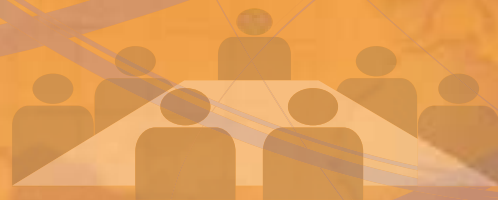




# **WTO rules for agriculture compatible with development**





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edited by

**Jamie Morrison**

and

**Alexander Sarris**

TRADE AND MARKETS DIVISION

FOOD AND AGRICULTURE ORGANIZATION OF THE UNITED NATIONS

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# WTO RULES FOR AGRICULTURE COMPATIBLE WITH DEVELOPMENT

Edited by  
Jamie Morrison and Alexander Sarris

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# Preface

The papers in this volume were originally presented at a workshop on WTO Rules for Agriculture Compatible with Development, held at FAO Headquarters in Rome on 2 - 3 February 2006. Edited for publication, they reflect comments made by participants during the workshop.

The editors would like to acknowledge the valuable input of all of the participants. They also take the opportunity to thank Emily Carroll and Olwen Gotts for their assistance in preparing this volume for publication.

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# Contents

	Page
1. Introduction. JAMIE MORRISON AND ALEXANDER SARRIS	1
<b>PART 1 TRADE AND DEVELOPMENT IN THE CONTEXT OF THE WTO NEGOTIATIONS</b>	<b>11</b>
2. Determining the appropriate level of import protection consistent with agriculture led development in the advancement of poverty reduction and improved food security. JAMIE MORRISON AND ALEXANDER SARRIS	13
3. What types of WTO-compatible trade policies are appropriate for different stages of development? OLIVER MORRISSEY	59
4. Shallow versus deep Special and Differential Treatment (SDT) and the issue of differentiation in the WTO among groups of developing countries. ALAN MATTHEWS	79
5. WTO Agreement limits as a development instrument: synergies and complementarities of WTO rules for agriculture with reform programmes sponsored by the World Bank and IMF. JOHN NASH	101
<b>PART 2 STRUCTURING DEVELOPMENT-FRIENDLY WTO RULES</b>	<b>127</b>
6. The Doha round agricultural tariff-cutting formulae and tariff escalation. RAMESH SHARMA	129
7. Special products: a comprehensive approach to identification and treatment for development. J.R. DEEP FORD, SUFFYAN KOROMA, YUKITSUGU YANOMA AND HANSDEEP KHAIRA	147

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8. The European Union preferential trade with developing countries. Total Trade Restrictiveness and the case of sugar.	183
PIERO CONFORTI, DEEP FORD, DAVID HALLAM, GEORGE RAPSOMANIKIS, AND LUCA SALVATICI	
9. Cotton Developments in West and Central Africa: domestic and trade policy issues and the WTO.	211
JOHN BAFFES	
10. The potential benefits to developing countries from domestic support reductions in developed countries.	241
HARRY de GORTER	
11. Domestic support to agriculture in developing countries.	263
MARIO JALES	
12. Roles and status of State Supported Trading Enterprises in developing countries.	289
LAMON RUTTEN	
13. WTO negotiations on agriculture: a compromise on food aid is possible.	313
PANOS KONANDREAS	
<b>PART 3 REGIONAL EXPERIENCE AND OUTSTANDING ISSUES</b>	<b>333</b>
14. Emerging issues and concerns of African countries in the WTO negotiations on agriculture and the Doha Round.	335
PATRICK N. OSAKWE	
15. Major issues and concerns of the Near East countries in the context of the WTO negotiations on agriculture.	361
NASREDIN ELAMIN	
16. China's agricultural trade and policy under WTO rules.	389
BINGSHENG KE	
17. Regional trade concerns in Latin America and the Caribbean and implications for WTO rules on agriculture.	417
WILLIAM FOSTER AND ALBERTO VALDÉS	

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# Introduction

*Jamie Morrison and Alexander Sarris*

The task of the World Trade Organization (WTO) is to establish and monitor rules for the orderly conduct of international trade. Given the accelerating pattern of globalization, as reflected in the growing volumes and values of international transactions in goods and services, and the growing participation in international markets by all countries, the importance of establishing rules for these transactions that are agreeable to all countries is paramount. Therefore, it was of considerable concern that the WTO Doha Round negotiations were suspended during the summer of 2006 after a period of intense discussion and bargaining following the onset of the Round in 2001.

Many explanations have been written as to why the Doha Round WTO negotiations were suspended in 2006, and all of them contain the word “agriculture”. This is a fair assessment, as agriculture is the sector where the most contentious debates and negotiations took place. It harbours the bulk of current protectionism in goods, and is also a sector that holds considerable prospects for trade and development of many developing countries (DCs). It must be recalled that agriculture was the largest sector for which there were no internationally agreed trade rules until relatively recently, with the conclusion of the Uruguay Round (UR) in 1994. In fact, one of the major accomplishments of the UR was to prescribe internationally agreed rules for agricultural trade. The negotiations under the UR resulted in a number of major agreements related to the agricultural sector; the UR Agreement on Agriculture itself (URAA); the concessions and commitments that Members were to undertake on the three key pillars of the URAA, namely market access, domestic support and export subsidies; the Agreement on Sanitary and Phytosanitary Measures; and the Ministerial Decision concerning Least-Developed Countries and Net Food-Importing Developing Countries (the so-called Marrakesh decision for LDCs and NFIDCs).

While the URAA was a major accomplishment in terms of bringing some discipline to the rules concerning agricultural trade, it has been generally acknowledged that not much real trade liberalization took place in the agriculture sector as a consequence. Reaching the URAA involved intense negotiations between the major developed trading countries and regions in agricultural products, namely the United States (US) and the European Union (EU), both of which have had long established and highly protectionist agricultural trade policies, and both of which had resisted

agricultural trade liberalization before the UR. However, this meant that, apart from easier terms for implementation of the URAA, the interests of DCs, and especially the LDCs were relegated to a secondary status. In particular, very little has happened since 1994 as a follow-up to the Marrakesh decision for LDCs and NFIDCs, which was one of the few concrete outcomes of the UR that concerned the poorest among developing countries, albeit lacking in specific commitments.

In the Doha Round, the developing countries were determined not to allow this to happen again. Their insistence led to the new Doha Round being termed a “Development Round” on its launch in 2001. However, this dimension was largely sidelined during the long period of negotiations between that time and the suspension in mid 2006. The inattention to development issues may have been one of the contributing factors that led to the suspension of the negotiations. For most DCs, naming the round a “Development Round”, implied moving the discussions from being just about free trade to also including concerns of fair trade. In other words, the negotiations were expected to address trade issues related to the needs of poor countries and small farmers. After all, Article 20 of the URAA committed members to more than the continuation of the reform process of the UR. In that article, WTO members mentioned explicitly the commitment to establishing “a fair and market-oriented agricultural trading system” and taking into account the experience of the UR. Furthermore, in the preamble to the URAA, WTO members agreed that “the reform programme should be made in an equitable way among all Members, having regard to non-trade concerns, including food security and the need to protect the environment, having regard to the agreement that special and differential treatment for developing countries is an integral element of the negotiations, and taking into account the possible negative effects of the implementation of the reform programme on least-developed and net food-importing developing countries”.

Despite the many discussions concerning the desirability of incorporating development dimensions in the Doha Round negotiations, there has been a dearth of discussion concerning how these issues could be specifically incorporated in a multilateral trade agreement. The greatest supporters of concluding the Doha Trade Round under the current approach, which focuses on reduction commitments around the three pillars of the negotiations, have used sophisticated models to point out how much would be gained by fully liberalizing agricultural trade. However, many countries are not convinced. This is in large part because the majority of DCs, and especially the poorest, smallest and most vulnerable among them, have seen almost no gains from policy developments following the URAA. Worse, they have seen their agricultural trade shares of total world trade decrease, their agricultural imports increase and their agricultural trade balances decline. These are the countries that expect agricultural sector gains, not losses, given their relative endowments and export opportunities. Past experience has not encouraged them to support further trade liberalization without a clear package of rules that put in place the required complementary and compensatory policies and adequate safeguards to greater market opening.

Despite the suspension of the Doha Round negotiations, the issues relevant to agricultural and overall development as well as to poverty reduction will not go

away. In fact the suspension of the negotiations may offer an opportunity that could be seized. It provides a breathing space and an opportunity for DCs to prepare to be more equal partners, both from a strategic and analytical standpoint by developing concise, transparent and evidence based proposals that relate to their specific issues and development concerns, rather than leave a few countries to decide the fate of the negotiations and the structure of any eventual agreement.

The purpose of this book is to make a contribution towards understanding how WTO trade rules relevant to agriculture can be structured in a manner compatible with the development and poverty alleviation objectives of developing countries. Specifically the book tries to assess and advance the knowledge concerning the issue of which among the various rules and proposals debated to date in the Doha Round are most appropriate for development of agriculture and food security of the DCs and the LDCs, and also to explore how some of these or other possible rules can be structured so as to be more conducive to development.

The papers in this volume were presented and debated during a two day workshop held at the headquarters of the Food and Agriculture Organization (FAO) of the United Nations in Rome on 2-3 February 2006. The papers, which were revised by the authors according to the comments received in intense and constructive discussions during the workshop, are organized to address first more general issues, and then more specific issues judged to be important for structuring development friendly WTO rules. The final part of the volume comprises four papers addressing agricultural trade concerns of specific regional groups of DCs.

The first paper by Morrison and Sarris takes as its starting point the contradiction apparent in many debates on trade policy between on the one hand, the evidence that is used to support arguments that greater openness to international agricultural trade will be beneficial, and on the other hand the fact that many developing countries are seeking the flexibility to continue to protect some agricultural products. In attempting to resolve this apparent contradiction, the paper reviews the literature on the contribution that agriculture can make to wider economic growth and development and the types of policy interventions that are likely to be required at different stages of agricultural development to allow the sector to fulfill its role. A key argument developed is that in order for the predicted benefits from trade liberalization to occur, reallocations of resources to activities in which they are used more efficiently are required, but that these reallocations will not necessarily happen where market failures are pervasive without some form of government intervention. By investigating the case of cereal markets in Sub Saharan Africa (SSA), the paper discusses the extent to which some level of border protection may be required as a component of such interventions.

Morrissey, in his paper, argues that the current classification of member countries within the WTO does not adequately discriminate between countries at different stages of development and that countries need to be given greater flexibility to adopt appropriate trade policies rather than be constrained to using those compatible with WTO rules. The paper proposes four categories of developing countries, three based on their stage of development (agriculture based low income countries;



mineral rich low income countries; and middle income countries) and a fourth category of Small Island Economies, which although mainly middle income, have limited capacity for food production. The paper argues that a “food first” strategy that ensures that a country can meet its food needs is particularly relevant in the case of agriculture based low income countries. It suggests that this category of countries needs to be able to protect local food production against increased competition from lower cost exporters, but that this is contrary to the approach to negotiating new trade rules. The paper makes a number of suggestions as to how trade rules can be better formulated to recognize the different needs of different categories of developing countries, including one of requiring greater levels of compliance the more developed a country, in terms of the speed and degree of implementation.

Matthews, while also addressing the issue of differentiation in the WTO with respect to special and differential treatment (SDT), reaches a different set of conclusions than Morrissey. Noting that developing countries have resisted efforts to introduce differentiation due to a perceived interest in being grouped together as a bargaining force in the negotiations, the paper suggests that “elements of de facto differentiation are already appearing in the agriculture negotiations and that it would be more effective to build on these elements than to attempt to construct an all-embracing typology to make distinctions between developing countries”. It lists three possible approaches to differentiation based on modalities: (a) formal rule based thresholds, such as the provision in the subsidies code that countries with a per capita income less than US\$1000 are entitled to use export subsidies; (b) voluntary declarations of intent on the part of specific countries to abstain from availing of general SDT provisions, examples of which would be the declaration by some developing countries, not corresponding to any income or other group, that they would not use the TRIPS/drugs import provisions or countries opting not to use the Special Safeguard Mechanism (SSM); and (c) implicit differentiation, for example, where the provision that input subsidies generally available to low income or resource poor producers are exempt from Aggregate Measure of Support (AMS) reduction commitments - because countries will have different proportions of such producers, this provision effectively has a differentiating impact.

Nash examines the interface between a WTO agreement on agriculture and reforms supported by the World Bank and IMF. The paper starts from the premise that developing countries will benefit from reduced levels of protection. It contends that the World Bank has generally advised countries to reduce agricultural trade barriers to enhance sectoral competitiveness, promote better integration into the global trading system and an outward-oriented development strategy, and to improve the welfare of consumers, especially the poor. While suggesting that in general, explicit policy barriers to exports should be removed as a high priority, and that behind-the-border measures including investments, capacity building, and institutional reforms need to be made in order to encourage agricultural export development, especially of non-traditional products, it also acknowledges that a more controversial question is how to advise governments with respect to protection of domestic producers against competition from imports. The paper

lists a number of reasons why high import barriers in the name of food security or to support an import-substitution agricultural development strategy is an inappropriate long-run policy. The key argument relates to the impact of potentially higher food prices. Whilst acknowledging that higher food prices can benefit the rural poor as labourers, it suggests that a protectionist policy will reduce potential growth in employment opportunities in other sectors so that the overall result is uncertain. The paper also touches on the issues of Aid for Trade and behind the border policies, suggesting that this is where the focus of much of the Washington Institutions' work in support of trade has been.

The second part of the book comprises a series of papers examining more specific issues falling under each of the three pillars of the agricultural negotiations.

The paper by Sharma examines the extent to which the degree of existing tariff escalation between bound tariffs on pairs of primary and their associated processed products would be affected as a result of the application of three tariff reduction formulae that have been proposed during the Doha Round negotiations. The author finds that all three formulae would reduce the degree of tariff escalation on a set of selected product pairs, but would not result in its elimination. In seeking to provide information that would assist negotiators in reaching agreement on modalities for reducing tariff escalation over and above that achieved by the tariff reduction formulae, the paper examines the effectiveness of the Harbinson approach which introduced a multiplier factor whereby the tariff on the processed product would be further reduced to decrease the degree of escalation. Whilst finding that the approach may be effective for some product pairs, the paper reveals that the negotiation of a single factor would be problematic. The author suggests that to move forward, a defined list of primary and processed product pairs is required and then a threshold for the degree of escalation could be negotiated.

Ford, Koroma, Yanoma and Khaira argue in their paper for a more comprehensive approach to the concept of Special Products than that currently envisaged in the WTO negotiations. They suggest that a narrow focus on providing flexibility in the implementation of tariff reduction commitments will not necessarily allay the concerns of developing countries who will be affected in different ways by further global trade liberalization. Taking this approach as a basis, the paper develops a conceptual approach to the identification of special products which matches national policy objectives with indicators of special products. It lists nine indicators under the generic categories of food security, livelihood security and rural development. Using a new methodology of combining these indicators, the paper reports on its application to four developing countries to suggest indicative lists of Special Products for each country. The paper concludes by suggesting that on the basis of the results from these four countries, the possibility exists that developing countries could specify a relatively low proportion of their tariff lines (less than 15 percent) without compromising their food security, livelihoods security and rural development objectives.

In order to assess the extent to which developing countries receive preferential treatment from the EU, Conforti, Ford, Hallam, Rapsomanikis and Salvatici use

a mercantilist trade restrictiveness index (MTRI). They demonstrate that although LDCs face a relatively low level of protection across all sectors, even before the implementation of the EU's Everything but Arms (EBA) initiative, many developing countries are highly constrained in their trade with the EU. These DCs include some of the more competitive developing countries such as Brazil and Argentina, but also the ACP non - LDC group. In agricultural trade, LDCs do not appear to be provided a high degree of preference by the EU, as they seem to face higher MTRI indices than other more developed countries such as Chile and Canada. Taking the issue of ACP non - LDC countries further, the paper investigates in more detail trade in sugar, a product where these countries face high protection at the margin. By using a global partial equilibrium model for the sugar market and a gravity model to replicate LDCs bilateral trade with the EU, to simulate EU sugar market reform proposals, they suggest that trade will be diverted from countries currently enjoying preferential access, particularly higher cost ACP countries exporting within the sugar protocol, and will be displaced by more efficient LDC producers.

The paper by Baffes examines possible implications of further multilateral agreements on cotton sector reforms given the WTO panel ruling on the cotton dispute between Brazil and the US. It argues that the fact that Step 2 payments and export credit guarantees have been ruled illegal means that further reductions in the export competition pillar are likely to be superfluous. Additionally, given that tariffs do not play a major role in cotton sector support, agreements under the market access pillar are likely to have minimal effect. Under the domestic support pillar, and given that the US must reduce support by about 40 percent to be in compliance with the panel ruling, additional cuts should generate significant reductions in US support to cotton producers. It is suggested that the new US farm bill will be instrumental in determining the actual outcome

De Gorter first reviews the current use of domestic support by key developed countries. He then assesses the extent to which proposals that have been tabled during the current round of negotiations will result in reduced use of such support. In making the assessment, the paper addresses a number of key issues, such as the trade distortiveness of Green and Blue box payments, and difficulties with the measurement of trade distorting support. On the basis of the assessment, it is concluded that with the exception of a proposal by the G-20, there would be negligible impact on the use of trade distorting support if currently circulating proposals were adopted. The EU would not be required to make any policy adjustment, given the conversion of most support into Green box payments and the significant water that is a current component of the measure of support. Similarly, the ceiling on support allowable to the US would not result in any significant reduction in currently applied levels. The paper concludes by suggesting a number of options for better restricting the use of trade distorting support.

The paper by Jales uses data drawn from notifications to the WTO and on qualitative analysis of support programmes. It examines the potential implications of current proposals within the July 2004 Framework Agreement and the December 2005 Hong Kong Ministerial declaration, for developing countries' use of domestic

support. The paper begins by providing a profile of the use of domestic support by 50 developing countries, 42 of which have notified support since 2000 and 8 which have not, but which are deemed to be important users. The paper finds that Green box support is the dominant component (67 percent of total support) and that 5 countries account for 90 percent of its use. This is followed by support under Article 6.2 and the *de minimis* category in order of importance. The paper concludes that with the exception of a very few cases, the ability of developing countries to continue to use current levels of domestic support will not be affected and that DCs will benefit to a far greater extent from ensuring that effective disciplines are agreed under the domestic support pillar to reduce support in developed countries than from trying to extract greater flexibility for themselves.

The paper by Rutten provides a review of the range of activities undertaken by a sample of developing country state trading enterprises (STEs). It argues that the evidence that such activities create trade distortions is minimal and that there is a significant risk that in attempting to over constrain some of these activities, the ability of STEs to provide other key services will be undermined. The paper demonstrates the heterogeneous nature of STEs in developing countries. It argues that in only a few commodities, notably rice, do developing country STEs play any significant role in world trade. However, even for a commodity such as rice, mechanisms for ensuring price, income and supply stability are seen as critical in a number of these economies. Although not arguing that reforms are not needed, the paper suggests that appropriate prescriptions for developed country STEs may not be the same as those for developing country STEs.

In his paper, Konandreas first reviews trends in the provision of food aid by five main donors, and then reviews the principles and agreements under which food aid is disbursed. Against this background, the paper then considers negotiations on food aid rules under the WTO, explaining the evolution of proposals during the Doha round of negotiations and the significant differences that still remain between a number of negotiating parties on certain issues. The paper then provides some potential compromise solutions. For example, it suggests that eliminating non emergency in-kind food aid, despite its desirability is probably not attainable. Rather, it suggests that the focus should be on effective mechanisms to target such food aid so that potential negative effects are minimized.

The final part of the book includes four papers which discuss experience of, and outstanding issues faced by, each of Africa, Near East, China and Latin America countries (LAC).

Osakwe discusses three key reasons why African countries may be concerned about further trade reforms, namely, reductions in contributions to government revenues from trade taxes (which constitute more than 20 percent of public revenues in more than half of SSA countries); potential impacts on macroeconomic volatility and the implications of this for poverty reduction efforts; and the costs of adjustment in the context of rigid labour markets and limited safety nets. Against these concerns, the paper examines why trade negotiations in agriculture are important for Africa in shaping the types of policies that can be used to promote productivity

increases. This is because, with a high proportion of the workforce engaged in agriculture, the role of the sector is important in economic development. It is acknowledged that while agricultural exporters are likely to gain from multilateral agricultural trade liberalization, importers could lose. This distinction is important given that only 9 out of 53 countries in Africa were net food exporters during 2000-2004. The paper reviews various studies on the impact of both the UR and potential Doha agreements, concluding that the balance of gains and losses across countries will be mixed. The paper calls for greater coherence between donors' aid and trade policies and for according greater prominence to the agriculture sector in trade related capacity building. In explaining what African countries need from the current negotiations, the paper recognizes the significant heterogeneity across the continent. Despite this, the paper points out that Africa has developed common positions on a number of issues in the WTO negotiations, as elaborated in various recent declarations.

Elamin builds on an explanation of the key similarities and differences characterizing the different countries of the Near East region. It then counter poses a number of the components of the URAA against these characteristics as a way of assessing the impact of the implementation of that agreement. On the basis of this assessment, the paper raises a number of the key concerns of Near East countries in the context of the WTO negotiations, notably the issue of food imports in light of both long-term increases of food import bills and of short-term fluctuations in volumes and values; access to developed country markets, particularly the difficulties faced by tariff escalation, the EU entry price system, and the erosion of trade preferences. In concluding, the paper recognizes the importance of further engagement in the multilateral negotiations.

The paper by Ke provides a summary of developments that have taken place in Chinese agricultural and trade policy as a result of the accession to the WTO, most notably in terms of significant reductions in tariff levels. It then considers how these changes have impacted upon trade volumes, first in aggregate, where imports have increased significantly in most land based crops, and then on a commodity by commodity basis, where trends in production and trade patterns are provided for all major commodities. On the basis of the review, the paper raises two major concerns: food security (generally discussed in terms of grain production) and farmers' incomes, arguing that the impact of accession has varied greatly by commodity and therefore by producing region. The coastal regions have gained far more than the western regions. A key challenge for China remains how to manage imports that are needed for food availability reasons in a way that minimizes the disruptive effects that these increased trade flows can have on domestic producers. These issues are considered in the context of each of the three pillars of the URAA.

The paper by Foster and Valdes also begins by stressing the heterogeneity across Latin America countries (LAC), particularly in respect of their net agricultural and net food trade status. Following an assessment of past trade policy reforms, in which it is pointed out that large parts of the small farm sectors of the countries were negatively impacted (or at least did not realize benefits), the paper attempts

to determine whether there is a bias intrinsic in trade policy in favour or against the agriculture sector, concluding that while there tends to be a bias in favour of livestock and processed products, for crops the picture is mixed. The third part of the paper considers the impact of multilateral trade agreements, reviewing standard model results and emphasizing different sources of gains and losses, and potential changes in international prices. While reflecting on the importance of the WTO negotiations for the region, the paper also discusses the increasing emphasis on agro-food standards as barriers to trade and the increasing use of compensation and safety nets as trade policy is reformed.

While it is uncertain when the Doha Round WTO negotiations will resume let alone be concluded, it is the belief and hope of the editors that the papers in this volume bring forth and analyse issues related to WTO rules in the context of development that will be relevant and useful to all, and especially to developing countries, in their consideration of their positions *vis-à-vis* the WTO negotiations, as well as in developing their individual agricultural trade policies.