WTO Agricultural Negotiations

The New Blue Box Proposal on Domestic Support and the Doha Development Round

"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

World Trade Organization (WTO) members recently completed the July 4-8 week of agricultural trade negotiations in Geneva in preparation for the July 12-13 mini-ministerial of 30 members in Dailin, China. One question that trade ministers and Geneva based negotiators should deliberate is, "How will each and every provision of the new Framework for negotiations advance the 'development dimension' of the Doha Development Round?"[1]

A recent proposal by six African countries to the WTO agricultural negotiations committee answers this question by issuing the following challenge to their fellow negotiators: "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 in dealing with the problems posed by declining commodity prices."[2] Unfortunately, almost none of the measures the six African countries proposed, including supply management measures—authorized under the General Agreement on Trade and Tariffs, Article XI—are considered as part of the "adequate structure"[3] for the negotiations in Dailin. The lack of political will to negotiate instruments to reverse the long term decline in commodity prices, combined with misrepresentations of increased official development assistance, are resulting in a destabilizing "neither trade nor aid" situation.[4]

The contribution of agricultural export revenues to most developing countries is in decline. The Food and Agricultural Organization's *State of Agricultural Commodity Markets* (*SOCA 2004*) concludes "the long-term downward trend in agricultural commodity prices threatens the food security of hundreds of millions of people in some of world's poorest developing countries where the sale of commodities is often the only sources of cash."[5] The *SOCA 2004* notes, "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."[6] FAO reports an inflation-adjusted, aggregate agricultural commodity price decline of 2 percent a year for the past 40 years, and states, "prices of some commodities have also been driven lower by oversupply, fueled by intense global competition in production, reduced transportation costs, and new technologies that have increased productivity and introduced synthetic alternatives to some commodities."[7]

Trade policy alone cannot address all the factors that have contributed to this long-term price depression and its effects on development. However, the incidence of farm family malnutrition in formerly self-sufficient basic crop areas—what an Indonesian proverb calls "the chicken dying of starvation in a rice barn"[8]—should move even the most fervent advocate of agricultural trade liberaliza-

tion to look hard at whether the current proposals to revise the Agreement on Agriculture (AoA) will continue to depress prices, facilitate agricultural export dumping, and contribute to the deaths of more "chickens."

Expanding the Blue Box

In Dailin, negotiators will have to consider, among other trade-offs, whether expanding the Blue Box to include U.S. counter-cyclical payments to farmers to make-up income lost from low market prices "is critical to ensuring that we get a 'development return' from the Round."[9]

The Group of 20 (G-20) developing countries has proposed several criteria to ensure that the revolutionary expansion of the Blue Box in the Framework does not result in a still greater expansion of trade-distorting support than was permitted under the Uruguay Round. However, the United States has repudiated the proposed criteria, stating that all criteria had been agreed in July 2004, although paragraph 14 of the Framework allows for "new criteria" to be negotiated to ensure that "Blue Box criteria are less trade distorting than AMS measures." AMS measures, of course, are subject to greater reductions.[10] The new Blue Box includes a proposed cap on total spending, but not a particularly onerous cap: 5 percent of the total value of agricultural production in the country concerned. The U.S. response suggests if there is "first approximation" by the Hong Kong ministerial to negotiating the new Blue Box supports, it could be the last.

The following analysis briefly outlines the history of the Uruguay Round Blue Box and some likely consequences of its proposed expansion in the Doha Round. Finally, we consider the prospects for a "development return" from the Doha Round if the "first approximation" definition of the Blue Box becomes the Doha Round definition.

Origins of the Uruguay Round Blue Box

Article 6.5 of the current AoA, otherwise known as the Blue Box, states, "Direct payments under production-limiting programmes shall not be subject to the commitment to reduce domestic support if..." followed by three conditions that farm programs have to meet to be eligible for exemption.

The first Blue Box resulted from U.S.-European Commission (EC) negotiations on the Uruguay Round proposal first designed by a former Cargill executive working in the Reagan administration. The proposal called for an immediate ban on all quantitative import controls in exchange for eventually eliminating domestic support programs to farmers through a plan of "decoupling" domestic support from price and production considerations, i.e., detaching producer income from prices based on market supply/demand fundamentals. Unfettered access to imported commodities would give transnational agribusiness the leverage to drive down domestic prices for agricultural raw materials.[11] According to Mark Ritchie, "the 1992 [EC] Common Agricultural Plan was a nearly complete capitulation to the decoupling demand of the United States, taking on a huge budgetary expense [of direct income support payments] and sending the EC down the road toward dismantling much of the CAP in the future."[12]

Following the May 1992 CAP reform, the Blue Box was established as part of the November 1992 "Blair House Agreement" between the U.S. and the EC to allow income support payments to landowners if they were decoupled from prices and production in production limiting programs. The EC production limiting programs were the continuation of bilateral agreements with the U.S. to guarantee U.S. oilseed exports to EU member states by limiting oilseed acreage in those EU states, thus ensuring dependency on the U.S. for oilseeds.[13] As Allen Johnson, the president of the National Oilseed Processor's Association (until recently the chief U.S. agricultural negotiator for the U.S. Trade Representative) noted, the Blair House Agreement enabled the U.S. and EU "to protect their major farm program payments from Uruguay Round reductions through the so-called `blue box.'"[14]

Why the U.S. wants to undermine the purpose of the WTO Blue Box

The U.S. need to break open the Blue Box is the result of policy choices designed by agribusiness lobbyists and

approved by Congress in the 1996 and 2002 U.S. Farm Bills. The 1996 Farm Bill removed land set-aside policies and other tools to bring land temporarily out of production. The result was chronic over-production, in turn forcing a spate of new, expensive government interventions, including income support payments, to avoid catastrophic knock-on effects in rural areas, especially on rural banks.[15] As a result of these policy choices, U.S. prices for major row crops (corn, soy, wheat, and rice) collapsed between 34 and 42 percent from 1996 to 2000.[16] Rather than address the root causes of the price collapse,[17] many Farm Bill critics have sought to target the symptom of the agricultural market failure—subsidies. As a senior farm organization official and former member of the U.S. Trade Representative's Agricultural Policy Advisory Committee 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."[18]

The use of emergency payments to compensate farmers (technically, the owners of land farmed in Farm Bill program crops) after the price collapse resulting from the 1996 Farm Bill was institutionalized as counter-cyclical payments in the 2002 Farm Bill. Counter-cyclical payments pay farmers the difference between the target price for a commodity set by the U.S. Congress (which is today below farmers' cost of production) and the national average market price or the loan rate price set by Congress, whichever is higher.[19] Less technically, counter-cyclical payments compensate qualified farmers for the failures of the Farm Bill commodity programs to ensure market-based prices. The Organization for Economic Cooperation and Development reports in its review of U.S. agricultural policy, "In 2004, a six fold increase in payments under the marketing loan and counter-cyclical programmes was triggered by lower prices."[20] Since this increase in domestic support contradicted Doha objectives, a diplomatic offensive was undertaken to legitimize the Farm Bill in a 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 counter-cyclical support—into the blue box, something not possible under current rules."[21]

The U.S. has to find a new window at the WTO for domestic support payments reintroduced in 2002 to cope with depressed commodity prices because of the recent WTO Dispute Panel ruling in the Brazil challenge to the U.S. cotton program. The Dispute Panel ruled that the U.S. categorization of countercyclical payments as unconstrained Green Box payments (under Annex 2 of the AoA) is WTO-illegal. Furthermore, the Appellate Body rejected U.S. arguments that counter-cyclical payments for cotton did not violate U.S. commitments.[22] Until the Doha Round review of the AoA is concluded, the U.S. is vulnerable to further disputes because it has not respected the spending limits it agreed to in signing the Uruguay Round AoA. Hence the U.S. push to expand the Blue Box and thereby increase flexibility for its domestic support programs.

How the proposed Blue Box will distort trade more and make it less market-oriented

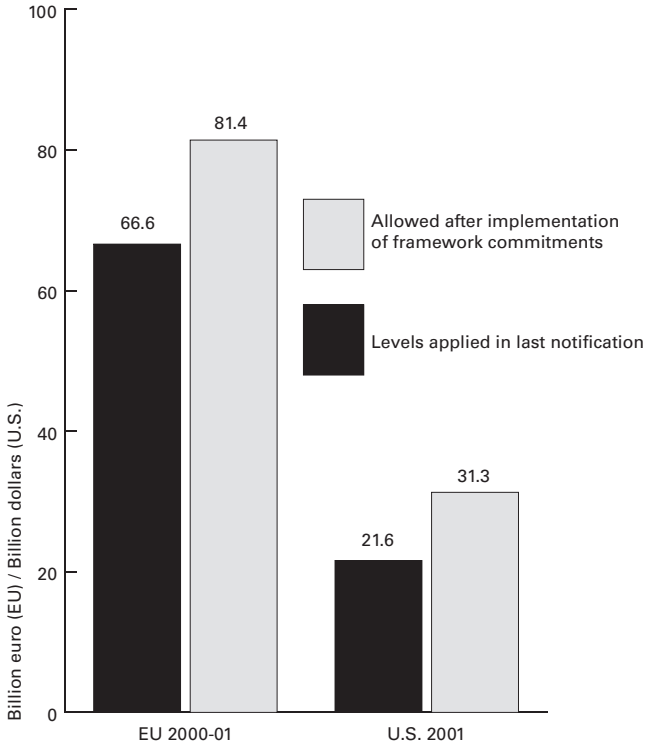
The key passage in the Framework for undermining programs that limit production begins at paragraph 13 of the Framework:

- 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% or less of a fixed and unchanging base level of production.

Prior to the fait accompli presentation of the Framework to Members, the G-20 had offered proposals to amend Article 6.5 to tighten the criteria for use of domestic support. A comparison of the G-20 amendments and deletions proposed at a July 23, 2004 Heads of Delegation meeting to the final Framework text shows that with very few and minor exceptions all G-20 proposals were rejected by Ambassador Tim Groser, the chair of the agricultural negotiations, on the grounds there was no consensus in their favor. The U.S. proposal to expand the Blue Box carried the day in Geneva.

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,"[23] particularly by allowing price-related support, such as the U.S. counter-cyclical payments. If the U.S. had notified counter-cyclical 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. ABARE estimates that countercyclical payments will average about $7 billion a year over the 2002-2007 Farm Bill, while the largest U.S. AMS notification was for $16.9 billion in 1999.[24] 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."[25]

Table 1. Levels of EU and U.S. domestic support allowed after implementation of Framework Agreement commitments



Source: Calculations by Fabio Napoletano based on: U.S. Notification to the WTO, WTO document: G/AG/N/USA/51 (Marketing Year 2001); E.U. Notification to the WTO (Marketing Year 2000/01), WTO document: G/AG/EEC/49; July Framework Agreement, WTO document: WT/GC/W/535

In the following chart (lower left), IATP estimates U.S. and EU domestic support payment levels, including Blue Box payments, allowed after the implementation of Framework commitments, compared to the levels of domestic support last notified by the U.S. and EU in marketing year 2000/2001.

These estimates of increased domestic support figures, after the Framework proposed "reductions," track closely with ABARE's domestic support estimate for the U.S., with Oxfam's estimates for the U.S. and the EU,[26] and with the exhaustive analyses of Jacques Berthelot, agricultural economist.[27] Surely every delegation must now be clear that the Framework proposals to reduce domestic support payments are very likely to result in greater permitted domestic support than what was allowed under the Uruguay Round.

Ambassador Groser's June 27, 2005 assessment of the state of play of negotiations is that "the structure of this formula [for reducing Trade Distorting Support] will be driven by the data."[28] The aforementioned data show the likelihood of greater trade distorting support resulting from Blue Box expansion, although "the objective here is to ensure that Blue Box payments are less trade-distorting than AMS measures."[29] But if Blue Box expansion results in greater trade distortion and the U.S. succeeds in imposing the expanded Blue Box on the rest of the WTO members, what can they do to counter this reversal of trade reforms. In other words, how can they foster the "'development return' from the Round" that Ambassador Groser has identified as his priority as Chair?

What is to be done for development via Framework proposals?

We accept that a critical mass of WTO members do not wish now to develop strong and readily usable disciplines to prevent agricultural export dumping, such as IATP has proposed. Similarly, we accept that there is little Member support for expanding the supply management exemption allowed in GATT Article XI to enable market forces to improve commodity prices.[30] That being the case, what is offered in proposals for the domestic support "pillar" of the Framework that might enhance prospects for food security, livelihood security and rural development in developing countries?

Ambassador Grosser cautions that "in order to achieve their social and other non-trade concerns, it is obviously desirable that developing countries, as they gain increasing financial strength, look directly to the Green Box as the appropriate avenue for policies, targeted at their social, political and other non-trade concerns, rather than utilizing trade-distorting support."[31] This advice, however sincere, suffers from at least two defects. First, the externalization of trade-related problems, such as food security, as "non-trade concerns" has made it extremely difficult to have a frank dialogue about what food security entails, much less to make actual progress in attaining the non-binding objectives of the AoA Preamble. If the WTO is going to make claims about contributing to development, then it needs to identify trade policy instruments to carry out those claims that today are conveniently externalized (and shelved) as "non-trade." As World Bank economist, Bernard Hoekman, has pointed out, although "the ambit of the WTO increasingly extends beyond trade policy," current Special and Differential Treatment instruments are inadequate to realizing trade-related development objectives, and there are no mechanisms "to monitor the effectiveness of policies justified under SDT (Special and Differential Treatment) provisions."[32]

Second, and more specific to the Blue Box, is the question of what developing countries are supposed to do when developed countries continue to preach the virtues of reduced trade distorting support while negotiating to increase the right to practice the vice they claim to abhor. The G-20 has suggested further disciplines on the expanded Blue Box payments to exclude commodities that already receive other forms of trade-distorting support and to cap non-production limiting Blue Box payments by product.[33] Since U.S. support is concentrated in a small number of program crops, particularly those used for feedstuffs that enable highly subsidized meat and dairy exports,[34] it will be very difficult for the U.S. to agree to the proposed further discipline. The G-20 proposals would also depend on prompt and stringent notification of all domestic support and export subsidy payments to the WTO, something WTO members cannot or will not provide. The U.S. thus far has refused to discuss the G-20's proposed tighter notification procedures, even though notification is the bedrock of transparency in the "fair and open agricultural trading system" mandated by the Doha Declaration.[35]

Regardless of the expected difficulties posed by the U.S. negotiating positions, it is only logical to attempt to lessen the damage done by the agreement under the July Framework to expand the Blue Box. The proposed expansion of the Blue Box is a travesty. The U.S. has been found by the Appellate Body in the cotton subsidies ruling to spend more than its already extraordinarily generous allowance on agricultural support. If the U.S. is determined to roll back the Uruguay Round domestic support disciplines, then it ought to pay by allowing other countries similar opportunities to reverse the reform process: perhaps a few developing countries might like to raise a tariff ceiling or two? There is no reason that developing countries should pay the price for the policy and market failures resulting from badly designed Farm Bills and wholly misguided efforts at domestic reform of agriculture in the United States.

Written by Dr. Steve Suppan
Director of Research, IATP
ssuppan@iatp.org

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