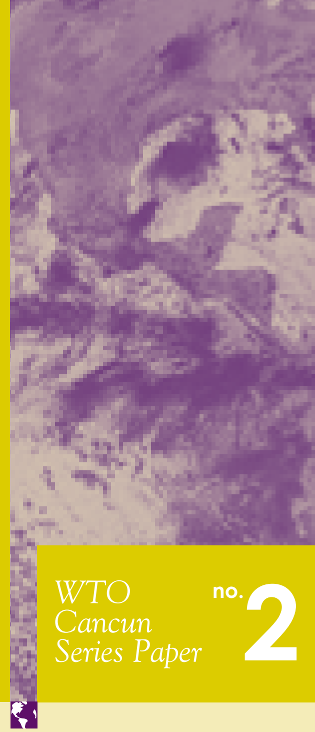
WORLD TRADE ORGANIZATION AGREEMENT ON AGRICULTURE BASICS



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WTO Agreement on Agriculture Basics

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Introduction

Many consider the Agreement on Agriculture (AoA) to be the centerpiece of negotiations within the World Trade Organization (WTO). Agriculture is essential to the development of most countries in the world. It plays a vital role in ensuring food security, creating livelihoods, generating foreign exchange and determining the allocation of natural resources. Yet the dominant interest within the AoA is to maximize market access and increase the volume of commodity flows. This agenda has done little to protect the multiple roles that agriculture plays in development and has been much criticized by countries around the world.

At the fourth WTO Ministerial Conference, held in Doha, Qatar in November 2001, governments committed themselves to a “development” round, pledging to address developing country needs that have not been addressed—and in some cases have intensified—under WTO trade rules. Governments agreed to reach new trade rules for agriculture by March 31, 2003, but because intense differences remain, this deadline passed without agreement. The next opportunity for progress on the AoA is the fifth Ministerial Conference, scheduled for Cancun, Mexico, on September 10–14, 2003.

The AoA has many different components. Nearly every country is part of a negotiating group with specific interests. This white paper provides some history of the AoA, describes the various sections of the agreement, spells out the different negotiating positions of WTO member countries, and presents the state of current negotiations.

History

The General Agreement on Tariffs and Trade (GATT) Uruguay Round Agreements, which includes the Agreement on Agriculture, came into effect on January 1, 1995. With the signing of the Uruguay Round AoA, international agricultural trade was put under much stronger GATT disciplines, including capped and reduced export subsidies, import barriers and domestic support.

The implementation period was five years (by 2000) for developed countries and nine (by 2004) for developing countries. Least Developed Countries (LDCs) were not subject to reduction commitments. However, LDCs did commit themselves to not increasing export subsidies or domestic support in the future, and they did bind their tariffs – meaning that they could lower but no longer raise their tariffs above a given ceiling. The AoA contained a provision to renew negotiations for further reform starting in 2000. This process included a review of the implementation experience, which took place over a series of meetings in 2000 and 2001.

Developed, Developing and Least–Developing Countries

The WTO does not have its own formal rules for determining developed, developing and least developed country categories. For LDCs, they follow the UN determination, which considers a bundle of criteria including per capita Gross National Product, human assets (health, nutrition and education levels) and economic vulnerability (size of economy and its diversity). LDCs have populations below 75 million people. There are currently 49 countries on the LDC list. LDCs are a sub–set of the broader category of developing countries. Developed and developing countries are self–selected—although considerable pressure is put on newly acceding members to chose developed, not developing country, status. For example, many of the newly independent former Soviet States of Asia are considered developed despite their economic vulnerability.

What Happened at Doha?

At the Doha Ministerial, Member States chose to link the completion of revised rules for agriculture to reaching agreement on other areas (such as services, investment and intellectual property) included in the Doha Agenda. This so–called "single undertaking" means a series of agreements will be signed as a package – countries cannot pick and choose which agreements they like. Countries hoped to secure an early agreement on agriculture to act as an incentive to make progress in other areas. The agriculture negotiations would then wait for negotiations in other areas to catch up, leading to the signing of a single undertaking on January 1, 2005.

The mandate outlined for agriculture in Doha encompasses several objectives. first, the original objective, taken from the Uruguay Round Agreement on Agriculture, is reprised: "to establish a fair and market–oriented trading system through a programme of fundamental reform encompassing strengthened rules and specific commitments on support and protection in order to correct and prevent restrictions and distortions in world agricultural markets." Then, governments committed themselves to "comprehensive negotiations aimed at: substantial improvements in market access; reductions of, with a view to phasing out, all forms of export subsidies; and substantial reductions in trade–distorting domestic support."

In Doha, many developing countries loudly argued that the AoA had not benefited them, and had actually made situations worse for some countries. A 1999 study by the UN Food and Agriculture Organization (FAO) reviewed 14 country case studies that assessed changes in agricultural trade since the AoA went into effect. The FAO study found that food import surges were hurting local farmers and the wider agricultural sector, which undermined the local economy's capacity to provide food security, employment, economic growth and poverty reduction.

Many of the benefits widely predicted for developing countries with the implementation of the AoA failed to materialize. Where subsidies were reduced or eliminated, production levels did not go down. Most developed country spending on domestic programs was not significantly reduced. World prices for agricultural commodities decreased overall, but at the same time were more volatile, making budgetary planning difficult for food importers. Public stockholding was cut, reducing transparency in the market. Now the largest holders of grain are private trading companies, a small number of whom dominate global grain markets. With the decrease in public stockholding in developed countries, food sales at subsidized prices to developing countries decreased. In 1998, the FAO estimated that the reduction in public stockholding resulted in an average 20 percent price increase for net food importing developing countries.

In Doha, WTO member governments attempted to respond to these problems by reaffirming their commitment to Special and Differential Treatment (SDT) – providing assistance for developing countries by allowing longer implementation periods, less stringent disciplines, occasional exemption from the rules altogether, and obligations of assistance and preference by developed countries. Governments promised in Doha to make SDT "operationally effective." The Doha Declaration also obliges member states "to effectively take account of their [developing country] development needs, including food security and rural development."

However, the proposals now on the table for the revised AoA fall far short of the concrete changes developing countries were hoping for, and the implementation of SDT continues to be controversial within the WTO. Many developed countries continue to deny the fundamentally different needs and problems that confront agriculture in developing countries.

Pillars of AoA

The Agreement on Agriculture (AoA) has three so–called 'pillars': market access, domestic support and export subsidies. In short, the commitments in the agreement require WTO member states to increase market access, and to reduce both domestic support and export subsidy expenditures. The AoA also includes references to non–trade concerns, listed as food security, the environment and special and differential treatment for developing countries.

Domestic Support

The stated overall objective of the domestic support disciplines was to reduce the amount of money going into production that was destined for export.

This area is complex and led to a series of debates on which programs were legitimate for domestic objectives versus those that had a significant effect on trade by artificially increasing production levels (which crowds out potential imports) or facilitating the export of under–priced exports– (which generates dumping). In the end, a number of domestic support categories were introduced, and ascribed various colors as described below.

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

Blue Box: The Blue Box allows countries unlimited spending for direct payments to farms if the payments are linked to production–limiting programs with fixed baseline levels. The U.S. abandoned the programs that it categorized under the Blue Box in its domestic agricultural policy reforms of 1996 (the so–called "Freedom to Farm" legislation). The primary users of the Blue Box are now the European Union, Japan, Norway and Switzerland. A few developing countries have blue box programs.

Green Box: The Green Box allows payments linked to environmental programs, pest and disease control, infrastructure development, and domestic food aid. It also includes direct payments to producers if those payments are linked to a fixed, historic base period (called decoupled payments because they are not linked to current production). Government payments to income insurance and emergency programs are also included in the Green Box.

De Minimis: De minimis is a threshold for spending on domestic support that is exempt from AMS calculations. De minimis levels for developed countries were set in the AoA at 5 percent of the total value of production of all agricultural production, with an additional 5 percent of total value on a per crop basis. Developing countries and LDCs were granted 10 percent for both general and crop specific support. Programs that cost less than the de minimis threshold are exempt from reduction.

The two biggest spenders on domestic support are the U.S. and the 15–country European Union. Many elements of the controversial 2002 U.S. Farm Bill fit under the Green Box, although they still include some $18 billion in Amber Box programs. The U.S. also has a number of programs that fit within the de minimis limits. The European Union continues to rely on the amber, blue and, increasingly, the green box. Most of its programs are above the de minimis threshold. The boxes are beside the point for most developing countries – they do not have the money to provide high levels of domestic support for their farmers.

Market Access

The AoA required developed countries to reduce their tariffs by an average of 36 percent, with a minimum per tariff line reduction (covering a specific product) of 15 percent, over five years. Developing countries were required to reduce their tariffs by 24 percent overall, with a 10 percent per tariff line minimum, over nine years. LDCs were exempt from tariff reductions, but either had to convert non–tariff barriers to tariffs—a process called tariffication—or bind their tariffs, so that in the future no increase would be allowed from the ceiling set. Non–tariff barriers include such measures as volume controls, which are necessary in supply–management schemes where governments seek to limit the quantity of imports available on the domestic market to stabilize domestic prices. All countries were allowed to choose tariffication, which allows countries to utilize a special safeguard (see below).

The Market Access provisions include two important elements:

Special Safeguards (SSG): SSGs are a measure made available to those countries that converted non–tariff measures into tariffs when they agreed to the AoA. Each crop that was 'tarrified' could be protected through the application of a special safeguard. These are tariffs that provide temporary protection against sudden import surges or falls in world prices. Countries could elect to tariffy or to declare a general ceiling for tariffs across all their imports – but not both. It was mainly developed countries that tariffied and thereby gained the right to use the SSG. Only 21 developing countries have access to the SSG provision. Although imperfect, the SSG does offer one of the simplest mechanisms for a country to defend its producers from import surges. A number of developing countries have proposed the creation of a variation on the existing SSG for developing countries only. These proposals are now on the negotiating table.

Tariff Rate Quotas (TRQs): TRQs create a tariff band between duty–free access and the high tariffs that resulted from tariffication to ensure that a minimum level of import access is established. Thus, if the tariff that resulted from tariffication was 150 percent, a TRQ was created to ensure at least five percent of domestic demand could be met by imports through a much reduced tariff level.Export Subsidies

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

Other Issues

The Peace Clause: The Peace Clause, also known as the Due Restraint Clause, overrides the WTO Agreement on Subsidies and Countervailing Measures, which is the reference agreement in the WTO system specifying which subsidies governments are permitted to use. In effect, the Peace Clause prohibits countries from protecting their markets against exporters that subsidise their agriculture, so long as the subsidies are within the obligations undertaken in the AoA. That is, so long as exporting countries conform to export subsidy and domestic support rules, importing countries cannot impose protective measures against their products, even when those imports are priced below fair market prices (a practice known as dumping). The Peace Clause is due to expire in December 2003, which should pressure the EU and others that rely heavily on export subsidies to reach a new agreement on agriculture. The Peace Clause undermines countries' ability to enforce the anti–dumping provisions of the WTO. If allowed to expire, countries will be able to challenge export subsidies and high levels of domestic support, even if they are within the limits set by the AoA.

Non–Trade Concerns (NTCs): Listed in the preamble to the AoA, non–trade concerns include food security, rural development and environmental protection. The European Union has added animal welfare and eco–labeling as NTCs they wish to protect in the next iteration of the agreement. Policies that protect NTCs are generally covered under the green box—if accepted by all the WTO members, they would be exempt from reduction commitments.

Special and Differential Treatment (SDT): As the GATT evolved through several rounds from its inception in 1947, and as a growing number of developing countries became signatories to the agreement, member states established the principle that developing countries ought to be granted greater flexibility than developed countries. SDT is formal recognition of the disadvantages developing countries face in the world trading system. In agriculture, developing countries are seeking a number of SDT measures, including a new special safeguard, access to simpler anti–dumping provisions to protect themselves from dumped production in world markets, and the right to retain tariffs on crops of particular interest to food security and rural livelihoods.

Government Negotiating Positions

In the year after the Doha Ministerial, WTO Members met four times to negotiate a new Agreement on Agriculture. The following section outlines the positions put forward by various countries and country groups. Summaries of the WTO Agricultural Negotiations are available in a Secretariat note entitled "WTO Agriculture Negotiations," published on the WTO web site. More detailed information is available at http://www.wto.org/english/tratop_e/agric_e/negoti_e.htm. The following analysis focuses on the countries and country groupings that are active on agriculture. The analysis highlights the main features of the negotiating proposals and the response they have elicited as of May 2003.

United States

The U.S. released its proposal for the WTO agriculture negotiations in July 2002.

The main elements of the proposal are:

- to eliminate export subsidies over five years;
- to reduce tariffs on agricultural products over five years such that no tariff will exceed 25 percent after the phase–in period; and,
- to reduce "trade distorting" domestic support to five percent of the total value of agricultural production over five years. In other words, to eliminate all AMS down to the de minimis level. For the U.S., this would create a threshold of some $10 billion, given the current value of its agricultural sector.

The U.S. proposal also proposed to include production–limiting payments (those now categorized in the Blue box) in the AMS reduction commitments. This proposal, with the call to eliminate export subsidies, primarily targets the European Union. Developing countries criticize the U.S. proposal for not addressing U.S. food aid policy, which is used to off–load surplus production. The U.S. has also called for the elimination of the Special Safeguard (described above) and allowing developing countries to protect certain products from more substantial tariff reduction by self–designating them as products necessary for food security.

Hanging over the AoA negotiations is the 2002 U.S. Farm Bill. The bill does not include any reduction in export subsidies or domestic support. The 2002 Bill features counter–cyclical payments to farmers enrolled in program crops. These are payments that rise as market prices fall, in an attempt to ensure a minimum price for farmers. Most view these payments as trade distorting because they interfere with the market signal to grow less as prices fall. At a minimum, the Farm Bill violates the spirit of the AoA, which is to reduce government support to agriculture.

The Cairns Group

As of March 2003, the Cairns Group of agricultural exporting countries had 17 members: Argentina, Australia, Bolivia, Brazil, Canada, Chile, Columbia, Costa Rica, Guatemala, Indonesia, Malaysia, New Zealand, Paraguay, the Philippines, South Africa, Thailand and Uruguay. While the membership has changed over time, the Cairns Group has consistently represented a mix of developed and developing countries that identify their primary interest in agricultural trade negotiations as increasing market access for their exports.

The Cairns proposal on the AoA includes:

- A reduction of all developed country tariffs to 25 percent or less and an expansion of developed country tariff quotas to 20 percent of domestic consumption. The Group proposed the elimination of the SSG for developed countries. Developing countries were granted lower tariff reductions (a maximum of 50 percent reduction on tariffs of 250 percent or less) and longer implementation periods. Canada, Malaysia and Indonesia did not sign on to this proposal.

- Led by the Philippines and Argentina, the Cairns Group endorsed a proposal to address dumping which suggests that a new special and differential provision be developed granting developing countries access to temporary countervailing duties against subsidized agricultural products from developed countries. The measure would relieve much of the burden of proof of injury, required under the GATT Agreement on Subsidies and Countervailing Measures. Instead, the proposed rules would allow the presumption of subsidy where a developed country had utilized export subsidies or certain kinds of domestic support.

- On domestic support, the Cairns Group proposed the elimination of all amber box spending over five years for developed and nine years for developing countries. Developed countries would be required to cut amber box spending by half in the first year. Blue Box spending would be eliminated immediately. The de minimis provision would be eliminated over time for developed countries, but retained for developing countries. Some suggestions were also made to tighten the criteria for the Green Box, to ensure it is not abused. Canada again did not sign this proposal.

The European Union

The European Commission (which speaks for the EU in trade negotiations) was unable to present an agreed position from its members until January of 2003, long past the deadline agreed by governments to submit proposals. This reticence reflects the internal political differences among EU member states on how to reform the Common Agricultural Policy (CAP). A recent agreement between Germany and France has made it unlikely that there will be any significant reduction in the use of export subsidies before 2007. The EU has just welcomed 10 new members into the Union, including Poland, which has more farmers than all existing EU members combined. The EU cannot afford to leave the CAP unreformed in these circumstances. However, the WTO process is not likely to be the main driver of reform.

The EU proposal indicates how little reform they are ready for. It includes:

- a proposal to cut export subsidies by 45 percent, but on average rather than per product line;
- a proposal to cut AMS (amber box) levels by 55 percent. However, its gradual shift of payments to the Green Box means this will not require significant change in current policy;
- on tariffs, a straight 36 percent reduction from existing tariff levels (The EU does not support the U.S. call to "harmonize" tariffs by cutting higher tariffs more than lower tariffs);
- for developing countries, duty–free and quota–free access for all farm exports from LDCs, as well as zero tariff access for at least 50 percent of developed country imports from developing countries. The EU proposed a "food security box" that included measures for rural development and to protect food security crops through a special safeguard;
- New "Non–Trade Concerns" include geographical indicators (GI) regarding food products (so that only wine from Portugal could be called porto, and only ham from Parma could be called Parma ham); and
- strong precautionary measures to guide food safety rules, and the right to provide financial incentives for farmers to implement stringent animal welfare regulations. The United States and the Cairns Group have vigorously rejected these proposals.

Like–Minded Group

The group of developing countries that identifies itself as the Like–Minded Group in agriculture define their shared interest as seeking more liberalized agricultural sectors in developed countries while seeking additional protection for themselves. Member countries include Cuba, the Dominican Republic, El Salvador, Haiti, Honduras, Kenya, Nicaragua, Pakistan, Sri Lanka, Uganda and Zimbabwe. India occasionally joins submissions from this group.

The heart of the Like Minded Group (LMG) proposals have been grouped into what is called the Development Box. The Development Box (DB) was first proposed at the WTO agricultural talks in 2000. The LMG was concerned that the liberalization of agricultural trade was jeopardizing their food security and the livelihoods of their producers, especially small farmers, who are among the most vulnerable sectors in their populations. The governments who proposed the DB wanted to create exceptions to the trade rules for countries with scarce resources and significant food security concerns.

Specific proposals include:

- the creation of a simpler special safeguard for developing countries only;
- a proposal that would allow developing countries to raise tariffs on food security crops where experience had shown the existing tariff binding to be too low;
- a joint proposal, submitted by seven members of the group in November, 2002, suggesting that if production of a crop is below an UN FAO determined world average for national production, and if exports of that crop are less than 3.25 percent of world trade in that crop for five years or more consecutively, then domestic support for that crop should not be included in reduction commitments; and
- a proposal to exclude from domestic support restrictions for money spent on transporting staple foods to food deficit areas within the country.

Friends of Multifunctionality

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

The core support for multifunctional agriculture comes from Japan, South Korea, Norway and Switzerland. The EU associates itself with this group, although there are divisions among member countries as to the usefulness, validity and application of multifunctional agriculture.

Japan's comprehensive proposal of November 2002 would leave significant leeway to countries to determine which products to liberalize and how. The proposal leaves domestic support at the levels reached under the existing AoA and seeks to raise market access barriers on rice.

Former Eastern Bloc and Soviet States
The former Eastern Bloc and Soviet States have made only a limited number of proposals. They largely reflect two, sometimes overlapping, concerns. The first concern is from the states that hope to accede to the European Union. This group is careful to reflect EU interests in their statements. The second is from those who recently acceded to the WTO. The WTO accession process famously requires much deeper liberalization than existing WTO rules, which leaves new members in a much–weakened negotiating position. Newly acceded countries, with support from China (another new member) proposed that they be credited for their accession commitments and thus avoid further

tariff cuts for themselves in the new round of agreements. All of these countries want to increase market access for their exports. Many of them depend on agriculture for a significant share of their foreign exchange earnings.

Least Developed Countries

While Least Developed Countries (LDCs) are singled out as a group in the AoA for special treatment, they do not work as a group in any formal sense. Their exemption from a number of disciplines under the AoA, as well as their institutional weaknesses, leads larger countries to ignore them in the negotiations. A number of LDCs cannot afford to maintain a mission in Geneva. They have very limited domestic capacity to develop and pursue a trade policy agenda. They are subject to intense bilateral pressures because of their dependence on foreign aid. They are of limited trade interest because their people are relatively few and poor, reducing the interest of traders in their domestic markets, and their production is too limited to create problems in world markets.

On the other hand, LDCs are very much affected by international trade policies. They often depend on only one or two exports for their foreign exchange revenues, and their export markets are usually heavily concentrated. Thus, they have an important stake in the outcome of the negotiations, yet very little bargaining power to ensure an outcome favourable to their interests. Competing interests complicate solidarity even across LDCs countries. There is now a legal center that provides LDCs with help in using the WTO's trade dispute system, but much remains to be done.

The Harbinson Draft

On February 12th, 2003, the Chairman of the agricultural negotiations at the WTO, Stuart Harbinson, considered the proposals put forward by countries and released a first draft of what a new AoA might look like. Governments were under no obligation to accept the proposal as a basis for negotiations, but it has considerable weight in the next steps for negotiators.

In summary, the Harbinson draft proposes:

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

than or equal to 15 percent would be cut by 40 percent with a minimum per line of 25 percent;

- small tightening of the conditions for programs to be eligible for green box status;
- tightening of disciplines on the use of export credits;
- an outright ban on single–desk selling, which would close down export state trading enterprises such as the Canadian Wheat Board;
- significant tightening of the conditions under which food aid can be included in the green box;
- adding payments for environmental and animal welfare programs to the green box, in recognition of the European Union's proposal;
- a new Special Safeguard (SSG) for developing countries that restricts the SSG to a list of so–called "strategic products" (a proxy for food security crops, defined to take account of livelihood and rural development concerns). Strategic products would also not be subject to the same degree of tariff cuts, although a minimum five percent cut would be required on every tariff line. This proposal also included higher spending limits for domestic support aimed at agricultural development in developing countries.

Initial responses from governments have not been warm. Overall, the United States and Cairns Group have expressed the most satisfaction with the text, although they say they want deeper and faster liberalization (the U.S. is careful to exclude its use of decoupled payments and other domestic support tools from further reductions). The European Union, Japan and other Friends of Multifunctionality have been the most vocal in their disappointment.

Despite loud objections by the most powerful of WTO members, it is likely that the Harbinson text will be on the table in Cancun, although perhaps in a new draft version.

The Harbinson text revives a frequent criticism of the WTO in general and the AoA in particular: that the rules support more powerful member countries at the expense of developing countries. The Harbinson text includes a sharp emphasis on increasing market access among all members without any concession to rebalancing measures that would allow developing countries to protect themselves from the continued use of export subsidies and trade–distorting domestic support in developed countries. Nor does the text mention the Peace Clause, which is due to expire in December 2003 and is sure to provide a major bargaining chip for developing countries throughout the negotiations.

What stands out most about Harbinson's proposal is that there is no mention of the two most damaging effects of current agriculture trade rules – agriculture dumping and market concentration.

Harbinson ignored the proposal from the Cairns Group to make it easier for countries to impose immediate sanctions in the case of dumping. The impact of agricultural dumping from the U.S. and the EU on developing countries has been well documented as the most harmful effect of current WTO agriculture trade rules. Associated with dumping is the growing market concentration within agriculture trade by fewer multinational corporations. This increasing level of concentration is distorting the market and having an impact on global prices. Remarkably, the agricultural trade rules for the world have no antitrust enforcement measures.

Cancun will provide yet another opportunity for these and other issues to be raised at the negotiating table. How negotiators deal with the needs of developing countries, agriculture dumping, and market concentration will go a long way towards measuring the state of the negotiations.

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It is now

up to

governments

to act.

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