BRIEFING PAPER

Farm Agenda at the WTO

The 'Key' to Moving the Doha Round

Agriculture continues to dog the debate at the WTO, with a knock-out effect on nearly all other issues under negotiations. Following the Cancún debacle, negotiators are locked in at Geneva to move the agenda forward. There is a 20-yard movement, but it is slow. Therefore, one needs to understand why agriculture trade talks drag all the time, and how they always feature as the make or break of the international trading system.

Agriculture in all its manifestations has always been a sensitive and emotional issue for all countries, but it is more so for the poor countries of the South. It is the source of livelihood and employment for millions of people who depend on it for sustenance. Thus, the deadlock on this issue in the arena of trade negotiations comes as no surprise to many. From the time one can remember there has been a tussle between the rich countries like EU and the US on the one hand, and the developing countries like Brazil, India and South Africa on the other hand to discipline the farm regime in the WTO in their favour.

Agriculture in GATT/WTO

Agriculture came into the international trading system when the WTO was established in 1995. In 1947, when the General Agreement on Tariffs and Trade (GATT) was established, trade in agriculture was the last thing on the mind of the member countries. The countries were more concerned about promoting their domestic agriculture sector rather than international trading in agricultural goods.

On the insistence of the US, nations were granted exemption from Articles XI and XVI of GATT, which meant that they could freely support their farmers through subsidies and domestic support. Hence, in the initial years, "big brother" US was also interested in protecting its own domestic market rather than engaging in trade and followed a protectionist approach with high tariffs and import quotas.

The 1960s saw a change in the attitude of the US and other countries as well. This was because of two reasons: firstly, by then the US had large stock of food grains and when these stocks were offloaded in the domestic market it infuriated the farmers, because prices crashed. Secondly, the entry of the Soviet Union as a major food importer even though it had the potential to be a major food producer created panic amongst the farmers in US and elsewhere. The panic was due to the fear of shortage of food and rise in prices, as Soviet Union became a major buyer of food grains. Consequently, the farmers raised barriers to protect themselves.

All this turmoil and uncertainty combined with pressure from the big powers renewed the multilateral efforts to improve the trade rules in agriculture.

According to Table 1, it is quite evident what role agriculture plays in the economy of both poor and rich countries.

When the Uruguay Round (UR) was launched in the summer of 1986, a group of net-food exporting nations (both rich and poor) demanded the inclusion of agriculture on the negotiating agenda. This group wanted to push for liberalisation of agriculture trade as much as possible. This group was later christened as the Cairns Group after the name of the Australian island where they met to formalise their club rules. If their demand was not acceded, the Round would have moved far slower that it actually did. This was the trade-off that they sought to agree to a list of demands being made by the US and EU, such as intellectual property rights, etc.

However, during the initial years of the UR talks, agriculture remained dormant and it was only after almost six years that the conflicts between the US and EU, on domestic subsidies, came to the fore. Subsequently a deal was struck on tariffs, including subsidies, and many of the unfinished items were left for future negotiations, or what in WTO parlance is called a built-in agenda.

Table 1: Facts and Figures on Agriculture (in %)

Category	South	North
Employment	70	4.0
Contribution to GDP	34	1.5
Foreign exchange earnings	27	8.3
Nature of Agriculture	Subsistence	Export oriented

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UR Outcomes on Agriculture

One of the major outcomes of the UR was the Agreement on Agriculture, which along with the Agreement on Textiles & Clothing were new to the GATT disciplines. Besides these two, three new-new deals were struck: TRIPs, TRIMs and Services. The farm accord reflected the shared agenda of the US and the non-European grain exporting countries like the Cairns Group, to push for as much liberalisation of agriculture trade as possible.

The agriculture agreement, which came into effect from January 1,1995, essentially focused on three areas: export subsidies, market access and domestic support. The fourth pillar in agriculture negotiations was food and safety standards etc, which was settled by the adoption of agreements on SPS and TBT. These instruments existed in the GATT as Codes. However these accords would also have mixed consequences for the South. There was also a section (in AoA) on non-trade concerns, like food security, rural development.

Article 20 of the Agreement on Agriculture negotiated during the Uruguay Round mandated the continuation of the negotiations in agriculture, the built-in agenda. These negotiations began in March 2000 and stocktaking of the advances and proposals took place in March 2001 in preparation for the Fourth WTO Ministerial Conference in Doha, Qatar (9-13 November 2001). The whole Doha Round, including the agriculture talks, are scheduled to end by January 1, 2005 and the implementation of tariffs and subsidy cuts agreed to in the negotiations would be implemented from January 2006. However, the time period of concluding the Round now seems to stand extended, due to the failure of the Cancún meet.

To define the issues under the AoA, a traffic sign analogy was adopted. Red denoted all subsidies as banned from day one, while the Green colour was adopted for permissible subsidies. Amber was chosen to define such subsidies, which would be reduced over time as per member's commitment. Another colour, which doesn't exist in the traffic light system, but was used is Blue. It is used to define subsidies that are tied to programmes that limit production. However, this system is not quite that simple. 'Box' was the term used (e.g. red box) to describe the subsidies.

These boxes meant that while some subsidies will be banned outright others might be reduced gradually through future negotiations. All domestic support measures which are considered "production and trade distorting" fall into the ambit of the amber box, which is defined in Article VI of the AoA. While developed countries are allowed to support five percent of agricultural production, it is ten percent for developing countries. The members that have larger subsidies than the "de minimis" level at the beginning of the post Uruguay Round are committed to reduce these subsidies within 10 years.

The blue box has been put in place to check over supply of a farm good. For instance a farmer might be given a subsidy to keep some or all of his entire land fallow, i.e. to not produce. The green box subsidies are those, which are the least trade distorting and include subsidies on research and development, safety net programmes, etc.

As per the UR agreement, as far as the numbers are concerned for reducing subsidies and protection, rich countries had to reduce their tariffs by 36 percent over the six-year period of 1995-2000 and the poor by 24 percent over the ten-year period of 1995-2004, subject to a minimum reduction per product by 15 percent and 10 percent respectively. This was done cosmetically, as tariffs were pretty high in the base year of 1988. It has had no significant impact.

The Peace Clause

Much discussion has taken place regarding the merits and demerits of this agreement and its effect on the developing countries. A major part of these discussions have been regarding the much-debated Article XIII of the AoA, the peace clause. The so-called "peace clause", agreed during the UR, granted immunity to farm subsidies from being attacked under the WTO's disciplines, which prohibit action against subsidies under the normal procedure of the Agreement on Subsidies. This immunity provision expired at the end of 2003. This has lead to the incidence of the major developed countries being exposed to the risk of their subsidies being attacked by other countries through formal disputes.

However,Brazil cast the first stone in this instance, even before the expiry of the peace clause. It challenged America's cotton subsidies, arguing that they violate a term in the peace clause that caps subsidies at 1992 levels. According to Brazil, the subsidies provided by US are way above the limit set under the clause. There is also a difference of opinion regarding the exact expiry date of the peace clause, with US stating that for the countries whose accounting was based on 1995, the peace clause will expire after another six months.

Along with two other Cairns Group members: Thailand and Australia, Brazil has also dragged the EU on another case involving sugar. The EU has been charged with subsidising surplus sugar for export beyond its WTO-agreed limit. However EC has refuted these allegations and has denied that it is illegally exempting sugar imported from certain ACP states from its export subsidy reduction commitments.

Now the clause has expired, other targets will present themselves and other countries may join the fight. WTO members will be able to challenge any subsidy reserved for a specific industry (sugar subsidy, for example) that can be shown to cause "serious prejudice" to their interests The US cotton case and the EC sugar case are clear examples of the tussle between the two farm blocks in relation with the peace clause. Both the cases were initiated before the expiry of the peace clause and are not related to the expiration of the peace clause *per se*.

Now that the peace clause, which had kept the WTO members from going after each other's jugular, has expired, trade pundits predict trade disputes turning into battles. Therefore, it is quite evident that the major developed countries, the US, EU, Japan and Korea will be very keen to continue with the "peace clause". However, the peace is over; do we see the beginning of a war?

The peace clause, negotiated under the AoA to protect their subsidies, has now come under attack. The EU had hoped to wangle an extension of the peace clause at the WTO's ministerial meeting in Cancún, Mexico. But the Cancún talks fell apart when the G-20, an ad hoc coalition of developing countries, proved to be feistier than anticipated. Indeed, as one EU official told the Associated Press: "In this sort of atmosphere, everyone might start throwing things at each other" therefore the main reason for the failure at Cancún was agriculture. The members could not come to an agreement regarding the modalities for agriculture negotiations. At Doha, it was agreed that the framework for the modalities of the negotiations will be agreed to in March 2003, but that did not happen.

Agriculture in Post-Doha Scenario

But what raised the hackles of WTO members was the US move just after Doha, which raised domestic support to farmers. Though the increase was within the ceiling on the Aggregate Measurement Support (AMS) the so-called "amber" box, it queered the atmosphere. Added to this, the steel tariffs and increase in other protectionist measures, sapped the confidence of the trading partners, and raised doubts whether the US is actually serious about trade liberalisation.

Table 2 shows the various degrees of protection provided by countries to their agriculture sector. Japan and EU definitely lead the pack with Japan having an average protection rate of 93.7 percent. It is this protection in the form of export subsidies and domestic support, which is a bone of contention among the WTO members. While India might be having a high bound tariff, the applied tariff is much lower compared to other countries.

To move forward on the farm agenda, and kick-start the stalled Doha Round, the WTO members met in Geneva from 22-26 March 2004. Different viewpoints have emerged regarding the outcome of this meeting. While it is easy to say that the talks failed, what we need to keep in mind before believing this is that agriculture is an extremely sensitive issue and every little step taken is worth every bit. The Committee on Agriculture (CoA) has decided to meet every month for the next three months and have a final meeting in July 2004 where effort will be made to conclude a final deal.

There is immense pressure on the EU to bring down their agriculture subsidies while the EU has been refusing to commit to a reduction date. This is definitely

Table 2: Protection Rate in Agriculture

Country	Average Protection (in %)
India	40.8
Japan	93.7
EU	58.6
US	31.4
Canada	32.7

Source: UNCTAD

not being taken well by the developing countries like India, who have refused to cut their farm tariffs till the subsidies by developed countries are cut down. Today, the European Union faces numerous and intense challenges from virtually every direction.

Farm Subsidy: The Actual Sum?

A recent spat between EU trade supremo: Pascal Lamy and WTO chief: Supachai Panitchpakdi shows the desperation in EU. In order to defend its indefensible position, Lamy attacked Supachai by relying upon its own peculiar interpretations of the agriculture protection in EU. In a letter, Lamy said that the OECD estimates of $300bn annual producer estimates in its 30 member countries has been arrived at by putting monetary value on tariff protection and price differences between markets, and that the actual subsidies are much lower. EU said that the honest figure would be around $100bn for all OECD and less than $45bn a year in the EU.

Responding to the debate, the OECD secretariat said that the figure of approximately $300bn includes not just direct support, but general services for the farm sector, which include research and development. More importantly, the amount of transfers to producers include support provided through artificially high prices paid by consumers due to high import tariffs and export subsidies. Thus the total support to farmers in the EU through both these mechanisms was $106bn. Of this $61bn came from consumers and $45bn from taxpayers.

The EU's Common Agricultural Policy, characterised by government intervention at all levels, consumes about one-half of the total EU budget annually. It continually stimulates surplus production that must be subsidized into export markets where it dominates trade, distorts market prices and limits competition. At home it sharply boosts consumer prices. And, the CAP soon could become even more expensive as ten new member countries have joined the EU.

According to Table 3, EU and US steal the cake when it comes to direct subsidies with Japan following closely. EU gives support worth over $104bn to its farmers and three quarter of this support comes in market distorting forms directly, related to products and inputs. It is this category of subsidies that need to be reformed and is of primary importance to trade.

Table 3: Direct Subsidies in OECD Countries (in mn •)	
Country	Amount
EU	103,937
USA	54,715
Japan	52,750
S. Korea	18,801
Mexico	7,299
Switzerland	4,706
Canada	4,386
Norway	2,427
Poland	1,616
Australia	923
Source: OECD, December, 2001	

Some Other Developments

In an interesting move, according to the Financial Times, London, the EU plans to split the opposition, both the Cairns Group and G-20 by weaning away the Mercosur block: Argentina, Brazil, Paraguay and Uruguay,through preferential trade concessions. These countries have been the most ardent adversaries of the EU in farm trade talks. The offer, which is expected to amount to nearly one third of the total agricultural trade concessions to these four, will be offered as a *quid pro quo* if the EU can get better market access through lower industrial trade barriers, investment liberalisation and opening of services and government procurement. As icing on the cake, the EU has promised to go further, if these four refrain from pressing EU to liberalise its agriculture. In the words of Jose Alfredo Graca Lima, Brazilian ambassador to the EU: "Brussels plan was 'very innovative' and could 'legitimise' the CAP in international trade negotiations".

This plan will certainly anger other farm exporting nations such as Chile and Thailand, which belong both to the Cairns Group and G-20, as well as the richer countries such as Australia and New Zealand. For them it will be a double jeopardy, as it will out- price their own exports to EU and break their united efforts in pushing the Doha round. Lima feels that both India and China will not have any objections, as they are not exporters to EU. Secondly, EU's deal with the four Mercosur countries does not include export subsidies, which will remain on the Doha agenda.

Recently, in May 2004, EU trade commissioner Pascal Lamy, in order to give an impetus to the dragging agriculture talks, has suggested a major cut in the subsidies given to domestic farmers in EU. While this move has been described as a "significant step" by some countries, France has not taken it nicely and has stated that it will block trade deals unless other countries offer similar concessions too.

If the EU's plan succeeds, then it will certainly affect the solidarity of the G-20 and Cairns Group. However, one wonders if it will be such an easy task, as there are other considerations too, and the jury is still out. Be that as it may, a decision needs to be made before August 2004 because after that EU will be busy appointing its new Commission and US will have its presidential elections, which would again cause a time lapse.

Conclusions

If the EU and US want to move and wrap up the Doha Round, they will have to respond to the G-20's justified demands. This might prove to be a tedious and much disliked task for EU because it will have to consider the demands of G-20 regarding ending all subsidies and providing better market access. It will also have to respect the specific commitments with smaller ACP countries (the Cotonou agreement) and to all least developed countries (the Everything but Arms initiative), which contain preferential but limited access to the EU market. But then yet again, it is bound to the compromise recently reached on the reform of CAP.

The EU and US argue that the developing countries need to reduce their tariffs that act as very strong non-trade barriers. But if we see the figures we will realise that developing countries like India might have high bound tariffs but the applied tariff rate is quite low. Also developing countries face market access problems due to the subsidies given by these developed countries like Japan and EU. The countries cannot compete with the low prices prevalent in these developed countries and thus lose out on markets. Also sometimes developed nations put prohibitive tariffs on products, which the developing countries are exporting, somewhat like Japan's 800% import tariff on rice.

Sanitary and Phytosanitary measures (SPS) are on the other hand, non-tariff barriers (NTBs) used by many developed countries to restrict market access of developing nations. For instance, in a study by World Bank, it was argued that the standard of aflatoxins (natural contaminants) implemented by EU were much higher than the agreed international standards and will have a negative impact on African export of cereals, dried fruits and nuts to Europe. As a consequence, Africa (9 African countries) incurred a total negative loss of $1070mn, which translates into 1.5 million man-days of jobs. There are various similar instances of NTBs, which prevent poor countries from expanding their markets, increasing income, creating more jobs and reducing poverty.

Keeping in view this state of affairs we should not expect some radical changes in the stance of countries but as mentioned before, even a small change should be seen as a significant step in the survival of multilateralism and the triumph of developing nations.

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