to when it signed the AoA.

In March 2005, an analysis by the Australian Bureau of Agriculture and Resource Economics (ABARE) helped reignite debate among WTO members about the proposed Blue Box. ABARE determined, “The new blue box provision would allow additional market distorting support and would weaken current WTO domestic support disciplines,”¹⁵ particularly by allowing price-related support, such as the U.S. countercyclical payments. If the U.S. had notified countercyclical payments to the WTO as price related aggregate measures of support (AMS), the U.S. would have exceeded its U.S.\$19.1 billion Uruguay Round AMS ceiling.¹⁶ ABARE concludes, “The capacity for the United States to provide support for its farm program crops within current WTO rules is already clearly large, and will be made even larger through extending blue box eligibility to counter-cyclical payments.”¹⁷

Response from other countries to Blue Box Expansion

The EU has little interest in seeing the Blue Box capped and is likely to block the U.S. proposal of a 2.5 percent cap. The so-called Group of 10 (which includes Japan, Switzerland, Norway and South Korea) will certainly object to such a low ceiling. The U.S. will then have conveniently have found others to fight its own (surely unwelcome) concession.

Why did other countries accept the expansion? This is more difficult to assess. Before the July Framework was agreed, the G-20 and other developing countries had sought restrictions on the Blue Box, not its expansion. The U.S. managed to pass its proposal anyway. In part, this was probably to lock in the acceptance by the EU to agree a date for the elimination of export subsidies. WTO members worried that to block an agreement, after the failure of ministers to advance on the Doha Agenda at the Cancún ministerial conference, could prove fatal to securing new agreements at all. The expectation of the G-20 and some others seems to have been that additional restrictions on the Blue Box would be added in the final agreement.

The subsequent attempts to impose further criteria to restrict the use of an expanded Blue Box, however, evident in proposals from the G-20 and the Group of 33, have been resisted by the U.S. The U.S. position as of October 12 was that a cap of 2.5 percent of the total value of production (half the proposal made in the July Framework) was sufficient additional constraint to satisfy these countries’ concerns.

What next?

The expansion of the Blue Box confronts developing countries directly with the question of what they should do when developed countries continue to preach the virtues of increased trade liberalization while negotiating to protect the vice they claim to abhor. The G-20 has suggested further disciplines on the expanded Blue Box payments to include an exclusion of commodities that receive other forms of trade-distorting support and to cap the non-production linked Blue Box payments

by product, not just with an overall ceiling.¹⁸ The U.S. has refused to entertain these proposals: its support is concentrated in a small number of program crops, particularly those used for feedstuffs that enable highly subsidized meat and dairy exports.¹⁹ Countercyclical payments would not conform to either discipline proposed by the G-20.

Also, the G-20 proposals would depend on prompt and stringent notification of all domestic support and export subsidy payments to the WTO, something the U.S. has so far refused to discuss, even though notification is the bedrock of transparency in the “fair and open agricultural trading system” mandated by the Doha Declaration.²⁰ At a minimum, WTO members should insist the next AoA include specific rules to ensure timely notifications, particularly by the three largest users of domestic support in agriculture: the U.S., the EU and Japan.

The proposed expansion of the Blue Box runs directly counter to fair trade rules. It was included at the behest of the United States and allows U.S. farm policy to maintain the status quo: a highly unsustainable domestic agriculture sector, which is destroying family-scale agriculture in the U.S. and the livelihoods of millions of small-scale farmers and farm workers all over the world.

Developing countries have responded accordingly. The G-33 and G-20 have both made proposals suggesting that any product that receives trade-distorting domestic support should be eligible to face border restrictions in importing developing countries. The G-33 has specifically said that products receiving trade distorting support should automatically be eligible as special products. These proposals make eminent sense and should cover both Amber and Blue Box programs, as well as export subsidies. There is no reason that developing countries should pay the price for the policy and market failures of poorly designed U.S. farm bills.

Annex 1: July Framework text on the Blue Box²¹

Blue Box

13. Members recognize the role of the Blue Box in promoting agricultural reforms. In this light, Article 6.5 will be reviewed so that Members may have recourse to the following measures:

- ▷ Direct payments under production-limiting programmes if:
 - such payments are based on fixed and unchanging areas and yields; or
 - such payments are made on 85 percent or less of a fixed and unchanging base level of production; or
 - livestock payments are made on a fixed and unchanging number of head.

Or

- ▷ Direct payments that do not require production if:
 - such payments are based on fixed and unchanging bases and yields; or
 - livestock payments made on a fixed and unchanging number of head; and
 - such payments are made on 85 percent or less of a fixed and unchanging base level of production.

14. The above criteria, along with additional criteria will be negotiated. Any such criteria will ensure that Blue Box payments are less trade-distorting than AMS measures, it being understood that:

- ▷ Any new criteria would need to take account of the balance of WTO rights and obligations.
- ▷ Any new criteria to be agreed will not have the perverse effect of undoing ongoing reforms.

15. Blue Box support will not exceed 5 percent of a member’s average total value of agricultural production during an historical period. The historical period will be established in the negotiations. This ceiling will apply to any actual or potential Blue Box user from the beginning of the implementation period. In cases where a member has placed an exceptionally large percentage of its trade-distorting support in the Blue Box, some flexibility will be provided on a basis to be agreed to ensure that such a member is not called upon to make a wholly disproportionate cut.

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Finding NAMA: How to navigate market access negotiations

Nonagricultural market access (NAMA) negotiations at the World Trade Organization are important because they go to the heart of development and the extent to which countries can govern their own development path. NAMA negotiations will determine how much domestic voice you have in deciding how and where jobs are created, how resources are used and distributed and what the basis will be for the creation of wealth. Despite the highly technical and complex nature of these WTO negotiations, they matter because they will have consequences for development, employment and the environment and the extent to which sustainable policies can be implemented.

Mandate under Doha and the current talks

What is NAMA?

NAMA negotiations are mandated under the Doha Ministerial Declaration, which WTO members agreed to in November 2001. The aim is to reduce border measures to trade, especially *tariffs*, and other barriers to market access for industrial exports. The negotiations cover all goods not covered under the Agreement on Agriculture. The products are essentially industrial but WTO members are also negotiating on natural resources, including fisheries, forests, gems and minerals. The aim of the negotiations is to continue the process of industrial trade liberalization that started with the first General Agreement on Trade and Tariffs in 1947 and continued since through periodic rounds of negotiations.

Industrial tariff liberalization under GATT

Under the GATT, countries engaged in a series of tariff negotiation rounds to liberalize trade in goods. By the time the WTO was established in 1995, the successive rounds of liberalization had achieved considerable tariff reduction, particularly amongst developed countries. In the negotiations, countries made re-

quests and offers to reduce tariffs in particular sectors. GATT members were allowed flexibility to choose which sectors to liberalize and by how much—developing countries were allowed greater flexibility.

Today, the tariff structures of developed and developing countries are different. Developing country tariff structures are characterized by high average tariffs. Developed country tariffs, on the other hand, are characterized by low average tariffs with high tariffs and *tariff peaks* (very high tariffs that are three times the national average) for some sectors. *Tariff escalation* is also an issue in developed countries: a situation where tariffs are structured so as to gradually rise as products go from their raw state to a more processed good. For instance, tariffs on aluminum will typically be lower than tariffs on imported cars made with aluminum. This serves the interests of developed countries who aim to import raw materials at low costs from developing countries for their industries, and to export value-added products. Tariff peaks are used to protect jobs and investment in their manufacturing industries. The result

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is that industrialization in developing countries is made difficult and even discouraged.

Industrial tariff liberalization under the WTO

The Uruguay Round of trade negotiations, which led to the establishment of the WTO, expanded the coverage of the GATT well beyond industrial products into sectors such as agriculture, services and intellectual property. However, there was still concern from some developed country members that industrial trade liberalization was not complete, especially in developing countries. At the 2001 Doha ministerial conference, members agreed to negotiations on NAMA. Since Doha was intended to be a development agenda, the focus of the NAMA negotiations was on the elimination of tariff peaks and tariff escalation on products of export interest to developing countries. Governments also agreed they would take into account the special needs and interests of developing countries. Paragraph 16 of the Doha Ministerial Declaration states:

“We agree to negotiations which shall aim, by modalities to be agreed, to reduce or as appropriate eliminate tariffs, including the reduction or elimination of tariff peaks, high tariffs, and tariff escalation, as well as non-tariff barriers, in particular on products of export interest to developing countries. [...] The negotiations shall take fully into account the special needs and interests of developing and least developed countries, including through less than full reciprocity in reduction commitments [...]. To this end, the modalities to be agreed will include appropriate studies and capacity-building measures to assist least-developed countries to participate effectively in the negotiations.”

Since 2002, NAMA negotiators have sought to establish modalities. Modalities are rules specifying how and to what extent a country should reduce their trade barriers. At the 2003 Cancún ministerial conference, conference chairman and Mexican trade minister, Luis Ernesto Derbez, submitted a text commonly known as the “Derbez Text” which proposed a framework for modalities in NAMA. This text received clear and sus-

tained rejection by developing countries, particularly the African and Caribbean Groups, since it predominantly represented the interests of developed countries without taking into account interests and needs of developing countries. After Cancún, the chairman of the negotiating group dealing with NAMA, Ambassador Stefán Jóhannesson from Iceland, has continued to persuade WTO members to adopt the Derbez text as the basis for further negotiations. Annex B was finally adopted by WTO members as part of the July Framework at the WTO General Council in Geneva in July 2004. Developing countries only agreed to the text because it included a paragraph, which states:

“Additional negotiations are required to reach agreement on the specifics of some of these elements. These relate to the formula, the issues concerning the treatment of unbound tariffs in indent two of paragraph 5, the flexibilities for developing-country participants, the issue of participation in the sectoral tariff component and the preferences.”

Annex B: The Main Components

A formula for reducing tariffs

In contrast to previous industrial tariff liberalization negotiations under the GATT, this annex calls for a single formula to reduce tariffs. The type of formula proposed is commonly referred to as the “Swiss formula,” but it is also known as the “non-linear formula” and the “harmonizing formula.” The formula is designed principally to make steeper cuts on higher tariffs, so as to bring all the final tariffs closer to the same level. A variable, or coefficient, is applied to the formula to determine the shape of the final tariffs. The coefficient will have different effects depending on the type of formula used. A Swiss formula with a small coefficient will result in bringing a country’s tariffs into a narrower range. The coefficient will also set the cap for all final tariffs.

Increased tariff binding

A key commitment that countries make in tariff negotiations is to set a ceiling on the level of a tariff, known as a *tariff binding*. This is because, under WTO rules,

tariff reductions can only be made on tariffs that are bound. Many developing countries have only a small number of bound tariffs. A country can choose to apply tariffs at lower levels, but once a tariff is bound under the WTO, it cannot exceed that level. Many countries apply lower tariffs than their bound levels. Annex B states that members who have less than 35 percent of their tariff lines bound are expected to bind ALL their tariffs at a specified level. Least developed countries are asked to increase the number of products subject to tariff ceilings. In exchange for this both groups will be exempt from applying the formula to reduce tariffs.

A sectoral initiative

Annex B proposes a sectoral initiative. WTO members are to select several products of export interest and negotiate complete tariff elimination, or “zero-for-zero” reductions. The question of whether to include sectoral initiatives in the final outcome of the negotiations is still widely contested. The chair of the negotiations has removed the issue from the formal negotiating agenda. Nevertheless, a number of WTO members are informally engaged in nine different sectoral negotiations including electronics, bicycles and sporting goods, chemicals, fish, footwear, forest products, gems and jewelery, pharmaceuticals and medical devices, and raw materials. The negotiations take place in what is dubbed “the critical mass” approach—a certain number of countries representing a certain minimum percentage of world production in a sector are required to participate to create a sectoral initiative. Most developing countries do not want to include sectoral initiatives because they do not want to lose the ability to apply tariffs altogether. Countries including the United States, Australia, New Zealand, South Korea and Norway, however, are pushing hard to include sectoral initiatives in the final outcome.

Non-tariff barriers (NTBs)

Tariff barriers are not the only measures used in trade to control access to domestic markets. NTBs are measures other than tariffs that affect trade including, health and food safety standards and packaging requirements. Annex B calls for “examination, categorization, and ulti-

mately negotiations on NTBs” and for members to identify NTBs in other countries they feel hinder their exports. NTBs are placed in categories: bilateral, horizontal or vertical. Bilateral are barriers that exist between two members and that can be addressed bilaterally. Vertical refers to all barriers within a given sector. Horizontal refers to a specific barriers existing across all sectors. NTBs are complex and time-consuming to negotiate.

Special and differential treatment and “less than full reciprocity”

Both the Doha Ministerial Declaration and Annex B of the July Package affirm the importance of SDT and “less than full reciprocity in reduction commitments” as integral to the modalities. SDT is the principle developed in the GATT that developing countries should have more flexibility in meeting trade disciplines.

Preference erosion

For a number of years, developed countries have used a system of partial access, known as preferential treatment, giving low or zero tariff access to traditional trading partners from developing countries (for the European Union, these partners are often former colonies). Least developed countries (LDCs) have been the primary beneficiaries of such systems. One of the most comprehensive preferential systems operates between the European Union and members of the Africa, Caribbean and Pacific Group (ACP). Inevitably, as tariffs in developed countries are reduced, the value of such preferences is reduced and competition for the markets affected increases. Many of the poorest developing countries are not in a position to compete successfully for the market without the help of preferential access. Both the African Group and the ACP have tabled proposals voicing their demands on the treatment of preferences. Some experts are suggesting that financial compensation be provided to the affected countries.

Credit for autonomous liberalization

Developing countries have often called for the modalities to grant lower tariff reduction requirements to those countries that have unilaterally liberalized their

economies. Developing countries that underwent structural adjustment, for example, under the auspices of the World Bank and International Monetary Fund lending programs, have often liberalized their economies much more dramatically than the WTO negotiations are now proposing. The NAMA negotiations are likely to lead to even deeper reductions to these countries' tariffs, so it is important to give some credit for recent reductions, instituted independently from the WTO. Countries that only recently joined the WTO are in a similar position, as they are inevitably asked for greater tariff reductions than WTO rules require before membership is granted.

The analysis: Trade liberalization and the impacts on development

A strong industrial base is essential to economic development. Flexibility to structure and set tariffs as the domestic situation warrants is essential to developing such an industrial base. Tariffs are transparent and easy to use, especially for developing countries. They are often better than non-tariff measures, used more commonly by the U.S. and EU, which are less transparent. Using tariffs allows countries to control the price, speed and volume at which imports enter their domestic markets to protect local production until such time as they are ready to compete.

Imports can and do play a positive role in industrial development: open borders allow goods that are not produced locally to enter the local market at a lower cost, which is especially useful if the goods contribute to building up the local industrial sector, for example by making more advanced technology and machinery available. Competition from imports can also play a positive role, stimulating innovation and more efficient production from local firms. However, imports can also undermine, and even destroy, domestic industrial growth. All of today's industrialized countries used measures of border protection to allow their domestic industries to grow. Tariffs have been among the most commonly used instruments. Hence the successive rounds of talks to reduce tariffs in the first place.

Whereas the GATT rounds gave countries some flexibility, the current Doha round is attempting to drastically remove flexibility. Developed countries are using NAMA to push for low or zero tariffs in developing countries to improve market access for developed country industrial products. For a number of reasons, the current proposals under Annex B are directly counter to the commitment taken by governments in Doha to allow developing countries the flexibility and space they need to promote their development.

First, the **Swiss formula** approach completely defies the experience of industrial development where countries use tariffs as an instrument to protect certain products and allow access for others. Industrialized countries used selective market access policies during their industrialization process and they continue to rely on tariff peaks and escalating tariffs to protect and promote certain sectors. The insistence on a single formula is simply inappropriate.

Second, when countries **bind tariffs** they lose flexibility to shape economic policy. Binding tariffs can be useful because it provides a degree of transparency and reliability for exporters. However, export interests are thereby given priority over others who are affected by trade policy. In the case of NAMA, it is workers' interests that are often compromised by the pressure to lower tariffs. Many developing countries, especially in Africa, have a high number of **unbound tariffs**. It would be a major concession to bind ALL tariffs in one round of negotiations. Requesting that tariffs be bound at a specified level is a further concession. Asking some countries to apply a tariff reduction formula on top of this is going too far. These are major reforms with potentially disastrous consequences and a severe loss of national policy space. Such a radical reform is unprecedented in GATT/WTO history and ignores the empirical evidence: a one-size-fits-all approach to development does not work.

Third, the total elimination of tariffs negotiated under the **sectoral initiative** will make it virtually impossible for countries that face preexisting handicaps (low levels

of capital for investment, poor infrastructure development, etc.) to set up industries in those sectors in the future. Furthermore, eliminating tariffs will severely restrict a government's ability to manage their natural resource base and could have disastrous impacts on sustainable development and the environment.

Fourth, the current language on **special and differential treatment (SDT)** and "less than full reciprocity" under negotiation does not reflect the Doha mandate. Developing countries need meaningful SDT that provides them with choices and the flexibility to decide how and when to use tariffs. They need to be assured that they will not be locked into a structure that would undermine their prospects for development.

Fifth, reducing tariffs leads to a loss of public revenue for governments in developing countries. Tariff revenue contributed 32 percent of total government revenue in least-developed countries in 2001. In industrialized countries, tariff revenues only represent on average 1 percent or less of government revenue.²² For a least developed or low-income developing country, losing the revenue from tariffs can have a crippling effect on the government's ability to provide essential goods and services for its people. Given the already difficult public budget situation of many developing countries a loss of up to 32 percent will seriously aggravate the situation.

Another concern in the negotiations is the inevitable erosion of preferences. Even though preference schemes prove to have mixed results, they do provide some sectors in some of the world's poorer countries, with vital income. "Aid for Trade" and the IMF trade integration mechanism (TIM), whereby countries experiencing erosion of preferences can apply for an IMF loan, are being sold to developing countries as mechanisms to address preferences. Both are inappropriate and insufficient to address the issue and the TIM in particular is more likely to cause further debt in developing countries. Countries must start to tackle the root causes of dependencies on the preference schemes and other forms of compensation will have to be considered.

On the question of NTBs, developed countries, in particular, are the major users. Some are normal and important, such as safety standards on food imports and environmental checks on pests and diseases from imported flora and fauna. Others are simply a way to protect a sector from competition, including the use of exaggerated standards or outdated laws to restrict imports, or abusing laws meant to protect against dumping (the sale of exports at prices below those prevailing in the domestic market in the country of origin). WTO members are engaged in the task of notifying NTBs and then separating valid NTBs from those measures whose primary purpose is to shield domestic producers from foreign competition. Developing countries have not been able to participate fully in the notification process. Developed countries on the other hand have been very active, for example, the U.S. auto sector and the Korean electronics sector have aggressively participated in the NTB process. Progress on the reduction of inappropriate NTBs is likely to be incomplete, inadequate and very slow.

Who is expected to gain from a new agreement on NAMA?

UNCTAD's analysis of the NAMA negotiations shows that "whatever the approach, the developing countries will be required to make the greater cuts in their bound tariffs and will face greater proportional increases in imports. They will also suffer substantial losses in tariff revenues and this will be a serious concern in a number of cases."²³

The EU, U.S. and Japan stand to gain more than a third of the total estimated global revenue gains from increased exports with new NAMA rules. Among developing countries, it is principally China, India, Brazil and a few South East Asian countries that would share the rest. Of the estimated \$314 billion export revenue gains, "\$175 billion accrues to developing countries, particularly China (\$67 billion), Southeast Asia (\$22 billion), India (\$16 billion) and the Middle East and North Africa (\$16 billion). Export gains for the European Union, the U.S. and Japan are \$43 billion, \$36 billion and \$27 billion respectively."²⁴

Trade liberalization in non-agricultural markets mainly benefits exporters from those countries with an established industrial base. It will be workers in both developed and developing countries who will be the losers if deep liberalization of manufacturing goes through: job losses and worsening working conditions are the likely outcomes. Trade unions around the globe should be concerned about what their respective countries are pursuing or ready to accept in the NAMA talks.

Government positions

The United States wants an ambitious tariff reduction formula. The U.S. calls for a simple Swiss formula with different coefficients for developed and developing countries, but where the coefficients are close together, or “within sight of each other.” It favors a zero-for-zero approach on particular sectors. In practice, it is not clear that the U.S. Congress supports the U.S. trade representative in this agenda, but the strong and radical proposal from the U.S. forces the talks into a much tougher place than would be the case if the U.S. proposals were more moderate.

The European Commission also favors a simple Swiss formula. They prefer a single coefficient for all countries but would accept a separate coefficient for developing countries if developing countries forgo flexibilities in other areas of the negotiations.

Norway proposes a simple Swiss formula with two coefficients. For developing countries the coefficient will be determined by the extent to which they forgo flexibilities in the other areas of the negotiations.

Japan would like to remove forests, fish, footwear and leather goods from the sectoral approach. In other respects they, like the EC and the U.S., want to harmonize tariffs through the application of a simple Swiss formula.

The African, Caribbean and Pacific group and the African Union reject Annex B. They are concerned that the Annex B proposals contradict the principle of less than full reciprocity as enshrined in the Doha mandate. “And as such,” say the trade ministers of the Africa Union, ACP

and LDCs, “would further deepen the crisis of de-industrialization and accentuate the unemployment and poverty crisis.” They strongly criticize all elements of Annex B and argue for assessments of the effects of previous liberalization and tariff reduction. They want the negotiations to be explicitly linked to “the results and findings of specific studies.” They call for meaningful SDT and the full operationalization of “less than full reciprocity.” They also argue that “solutions to the question of preference erosion should be obtained within the WTO negotiations.”²⁵ **The African Group** presented a proposal for a “corrective coefficient” to be incorporated in the formula to improve preference margins for a range of products. The *ACP* proposed a “vulnerability index” to identify products affected by preference erosion.

Argentina, Brazil and India (ABI) support the Girard formula for tariff reduction. This is a Swiss formula but uses different coefficients calculated on the basis of each country’s national tariff average.

Mexico, Chile and Colombia propose a Swiss formula that would permit developing countries to make lower cuts in their tariffs if they agree to bind their tariffs, apply the formula and agree to shorter periods for implementation. They would like big overall cuts to tariff levels.

Pakistan proposes a simple Swiss formula with coefficients based on average bound tariffs for developed countries and developing countries, 6 and 30 respectively.

The Caribbean Countries (Antigua and Barbuda, Barbados, Jamaica, St. Kitts and Nevis and Trinidad and Tobago) support the ABI proposal but propose an additional element which would give further flexibility to developing countries based on a series of “development factors.”

China advocates strongly for “less than full reciprocity” for developing countries in reduction commitments. As a newly acceded country, China is likely to benefit from some version of the credit for autonomous liberalization discussed above—China is still implementing the tariff reductions negotiated when it joined the organization in 2001. Credit for newly acceded countries is more ac-

cepted by WTO members than the request for credit for implementation of structural adjustment programs.

How civil society can get involved

Few civil society organizations have paid much attention to the NAMA negotiations. If WTO members agree to the current proposals, developing countries will be locked into binding international rules that discourage the use of tariffs and even aim at eliminating them completely in certain sectors. This removes flexibility to develop industrial policies that could promote development, increase employment and ensure a sustainable use of natural resources. Trade unions, social movements and non governmental organizations both in the South and the North need to analyze and understand the public interests at stake, describe the potential impact of such an agreement and expose the severe pressure from developed countries to further open the markets of developing countries.

Groups working on NAMA include

ActionAid

actionaid.org

Centre for International Environmental Law

ciel.org

Friends of the Earth International

foei.org

Greenpeace International

greenpeace.org

Institute for Agriculture and Trade Policy

iatp.org

International Centre for Trade and Sustainable Development

ictsd.org

Oxfam International

oxfam.org

Third World Network

twinside.org.sg

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The impact of GATS on agriculture

Introduction

Conventional wisdom on the World Trade Organization negotiations has it that there will be a trade-off between concessions made by industrialized countries in agriculture and concessions made by developing countries in services. What is often overlooked are the linkages between the two sectors, especially the impacts on agriculture of the liberalization of crucial services sectors.

At first glance it might seem that the GATS has little to do with agriculture. Its list of 160 service sub-sectors makes little direct reference to agriculture and food: they include just “Services incidental to agriculture, hunting and forestry,” “Services incidental to fishing” and “Veterinary services,” all within the broad category of “Business Services.”

Yet the agriculture and food economy around the world has been massively transformed by services. Farmers are increasingly integrated into global food supply chains that strongly influence their production and marketing decisions. Small land-holding farmers are especially dependent on the efficient and equitable provision of services that enable them to participate in these supply chains on affordable terms. Consequently, the liberalization of those services can have a major impact on agriculture especially in developing countries.

This paper will focus on the services sectors that have the closest link to agriculture:

Distribution services, which are of increasing importance for farmers to market their products. Both at the wholesale and the retail level, market power in the distribution sector is increasingly concentrated. This process is already very advanced in most industrialized countries, therefore affecting the export opportunities of farmers in developing countries.

Financial services, which are vital for the provision of agricultural credit, especially for smaller farmers who often face major problems in accessing loans from commercial banks on affordable terms—if they get credit at all.

Infrastructural services, especially water and energy, which are often more difficult to supply in rural areas. In a liberalized and profit-driven system for the provision of these essential public services rural populations may be neglected. In the longer term, GATS commitments could also extend to the distribution of irrigation water, which is essential especially for farmers in developing countries.

Transportation, tourism, telecommunications and professional services, especially with regards to agricultural extension, bear on agriculture as well.²⁶ Requests to liberalize these sectors have been tabled and are not surveyed in this paper due to space restrictions.

Of the different ways of “trading” services—referred to as “Modes of supply” in GATS—“Commercial

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with
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Tom Lines

Presence” (Mode 3) is most relevant for the agricultural sector. In Mode 3 services are provided “by a service supplier of one Member, through commercial presence in the territory of any other Member.” In other words, they’re provided by means of foreign direct investment either by establishing a subsidiary in the “importing” country or by buying a domestic company there.

Unlike other WTO agreements, GATS is structured as a series of negotiations between countries, in which one “requests” the other to open up a sector of its economy to its firms. The second makes related “offers” in response. This is designed as a flexible, “bottom-up” process, enabling every member to liberalize its service sector at the pace it prefers. Unilateral liberalization of services, often a policy condition for developing countries to get loans from the World Bank Group, is much less flexible and is not accounted for when measuring the extent of liberalization (“ambition” in WTO parlance) in developing countries GATS offers. Since market access negotiations take place in bilateral and private meetings, little information is available about what requests have been made of different countries before a final deal is settled and then published.

Parallel to this bilateral request-offer process for market access, there are multilateral negotiations to clarify and expand certain provisions of the GATS agreement that apply to all service sub-sectors. These so-called “horizontal” rules negotiations can have substantial impacts on agriculture as well since they are dealing with:

- ▶ **Subsidies:** Establishing which type of subsidies to services companies are considered trade distorting and therefore have to be disciplined, which are not, and under what conditions.
- ▶ **Domestic regulation:** Establishing categories of regulatory or legislative authority exercised by government or their delegated representatives that can have a trade distorting effect. Such categories, still under negotiation and applicable to bilateral commitments already made, include licensing requirements, commercial zoning requirements and

requirements pertaining to government authority over environmental protection.

- ▶ **Emergency safeguards:** Introducing the option for countries to temporarily remove some of their GATS commitments if these turn out to have unexpected adverse effects in unforeseen situations (e.g., major financial crises).

With the exception of emergency safeguards, all these new rules aim at reducing the policy options of governments in “importing” countries and the multilateral GATS negotiations are about how far this process should go.

The requests and offers made to each other by GATS members as part of the negotiations are not generally made known to the public. In most cases it is not even made known which sectors are under discussion between one member and another, let alone what changes in them have been suggested.

However the initial requests made by the European Union in July 2002 were made public when the Polaris Institute in Canada released them.²⁷ Therefore, and because of EU importance in GATS negotiations, this paper takes the EU’s requests as an example of what is asked of developing countries.

The EU (which comprised 15 countries at the time) made GATS requests to 109 countries, of which 94 are classified as developing countries or economies in transition and 29 as least developed countries (LDCs). Even to LDCs, requests were generally made in three to five of the 12 sectors, while three LDCs (Bangladesh, Madagascar and Mozambique) found six sectors targeted and both Angola and Tanzania, seven.²⁸ As you go up the income scale, the number of sectors targeted rapidly increases, so that nine are covered in the EU’s requests for Kenya and 12 for South Africa.

Distribution services

"Supermarkets are now the main gatekeeper to developed country markets for agricultural produce. ... To sell in world markets, especially markets for higher value-added crops, is increasingly to sell to a handful of large supermarket chains."
—UNDP: *Human Development Report 2005* (p. 142)

The emergence of retail driven supply chains

Globally operating super- and hypermarket (carrying food, clothes, electronics, etc in one store) companies such as Wal-Mart, Carrefour, Ahold, Metro and Tesco play an increasing role in shaping the global food economy. In 2002, the 30 largest food retailers accounted for one third of global retail sales to consumers.²⁹ In Europe, the food purchased by its 430 million consumers is channeled through 110 buying desks of the retailing companies.³⁰ The major retailers exercise an increasingly tight control on their global supplies, often replacing traditional wholesalers and establishing a de facto monopsony³¹ on their suppliers. At the same time, they are able to source similar products from a large pool of suppliers in a wide range of countries.

This market power puts retailers not only in a dominant position in price negotiations with suppliers, but also in defining the quality standards the products have to meet and the conditions and timing of delivery. This exercise of market power is especially prevalent for products like fresh fruit and vegetables, for which supply chains need to be short and efficient to ensure that the products arrive to their outlets before quality deteriorates. In addition, supermarkets and their customers tend to judge the quality of fruit and vegetables on criteria like their appearance³² rather than less visible properties like taste.

At the same time, food safety standards require a strict control of potentially harmful substances such as pesticide residues and nitrites. Food safety regulations and internal company standards also require the ability to trace products back to the farm where they were grown.³³ To ensure the timely delivery to numerous retail outlets, companies prefer to buy large amounts of products meeting uniform standards from a limited

number of suppliers. The contracts are often designed in a way that allows retailers to place orders on very short notice, refuse products for quality reasons and pay only several months after delivery, thereby capturing value while passing business risks to suppliers and farmers.³⁴

These factors taken together put producers and especially smaller farms at a disadvantage in supplying these global players. In Kenya, the share of small farmers in horticultural exports decreased from 70 percent to only 18 percent in the late 1990s, while large commercial farms and export companies with their own production make up more than 80 percent.³⁵

So far, mainly farmers in developed countries and those farmers in developing countries that export to developed countries markets have been affected by this power concentration in the supply chain. The distribution and retail sector in most developing countries is still to a large extent shaped by small, family owned shops, informal markets and street vendors, providing small farmers a market with less powerful and demanding counterparts. But this has already started to change. The size of the food market in industrialized countries as a whole is limited by the nature of the product. Population in most of these countries is stagnating and people cannot eat and drink more than a certain amount.

Since further expansion of the supermarket companies' home markets is limited, they have started to expand rapidly into other countries around the world. It is reported that, "Now that Tesco sells almost 30 percent of all the groceries sold in large supermarkets in the UK, growth opportunities in its traditional markets are becoming limited. Consequently, international expansion and diversification out of groceries have become central to the group's strategy."³⁶ While Tesco's sales outside its UK home market were less than 20 percent in 2002, Dutch group Ahold made 85 percent of its total sales in foreign markets that year, and Carrefour of France and German Metro were both just below 50 percent.³⁷ While most foreign markets are in other developed countries, these transnational firms are looking increas-

ingly to developing countries, especially those with a growing group of better-off urban consumers.

Examples of food retail market penetration by transnational corporations can be found in Asia and Latin America. Without specifically committing itself under the GATS, Thailand has placed few restrictions on foreign investment in this sector. The Thai government recently found that “modern” large retailing outlets rapidly expanded, as European companies took advantage of the East Asian financial crisis in the late 1990s. In four of the five years from 1997 to 2001, trade (particularly retail) was the sector with the largest flows of investment in Thailand. Large European companies such as Carrefour, Ahold and Tesco rapidly expanded their hypermarkets, supermarkets and cash-and-carry stores. Thailand became Tesco’s third largest foreign market, accounting for 14 percent of the company’s international sales in 2004.

A similar picture emerged in China upon its accession to the WTO, after which foreign chain stores accounted for 23 percent of all big new supermarkets. In Malaysia hypermarkets and large supermarkets account for more than half of retail sales and are mainly owned by foreign companies including Carrefour, Tesco, Jusco and Giant.³⁸ In China, Malaysia and Thailand traditional small and family owned shops are put under strong pressure from this new competition. According to a report submitted by Thailand to the WTO: “acute political outcry against retail service liberalisation” became “a very hot potato for the current administration” and had “given rise to serious thoughts on having appropriate and sound regulatory framework set before liberalisation is unleashed in a fast and uncontrolled manner.”³⁹ India, on the other hand, does not allow foreign direct investment in the retail sector and consequently, less than 2 percent of the sales are channeled through supermarkets.⁴⁰

In Latin America, supermarkets control 50-60 percent of the food retail sector, up from 10-20 percent only 10 years ago. In Brazil, which has fully opened its distribution sector to foreign direct investment and bound this commitment in the GATS, four of the five biggest

retail companies were totally or mainly owned by foreign companies in 2000.⁴¹ The consequent supply chain requirements of these food retailers for red meat pushed dozens of small slaughterhouses, traders and truckers out of business.⁴² Similarly, price competition and consolidation of dairy companies cut off markets for smaller Brazilian dairy farmers. The number of farmers delivering milk to the top 12 dairy companies decreased by 35 percent between 1997 and 2000.⁴³

The emergence of super- and hypermarkets in developing countries means that farmers there face conditions that increasingly take on the characteristics of export markets.⁴⁴ Small and poor farmers may be locked into subsistence production and able to sell only through informal distribution channels supplying poor consumers, thereby reinforcing the “dual” economies that already exist in many developing countries.

Regulations and restrictions in the distribution sector and the impact of GATS

Until now, few developing countries have introduced regulations to ensure a more equitable relationship between producers and distribution companies. However, a number of countries have limited the expansion of super- and hypermarkets to protect the traditional small-scale shops and give them more time for adjustment. Malaysia has banned the establishment of new hypermarkets in certain areas until 2009.⁴⁵ This can have indirect benefits for farmers and other suppliers, since alternative marketing channels to the supermarkets buying desks are maintained.

A minority of WTO members have made commitments for the distribution and retail sectors in the GATS. Only 29 members made specific commitments for the retailing sector,⁴⁶ and only 13 of these are developing countries—including the advanced developing countries South Korea and Hong Kong—and four African LDCs (Burundi, Gambia, Lesotho and Senegal). Amongst the larger developing countries, only Argentina, Brazil, China and South Africa have made commitments in retailing, the Chinese commitments being a result of its accession negotiations.

The EU has requested⁴⁷ a large number of developing countries to make commitments in the distribution sector. It requested full market access and national treatment for its wholesale and retail companies from a total of 36 developing countries: Argentina, Bahrain, Bolivia, Brazil, China, Colombia, Ecuador, Egypt, El Salvador, Honduras, Hong Kong, India, Indonesia, Korea, Kuwait, Malaysia, Mauritius, Mexico (clarification of scheduled exemptions), Morocco, Oman, Pakistan, Panama, Paraguay, Peru, Philippines, Qatar, Singapore, South Africa, Sri Lanka, Taiwan, Thailand, Tunisia, United Arab Emirates, Uruguay, Venezuela and Zimbabwe.

For another 16 countries, the EU requested to “consider making commitments” without specifying what these should entail: Antigua, Barbados, Belize, Brunei, Costa Rica, Côte d’Ivoire, Cuba, Dominican Republic, Guatemala, Jamaica, Kenya, Macao, Nigeria, St. Kitts and Nevis, St. Lucia, Trinidad and Tobago.

The EU has made no requests to LDCs in the distribution sector.

If all countries requested were to commit their distribution as asked for by the EU, the rapid expansion of super- and hypermarket driven supply chains would be very likely, including in countries with a large population of small farmers who rely on domestic markets for the sale of their products. Regulations that would require, for example, retail companies to purchase at least part of their supplies from small producers and farmers and/or assist them to meet higher product standards, could be challenged through the WTO dispute settlement process as a trade distorting domestic regulation. This challenge could occur even, if the respective requirements were to apply to all large retail companies, since the GATS bans de facto discrimination between domestic and foreign companies. If all or most large retailers were owned by foreign companies, which is not an unlikely scenario, the companies could lobby their Members to launch a WTO dispute by arguing the foreign headquartered companies have to meet requirements of which domestic retailers are exempt.

The full commitment to market access and national treatment in the GATS would therefore stop developing countries from moderating the emergence of retail driven supply chains in their domestic markets and at the same time seriously restrict regulations aimed at enhancing the capacity and power of small farmers to supply them on favorable terms.

Financial services

“In meeting the demands of international markets, farmers will need to produce commodities according to international standards and qualities. ... Significant changes in the production structure may be required in terms of enterprise choice and the degree of specialization, adjustments in farm size and integration of farm production with farm input supply, agro-processing and marketing in the same commodity chain. ... Agricultural credit can play an important and sometimes crucial role in facilitating these required structural transformations in production and marketing.”
—FAO, *GTZ, 1998: Agricultural credit revisited* (p. 23)

The importance of rural credit for small farmers

The quote above highlights the important role of agricultural credit in enabling farmers to meet the quality and marketing requirements of modern supply chains. As shown above, transnational firms increasingly import their requirements into the domestic markets of many developing countries, a process that may be accelerated by the liberalization of distribution and retailing services in the GATS. Smaller farms need access to sufficient financial resources to adapt their production to these fundamental changes. Even if they want to improve productivity and production only in their traditional activities, they are usually not able to finance the necessary investments from their own resources. At the same time, small farmers are often “unattractive” as clients to commercial banks due to low volumes of loans and high transaction costs. In the 1970s and ’80s, many developing countries tried to address the difficulties faced by the agricultural sector through the establishment of state owned or controlled agricultural banks

that provided credit at subsidized interest rates. The impact of most of these banks was considered disappointing, however, due to a number of factors, including the de facto preference to lend to larger farms, low regulated prices for farm products, high default rates and consequently a continued reliance on government funds to cover losses.⁴⁸ As a result, many of these banks and programs were closed or significantly scaled down—resulting in a much lower availability of agricultural credit overall.

In Mozambique, liberalization of the rural banking network led to a reduction in the number of rural branches. Farmers heavily dependent on seasonal income, in a country where transport is difficult, were left with no access to credit.⁴⁹ In Malawi, the World Bank prescribed privatization of the Smallholder Agricultural Credit Administration, which had indeed been focused on small farmers. It operated successfully with a good loan recovery before it ran into difficulties during a very bad drought in 1992. The renamed and privatized Malawi Rural Finance Company tended to disqualify the poorest farmers by only lending to farmers who also produced a cash crop in addition to maize, the main staple crop.⁵⁰

These examples underline the view, held by many analysts, that public support to rural finance institutions in developing countries is necessary due to inherent problems that make investments risky and costly:⁵¹

- ▶ Clients are scattered geographically, making service delivery expensive and information on potential borrowers difficult to obtain and evaluate.
- ▶ Most farmers tend to borrow at the same time, e.g., in the pre-harvest season and save immediately after harvest. This makes it difficult for rural financial institutions to diversify their portfolios.
- ▶ Poor farmers own few assets, making it infeasible to secure loans with collateral.

Because of the difficulties faced by commercial banks in servicing smaller farms, many governments and/or development agencies continue to provide support to

reformed rural credit institutions, including those focusing on the poorest like the Grameen World Bank in Bangladesh. The link of grassroots organizations of this type with the formal banking sector continues to pose a challenge that may require public interventions.⁵² While there is broad agreement among the majority of rural development experts that some form of government assistance to rural finance institutions in developing countries is necessary, there is also agreement that there is no uniform approach among or even within countries and their different farm communities. Consequently, developing countries need a sufficient amount of flexibility to develop, test and implement support measures tailored to the specific needs of their rural poor.

GATS commitments in financial services limit policy instruments to support rural finance institutions

The main pressure for the global liberalization of services has come from the financial sector—particularly that of the United States and the United Kingdom. The idea of creating a counterpart to GATT for services came from U.S. banking executives, who formed the U.S. Coalition of Service Industries. It remains the most powerful business lobby behind the GATS. A counterpart, the European Services Forum, was set up on the specific initiative of Sir Leon Brittan, the EU's Trade Commissioner in the 1990s.⁵³

It is unlikely that commercial banks from industrialized countries making foreign investments will start providing services in rural areas, particularly for the rural poor in developing countries. In fact, they are even less likely to do so than domestic banks. What they are more likely to focus on are “high end consumers,” i.e., rich clients, leaving domestic banks with less profitable clients.⁵⁴ This client focus could contribute to a further segmentation of financial markets, making it more difficult for rural finance institutions to diversify from rural clients with their seasonally uniform credit and savings needs. It is an open question whether foreign owned banks are more likely to channel the savings deposited with them to investments in other countries, thereby increasing “capital flight” from developing countries.

Certain targeted support measures for rural finance institutions may also be considered as trade-distorting and therefore illegal, subsidies under the GATS. Since the negotiations on specific subsidies under the GATS have been inconclusive so far, it is not possible to spell out the possible impacts in detail. But for example, the long term support for operation costs for institutions serving small farmers will likely be seen as a subsidy, which might be challenged in the WTO, if it is not generally allowed as legitimate in the GATS disciplines on subsidies or treated as a special and differential treatment measure for developing countries.

Experience in the European Union, which has a much more liberal domestic financial market than is so far envisaged in the GATS, shows that even much more indirect public involvement in financial institutions can be ruled as market distorting. In Germany, local authorities, such as cities and counties, guarantee the deposits in local savings banks. Initially this guarantee was to provide clients with a safer opportunity to deposit their savings, allowing many working class households to access these services for the first time. Although none of these savings banks ever defaulted⁵⁵ and therefore no actual transfer of resources from state authorities to the savings banks took place, the EC ruled that the public guarantees amounted to an unfair advantage, since they allowed the savings banks to get a higher credit rating than, for example, the German government. A higher credit rating results in lower borrowing rates on capital markets. Developing countries may want to establish some form of guarantees for local and rural financial institutions. Strict GATS disciplines on government support for financial institutions may make this impossible.

The EC has made initial requests to liberalize financial services to a total of 75 developing countries. These requests include 24 LDCs: Angola, Bangladesh, Burkina Faso, Burundi, Cameroon, Central African Republic, Chad, Democratic Republic of Congo, Republic of Congo, Djibouti, Gabon, Guinea, Guinea-Bissau, Madagascar, Mali, Mauritania, Niger, Rwanda, Senegal, Tanzania, Togo, Uganda and Zambia.

The requests to LDCs seem to have been made in a “copy and paste” mode because all LDC requests⁵⁶ for banking and other financial services ask to:

- ▶ Commit acceptance of deposits, lending of all types, financial leasing, all payment and money transmission services, and guarantees and commitments in Mode 3.
- ▶ Commit provision and transfer of financial information and advisory and other auxiliary financial services in Mode 1.

To “commit acceptance” of deposits and lending of all types doesn’t necessarily mean that no conditions can be applied to these commitments. However, as becomes clear from looking at the requests to other developed countries, any restriction, regulation or conditionality scheduled, is highly likely to be targeted in the next round of negotiations. In the current negotiations, the EC has basically done this with all non-LDC developing countries, including for measures that are relevant for agriculture through :

- ▶ A request to Korea to remove mandatory lending to small- and medium-sized Enterprises.
- ▶ A request to Mexico to permit foreign investment in credit unions, savings and loans companies and development banks, a request to the Philippines to “clarify” why specific requirements on lending to small and medium enterprises and agro-business have not been scheduled in its commitments.

The requests of the EU to liberate financial services in developing countries and LDCs poses risks for poor farmers. As the example of Malawi described above has shown, the consequent loss of access to credit can be disastrous for food security and rural employment.

Infrastructural services

Environmental services

Friends of the Earth International calls this GATS sector a “misnomer” since it mainly concerns water supplies and waste disposal, not the fight against pollution.⁵⁷ Although water distribution is not contained in the

original GATS classification of environmental services, the EU has requested the liberalization of water distribution for human consumption under this category. So far, there have been no attempts to include the distribution of water for irrigation in agriculture into the environmental services category. In fact, irrigation is not explicitly covered by any of the services categories used for GATS negotiations. It is therefore unlikely that requests for the liberalization of irrigation water are or will be made during the current round of negotiations.

Farmers, farm workers and the rural population in general will be affected, if the supply of potable water is liberalized under GATS. There is a long history of privatizing water supplies in developing countries and it is not a happy one. Water charges to the public have increased, water quality has often worsened and it has become harder for poorer people to have access to clean water. In countries as diverse as Bolivia, Ghana, Panama, Tanzania and Trinidad, privatization was either reversed because it failed in its own terms, public protest made sure water distribution was brought back into the public sector, or civil society prevented privatization altogether. If these sectors had been “committed” under GATS, most such reverses would have been impossible because of the “compensation” that has to be granted and accepted by other WTO members if GATS commitments are revoked.

In GATS negotiations, the EU’s initial requests targeted environmental services—including water—in 63 developing countries, including seven LDCs and 14 low-income countries. The EU describes its main category for water as referring only to urban main supplies “for human use.” The focus on urban supplies implies another type of “cherry-picking”: Areas with higher population density and higher income are potentially more profitable since they can be supplied with less investment in infrastructure, for example pipes to individual households, than the infrastructure required for more sparsely populated rural areas. If water multinationals take away the wealthier urban clients of publicly owned water services, those services will be unable to use profits from the wealthier clients to invest in rural water distribu-

tion, where public water services are unlikely to recover their costs in the short or even medium term. Regulations that require private companies to supply water in both urban and rural areas might come under attack in subsequent GATS negotiations, as are requirements to lend to the rural sector and small and medium sized enterprises.

If the EU is successful in including the distribution of water for human consumption under the category of environmental services, it may use this as a “foot in the door” to also include irrigation water at a later stage. By far the largest part of freshwater use is for irrigation: 70 percent on a global average and well beyond 80 percent in many developing countries.⁵⁸ The supply of irrigation water is likely to become more attractive commercially, if the trends towards larger and more market oriented farms in developing countries continues. As shown above, liberalization in other services sectors, most notably distribution, is likely to accelerate this process.

Energy

As with freshwater distribution, the official list of service sectors used in the GATS negotiations does not include energy as such. The only reference to it is to “Services incidental to energy distribution” under the heading of “Business Services.” Only six countries have committed themselves to GATS rules in that area. Yet both the EU and the U.S.—and several other countries—have made detailed proposals to extend GATS into many areas of energy production and distribution and made numerous requests in this field to others. The EC has made initial requests to 38 developing countries, including two LDC (Angola and Cameroon) countries.

The European Commission states that, “As far as the more vulnerable countries are concerned, the revised requests have only been addressed to a limited number of countries with important energy resources.”⁵⁹

A particularly large and detailed request on energy services is made to India. Much of the EC request refers to the electricity sector—despite the possible implications in higher charges for electricity to run irrigation pumps,

and despite the hard lessons learned from the failed U.S. company Enron's investment in a large, debt-financed power plant in Maharashtra state in the 1990s—which, among other things, provoked widespread local protests.⁶⁰ That experience alone should be a warning signal against entering into GATS commitments since they make most liberalization efforts effectively irreversible. Overall, liberalization of the energy sector entails similar risks for the rural population as does the liberalization of freshwater distribution. Private companies are likely to focus on more profitable urban clients and neglect poorer rural clients which are more difficult to supply. In fact, one of the more successful examples of rural electrification has occurred in South Africa where a publicly owned company extended its services into rural areas.⁶¹

Conclusions

The analysis shows the tremendous potential impact of services liberalization on agriculture in general and on small farmers in developing countries in particular. Against this background, it becomes obvious that safeguards to protect and support small farmers are insufficient if they are based in the Agreement on Agriculture alone. Even if special products and a special safeguard mechanism could be introduced on a meaningful scale

(a question that is completely open at the current stage of negotiations) and unfair competition from low priced imports controlled, small farmers can still face serious problems in accessing their domestic markets. The combination of supermarket power, the cost of infrastructure investment to comply with standards and the unavailability of affordable rural credits may leave small-scale farmers with just two choices: limit themselves to subsistence production or give up agriculture altogether.

In many developing countries, the loss of small-scale farmers access to domestic markets has already started to take place, especially with the liberalization of the retailing sector. A commitment to full liberalization of this sector under the GATS agreement would make it incredibly difficult to limit and control the dominant position of retailers and introduce regulations in favor of small farmers and businesses. Therefore it is essential to take a comprehensive look at the impacts of all aspects of the WTO-negotiations on farmers and farm workers, especially the poorest amongst them and to ensure that no commitments are made in sectors linked to agriculture that would seriously limit the policy space necessary to protect and support family farmers in a rapidly changing economic environment.

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Policy coherence and agricultural trade liberalization: Lessons for the Doha Round

Introduction

According to a World Trade Organization secretariat note in October 2004, the primary objective of cooperation and policy coherence among the WTO, the World Bank and the International Monetary Fund for the Doha Round negotiations is to expand market access opportunities.⁶² Agricultural trade liberalization is central to their cooperative initiatives and policy coherence because “poverty is concentrated in rural areas and activities in poor countries,” the secretariat writes. The World Bank’s econometric modeling studies estimate that “the benefits of global liberalization in agriculture—the elimination of all border restrictions and subsidies—would top \$350 billion for the world as a whole. With liberalization, world prices for many commodities would increase: by 10-20 percent for cotton and groundnuts, 20-40 percent for dairy products and sugar, and 33-90 [!] percent for rice.”⁶³

Such projected price increases may have tempted some developing country trade ministers to heed the advice of World Bank and IMF officials at a November 2004 meeting of the WTO Committee on Agriculture. World Bank and IMF officials recommended that developing countries should abandon their fight for a new special safeguard mechanism and special product designations for food security and rural employment purposes, in exchange for obtain-

ing market access opportunities by lowering tariffs.⁶⁴ The World Bank/International Monetary Fund “take-away message” to the negotiators differed little from that of a Cargill executive speaking about the “disappointing” draft Agreement on Agriculture (AoA) synthesized by Ambassador Stuart Harbinson for the WTO ministerial in Cancún: “It offers developing countries a program of ‘special and differential treatment’ that is largely a series of exceptions to and exemptions from reform. In their own best interests, developing countries should resist this temptation to be excluded from reform. They should insist on disciplining developed country subsidy practices and the least developed countries may deserve longer transition periods. But, developing countries refusing to lower their own market access barriers will prove a prescription for perpetuating poverty, not reducing it.”⁶⁵

For a transnational corporation that trades in dozens of WTO member countries to expand market share and increase profits, the interests in lowering market access barriers everywhere are clear. But given the World Bank’s latest computer modeled projections, outlined below, that show decreasing benefits from AoA market access opportunity expansion for most developing countries (assuming they can comply with non-tariff import requirements), it is not clear why international civil servants

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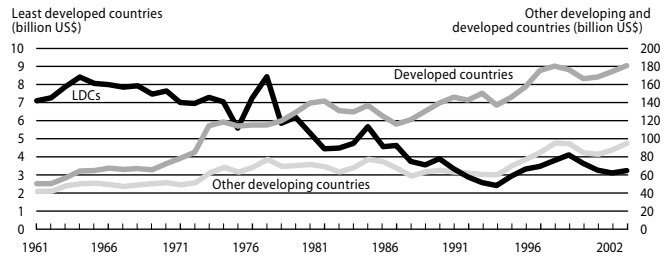
mandated to reduce poverty would follow the same policy prescription as Cargill's. Yet even though developing country negotiators have yet to abandon their insistence on getting binding provisions for a special safeguard mechanism against import surges, special product protection against tariff reductions, and other special and differential treatment measures, the agricultural negotiations continue to be dominated by the debate over tariff reduction formulas for expanding market access.⁶⁶

The inability of agricultural trade liberalization to help raise agricultural commodity prices is causing even developed country negotiators, such as Canadian Ambassador John Gero, to question the purpose of agricultural trade liberalization: "If they [farmers] can't produce at a profitable level, sooner or later they don't produce, so what's the point of having trade rules?"⁶⁷ This question, of course, does not reflect the concerns of Canada's AoA negotiating position, but frustration at the failure of agricultural markets to pay prices that would allow Canada, a fervent advocate of trade liberalization, to reduce the record high levels of Canadian government payments to compensate for plunging farmgate prices paid by agribusiness.⁶⁸ As transnational agribusiness increasingly dominates Canadian agricultural markets and the market power leverage of even the largest farm operations disappears,⁶⁹ there is nothing in the AoA negotiating agenda that would authorize study of, much less disciplines on, the effects of agribusiness market share concentration and anti-competitive business practices on farm gate prices.

Of course, low and volatile farmgate prices are not limited to Canada. According to the United Nations Food and Agriculture Organization (FAO), "from 1997 to 2001 alone, the combined price index of all commodities fell by 53 percent in real terms."⁷⁰ The FAO's *State of Agricultural Commodities Markets 2004* reports, "many farmers and exporting countries still find themselves trapped by their dependency—producing and exporting more, but earning less than they did in the past."⁷¹ Although there has been an increase in the integrated commodity price index of the IMF since 2001, agricul-

tural commodities have not enjoyed the same increases as mineral commodities, particularly oil.⁷²

Table 1. Income terms of trade for agriculture (1961-2002)



Source: FAO, *State of Agricultural Commodities Markets 2004*, p. 13.

Remarkably, just a year after the World Bank, IMF and WTO secretariat made their promise that agricultural trade liberalization could generate very significant (and much needed) commodity price increases, the World Bank is now decreasing its estimates of benefits from agricultural trade liberalization. World Bank trade director Uri Dadush says it now projects all trade liberalization benefits to be no more than \$30 billion for developing countries after implementation of the Doha Round reforms. World Bank modelers had projected global benefits as high as \$500 billion in preparation for the 2003 Cancún ministerial.⁷³ Since World Bank economic modelers estimate that two-thirds of these global benefits would come from agricultural trade liberalization,⁷⁴ according to the revised estimates as little as \$20 billion of benefits would result from agricultural trade liberalization.

Tufts University economist Frank Ackerman's analysis of two 2005 World Bank studies likewise show that it anticipates greatly diminished projected benefits, though not as severely reduced as Dadush estimates, when compared to 2002 and 2003 World Bank studies. Using an updated database of the Global Trade Analysis Project (GTAP) modeling system adjusted to analyze agricultural trade policy impacts, Thomas Hertel and Roman Keeney estimate the global benefits of full trade liberalization to be \$84 billion, of which \$55.7 billion would result from agricultural trade liberalization. Kym Anderson, et al., using the World Bank's LINK-AGE model, estimates global benefits of \$287 billion,

of which \$182 would derive from agriculture and food. Here is the global benefits comparison in Ackerman's analysis:

Table 2. Benefits of complete liberalization, then and now

Model	Year	Benefits (billion US\$) to	
		Developing countries	World
GTAP	2005	22	84
GTAP	2002	108	254
LINKAGE	2005	90	287
LINKAGE	2003	539	832

Source: Ackerman, *Shrinking Benefits*, p. 3.

Even under the most optimistic current World Bank modeling exercise, that of Anderson, et al., the benefit of complete liberalization, “to developing countries is more than \$17 per person per year, or almost 5¢ per person per day. In high-income countries, the benefit of complete liberalization would amount to nearly \$200 per person per year, or 53¢ per person per day.”⁷⁵ Half of the total projected developing country benefits would go to just eight WTO members.⁷⁶

Granted, there is a wide range of anticipated benefits from agricultural trade liberalization among World Bank studies and projected benefits are calculated for up to eight possible AoA negotiating scenarios, in the case of Anderson et al. But how could World Bank projections in the October 2004 policy coherence paper of \$350 billion in economic benefits fall to \$55.7 billion, to say nothing of the least optimistic projection of \$20 billion, in just one year of updating data and refining modeling assumptions? Given the very modest benefits projected for developing countries under even the most unlikely result of full liberalization, why is the World Bank still advising negotiators that the main road to development and poverty reduction still runs through expanding market access by cutting tariffs and abandoning special and differential treatment measures? If the projected benefits of agricultural trade liberalization are so volatile, what is the merit for developing countries of making concessions in non-agricultural goods

and service industry market access in exchange for the forecast opportunity to increase, however slightly, the value of their agricultural exports? Despite the low projected benefits from agricultural trade liberalization in the Doha Round, should developing countries nevertheless follow the World Bank and IMF's advice in order to obtain loans and grants from the “Aid for Trade” program and related credit windows? What other policies, apart from obtaining greater market access, would support rural livelihoods and improve food security, as well as improve commodity prices for farmers who sell often to export firms based in developed countries?

This paper attempts to answer these questions schematically in three sections. The first section explains the dependence of the optimistic projections on politically unrealistic negotiating scenarios and economically unrealistic modeling assumptions, such as fixed employment (no job loss following reform) and perfect competition. Some of the research that led to the World Bank's drastically downward revision of anticipated benefits from agricultural trade liberalization is summarized. The second section reviews briefly an integrated approach to agricultural trade and development issues, particularly regarding agricultural commodity prices, which has been proposed by WTO members but left off the Doha negotiating agenda. If this approach replaced the mercantilist focus on market access in the negotiating agenda, what changes might be needed to economic modeling assumptions in order to advise negotiators more realistically about what they were getting in the negotiating trade-offs?

The third section looks at the “Aid for Trade” loan and grant program that the World Bank and IMF are offering to developing countries that follow their policy advice in the Doha Round. Least developed country criticisms of “Aid for Trade” are summarized in the context of the small amount of loans and grants offered relative to the governance costs of complying just with one set of trade facilitation requirements for food safety and quality of tropical fruit exports from Mozambique. Finally we consider what trade facilitation funding options are available to developing countries, especially

the poorest WTO members, who do not believe that opening market access is the surest path to making agriculture serve development.

Full liberalization scenarios and the WTO/World Bank/IMF projected Doha Round benefits

The World Bank readily explains the failure of the Uruguay Round Agreement on Agriculture (AoA) to produce the projected welfare gains: they claim there has been no actual liberalization at all. As one World Bank study retorts, “there has been no liberalization since 1995, and current farmers’ difficulties are mostly self-inflicted by existing domestic farm policies.”⁷⁷ In other words, the problem, as defined before the Cancún ministerial, lies not in modeling methodology flaws and unrealistic trade scenario assumptions, but from the weakness of the AoA provisions and the failure of WTO members to implement the expected reforms. The World Bank has a point. Negotiators’ definitional ruses and accounting manipulations in the AoA negotiations enabled rich countries to block market access, maintain high levels of trade-distorting domestic support and continue with export subsidies, all to the detriment of their farmers and farmers around the world. The hope of the World Bank’s economic modelers is that as a result of the Doha Round negotiations, trade liberalization finally will occur to the benefit of all WTO members.

World Bank modelers calculate their projected benefits from trade liberalization according to a range of negotiation scenarios between full liberalization and minimal (Uruguay Round status quo) liberalization scenarios. The full liberalization scenario comprises a 100 percent tariff reduction on all goods, 100 percent reduction on “export subsidies” (their definition does not include less obvious forms of export support, such as export credit guarantees), 100 percent reduction in domestic support for agriculture and trade facilitation reforms (e.g., customs processing, infrastructure investment).⁷⁸

Despite some talk of full tariff and trade-distorting domestic support elimination for a future round, the most recent U.S. offer in the Doha negotiations proposes a

60 percent cut in trade-distorting domestic support, (a cut that would translate into a real drop in spending by perhaps five percent).⁷⁹ India’s chief negotiator, Kamal Nath, described the U.S. offer as a “post-dated check,” offered in exchange for immediate market access in agriculture, non-agricultural goods and services.⁸⁰ Japanese, European Union, Swiss and other OECD proposals for agricultural reform are far more modest; only Australia, New Zealand and, to a lesser extent, Canada, are more aggressive than the U.S. on how far to liberalize agriculture.

Nevertheless, both in staff papers and in the less technical “Trade Notes” series, World Bank staff project robust trade benefits under their full trade liberalization scenario. According to the World Bank’s econometric modeling, 93 percent of “welfare gains” from liberalization would come from market access opportunities created by cutting tariffs. Just two percent of the gains were projected to come from reducing export subsidies, while five percent would come from disciplines on the use of domestic support measures.⁸¹ Under the World Bank’s full liberalization scenario, developed country reluctance to reduce trade distorting domestic support (see recent statements from the U.S. Congress agriculture committees⁸²) or export subsidies should be of no great concern to developing countries, since almost all the “welfare gains” are predicted to result from market access openings through tariff reduction.

Remarkably, the World Bank staff project that if just two percent of tariff lines are classified as “sensitive” by developed countries and thus subject to just a 15 percent tariff rather than the much steeper cuts proposed for most tariff lines and, if just four percent of developing country tariff lines are included in their “special product” designations, 75 percent of the projected global welfare gains disappear.⁸³ Since it is a near certainty that major trading powers will demand and receive sensitive product protection and since developing countries have already been promised non-reciprocal special product designations in the July Framework,⁸⁴ the welfare gains projected by the World Bank are already largely moot,

even without taking into account problems with the projections themselves.

The World Bank is careful, in some contexts, to qualify its projections as guides rather than predictions. Bernard Hoekman, a World Bank research manager writes, “The numbers generated by these [econometric] models are not predictions—actual outcomes will depend on actual events (e.g., exogenous changes in prices) as well as the extent to which modeling assumptions are correct (e.g., labor markets equilibrate supply and demand for workers).” Hoekman does go on to say, “That said, they are by far the best available tools to provide policymakers with information on the likely impacts of policy reforms.”⁸⁵ But if these policy tools are based on politically unrealistic scenarios and economically improbable modeling assumptions, of what use can they be to negotiators seeking to understand possible consequences of various AoA negotiating proposals?

The World Bank and IMF “messages” for developing country negotiators are based in the research results from computable general equilibrium (CGE) models, such as that of the Global Trade Analysis Project (GTAP). To the extent that trade negotiators use modeling projections to justify their negotiating positions, these projections should be based on the best economic theory and most refined modeling techniques available. Are there better ways to model the real world results of trade policy choices than those used by the WTO secretariat, the World Bank and the IMF?

A few critiques of the World Bank’s CGE modeling suggest there is room for methodological improvement, beyond the updating of data in which the World Bank has participated. Ackerman writes, “The failure of CGE models goes deeper than their inability to produce the expected huge forecast of benefits for developing countries. On a conceptual level, they fail to offer a useful, comprehensive framework for thinking about and measuring the important effects of trade.”⁸⁶ The World Bank has refined its modeling techniques, but some of the modeling assumptions are of questionable methodological merit and can lead to results that

project as “benefits” socially damaging, if economically efficient, effects of liberalization. Furthermore, there is an institutional optimism among modelers that results in a number of real world factors, such as employment and poverty reduction effects, being calculated in ways that externalize real world costs of liberalization.

GTAP modelers are aware of some of the limitations of their assumptions, calling the assumption of “perfect competition” in world agriculture markets “simplistic but robust.” They comment that an attempt to introduce a methodology to allow for the existence of imperfect competition would be, “very demanding of additional information and unstable for projection purposes.”⁸⁷ Yet the assumption, however “robust,” of perfect competition in agriculture and food trade is highly questionable given the degree of market share concentration across many different segments of the global food supply chain.⁸⁸

Several economists question the validity of the projections of welfare gains and poverty reduction that GTAP estimates suggest will materialize from trade liberalization. For example, Weisbrot, et al., reviewed a widely cited World Bank study to show that mathematical error and an inappropriate methodological assumption, when corrected, would reduce the numbers of those whose income would rise above the \$2 a day global poverty threshold from the World Bank’s projected 540 million people to fewer than 80 million. Of course, if 80 million people can be lifted from poverty with trade liberalization, that is no negligible feat. However, the projected gains diminish still further when the World Bank’s assumptions and numbers are assessed more rigorously. Weisbrot, et al., go on to show that “escaping poverty” by the World Bank’s definition requires a daily income increase of only about 15 to 25 cents per person for sub-Saharan Africa. The authors conclude, “the projected gains are not lifting impoverished people to living standards that anyone would view as very different from poverty.”⁸⁹

Some economists have attempted to adapt GTAP assumptions to the real world conditions of the economies

they are analyzing. For example, one analysis of the effects of trade liberalization on Africa states, “the standard GTAP model assumes full employment of factors. This is inconsistent with the fact that there are huge reserves of unemployed or underemployed in developing countries. We therefore modify the model to allow for unemployment of unskilled labor in Africa.”⁹⁰ The modifications reduce the projected benefits. In the case of full liberalization, the nearly three quarters of projected benefits in Africa are not trade or employment benefits, but a reallocation of agricultural resources for the sake of future trade. As an example, “under full reform, the reduction of agricultural support allows far reaching specialization in cereals, cotton and sugar. In order to accommodate the change the African producers partly abandon commodity crops and horticulture.”⁹¹

Such a reorganization of the domestic economy through trade reforms increases investment in more profitable sectors, but will not necessarily generate more jobs or higher incomes. If reorganizing agriculture for the sake of trade results in job losses, those losses cannot be projected according to CGE modeling. According to Ackerman, “the employment-related questions that policymakers most care about cannot be answered within the standard CGE framework, because they cannot even be asked. Consumer benefits from tariff reductions are highlighted, while producer impacts of trade policy are obscured by the assumptions made before the models are built and applied.”⁹² The standard CGE framework thus makes it impossible for WTO members with a high percentage of their population employed in agriculture to know what the employment effects will be of following World Bank or IMF advice to drop their demands for a special safeguard mechanism and special product designations to meet development objectives of food security, rural development and the protection of livelihoods. These sacrifices for market access opportunities are to be made by developing countries, many of which have neither the supply-side capacity nor the trade infrastructure to turn into real trade benefits.

Agricultural specialization for developing countries in the international division of labor is one of the outcomes

projected by GTAP under full trade liberalization. Is this a positive outcome for development? Some economists wonder whether giving up on infant industries in Africa to seek trade revenues through agriculture is a viable development strategy: “Whether the allocation of more resources in agriculture and the move away from the manufacturers is progress or regress in terms of development is an open question.”⁹³ Economists who advise developing countries to pursue full liberalization in agriculture, nonagricultural market access and services are ignoring the strategic use of protection and state interventions that enabled today’s trading powers to develop their economies.⁹⁴ Economic history, like employment impacts of liberalization, is one of the externalizations that are apparently needed to make CGE modeling “work” for the redrawing of the global economic map.

As the trade policy monitoring scenarios, including those of the World Bank, become more realistic and the economic data and assumptions are refined, the projected benefits of agricultural trade reform decrease, including for already depressed agricultural commodity prices. One CGE modeling exercise, on the basis of the “modest liberalization” provisions in the revised Harbinson proposal for the AoA negotiations (March 2003), concludes: “African countries which benefit from preferential access to the EU and the U.S. will face heightened competition from Cairns group countries. Overall, sub-Saharan countries will experience a decrease in welfare, even under the optimistic assumption that U.S. and EU cotton and tobacco subsidies will be reduced by a large amount. ... The main gainers of the Doha round are likely to be developed countries and Cairns group members.”⁹⁵ According to this study, if the revised Harbinson text is implemented, only three agricultural products will enjoy price increases over three percent.⁹⁶ This meager price result under a more realistic trade policy scenario suggests that if commodity prices are to increase significantly, policy tools outside of those in the Doha Round have to be considered.

Table 3: Impact of the Doha Agreement scenario [Harbinson draft, March 2003] on world prices (import prices)

Sector	Initial share in world exports	Domestic support	Export subsidies	Tariffs	Doha agreement, 3 pillars
Paddy rice	0.6	8.2	0.1	1.3	9.4
Processed rice	1.2	0.6	0.0	0.3	1.0
Coarse grains	3.6	2.6	0.1	0.5	3.1
Wheat	3.9	1.4	0.1	0.9	2.3
Sugar	2.7	0.2	5.6	-1.5	2.8
Oilseeds	5.7	9.1	0.0	0.5	9.7
Live animals	1.2	0.9	0.1	0.7	1.6
Animal products	3.4	0.6	0.0	0.1	0.8
Meat	4.0	0.6	0.1	0.5	1.2
Meat products	4.8	0.3	1.5	0.1	2.0
Dairy products	3.6	0.3	2.3	0.0	2.7
Fibers	3.6	25.6	0.0	0.2	26.0
Fruits and vegetable	8.3	0.1	0.2	0.5	0.8
Other crops	10.1	0.8	0.0	0.4	1.2
Fats	7.2	2.8	0.0	0.2	3.0
Beverages and tobacco	11.0	0.1	0.5	0.3	0.3
Processed food	25.0	0.3	0.6	0.4	0.9
Total agrofood	100.0	2.1	0.5	0.3	2.8

Source: "Multilateral agricultural trade liberalization: The contrasting fortunes of developing countries in the Doha Round," Centre d'Études prospectives et d'Informations internationales, Working Paper No. 2004-CEPII Working Paper, Bouët et al, p. 25

Policy coherence to increase commodity prices and the "development dimension" of the Doha Round

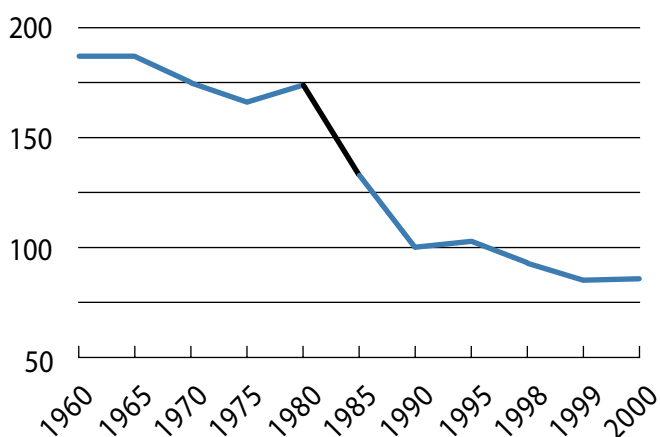
The international development community acknowledges that commodity prices are in crisis and yet continues to refuse to tackle the crisis head on. There are proposals, backed by computer modeling, that suggest ways to increase domestic farm gate prices without lib-

eralization, while decreasing the need for taxpayer support to agriculture. These proposals include managing productivity increases resulting from new agricultural technology through acreage diversion from food to bio-energy crop reserves.⁹⁷ To date, however, most WTO members have shown little interest in such tools, in part because of the recollection of tools to manage inventory and supply as expensive and difficult to use when supply management was conceived of as little more than the warehousing of excess food supplies.

The lack of international donor interest in funding meetings to deal with the crisis in commodities is evident in the lack of follow-up to the International Task Force on Commodities, launched at the 11th meeting of the June 2004 United Nations Conference on Trade and Development (UNCTAD) in Brazil. Another example of the lack of an integrated approach to the commodities crisis is in the steady stream of money and advice from bilateral and multilateral aid donors that focuses on increasing commodity supply, when many commodity prices are already in free-fall due to oversupply. A recent report from the UK donor agency (DIFD) dismisses the feasibility of international supply management and concludes that though "agriculture is the key to poverty reduction," "there is little hope of reversing the long-term decline in global agriculture prices,"⁹⁸ save perhaps for a yet to be realized increase in demand from China and India for feedstuff imports for their livestock sectors.

Just three of the dozens of non-papers tabled by WTO members in Agreement on Agriculture (AoA) negotiations have addressed the chronic depression plaguing agricultural commodity prices. According to one of these non-papers: "co-sponsors of this paper view the Doha 'Development Round' as deserving its name only when the measures taken in the Round strongly contribute to assisting these countries [Côte d'Ivoire, Kenya, Rwanda, Tanzania, Uganda and Zimbabwe] in dealing with the problems posed by declining commodity prices."⁹⁹ There has been no consensus for the WTO members to study, much less to negotiate solutions to, the issues outlined in these three non-papers.

Table 4. Decline in African agricultural commodity terms of trade, 1960-2000
Index (1990 = 100)



Source: UNCTAD in FAO State of Agricultural Commodity Markets 2004, p. 13

At October's meeting of the WTO General Council, Uganda spoke on behalf of other sponsors of the non-papers on the crisis in commodities to call for:

1. An elimination, through the Agreement on Agriculture negotiations, of tariff escalation used by developed countries.
2. The creation of a WTO consultation mechanism on the declining prices of primary commodities.
3. Clarification of the rules in the General Agreement on Tariffs and Trade that allow WTO members to work jointly to "attain stable, equitable and remunerative prices" (Article XXXVIII, 2a) for exports of primary products. The African countries want a clear mandate in the WTO ministerial declaration in Hong Kong to include these issues in the WTO work program.¹⁰⁰

Given the Doha Declaration mandate to make the Doha Round a "Development Round," there is a striking lack of urgency in efforts to address commodity prices, although commodity dependent WTO members are among the poorest in the membership. At this point, there is no likelihood that the Doha agreements will include a mandate to address the commodity crisis in a coherent fashion. At an informal consultation of the WTO Working Group on Trade, Debt and Finance,

held on October 5, the United States quashed a proposal from developing countries to create a permanent WTO Committee on Trade, Debt and Finance that would have had among its tasks to support economic diversification among commodity dependent countries.¹⁰¹

One of the constant refrains (and proffered solutions) to issues such as commodity over-supply and depressed prices is to find money in the international finance system to buy a solution. Yet as a World Bank consultant recently said, the financing of trade infrastructure and development remains a small part of the World Bank Group loan portfolio.¹⁰² For example, there is a \$1 million ceiling per qualified beneficiary country in the three-year, Window II program of the Integrated Framework for trade-related technical assistance to least developed countries. As of June 30, 2005, several countries have received considerably less than the ceiling.¹⁰³ (The issue of financing least developed country governance, technical assistance and other trade-related costs is discussed in greater detail below.)

If developed country WTO members lack the political will to raise the profile of trade, debt and finance for commodity dependent countries and if funding for WTO/IFI trade-related technical assistance is limited, what prospect is there to address the persistently low agricultural commodities trade revenues faced by most developing countries? Can policy coherence among WTO rules, international financial institution policy advice and IFI loan practices do anything to raise commodity prices in the "fair and market oriented agricultural trading system" that has yet to emerge from WTO negotiations? If not, will the developing countries that are most subject to those rules, policy advice and loan practices have good reason to conclude, in the words of an anonymous World Bank staff person, "If you want to keep these countries poor, implement the WTO?"¹⁰⁴

The World Bank and IMF “Aid for Trade” loan program

In September 2005, the World Bank/ IMF Development Committee adopted, with some revisions, a staff generated paper, “Doha Development Agenda and Aid for Trade.”¹⁰⁵ The paper surveys the Doha Round negotiations and gives a synthesis of World Bank and IMF staff research on the projected benefits of full trade liberalization resulting from the WTO negotiations on agricultural, services and non-agricultural market access expansion. The paper then describes staff proposals for “Aid for Trade,” which includes “technical assistance; capacity building, institutional reform; investments in trade-related infrastructure; and assistance to offset adjustment costs, such as fiscal support to help make the transition from tariffs to other sources of revenue.”¹⁰⁶

“Doha Development Agenda and Aid for Trade” references staff research on projected benefits to be derived from implementation of full liberalization policies in each of three “pillars” of the AoA negotiations: market access, domestic support measures and disciplines on all forms of export subsidies, as outlined in the July 2004 Framework for renegotiating the AoA. The paper mentions the World Bank’s CGE projected welfare gains without giving specific figures, except to note in a footnote that the gains will be minimal if market access is not fully liberalized.¹⁰⁷ “empirical studies suggest that improved market access would offer by far the largest development payoff.”¹⁰⁸ Hence, for a good Doha Round outcome, the paper encourages developing countries to show a “willingness to trade away ‘special and differential treatment’ for increased market access in agriculture and elsewhere to spur their own development.”¹⁰⁹

Perhaps surprisingly, in view of their political and economic vulnerability, the least developed countries who would purportedly benefit from “Aid for Trade” responded negatively and harshly to the World Bank/ IMF paper. The WTO LDC coordinator, Minister of Commerce, Trade and Industry Dipak Patel of Zambia, stated, “It is insulting that after all the efforts LDCs have made, rich countries have responded this meagerly to begin addressing supply-side constraints in LDCs.”

The Minister noted that the “Aid for Trade” proposal would only increase resources \$200-400 million over 5 years for 40 countries, which means that each LCD would receive about \$1-2 million a year, if it satisfied World Bank/IMF criteria for receiving the money.¹¹⁰

Indeed, an annex to “Doha Development Agenda and Aid for Trade” reports “preliminary estimates suggest that trade capacity building and supply-side constraints could require a commitment of \$40-80 million per country over 10 years. Additionally, costs related to associated governance costs would need to be taken into account.”¹¹¹ So World Bank and IMF staff are already aware that what they have proposed to developed country donors is inadequate to meet the “Aid for Trade” objectives. Even these higher “Aid for Trade” estimates are too low to cover the governance costs of just one area of trade facilitation, compliance with international and private food safety and food quality requirements. For example, a recent UN Conference on Trade and Development study estimates that the initial set-up costs of meeting those requirements for tropical fruit exports from Mozambique would be about \$9.3 million.¹¹²

If the problems underlying “Doha Development Agenda and Aid for Trade” were only of donor financial shortfalls and the difficulties and costs of realistically assessing the costs of trade facilitation, there would be less cause for concern. But given the lack of World Bank projections about the costs of adjustment related to loss of employment and/or income resulting from trade liberalization, the “Aid for Trade” proposal on paying for the adjustment costs/losses of liberalization are under-funded, tentative and increase the role of the Fund in determining the size of the costs/losses. One NGO writes that given the history of the Fund’s unwarranted optimism about economic growth and debt sustainability project,¹¹³ “poor countries should think twice before giving the Fund a role as arbiter in determining the size of the trade losses warranting compensation.”¹¹⁴ Furthermore, writes the same NGO, donor financial commitments to “Aid for Trade” programs are not binding nor enforceable, whereas “the obligations developing countries are

asked to undertake in exchange [for 'Aid to Trade'] once adopted, cannot be signed away."¹¹⁵

The incongruity between the funds needed and funds offered and the institutional structure of "Aid for Trade" could be overcome by generosity on a small fraction of the scale of charitable donor response to natural disasters. However, the overall resource flow to developing countries is increasing only in debt relief and emergency aid, notes an October resolution to the UN General Assembly. The resolution "notes with concern the continued net outward transfers of financial resources from developing to developed countries" and calls for measures to reverse the resource flow, beyond commitments to begin to compensate for the collapse of official development assistance in the 1990s.¹¹⁶

But even if "Aid for Trade" were adequately financed and structured to meet the governance, trade-facilitation and trade infrastructure needs of LDCs, there would still remain the problem for the developing country negotiators of judging the coherence of the policy advice, research and loan programs of the World Bank and IMF. Nothing in the "Doha Development Agenda and Aid for Trade" paper indicates that the World Bank or IMF have learned lessons from the methodological shortcomings of their modeling techniques nor from the greatly diminished projections of benefits resulting from even politically unrealistic trade liberalization assumptions. There is a disturbing lack of frankness in the report about the greatly reduced CGE anticipated benefits of liberalization and how that research might affect developing country decisions on whether to meet the policy requirements to receive "Aid for Trade" loans and grants.

Indeed, in a recent speech WTO Director-General Pascal Lamy, apparently unable to find sufficient support for trade liberalization in the latest World Bank CGE estimates, notes "The University of Michigan forecast that a reduction of trade barriers by even one-third would book global economic output by \$574 billion."¹¹⁷ It appears that we are back to the future as it was told during the Cancún ministerial.

Perhaps the zealous pursuit to make trade and financial liberalization "irreversible" and to "lock in" the benefits of liberalization forecast for Cancún has blinded the World Bank and the Fund to the consequences of the dramatically downward CGE revisions for the "Aid for Trade" program. Regardless of the results of cost/benefits analysis of turning market access opportunities into hard currency benefits, the heads of the World Bank and the Fund are still maintaining, "Comprehensive and sharp reductions of tariffs in the largest countries will deliver the greatest development gains."¹¹⁸ In any event, the institutional response to the loss of policy coherency in the methodological shortcomings and decreasing World Bank benefit projections of trade liberalization may be to assert policy uniformity.

Such was the message some observers took away from a speech by UNCTAD's new Secretary General, Dr. Supachai Panitchpakdi at the 52nd session of the Trade and Development Board. At the session, U.S. and EU officials called for UNCTAD officials to "speak with one voice" in cooperating with the World Bank, Fund and WTO.¹¹⁹ It would be most unfortunate if major donor political objectives constrained research agendas and the policy formulated on the basis of research, in order to "speak with one voice" about trade, finance and development. Surely, a disclaimer disassociating a heterodox researcher's views from the views of UNCTAD's members would be enough to ensure that multilateral policy coherency was not disrupted.

The failure to learn from research and policy errors is part of a larger problem of lack of accountability of the international financial institutions to their developing country members.¹²⁰ This problem, particularly the World Bank's efforts to incentivize loan program supervision, is far more complex than can be summarized here.¹²¹ However, numerous case studies points to the failings for development of unilateral liberalization. Although World Bank economists are right to say that the Uruguay Round did not bring about multilateral trade liberalization, a great deal of unilateral liberalization has occurred in many developing countries, enforced by the need to follow World Bank and IMF policy to qualify

for receiving credit or debt relief.¹²² For example, Christian Aid notes that as part of trade and financial policy coherence, “[T]he release of Senegal’s final tranche of debt relief was contingent on structural reforms, including the dissolution of the state company that provides seeds and fertilizer to the groundnut sector [a major source of export earnings]. The reform led to chaos, affecting thousands of producers.”¹²³ But for econometric modeling that presumes fixed employment as a result of trade “reforms,” this chaos is not a negative result, but the collateral damage of efficient resource reallocation. Hence there is no evidence of a policy error, just people rioting about an “enlightened” economic policy whose long-term good they simply cannot understand.

In the broadest terms, the World Bank and IMF policy prescriptions of the 1980s and ’90s failed to deliver economic growth—growth that the “bad” policies of the ’60s and ’70s did manage to generate. Economist Ha Joon Chang, who has documented this failure, remarks that criticism of the reigning policy coherence paradigm may not lead to any policy changes, however, because the World Bank and IMF control access to capital and debt relief for many least developed and highly indebted developing countries.¹²⁴ No matter how counterproductive the policy advice, the poorest countries have but little choice finally to accede to the policies to some degree if they wish to obtain credit.

Developing country trade negotiators have to decide whether to follow the Doha Round negotiating advice of World Bank and IMF officials in order to qualify for loans and grants, however inadequate, such as those of “Aid for Trade.” For developing country members without sufficient access to private capital markets, this is a very difficult decision to make because of what they know about the results of the World Bank and IMF’s policy experiments of unilateral liberalization with their countries.

Conclusion

The CGE modeling results are the anticipatory “proof” of the purported benefits of trade liberalization and the main empirical guide for trade negotiators assessing the likely macro-impacts of their policy choices. For a lay-

person, the complexity and variety of assumptions of CGE modeling is an awesome and marvelous thing. The modeling assumptions alone of the MIRAGE modeling system under the most realistic and detailed current AoA scenario, the revised Harbinson draft rejected at the Cancún ministerial, take nine pages to describe.¹²⁵

Still, the complexity of econometric modeling should not distract negotiators and civil society from a few simple facts. Economists are now reducing the projected benefits and even projecting some negative results from implementation of a likely Doha Round outcome. These economists are using more realistic scenarios of likely reforms, updated data sets and more robust methodologies. Yet their results are not reflected in the public speeches and WTO-focused “messages” from the World Bank and IMF for developing country WTO negotiators and trade ministers. Instead, the heedless optimism of the proponents of liberalization at any cost remind one of the “man of system” harshly criticized by Adam Smith: “The man of system, on the contrary, is apt to be very wise in his own conceit; and is so enamoured with the supposed beauty of his own ideal plan of government that he cannot suffer the smallest deviation from any part of it.”¹²⁶

The results of CGE modeling of multilateral negotiations need to be taken with still greater circumspection when we consider what is not modeled, e.g., the effect of supply management tools on commodity prices; the results of World Bank and/or IMF obliged unilateral liberalization; the practice of repatriating profits from developing countries to (usually) developed country headquarters; corporate tax avoidance; the costs of exploitation of non-renewable natural resources; and, a host of social and environmental costs associated with intensifying agricultural exports. The recent collapse of projected benefits, as well as limitations of current modeling assumptions should convince the WTO, the World Bank, the IMF and other international agencies to not use those results to force liberalization commitments and the taking on of more debt for the sake of liberalization “opportunities.”

Insofar as the “development dimension” of the Doha Round is concerned, the best economic modeling shows aggregate benefits for very few developing countries should the new AoA proceed as expected. These meager benefits and the negative ones for some of the WTO’s poorest members indicate there we have a long way to go before trade and finance can jointly provide policies that will tackle the commodity crisis and help move commodity-dependent developing countries out of poverty.

At the foundational meetings of the Bretton Woods institutions, the Brazilian delegation proposed a resolution to convene a United Nations meeting “to promote stability of raw materials and agricultural products and to formulate recommendations for attainment of a more balanced growth of international trade.” John Maynard Keynes supported this position, since he believed that the lack of fair trade in commodities was a source of “the evils of economic cycles.”¹²⁷ When the next In-

ternational Conference on Financing for Development meets in 2007 in Qatar, delegates to the conference should dedicate a retrospective seminar to the original purpose of the Bretton Woods institutions, particularly regarding their role in resolving or at least mitigating the crisis in commodities. The conference seminar, among other topics, could discuss how to update Keynesian thinking on commodity prices, beginning, perhaps with this thought:

Proper commodity prices should be fixed not at the lowest possible level, but at a level sufficient to provide producers with proper nutritional and other standards in the conditions in which they live . . . and it is in the interest of all producers that the price of a commodity should not be priced below this level, and consumers are not *entitled* to expect that it should.

—John Maynard Keynes¹²⁸

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Agreement on Agriculture glossary

Baffled by the boxes? Traumatized by tariffication? Stymied by the special safeguard? Here is all you need to know to become an instant WTO Agreement on Agriculture expert—or at least to sound like one. The glossary is arranged under five headings: The overview, market access, domestic support, export support, and special and differential treatment.

The overview

GATT: The General Agreement on Tariffs and Trade. First signed in 1947, the GATT was the basis for successive rounds of negotiated reductions on tariffs. The most recent version of the GATT was signed in Marrakech in April 1994.

WTO: The World Trade Organization. A permanent forum for negotiating multilateral rules for international trade, established as one of the Uruguay Round agreements at the trade ministerial held in Marrakech in April 1994.

The Agreement on Agriculture (AoA): One of the Uruguay Round agreements signed by governments in 1994 in Marrakech. The AoA established rules for agricultural trade for all WTO members. The AoA's core objective "is to establish a fair and market-oriented agricultural trading system." Its implementation period was six years for developed countries and nine for developing countries, starting with the date the agreement came into effect: January 1, 1995. The AoA built in a provision for its own review and renewal. That renegotiation is now underway, under the terms set at the fourth WTO ministerial conference in Doha and the Framework Decision agreed at the WTO General Council on August 1, 2004.

The pillars: The AoA comprises three sections: market access, domestic support and export subsidies. Negotiators refer to these three sections as the three pillars of the agreement. Each pillar is described in more detail below.

The Doha Round: The WTO held its fourth ministerial conference in Doha, Qatar, in November 2001. Trade ministers there signed the Doha Agenda, which laid out issues and a timetable for a new round of trade agreements. The AoA was among the agreements to be renewed as part of the Doha Round. The initial dead-

line for agreement on all the issues was January 2005. However, none of the Doha deadlines has been kept and 2007 is now the suggested likely date for completion of the round. The Doha Agenda included a provision that the negotiations lead to a "single undertaking" meaning that the series of agreements on various issues (agriculture, services, industrial products, etc.) will be signed as one. Countries must accept or refuse them all. The Uruguay Round was also a single undertaking.

Dumping: Dumping is the export of agricultural commodities at prices below the cost of production. Dumping is formally prohibited by Article VI of the GATT. The most common definition of dumping at the WTO is the sale of exports at prices below the prevailing prices in the domestic market. Trade officials presume dumping is a good thing for the importing country (they are getting cheap merchandise) unless the country complains (usually because the cheap imports are threatening domestic producers). So it is up to countries to put in place the national legislation they need to protect themselves from dumping and the onus is on the country receiving the dumped products to prove harm to its domestic producers before anti-dumping duties can be imposed.

Modalities: Modalities describe the kind of commitments or targets (including numerical targets) that governments make in a trade agreement. Modalities are the language you see when you read an agreement's text. For example, a modality for export subsidy reduction might say, "Export subsidies should be cut from a baseline created by the average subsidy level between the years 1988 and 2000, they should be cut by 20 percent and over five years." The negotiations are all about modalities. They determine what is forbidden, what is allowed, how things should change and at what pace. Modalities are complemented by the schedules (see below) and together these complete an agreement.

Schedules: Schedules are vital to understanding a trade agreement but are generally much less well-known than modalities. Each country must submit a schedule that says which program spending and tariffs will be reduced to comply with a WTO agreement. A schedule sets out the base level of support for each product affected in an agreement so that the agreed percentage cut can be implemented and monitored. Similarly, a schedule will say what current tariff levels are for all the concerned products, so that the agreed cuts to tariffs can be calculated and monitored. The schedule also describes which programs are classified in which “boxes” (see below). If the modality says the baseline period will be the average annual amount between 1988 and 2000, then the schedule will provide what that amount is for the country concerned.

Market access

Tariffs: Tariffs are taxes raised on imports as they enter the country. They can be set *ad valorem*, meaning that the level of tariff is calculated as a percentage of the value of the import (an *ad valorem* tariff of 5 percent adds a \$5 levy to every \$100 of wheat imported). They can also be specific, meaning that a \$5 tariff is levied on every ton of wheat, whether the wheat costs \$80 or \$120 per ton. Like other forms of taxation, tariffs raise money for governments. Tariffs also protect domestic producers from competition.

Tariffs, bound and applied: Under agreements such as the AoA, governments agree maximum levels for the tariffs they will apply. This maximum level, or ceiling, is called the bound tariff rate. However, many governments bind their tariffs at a level higher than they actually use; applied tariffs are the tariff levels in use. The difference between applied and bound tariffs is called water; if there is a big gap, there is said to be a lot of water in the tariff. Negotiated tariff reductions usually apply to bound, not applied tariffs. So if the applied tariff is only half the level of the bound tariff, then a cut of 20 or 30 percent will make no material difference to market access, as the actual level of tariff applied remains unchanged. Maintaining a gap between bound

and applied tariffs provides governments with flexibility to vary tariff levels as domestic situations warrant. Traders object to this flexibility as it makes their market access less certain.

Non-tariff barriers (NTBs): NTBs are measures other than tariffs that affect trade, including health and food safety standards and packaging requirements. Non-tariff barriers work to favor domestic producers without generating income for the government. They also include measures such as quotas (e.g., only 100 tons of wheat per year can be imported, regardless of price or demand) and variable levies (e.g., the tariff level changes to ensure that domestic prices remains stable—the levy rises when world prices fall and drops when world prices rise). Another example of an NTB is a requirement that a given percentage of any product sold on the market be from local providers. This obliges prospective importers to establish relations with local businesses. NTBs protect domestic producers.

Tariffication: A word invented to describe the process of converting non-tariff barriers, such as variable levies and quantitative restrictions, into tariffs. Uruguay Round negotiators judged this exercise to be essential to create transparency (tariffs are more predictable for

the would-be exporter and also indicate the level of protection in an economy more clearly) and to facilitate subsequent reductions of trade barriers. Negotiating an across-the-board reduction in a tariff is much easier than negotiating restrictions on dozens of different kinds of NTBs. The rationale serves exporting interests and reduces the flexibility available to governments to support domestic producers. However, tariffs are also less susceptible to corruption than most NTBs. Tariffication resulted in very high tariffs in some cases, particularly where a supply management program (such as for Canadian dairy producers) had tightly restricted market access by volume to protect the integrity of the domestic system.

Tariff rate quotas (TRQs): Because tariffication (see above) resulted in some spectacular tariffs (upwards of 300 percent), TRQs were put in place to force a minimum level of market access. This was achieved by establishing an amount of imports, equivalent to 5 percent of domestic consumption under the AoA rules, which had to be allowed in at a tariff that would make the goods competitive with domestic production. That is, the tariff had to be zero or very low. TRQs were intended to create additional pressure to open markets on countries that established high tariffs as a result of tariffication.

Tariff cut formulae: A number of different ways to structure tariff cuts in agriculture have been proposed. They include:

A harmonizing formula: A formula designed to make steeper cuts on higher tariffs, so as to bring all the final tariffs closer to the same level.

A coefficient: The number in a formula that determines the level of the final tariff reduction. The coefficient will have different effects depending on the type of formula used. For example, a Swiss formula with a small coefficient will result in bringing a country's tariffs into a narrower range.

Swiss formula: A harmonizing formula that results in a narrow range of final tariffs. The mathematical formulation is designed so that the coefficient also determines

the maximum tariff. For example, if the coefficient is 25, then a very high starting tariff will end up with a final tariff of exactly 25 percent and lower starting tariffs will end up proportionately lower, close to 25 percent as well. Therefore, the coefficient is particularly important in the Swiss formula since it is indicative of where starting tariffs will end up.

Girard formula: Similar to the Swiss formula but each country has its own coefficient calculated on the basis of the country's national tariff average. It is often referred to as a "Swiss-type" formula. It is more flexible than the Swiss version.

Uruguay Round formula: The formula used in the Uruguay Round for agricultural tariff reductions. Tariffs are cut by a percentage average over a number of years. Developed countries agreed to cut tariffs by an average of 36 percent over six years with a minimum of 15 percent on each product. The combination of average and minimum reductions allows countries the flexibility to vary their actual tariff reductions on individual products so that some cuts will be greater than others.

Canadian "income tax" formula: This is a new formula that was proposed in June 2005 in the Committee on Agriculture. It is a harmonizing formula. Instead of applying a single cut to the entire tariff, different percentages are applied to different portions of the tariff, in a similar way to which many countries apply income tax.

Special safeguards (SSG): Article 5 of the AoA specifies that countries that underwent tariffication could reserve the right to apply safeguard tariffs to protect domestic producers against sudden import surges. Use of the SSG is time-limited (i.e., it cannot be renewed indefinitely). It is designed to protect domestic industry from volatility in world markets. It is mainly developed countries who opted for tariffication and therefore benefit from the SSG—only 21 developing countries have access to the SSG. Most developing countries opted to bind their tariffs (to set a ceiling on their maximum level) instead, a choice which precluded them from having the right to use SSG measures.

Special safeguard measure (SSM): Distinct from the SSG, this is a proposal for a new provision that would be included in the revised AoA. The proposal is that developing countries (not developed) be granted the right to use safeguards as a protection against import surges or price falls in global markets.

Countervailing duties: These are tariffs that can be levied on imports that have benefited from the use of government subsidies, either domestic or export-related, in their country of origin. Under the AoA, a number of government subsidies were categorized as “non-countervailable,” which in effect legitimized a system in which countries had to accept imports whose price did not reflect their true production and marketing costs. With the expiry of the Peace Clause (see Peace Clause), a number of U.S., European and other countries’ agricultural exports are now vulnerable to countervail by importing governments. Countervailing duties are distinct from anti-dumping duties; they are triggered by the use of government support payments in the country of origin, while anti-dumping duties are related to the behavior of exporting firms (see anti-dumping duties).

Anti-dumping duties: These are duties that a government imposes if it judges that the company exporting the product is engaged in unfair pricing. For example, if a company has different prices in different markets, the importing country receiving the imports at the lower price can impose a duty to raise the price to the level in another importer’s market. In addition, anti-dumping duties can be imposed where a company sells a product for a higher price in its domestic market than it does in its export markets. Where there is no open market

to help determine what the domestic price should be, countries are allowed to “construct” a price based on the cost of production of the product in question, plus a “reasonable profit.” In many agricultural markets, the dominance of government programs of various kinds make this last approach necessary to determine if dumping is occurring. Under the current rules, a country must have domestic anti-dumping laws in place if it wishes to impose anti-dumping duties. The sector affected by the dumped imports must demonstrate harm to the satisfaction of the appropriate domestic authority (often a ministry of commerce). The ministry determines whether the accusation of dumping is justified. If so, the government imposes an additional duty on the offending imports at the border. If the exporting country disagrees with the duty, they can bring a complaint for investigation at the WTO.

Tariff peak: A high tariff, usually 3 times the national average, on a particular product within a given tariff line (e.g., on cheese but not on cream or milk powder).

Tariff escalation: Tariffs that rise with the degree of processing of a given commodity (e.g., higher tariffs on chocolate than on cocoa).

Domestic support

Boxes: The AoA subdivides domestic support programs into a variety of categories, most of which are known as boxes of various colors: amber, blue and green.

Amber Box: The amber box is the category of domestic support that is scheduled for reduction. Expenditures on the measures assigned to the Amber Box are subject

to reduction based on a formula called the “Aggregate Measure of Support” (AMS). The AMS calculates a number for the amount of money spent by governments on agricultural production, except for spending that is exempt under other articles of the agreement (the Blue Box, Green Box and *de minimis*, all described below).

Blue Box: To break the deadlock on agricultural negotiations under the Uruguay Round, the U.S. and EU brokered a deal in 1992 called the Blair House Accord. The accord was a deal to exempt from reduction domestic support programs that were linked to production-limiting programs. That is, if the level of payment is based on fixed areas and yields, or per head of livestock. At the time, both The U.S. and the EU's Common Agricultural Policy relied heavily on such programs. This exemption was dubbed the Blue Box and was included in the AoA as Article 6.5. Very few developing countries have Blue Box-eligible programs. In the Framework Decision adopted August 1, 2004 the U.S. pushed through a proposal to revise the Blue Box. The U.S. proposal adds to the production-limiting criteria of the box to allow the U.S. to shift payments that are based on current price but historic production levels from the Amber Box to a new expanded Blue Box. The proposal also puts a cap on spending levels. Under the existing AoA, Blue Box spending is unlimited.

Green Box: The Green Box is a list of domestic support programs that are exempt from the AMS (Amber Box) formula. The Green Box list includes payments linked to environmental programs, pest and disease control, infrastructure development and domestic food aid (if it is bought at market prices). It also includes direct payments to producers if they are not linked to anything but a fixed, historic base period (these are the so-called decoupled payments). Government payments towards income insurance and emergency programs are also included in the Green Box. It is more formally referred to as Annex 2 of the AoA.

Export support

Export subsidies: Export subsidies are government payments that cover some of the cost of doing business for export firms. Typically, an export subsidy program will pay the difference between a more expensive domestic product and a cheaper alternative, so that firms are encouraged to buy from domestic producers. The U.S. Step 2 program subsidizes its cotton production in this way, paying U.S. firms to buy and process U.S. cotton

De minimis: The term refers to a minimum threshold below which spending on domestic support does not need to be included in the AMS calculation. Thresholds are established for both overall agricultural production (for general support programs) and for specific commodity programs. The thresholds are referred to as the *de minimis* levels and, for developed countries, are equal to 5 percent of the total value of production for general support and 5 percent of the value of each crop for commodity specific support. Developing countries can spend up to 10 percent in each *de minimis* category. The whole program must cost less than the *de minimis* level to be excluded from the AMS and the commodity-specific *de minimis* can only be claimed if no program for that commodity is included in the Amber Box. The U.S. has a number of programs that are eligible under *de minimis* rules, but most EU programs are too expensive to qualify. The U.S. has proposed cutting *de minimis* levels to 2.5 percent for developed countries and 5 percent for developing countries.

Non-trade concerns (NTCs): Non-trade concerns are objectives that can be used to legitimize government programs that run contrary to the AoA objective of establishing a market-oriented agricultural trading system. NTCs are listed in the preamble to the AoA. They include food security, rural development and environmental protection. The European Union has included animal welfare and eco-labeling as NTCs they wish to protect in the next iteration of the agreement.

by making it as cheap as the imported competition with subsidies. The EU used to use export subsidies for a wide range of products, but has reduced their use more recently. Dairy products and sugar continue to receive considerable export subsidies.

State trading enterprises: defined by the WTO as "governmental and non-governmental enterprises, including marketing boards, which deal with goods for export and/or import. Article XVII of the GATT 1994

is the principal provision dealing with state trading enterprises and their operations.”

Export credits: A tool used above all by the U.S., export credits are given by a government to underwrite the cost of doing business on commercial terms. The U.S., for example, will pay Cargill to ship wheat to Malawi and Malawi will then pay back the U.S. government rather

than Cargill, usually at lower than commercial rates of interest and with longer payback terms. At the behest of the EU, a complicated exercise is now underway to try to estimate the subsidy component of export credits so as to discipline this aspect of the practice without banning the tool altogether. Governments have provisionally agreed under the July Framework to limit export credit repayment periods to 180 days.

Special and differential treatment

Special and differential treatment (SDT): As the GATT evolved from its inception in 1947 and as a growing number of developing countries became signatories to the agreement, member states established the principle in the 1960s that developing countries ought to be granted greater flexibility than developed countries in implementing GATT disciplines because of the economic difficulties they face. Special and Differential Treatment (SDT or sometimes just S&D) provides formal recognition of the disadvantages developing countries face in the world trading system.

Special products: A mechanism created by developing countries to protect and promote food production, livelihood security and rural development. The proposal is that developing countries would be allowed to designate a certain number of products that would be exempt from tariff reduction requirements and other disciplines. A number of initiatives have been undertaken to establish criteria that would be effective in putting this idea into practice. The question is complicated, both technically (Which crops should be eligible?) and politically (How many crops? Which countries will be eligible? How much protection will be granted?).

Sensitive products: A kind of SDT for developed countries, sensitive products were introduced by the European Union to request continued protection for particular agricultural products, for political or social or cultural reasons. These products are proposed to receive less stringent disciplines in relation to tariff and domestic support reductions. In exchange TRQs (see above) on the products are to be expanded. The EU strongly supports the idea, as there are a number of products that are too sensitive for them to negotiate easily at the WTO. The U.S. has proposed that only 1 percent of tariff lines be eligible for sensitive product treatment. The EU is seeking 8 percent.

The Peace Clause: Another form of SDT for developed countries, the Peace Clause—formally called the Due Restraint Clause—is Article 13 of the AoA. The Peace Clause was another outcome of the Blair House Accord (see Blue Box). The clause, now expired, overrode the Agreement on Subsidies and Countervailing Measures and protected WTO members who used export subsidies for agriculture from challenge, so long as the subsidies respected the limits set by the AoA. The Peace Clause expired at the end of 2003. The U.S. has asked for the Peace Clause to be reestablished.

Ten ways to fix agricultural trade: Benchmarks for the Hong Kong ministerial

As WTO members approach the sixth WTO ministerial conference in Hong Kong, negotiations on agriculture—and therefore negotiations across the board—are in turmoil. WTO members are unable to agree on what they want from global trade rules for agriculture. Some want much lower tariffs and to eliminate most domestic support. Others want lower tariffs (although maybe not on *every* product) and to keep their domestic support more or less intact. Still other WTO members want to keep both higher tariffs and the right to assist certain commodities with very generous support. For all the rhetoric to the contrary, there is no shared acceptance among WTO members that wholly liberalized world trade in agriculture is the objective of the trade rules.

Global trade in agriculture is in a mess. The mix of national policies and multilateral rules now in place has sent commodity prices plunging. Farmers around the world, in rich and poor countries both, are driven to find alternative income or to leave their land altogether because they can no longer cover their costs and earn a living.

No one thinks the WTO alone can solve these problems but efforts to reform developed country agriculture are firmly anchored in the WTO negotiations on the Doha Agenda. The debate at the WTO has centered on three aspects of agricultural policy: domestic support, tariffs and export subsidies. The proposals now in play reflect the domestic politics of WTO members, especially developed country members and the export interests of multinational agribusinesses that trade in commodities and processed food. The negotiations present serious contradictions and dilemmas that more powerful WTO negotiators have ignored, despite the promises made in Doha to put development at the heart of the negotiations.

Even if governments were miraculously to agree to eliminate *all* trade-distorting elements of agricultural policy at the Hong Kong ministerial, world markets would not start to maximize developing countries' welfare. The fo-

cus of the WTO talks misses almost entirely the problem of dumping (the export of products at below cost of production prices). Worse, the WTO Agreement on Agriculture and the proposed changes now being negotiated fail to incorporate existing binding commitments on governments to realize fundamental rights including the human right to an adequate standard of living, food and work.

As governments meet in Hong Kong, it is time for a radical restructuring of the multilateral trading system. The WTO Agreement on Agriculture has failed rural communities around the world. The successor agreement, now under negotiation, is set to perpetuate that failure. Before WTO members commit to another bad trade deal, they should consider the following proposals as a new basis for the agricultural trade system.

1. A ban on agricultural dumping. Current WTO rules tackle dumping by allowing countries to tax imports that are sold for less than the price in the home market. However, dumping starts at home, when farmers cannot get a fair price from the market. U.S. production of key export commodities, including maize, soybeans, rice and cotton, are consistently sold at less than cost of production prices in the domestic market. Among the issues contributing to this problem is chronic overproduction that has made dumping endemic except when bad weather reduces output. WTO rules to address agricultural export dumping are inadequate. In markets as distorted by oligopoly power and government interference as commodity markets are, dumping margins should be measured against production costs and a fair return, not against domestic prices. To enforce these rules, the WTO should require timely reporting of complete cost of production numbers for all crops that a country wants to export. WTO rules against dumping should be strengthened and simplified.

2. Allow border measures. The 1947 General Agreement on Tariffs and Trade allowed countries to use agricultural tariffs if they managed their production, but

they were prohibited from exporting any surplus that might result. This approach should be revived. Trade negotiators should focus on the trade-distorting impact of programs: some of the most expensive agricultural support when measured as a proportion of the total value of production, or against the world's lowest cost producer, have little net impact on world markets. No firm or country should have a legal right to export or a legal obligation to import. Yet elements of the WTO Agreement on Agriculture create just such rights and obligations. Countries should have the policy space to determine how to structure and support their basic level of national agricultural production, so long as their national policies do not damage other countries' ability to do likewise.

3. New criteria for subsidies. Many agricultural subsidies are problematic, but not all subsidies result in unfairly traded exports. The subsidy classification system in the WTO is too politicized. Developed country negotiators have manipulated the different colored boxes to suit their domestic needs. Worse, the measurement of amber box support penalizes countries that attempt to manage their production to avoid structural over-supply, a major cause of dumping. Negotiators need better guidelines for disciplining agricultural subsidies. If support payments are used, for example, they must be accompanied by strictly enforced production limitations and controls on exports (an export tax might address the implicit export subsidy such products receive). Export subsidies should be eliminated immediately. WTO members should conduct a frank assessment of the boxes to reassess how best to limit trade distortions while respecting countries' policy space to set and implement national agriculture and food security objectives.

4. Allow state trading enterprises. The WTO should not prohibit state-trading enterprises (STEs) either explicitly, or de facto, by outlawing policies necessary to the establishment and operation of a single desk seller. Export state-trading enterprises offer a competitive counterweight to concentrated export markets. STEs have real costs and have sometimes proved a strong temptation for corruption. Nonetheless, properly over-

seen and with provision for farmer control under public oversight, STEs offer important benefits, particularly in countries where the private sector is weak or undercapitalized or where it is highly concentrated. The question of monopoly and oligopoly power should be addressed and monitored whether the companies in question are publicly or privately owned.

5. Regulate market concentration. Concentration in global commodity markets is a primary cause of market distortion. Possible policy responses include an international review mechanism for proposed mergers and acquisitions among agribusiness companies that are present in a number of countries simultaneously. At a minimum, transparency requirements now imposed on state-trading enterprises should be extended to companies that control 20 percent or more of a national or global market in a given commodity. The extension of monopoly patent rights to life forms under the Trade Related Intellectual Property Rights Agreement, in particular the patenting of seeds manipulated by genetic engineering, has deepened the reach of existing food company integration and economic control. Governments must defend public access to the planet's natural resource base and genetic endowment.

6. Increase transparency in commodity markets. Governments need to improve dramatically the transparency in international commodity markets. The UN Conference on Trade and Development (UNCTAD) had a mandate to monitor these markets, but developed countries killed the mandate in the 1980s. It is not currently possible to say with certainty, for example, which companies control what percentage of the global wheat trade. Furthermore, weak regulation of commodities futures and options markets has exacerbated market price volatility far beyond what would result from changing supply and demand equations or from legitimate hedging against crop failures and other supply shortfalls.

7. Put food security first. Developing countries have made proposals to allow the protection of their agriculture through the designation of special products (crops strongly related to the country's food security) and the

creation of a special safeguard mechanism that would create a responsive and effective system to protect agricultural markets from import surges. These proposals alone cannot ensure food security, but they offer important protections against imports, whether dumped or not, that undermine national productive capacities. The proposals from both the G-20 and G-33 to allow border measures to control imports of any product that has been subsidized through domestic or export support should be adopted.

8. Reform food aid. The WTO should agree criteria for food aid that is unquestionably vital for humanitarian purposes and effectively non-trade distorting. Other food aid programs should be subject to more careful review. U.S. food aid practices demand particular scrutiny because they fail to meet appropriate standards of flexibility and targeting that help ensure the recipients of food aid get the right food at the right time. The U.S. test to assess potential displacement of commercial sales (the Bellmon Analysis) is not adequate. The WTO should ban all food aid not in grant form. The WTO should support international efforts to strengthen and expand the Food Aid Convention to establish a forum where recipient countries have a voice and humanitarian and development concerns are given clear priority over domestic donor needs.

9. Manage global production. Chronic over-production of many commodities depresses prices and exacerbates dumping. Proper regulation and management of commodity markets is vital to ensure supply is balanced with demand and to prevent sharp fluctuations in prices. WTO rules must allow governments to reopen discussions on international commodity agreements to curtail global oversupply and ensure fair prices.

10. Democratize the process. Good agreements from bad process are nearly impossible. WTO negotiations are infamous for encouraging a handful of countries to negotiate among themselves who then present the full governing body with very little time (sometimes less than 24 hours) to accept or reject a deal. The WTO needs clear rules for official negotiations that guarantee transparency and effective participation of all 147 members.

The WTO is now over 10 years old. It is time for an objective evaluation of whether its prescriptions have benefited people, not just boosted cross-border trade statistics. It is time to craft policies that discipline all sources of market distortion and to measure success against the imperative of meeting international obligations of governments to their people. Such an agreement would truly be historic.

United States dumping on world markets

What is dumping?:

The basic definition of dumping is the sale of goods abroad at less than cost of production prices. In world agricultural markets, for example, if corn costs \$2.50 a bushel to grow, but is sold by grain companies in world markets at only \$2.00 a bushel, that would qualify as dumping, even if prevailing domestic prices were also only \$2.00 a bushel.

Levels of U.S. dumping

Analyzing data from the U.S. Department of Agriculture and the Organization for Economic Cooperation and Development to compare the cost of production with farm gate and export prices of five major commodities, it is clear that there is widespread dumping by U.S. grain companies. In 2003, wheat was exported at 28 percent below its cost of production, soybeans were dumped at 10 percent, corn was dumped at 10 percent, cotton was dumped at 47 percent and rice was dumped at 26 percent. The details for each commodity can be found on the back of this fact sheet.

Dumping caused by oversupply and uncompetitive markets

In the case of U.S. agriculture, market failures cause dumping. A few transnational agribusiness firms dominate nearly all agricultural commodity purchasing, transportation and processing in the U.S., which stifles competition in the marketplace. In the past, there were tools, such as grain reserves and set aside programs, designed to help farmers control supply and maintain some degree of market power. Most of those tools were stripped away under the 1996 Farm Bill. Today, there is significant overproduction in major commodities, which drives down prices. Foreign competition exacerbates the global glut. With little competition in the market and no controls on supply, prices sink well below the cost of production.

Dumping hurts farmers around the world

If farmers can't get a price that covers expenses then it's difficult to stay in business. Farmers in other countries are hurt because dumped exports push them out of local markets and eliminate their ability to export. Poor

countries facing hunger are particularly vulnerable if their farmers are pushed off the land. As domestic production falls, these countries become dependent on the fluctuating prices and availability of imports. Additionally, farmers are a vital part of local rural economies—they generate local capital and create employment through demand for farm labor and off-farm goods and services, such as clothing and schools. The phenomenon of plunging commodity prices, reinforced by dumping, has also driven U.S. family farmers off the land and has been an economic disaster for rural communities.

Dumping benefits multinational agribusiness firms

The largest commodity traders, who now finance trades, process commodities, ship commodities, etc., are the biggest beneficiaries of dumping. They are able to buy inputs and commodities at extremely cheap prices. Low prices in the U.S., along with increased global production, help keep world commodity prices down. Most major agribusiness firms now have facilities in all the major agricultural exporting and importing countries including Brazil, China, Australia and India. Nearly all of these companies have seen their profits skyrocket in recent years.

Dumping is against international law

Article Six of the General Agreement on Tariffs and Trade, which is one of the agreements overseen by the World Trade Organization, sets rules that prohibit dumping. However, the rules make it complicated, in practice, for smaller, poorer countries, to establish grounds for anti-dumping duties because of the requirements to demonstrate harm. Underlying technical challenges for using the WTO to stop dumping is the political reality of the multilateral trading system that makes it difficult for small countries to challenge powerful economic players like the United States. Governments must amend global trade rules to make it easier for developing countries to challenge agricultural dumping at the WTO. Importing countries should have the ability to immediately impose countervailing and anti-dumping duties to bring the dumping prices up to cost of production levels.

Recommendations

These latest numbers on agricultural dumping by U.S. agribusiness once again illustrate the need for immediate action at the international level. First steps include:

1. The elimination of visible export subsidies, as well as the establishment of strong disciplines on export credits and program food aid, as quickly as possible.
2. A commitment from exporting countries to keep products priced below the cost of production out of world markets.
3. The publication of annual full-cost of production estimates for OECD countries. To fully address agricultural dumping, governments must develop a more thorough and transparent methodology to measure the problem and make the relevant data publicly available within six months of the close of the fiscal year.
4. Agreement on strong international rules to prohibit restrictive business practices among the oligopolies that dominate trade in most agricultural commodities.

Table 1. Wheat

Year	Farmer production costs (US\$/bushel)	Government support costs (PSE)	Transportation and handling costs (U.S. \$/bushel)	Full cost (U.S. \$/bushel)	Export price (U.S. \$/bushel)	Percent of export dumping
1990	4.41	0.10	0.82	5.32	3.72	30%
1991	4.74	0.11	0.82	5.66	3.52	38%
1992	4.46	0.11	0.82	5.39	4.13	23%
1993	4.62	0.11	0.82	5.54	3.83	31%
1994	4.63	0.11	0.82	5.55	4.09	26%
1995	5.33	0.13	0.82	6.28	4.82	23%
1996	5.94	0.12	0.82	6.88	5.63	18%
1997	5.02	0.10	0.82	5.93	4.35	27%
1998	3.99	0.08	0.82	4.89	3.44	30%
1999	4.30	0.08	0.82	5.20	3.04	42%
2000	4.62	0.09	0.82	5.53	3.17	43%
2001	5.31	0.10	0.82	6.23	3.5	44%
2002	6.30	0.12	0.82	7.24	4.09	43%
2003	4.69	0.12	0.82	5.63	4.04	28%

Table 1 shows the calculation of the percent of export dumping for wheat. The government support cost and the cost of transportation and handling are added to the farmer production cost to calculate the full cost of production. The percent of export dumping is the difference between the full cost of production and the export price, divided by the full cost of production.

Table 2. Soybeans

Year	Farmer production costs (US\$/bushel)	Government support costs (PSE)	Transportation and handling costs (US\$/bushel)	Full cost (US\$/bushel)	Export price (US\$/bushel)	Percent of export dumping
1990	5.76	0.20	0.54	6.50	6.24	4%
1991	5.87	0.20	0.54	6.61	6.05	8%
1992	5.51	0.17	0.54	6.22	6.01	3%
1993	6.71	0.20	0.54	7.45	6.53	12%
1994	5.29	0.16	0.54	5.99	6.52	-9%
1995	6.30	0.20	0.54	7.03	6.5	8%
1996	6.30	0.22	0.54	7.06	7.88	-12%
1997	5.72	0.18	0.54	6.43	7.94	-23%
1998	5.76	0.15	0.54	6.44	6.37	1%
1999	6.23	0.15	0.54	6.91	5.02	27%
2000	6.20	0.15	0.54	6.89	5.26	24%
2001	6.14	0.15	0.54	6.83	4.93	28%
2002	5.80	0.19	0.54	6.53	5.48	16%
2003	6.62	0.26	0.54	7.42	6.7	10%

Table 2 shows the calculation of the percent of export dumping for soybeans. The government support cost and the cost of transportation and handling are added to the farmer production cost to calculate the full cost of production. The percent of export dumping is the difference between the full cost of production and the export price, divided by the full cost of production.

Table 3. Maize

Year	Farmer production costs (US\$/bushel)	Government support costs (PSE)	Transportation and handling costs (US\$/bushel)	Full cost (US\$/bushel)	Export price (US\$/bushel)	Percent of export dumping
1990	2.49	0.08	0.54	3.12	2.79	10%
1991	2.65	0.09	0.54	3.28	2.75	16%
1992	2.26	0.07	0.54	2.87	2.66	7%
1993	2.90	0.08	0.54	3.52	2.62	26%
1994	2.25	0.07	0.54	2.86	2.74	4%
1995	2.88	0.10	0.54	3.52	3.13	11%
1996	2.70	0.08	0.54	3.32	4.17	-26%
1997	2.77	0.07	0.54	3.38	2.98	12%
1998	2.64	0.06	0.54	3.25	2.58	21%
1999	2.68	0.06	0.54	3.28	2.29	30%
2000	2.72	0.06	0.54	3.32	2.24	33%
2001	2.39	0.07	0.54	3.00	2.45	18%
2002	2.46	0.08	0.54	3.08	2.75	11%
2003	2.35	0.09	0.54	2.98	2.68	10%

Table 3 shows the calculation of the percent of export dumping for maize. The government support cost and the cost of transportation and handling are added to the farmer production cost to calculate the full cost of production. The percent of export dumping is the difference between the full cost of production and the export price, divided by the full cost of production.

Table 4. Cotton

Year	Farmer production costs (US\$/pound)	Income support payment rate	Transportation and handling costs (US\$/pound)	Full cost (US\$/pound)	Export price (US\$/pound)	Percent of export dumping
1990	0.842	0.131	0.080	1.053	0.712	32%
1991	0.760	0.067	0.080	0.908	0.696	23%
1992	0.751	0.101	0.080	0.931	0.539	42%
1993	0.802	0.203	0.080	1.085	0.553	49%
1994	0.706	0.186	0.080	0.971	0.732	25%
1995	1.034	0.046	0.080	1.160	0.934	19%
1996	0.848	0	0.080	0.927	0.779	16%
1997	0.746	0.088	0.080	0.914	0.696	24%
1998	0.961	0.076	0.080	1.117	0.670	40%
1999	0.836	0.122	0.080	1.038	0.523	50%
2000	0.910	0.157	0.080	1.147	0.574	50%
2001	0.834	0.152	0.080	1.066	0.396	63%
2002	0.862	0.126	0.080	1.068	0.370	65%
2003	0.838	0.137	0.080	1.054	0.562	47%

Table 4 shows the calculation of the percent of export dumping for cotton. The government support cost and the cost of transportation and handling are added to the farmer production cost to calculate the full cost of production. The percent of export dumping is the difference between the full cost of production and the export price, divided by the full cost of production.

Table 5. Rice

Year	Farmer production costs (US\$/cwt.)	Government support costs (PSE)	Transportation and handling costs (US\$/cwt.)	Full cost (US\$/cwt.)	Export price (US\$/cwt.)	Percent of export dumping
1990	9.61	0.27	9.49	19.38	15.52	20%
1991	9.94	0.30	9.49	19.73	16.46	17%
1992	9.16	0.21	9.49	18.86	16.8	11%
1993	9.95	0.28	9.49	19.72	16.12	18%
1994	9.90	0.22	9.49	19.61	19.14	2%
1995	11.31	0.29	9.49	21.09	16.68	21%
1996	11.06	0.30	9.49	20.85	19.64	6%
1997	11.70	0.29	9.49	21.47	20.88	3%
1998	12.02	0.30	9.49	21.81	18.95	13%
1999	11.42	0.21	9.49	21.12	16.99	20%
2000	8.51	0.20	9.49	18.21	14.83	19%
2001	8.61	0.15	9.49	18.25	14.55	20%
2002	8.26	0.17	9.49	17.92	11.8	34%
2003	8.65	0.28	9.49	18.43	13.68	26%

Table 5 shows the calculation of the percent of export dumping for rice. The government support cost and the cost of transportation and handling are added to the farmer production cost to calculate the full cost of production. The percent of export dumping is the difference between the full cost of production and the export price, divided by the full cost of production.

Food aid: What role for the WTO?

Introduction

The U.S. history of using food aid as a surplus disposal mechanism and vehicle to promote future export sales has drawn the World Trade Organization into the international debate about food aid. Moreover, the European Union argues that in exchange for giving up its use of export subsidies in the Doha trade round, other countries should also have to discipline their export support programs. Aspects of U.S. food aid, according to the EU, should properly be counted as export support not aid. U.S. food aid programs engage in practices that are highly controversial from a development and trade perspective.¹²⁹ These practices pose problems for rival exporting interests in the world of international trade. More seriously, they create problems for local producers in some of the world's poorest countries. According to the United Nations Food and Agriculture Organization (FAO), poor countries need to both increase domestic production and their capacity to pay for food imports, if they are to provide adequate calories for their populations.

The two main problems with U.S. food aid programs from a trade perspective are: sales of food aid, often supported by export credits at less than commercial interest rates and the increasing prevalence of monetization of project food aid (the sale of food aid on open markets in recipient countries to generate funds for development projects).

Food aid and the Uruguay Round

Food aid is mentioned in Article 10 of the Uruguay Round Agreement on Agriculture. The language is timid. The injunctions ask that countries respect the FAO's Consultative Subcommittee on Surplus Disposals and its principles and make food aid "to the extent possible" available in grant form. But neither recommendation has had an impact on WTO members' food aid practices.

Food aid was also integral to the Marrakech Ministerial Decision on Net-Food-Importing Developing Countries (NFIDCs) and least developed countries (LDCs). This was a decision taken to sweeten the Uruguay Round package for Africa in particular, the world's poorest continent and the only continent that was predicted to lose out under the liberalization of agriculture put in place by the Uruguay Round agreements. The Marrakech Decision was an acknowledgement by WTO members that implementation of the Agreement on Agriculture (AoA) could hurt food security,

particularly in LDCs and NFIDCs. This was because implementation of the AoA was widely expected to decrease the supply of food available to poor countries on concessional terms (through food aid or export subsidies), thereby increasing the cost of food imports. The Marrakech Decision committed WTO members to provide financial assistance if LDCs or NFIDCs faced problems paying for food imports and to ensure donors' food aid commitments under the Food Aid Convention were adequate.

By the end of 1997, FAO concluded, "The food security situation in both the LDCs and the NFIDCs remains precarious..."¹³⁰ The cost of food imports for food insecure countries rose dramatically in 1995 and 1996 and stayed higher than pre-Uruguay Round levels even when grain prices fell again. Yet the International Monetary Fund argued that liberalization under the Uruguay agreements was not responsible for the food deficit facing LDCs and NFIDCs and therefore recommended to the WTO

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Committee on Agriculture that WTO members need take no action to implement the Marrakech Ministerial Decision. WTO members concurred, over the protests of the LDCs and NFIDCs, who continue to fight for the implementation of the Marrakech Decision.

Proposals for Reform

The two main voices in the food aid debate are the European Union and the United States. Their proposals are reviewed in more detail below. Other proposals include submissions from Mongolia, Switzerland and Canada.

The EU Proposal

During the negotiations on the WTO AoA in 2004, the EU championed food aid reforms as part of its attempt to balance the EU commitment to eliminate agricultural export subsidies with reforms to other countries' various means of supporting agricultural exports. The EU food aid proposal calls for all food aid to be cash-based (rather than in the form of in-kind donations of food) and untied from requirements to source commodities in the donor country. The EU favors partial untying, which encourages the purchase of food from markets in the region where the food aid is needed, although it need not preclude purchases from the donor's market where appropriate.

The proposal, if accepted, would have enormous implications for U.S. food aid. By law, 75 percent of U.S. food aid must be in the form of food grown in the U.S. (i.e., in-kind), some of which is sold with export credits and most of which is donated. The U.S. government and a number of recipients of U.S. food aid actively oppose the EU proposal to narrow the definition of food aid.

The EU proposal is not likely to find support; the AoA negotiations are not the place to force such a dramatic change in what is, after all, a mostly bilateral aid program which accounts for less than two percent of all internationally traded food. But the EU proposal does reflect current thinking among many food aid practitioners, who would prefer to work with untied cash resources rather than in-kind commodity donations, so as

to have the most flexible, cost-effective and appropriate food in each emergency as need arises. The proposal would not preclude using the cash to buy food in a donor country, but would put more pressure on food aid agencies to justify that choice, which in many cases is a cumbersome and expensive option.

Current EU practice is not the best advertisement for a cash-based system. EU food aid donations have dropped with their shift to a cash-based, partially untied system (partial untying means the food should be bought in or near the recipient region, not just on the open world market). The cash—and therefore food—has been slower to disburse than some of the in-kind aid coming from the U.S. Nonetheless, while implementation is as important as getting the policy right, the evidence shows that making food aid more responsive to the needs of recipient countries is vital. Good food aid is targeted (which argues against the U.S. practice of using it for general budgetary support at a national level) and it is flexible. Tying food aid to in-kind donations from the donor instead of allowing a choice is bad policy. Such practices lead to unnecessary waste and fuel attacks on food aid as a whole, at a time when food aid resources are severely overstretched.

The WTO is not set-up to make decisions on what constitutes a humanitarian emergency, or to judge whether one kind of development program is better than another according to development objectives. Nonetheless, there is a coincidence of interests between sound trade rules and best food aid practice because the most trade-distorting food aid is also the least effective aid intervention. The EU approach is unnecessarily restrictive. A more modest approach should include: a clear statement of principles for good food aid, a rule to stop sales of food by the U.S. government being counted as food aid and some guidelines to improve oversight of monetization.

The U.S. Proposal

On October 5, 2005, the United States presented a detailed proposal for food aid rules as part of the new Agreement on Agriculture now under negotiation in

the Doha Round.¹³¹ Unfortunately, the U.S. proposal sidesteps the real issues and invents a few that confuse the debate.

The U.S. proposal does not include an end to the sale of food aid (food aid not in grant form). The U.S. proposal says nothing about the monetization of food aid, although open monetization in particular (when an agency sells food aid in local recipient markets without targeting) tends to show trade-displacing effects. The U.S. proposal suggests the UN Food and Agriculture's Consultative Subcommittee on Surplus Disposal as the best arbiter of appropriate non-emergency food aid, yet the committee has more or less ceased to function in the past decade or so. The Mongolian government proposed reforms to the subcommittee that would at least have addressed the weaknesses of the committee; the U.S. proposal did not even go that far.

The U.S. proposal puts food aid in three categories: emergency food aid; food aid to NFIDCs and LDCs; and, the rest. The categorization makes no sense. None of the literature looks at food aid in this way. The implication is that NFIDCs and LDCs—76 countries in total—are too poor to have local producers and commercial importers with an interest in their local and national markets. There is a presumption that displacement of local farmers cannot take place, which is contradicted by empirical evidence. The evidence is perhaps even more convincing on the displacement of commercial importers.¹³² Even in emergencies, displacement can and does take place. Obviously that displacement may be warranted by the immediate need of people facing famine. However, many emergencies drag on for years—think of the Sudan or Ethiopia. In these cases, while meeting immediate needs must remain the first priority, clearly it is not good enough to rely on the label “emergency” to discount the long-term damage that inappropriate food aid might cause. For many NFIDCs and LDCs, protecting local producers from dumped competition is essential because production needs to be stimulated not depressed. Good food aid can realize this objective; bad food aid will not.

FAO's test for food aid

Earlier in 2005, the FAO published a briefing that proposed a filter to determine which food aid transactions raise trade concerns, based on answers to three questions.¹³³ The filter provides a possible basis for the categorization of food aid by the WTO.

The questions are:

1. To what degree does the food aid increase overall consumption? (In other words, is it just displacing food purchases, or is it providing food to people too poor to buy what they need?).
2. To what degree is food aid tied? (Must it be sourced in the donor's market? Are there restrictions on who must ship the food and where it must be processed?).
3. Is the food aid really needed by the recipient country? (In FAO's language, is it meeting a legitimate aid need?).

Recommendations for food aid and the WTO

Canada's June 18 proposal on food aid suggests an interesting approach for the WTO: Create a “safe-box” to protect food aid that is unquestionably essential for saving lives and then see how to handle the remainder with appropriate WTO disciplines. The Canadian list proposed treating as non-trade-distorting food aid that is:

1. Demand-driven and based on a needs assessment carried out by the World Food Program and other relevant United Nations food aid agencies in cooperation with the recipient member.
2. Granted on the basis of pledges and commitments to, or in response to appeals from, specialized United Nations agencies, other relevant regional or international intergovernmental agencies, or the International Red Cross and Red Crescent movement.
3. Distributed directly to targeted beneficiaries.
4. Provided exclusively in fully grant form.
5. Completely untied from requirements of where or from whom food provided as aid is purchased.

6. Not linked to market development objectives of donor members.
7. Not tied directly or indirectly, to commercial exports of agricultural products or of other goods and services to recipient countries.
8. Not re-exported, except where it is an integral part of a food aid transaction initiated by a specialized United Nations agency.

IATP proposes the following additional measures for food aid that does not meet the “safe-box” criteria:

9. Phase out all sales of food aid by donor governments.
10. Require all food aid that fails to meet the above criteria be reported to the WTO and FAO jointly to ensure the food aid is well-targeted and causes minimum disruption in local and regional markets.
11. Implement the Marrakech Decision for Least Developed and Net Food-Importing Developing Countries. WTO members are responsible for providing readily accessible financing to assist LDCs and NFIDCs facing higher import bills, whether because of more volatile world commodity prices or because

of the decline in the availability of food sold at concessional prices in the world market. Note assistance is to be provided as finance, not in-kind food aid.

More generally, governments must:

- ▶ Immediately restart negotiations to reform the Food Aid Convention.¹³⁴ Such reforms should establish strong and enforceable multilateral guidelines with appropriate monitoring and enforcement mechanisms. Recipient countries must be given full rights to join the negotiations for a new Food Aid Convention and to be full members of the convention once it is established. All food aid, whether bilateral or multilateral, should be bound by the best practices set out in the new Food Aid Convention.
- ▶ Strengthen WTO rules to protect agriculture in developing countries from the persistent dumping of commodities at prices below the cost of production, including inappropriate food aid.¹³⁵ Recent G-20 and G-33 proposals to allow border measures to be used against imports of commodities that have been subsidized would be one way to make this goal more concrete.

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Planting the rights seed: A human rights perspective on agriculture and the WTO

Around 70 percent of the world's poorest people live in rural areas and are dependent on agriculture for their income, food supply and livelihoods. Many of these are small-scale, subsistence farmers, and the vast majority produce food for local consumption. If we are to improve the lot of the majority of the poorest people in the world then we must develop and promote the rural sector, putting people, rather than production, at the centre of agricultural policies. Developing the farm sector is an effective way to generate employment and reduce poverty, as well as to increase levels of health, nutrition and education.

Human rights law provides tools that can help define an agriculture system that guarantees human rights for all. Human rights are particularly relevant to World Trade Organization members, because all have signed and ratified at least one of the international human rights instruments.

The human rights framework

Human rights are legally binding for all countries of the world. Some of these rules are set out in countries' national laws, others are set out in international human rights treaties. All countries have ratified at least one of these treaties, which include the International Covenant on Civil and Political Rights, the International Covenant on Economic, Social and

Cultural Rights and the Convention on the Rights of the Child.

Other recent international commitments affirming human rights relevant to agriculture include the Millennium Development Goals in which all countries of the world emphasized their commitment to combat poverty, hunger and disease. In 2004, the 188 members of the Food and Agriculture Organization adopted Voluntary Guidelines on the Right to Food.

Many internationally-recognized rights are affected by agricultural trade policy, including the right to life, to food, to health, to work and to be free from discrimination. Human rights law requires states to respect, protect and fulfill human rights. In relation to the right to food, for instance, the obligation to "respect" means that the state should not take actions that deprive people of their existing access to adequate food. The obligation to "protect" means that the state should enforce appropriate laws to prevent third parties, including powerful people and corporations, from depriving individuals of their access to adequate food. Finally, the obligation to "fulfill" means that the state should identify vulnerable groups and implement policies to ensure their access to adequate food by facilitating their ability to feed themselves. As a last resort, the

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Based upon the report
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Full report available
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government is also required to provide adequate food to those who cannot feed themselves.

The human rights framework provides useful tools for approaching economic and trade policy-making. Human rights' emphasis on the needs of the most vulnerable members of society, and on prevention of discrimination, provide a people-centered yardstick against which proposed policies can be measured.

How does the Agreement on Agriculture affect human rights?

From a human rights perspective the AoA has four key failures:

1. **Promotes exports rather than livelihoods.** The AoA's approach to agriculture is based on the ideology of trade liberalization. It entrenches the "right to export" rather than human rights. The AoA is designed to open markets worldwide and expand trade. This export-oriented approach does not guarantee improvements in people's livelihoods. In fact, it benefits the privileged minority that have access to resources, infrastructure, credit and foreign markets.
2. **Fails to tackle corporate control.** Trade liberalization has increased the market power of transnational commodity traders and processors, while taking power away from producers. This threatens livelihoods of farmers all over the world leaving them either impoverished or dependent on subsidies to earn a living. The AoA contributes to the consolidation of corporate power by ignoring the dominant role that a handful of large companies play at all levels of the food system.
3. **Allows dumping to continue.** Opening markets to higher levels of imports can actually increase food security because imported food can displace local production. Higher levels of imports are particularly damaging when developed countries maintain artificially high levels of production and then sell surpluses abroad at prices below their cost of production, a practice known as dumping. Dumping is

a human rights issue because farmers in developing countries are unable to protect themselves and lose their livelihoods due to competition from dumped imports. The WTO does have rules designed to prevent dumping, but they are weak and do not address the root causes of dumping, namely excess production and the market power of corporations.

4. **Locks developing countries into an unlevel playing field.** Since the 1980s World Bank and International Monetary Fund (IMF) structural adjustment programmes have pressured developing countries to reduce most of their trade barriers. This has created the situation existing today, which sees many developing countries with low border protection measures, little scope for domestic price controls and little possibility to provide subsidies due to their limited resources. Conversely, developed countries are not subject to World Bank and IMF liberalization requirements to reduce and eliminate trade barriers and they have the financial means to provide support to their farmers. Instead of seeking to redress the imbalance, WTO rules have locked all developing countries into the existing unfair system. From a human rights perspective, this situation is problematic, as it deprives developing countries of the policy space they need to implement policies to protect their people.

The WTO AoA contains provisions that could protect particular countries, or groups of people within countries, from the harmful effects of liberalization. These include non-trade concerns, special and differential treatment, the special safeguard and the Marrakesh Decision on Net-Food Importing Developing Countries. Although these are not implemented in a way that ensures protection of livelihoods and human rights, they do offer openings within the existing structure of trade rules through which WTO members can meet their human rights obligations.

Simple steps towards ensuring fair agricultural trade rules

1. **Support stronger and simpler rules to prevent and counter dumping.** The WTO should improve and strengthen the definition of dumping so that products are considered dumped when they are sold below their cost of production. Importing countries should have the ability to immediately impose countervailing and anti-dumping duties where goods are sold abroad for less than the cost of production.
2. **Take non-trade concerns into account and use safety nets.** Reflecting and incorporating non-trade concerns into agricultural trade policy can change the economic-centered perspective of the WTO and bring in social, environmental and cultural concerns. The category of special products and the special safeguard mechanism for use by developing countries on the basis of food security, rural livelihoods and rural development concerns, are a welcome mechanism through which to promote fairer and more people-centred agricultural rules.
3. **Make special and differential treatment provisions more meaningful.** Developing countries have long insisted that existing SDT mechanisms are insufficient to address the disadvantages they face. In response, they have tabled 88 proposals at the WTO to improve SDT. These proposals require urgent review and should not be delayed further.
4. **Conduct impact assessments.** Human rights laws requires states to monitor the enjoyment of human rights in their country. Given that liberalization, as defined and implemented through the WTO, has caused retrogression from the enjoyment of human rights, it is essential that human rights impacts of any new negotiations be assessed before entering into new commitments.
5. **Tackle corporate control.** The human rights framework is a powerful tool for holding private corporate actors accountable for the harmful human effects of their activities and should be used as a basis of efforts to tackle corporate control.
6. **Ensure coherence between governments' economic and human rights obligations.** States' human rights obligations cannot be discarded when countries are negotiating at the WTO or with the IMF or World Bank. The WTO's view of coherence needs to be broadened to ensure that countries do not enter into trade agreements that undermine their social policies or their ability to meet their human rights obligations.

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