

# Still Not Confronting the Real Challenges

## Part II of the Challenges Paper for the Doha Negotiations on Agriculture

### INTRODUCTION

On May 25, Ambassador Falconer released the second part of his Challenges Paper on the WTO agriculture negotiations. Following the release of his first paper on April 30, IATP noted that Ambassador Falconer had missed “the really big challenge, namely how to ensure agricultural rules support sustainable rural livelihoods.” The second installment continues to miss this challenge and still betrays a lack of understanding that some developing countries want development priorities to shape global trade rules, rather than the other way around. As Chair of the agriculture negotiations, Ambassador Falconer offers a serious and considered discussion of the debate among negotiators, yet leaves a number of fundamental issues either untouched or unchallenged. Substantive proposals by developing countries are ignored or dismissed while developed countries are excused from making significant concessions.

With the G-4 (U.S., EU, India and Brazil) meeting intensively over the next few weeks in an attempt to broker a deal that could underpin agreement on the Doha Agenda, it is more urgent than ever that the developing country negotiators who do not see their concerns reflected in the Challenges Paper remind Ambassador Falconer and other WTO Members of where the basis for this negotiation was first laid: not in Doha, but well before, in Article 20 of the Uruguay Round Agreement on Agriculture itself, which calls on WTO Members to ensure a fair trading system for agriculture.

### A MANDATE TO IMPROVE, OR MORE OF THE SAME?

Article 20 of the Agreement on Agriculture<sup>1</sup> committed WTO Members to continued reform, including to learn from the implementation experience; to take account of non-trade concerns, including special and differential treatment; and the need to “establish a fair and market-oriented agricultural trading system.” This determination to learn from experience and to correct mistakes as they became evident was a powerful motivator for many of the developing country negotiators present in Doha: For them, the Doha Agenda was a Development Agenda in part because it would rectify past mistakes. It was certainly not just about more of the same. Mistakes from the last round were to be corrected—mistakes such as tariff bindings made without careful prior analysis, or the lack of an adequate mechanism to ensure developed countries notify their spending on domestic support.

Ambassador Falconer is frank about the limited flexibility expected from developed country negotiators. For instance, he notes the EU’s reform process for the Common Agricultural Policy is not going to change direction or even pace in response to current WTO negotiations on agriculture. Whatever the final agreement, it will have to accommodate the EU’s internal process (admittedly a process put in motion by the last round of commitments and subsequent legal challenges when the European Commission failed to put their Uruguay Round commitments into practice). Ambassador Falconer’s assessment of developing country governments, however, is that they must and should cede ground. This is especially hard on the countries that are net agricultural importers with significant employment in the agricultural sector that want to protect livelihoods, and avoid total dependence on a volatile and increasingly expensive world market. As in the first installment of the Challenges Paper, Ambassador Falconer’s bid for realism slides quickly into asking the South to abandon the challenge of formulating trade rules



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that meet development objectives while accepting rich countries' failure to match free trade rhetoric with action. This one-sided push can be seen in a number of specific areas of the second Challenges Paper, a few of which are touched on below.

### **THE SPECIAL SAFEGUARD MECHANISM**

Ambassador Falconer suggests that the Special Safeguard Mechanism (SSM) is "special" because it is only to be invoked in exceptional circumstances. Obviously, the SSM cannot substitute for a proper tariff structure—countries should not lower their tariffs to levels that threaten domestic producers and then hope to use the SSM to effectively stop the tariff reduction from taking place. However, in the minds of its proponents, "special" did not mean, "only to be used rarely," as the Chair suggests. Rather, it was about the "special" circumstances many developing countries face—not limited to but including: economic distortions caused by commodity dependence, continued high and sometimes crippling levels of external debt, uncompetitive local food processing and distribution markets, highly concentrated global food processing and distribution markets, and no money to protect poor farmers and farm workers from the effects of a volatile global market.

The SSM is intended to help avoid sudden and unsustainable demands on foreign exchange to pay for a sudden increase in imports, or to protect a local market from a temporary but nonetheless devastating import surge of a product that provides local employment and income. Yet Ambassador Falconer proposes its application should be limited to Special Products, or at least, to particularly vulnerable agricultural sectors. Instead, negotiators should determine clear criteria for the use and potential coverage of an SSM, which then would be available to all agricultural products. The SSM should provide a rapid, effective and flexible response to a sudden change in market conditions that jeopardizes local or national economic welfare. When Europe or the U.S. face an unwanted rise in the level of imports of a product, they are all too likely to slap on anti-dumping duties, or to find a technical or sanitary standard that the unwanted imports fail to meet. Developing countries lack the legal and other resources to mount this form of resistance. The SSM is a partial answer to the political reality that no government welcomes unsolicited and abrupt increases in their import levels.

### **PREFERENCES**

Ambassador Falconer's treatment of preferences looks appealingly simple, apparently clearing the way for agreement in a complex area of the negotiations. In practice, he says, the only two products that matter are sugar and bananas. In Ambassador Falconer's assessment, bananas have been an area of contention for years and will need, and get, a separate deal outside the Doha negotiations. And sugar in the EU is already on its own slow path to reform and is again unlikely to be affected much by the Doha negotiations. Falconer then offers some thoughts on remaining issues, offering criteria to identify where there might be a problem (e.g., a high level of dependence on a particular product that enjoys preferential access) and what might be done to moderate the impact of a tariff cut on a MFN (most favored nation) basis.

But Ambassador Falconer's approach misses the point. With just a few sentences, a central issue to the poorest WTO members is reduced to a technical matter about bananas and sugar. He ignores the fact (supported by recent studies from the World Bank, UNCTAD and a variety of think tanks) that the majority of developing country members do not stand to gain from the current WTO negotiations because either they lack the capacity to overcome supply constraints or they are unable to compete in a highly distorted world market. Many of these countries rely on preferential access as one of the few avenues available to them for participation in world markets on fairer terms.

This is not to say that preferences are the perfect answer to those excluded from the trading system. Indeed, as is clear from the Chair's assessment of actual use of preference schemes, existing preferences benefit only a few countries, work for only a few products, and encourage an unhealthy dependency between the donor and the recipient. Nevertheless, there is still an important question as to whether an improved system of preferences might be a necessary part of any system premised on free trade, given the gross inequalities among WTO Member States and the many market distortions still unaddressed by WTO rules.

### **COMMODITIES**

The African Group's proposal on managing trade in agricultural commodities, a proposal that provided some clear ideas on how to address poverty and improve rural living standards in the context of the Doha Agenda,<sup>2</sup> is ignored altogether in Ambassador Falconer's review. The Challenges Paper suggests the proposal be set aside for "expedited study and report." It is as if we did not have 50 years of analysis and experience of trade, development and agriculture to draw upon. As if the commodity crisis and the misery it entails for millions of people is somehow a brand new problem, rather than one of the oldest political and economic challenges confronting the international system of rules. The real problem with the African proposal for the Chair and those countries looking for a quick deal that opens markets is that they cannot accommodate the needs of commodity-dependent developing countries, whose markets are controlled by multinational oligopolies, without accepting the need for stronger underlying commitments to sustainability that cannot be answered by "free" trade.

### **THE GREEN BOX: TIME TO STOP PRETENDING?**

Others have already published their commentary on Green Box (Annex 2 of the Agreement on Agriculture) issues raised in this second installment of the Challenges Paper, particularly Aileen Kwa<sup>3</sup> and Jacques Berthelot.<sup>4</sup> The discussion of the Green Box in the second Challenges Paper suggests that WTO Members are no closer to simplifying the categorization of domestic support mechanisms, or to successfully discipline what has become an area of significant expenditure for a number of developed country governments. It is hard to argue that a payment is decoupled from production if periodic updates of the base period are allowed—indeed, it is hard to justify continuous rather than gradually diminishing payments. If developed countries want to support their agriculture with regular payments, they should do so, but they should be clear about what they are doing. Greater

transparency and honesty in this area, with real and enforced obligations for timely notification, rather than a masquerade that talks about liberalization but does not practice it, would better serve all Member country interests. The current debate, and Ambassador Falconer's summary of that debate, only encourages cynicism among those countries without the budgets to make endless kinds of payments more (or less) disconnected from production.

IATP has argued elsewhere for a more interventionist approach to agriculture. In our view, the goal is not to perfect decoupling, but to take a more honest look at how agricultural markets work and tackle the biggest current source of distortion—concentrated market power in the hands of private firms. We also believe there are market failures peculiar to agriculture that are not readily addressed by the invisible hand of the market. Some kind of public investment in agriculture seems to us appropriate, and we support regulations that acknowledge the nature of the market, too (learning from the energy sector, for instance), rather than striving for perfect competition rules in very imperfect situations. That said, if Ambassador Falconer believes that further liberalization should drive the negotiations, then at a minimum he should push harder on developed countries to do their part.

### **ONE-SIZE-FITS-(ALMOST)-ALL OR A DYNAMIC AND RESPONSIVE TRADING SYSTEM?**

Ambassador Falconer writes that given the specific circumstances of many individual WTO Members (he uses Malawi's dependence on tobacco exports as an example) it is not possible to derive one-size-fits-all rules in agriculture. This is wisdom the Cairns Group and U.S. in particular are badly in need of. Indeed, the one-size-fits-all approach to trade policies sought by a number of WTO Member States and reflected in many of the Uruguay Round Agreements, has created the mess reflected in the second installment of the Challenges Paper, with all the different exceptions that now need to be defined and agreed.

This approach also drives WTO Members to form subgroups, based on a common understanding of their need for increased flexibility, whether Small and Vulnerable Economies, Recently Acceded Members, countries dependent on tropical products, or countries dependent on preference schemes. The result is a mess of overlapping categories and proposals that are too often limited to longer implementation periods, or exemptions from proposed disciplines that leave underlying structural weaknesses unaddressed.

There are too many different situations to accommodate all countries' needs in this way, and countries' circumstances and stages of development are constantly shifting. Consider the situation of a number of the Balkan states: in the past 25 years some of them have gone from membership in the Eastern Bloc, to bloody civil war and now an uneasy peace. Developed or developing does not seem the right question to ask in such a case—their trade needs differ and are evolving, and their future will depend on whether they have or will join the EU, what continuing trade there is with Russia and former Soviet States, and whether and how the region will eventually reintegrate economically. Is China developed or developing? WTO members could not decide. What of

Iraq, now looking to join the WTO—how will its needs best be met? Rather than trying to fix categories of countries, it would be worth exploring how to provide for particular needs based on a set of criteria that are available to all WTO Members that satisfy the criteria. Using such criteria as commodity dependence, market dependence (do they trade overwhelmingly with one or two partners, or a real mix of countries?), supply constraints, capacity to withstand a foreign currency crisis, and so on, could create categories that countries may move in and out of, and would likely be more useful in building a responsive and practical set of trade rules.

### **CONCLUSION**

It is long past time for WTO Members to decide what they want from the Doha negotiations. The pretence of a development agenda has long since been dropped. For agriculture, the Challenges Papers make it clear that the Chair, for his part, sees only a limited role for the proposals currently championed by the G-33, which themselves are still far from a comprehensive development agenda for agricultural trade rules. From Ambassador Falconer's perspective, within the limitations of what the developed countries will concede, it is time to wrap up an Agreement on Agriculture redux. This is a blow to the credibility of a multilateral trading system that promises to deliver full employment and sustainable development for all.

An honest reflection on implementation experience, something governments committed to in Article 20 of the Uruguay Round Agreement on Agriculture, would set the stage for quite a different agenda, one that included measures to redress the imbalances and inequities of the first agreement, and one that looked harder at the impediments to realizing a "fair and market-oriented" trading system. How much longer can global institutions avoid tackling some of the biggest trade distortions, such as grossly concentrated market power in global commodity markets?

### **References**

1. "Article 20: Continuation of the Reform Process"  
"Recognizing that the long-term objective of substantial progressive reductions in support and protection resulting in fundamental reform is an ongoing process, Members agree that negotiations for continuing the process will be initiated one year before the end of the implementation period, taking into account:  
"(a) the experience to that date from implementing the reduction commitments;  
"(b) the effects of the reduction commitments on world trade in agriculture;  
"(c) non-trade concerns, special and differential treatment to developing country Members, and the objective to establish a fair and market-oriented agricultural trading system, and the other objectives and concerns mentioned in the preamble to this Agreement; and  
"(d) what further commitments are necessary to achieve the above-mentioned long-term objectives."
2. The African group proposal can be accessed on <http://www.tradeobservatory.org/library.cfm?refID=88066>; as well as IATP's analysis of the proposal: <http://www.tradeobservatory.org/library.cfm?refID=88129>
3. Aileen Kwa, *The Dirty Green Box*, 26 May 2007.
4. Jacques Berthelot's analysis can be downloaded from <http://solidarite.asso.fr/home/Agriculture06.php>

