The position of the developing countries in the WTO negotiations on agricultural trade liberalisation

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Alan Matthews

Trinity College Dublin

Alan.Matthews@tcd.ie

Abstract

This paper reviews the demands of developing countries in the new round of WTO agricultural negotiations which began in Geneva in March 2000 based on the submissions to the Special Session up to November 2000. Two issues of principle are identified. The first is the developing country demand for equality of outcomes in the negotiations, and not just equality of commitments. Because developed countries made the most use of agricultural support and protection in the past, developing countries argue that equal reduction commitments would still leave a very lop-sided playing-field in which the great bulk of support and protection would continue to be provided by the developed countries. The second issue concerns the role and content of special and differential treatment (SDT) in the current round. The paper notes the need for specific proposals under this heading, but warns that too much flexibility could encourage developing countries down a road which Europe has found leads to costly and poorly-targeted systems of support.

Keywords: agricultural trade policy, developing countries, WTO

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Introduction

The Uruguay Round Agreement on Agriculture (URAA) significantly strengthened the disciplines and rules applying to the agricultural trade and domestic support policies of WTO Members. Furthermore, Article 20 of the Agreement committed Members one year before the end of its implementation period, i.e. by 1 January 2000, to start negotiations to continue the reform process designed to achieve the long-term objective of substantial progressive reductions in support and protection resulting in fundamental reform. These negotiations should take into account:[1]

- the experience to date from implementing the reduction commitments agreed in the Uruguay Round;
- the effects of these reduction commitments on world trade in agriculture;
- the objective to establish a fair and market-oriented agricultural trading system
- non-trade concerns, including food security and the need to protect the environment;
- special and differential treatment to developing country Members, including provision by the developed countries for a greater improvement of opportunities and terms of access for agricultural products of particular interest to these Members;
- the possible negative effects of the implementation of the reform programme on least-developed and net food-importing developing countries;
- the further commitments necessary to achieve these long-term objectives.

A Special Session of the WTO Committee on Agriculture established by the General Council to conduct these negotiations for continuing the reform process held its first meeting on 23-24 March 2000. Further meetings were held in June, September and November 2000 and the next meeting is planned in February 2001 in advance of the March 2001 stock-taking meeting. The likely length of the negotiating process is unclear. The issue is complicated by the views of some countries (including Japan and the EU) that the negotiations on agriculture (and the other items on the WTO's so-called built-in agenda, including services and TRIPS) should be bundled into a wider, relaunched Millenium Round of trade negotiations. Although discussions on a wider round have continued since the abortive attempt to launch a Millenium Round in Seattle in November 1999, there is as yet no agreement that one should be initiated. Insistence on linking the two could significantly postpone a successful outcome to the agricultural talks. Hanging over the agricultural negotiations is the Due Restraint clause (Article 13 of the URAA, also known as the 'peace clause') which largely protects domestic and export subsidies which conform to the URAA disciplines from countervailing action until the end of 2003. After that date, in the absence of a new agreement, it will be open to Members to challenge the use of such subsidies by other Members regardless of their Uruguay Round status.

The importance of agricultural trade reform to developing countries

This paper addresses the interests of developing countries in the ongoing negotiations. A question to be asked at the outset is whether these negotiations are important to the developing countries. One answer to this question is given, in part, by the active participation of developing countries in the Special Session meetings which have been held to date. Model simulations also suggest that the greatest welfare gains to developing countries from trade liberalisation arise in the agriculture and food sector (Anderson 1999). Results of a simulation run with the Global Trade Analysis Project model (Hertel 1997) using the Version 4 database based on 1995 data are presented in Table 1. The simulation compares the results of removing all trade distortions in 2005 to the results of a base run of the model projecting the global economy forward to 2005 assuming the continuation of post-Uruguay Round trade interventions. The model results suggest liberalisation would increase global welfare by US$260 billion per year. This is undoubtedly an underestimate of the aggregate gains from trade liberalisation for a number of reasons. Liberalisation in services trade and government procurement policies is excluded; no account is taken of the benefits of increasing the degree of competition and the scope for scale economies; and the dynamic effects of reform are not captured. On the assumption, however, that these omissions may not greatly affect the *relative* gains from reforming the various markets for *goods*, the author focuses on the relative contribution from liberalising different sectors.

The distribution of this gain across regions and sectors shows absolute gains to developing countries amounting to US$108 billion. Almost half (48 per cent) of the estimated global gains from goods trade liberalisation would come from agricultural reform in OECD countries. The developing countries' stake in continued farm policy reform is shown by the contribution of OECD agricultural policy liberalisation to their overall welfare gain. Farm trade reform in the OECD countries contributes just over one-quarter of the total welfare gains to developing countries from developed countries liberalising their merchandise trade (US$12bn of the total US$43bn).

As is usual in these simulations, most of the gain arises from a region's *own* liberalisation. If developing countries were also to liberalise their agricultural policies, they would reap three quarters of the benefits (US$31bn of the agricultural policy reform gain of US$43bn), and those policies would contribute almost half of the gains from these countries' overall merchandise trade reform (US$31bn of the US$65bn total). Taking both sets of distortions together, farm and food policies globally contribute 40 per cent (US$43) of the US$108bn cost to developing economies of global goods trade distortions. Hence the conclusion that developing countries as a group have a major stake in continuing the process of farm policy reform (Anderson 1999).

A number of caveats should be borne in mind in interpreting these figures. The conclusion may exaggerate the importance of the WTO negotiations insofar as the developing countries' own reform gains could be obtained through unilateral action. If one examines the impact on developing countries of liberalisation by high income countries alone, then the share of the gains contributed by agricultural trade liberalisation amounts to $12 billion out of a total $43 billion, or around 30 per cent. Estimates of this kind are sensitive to the quality of the database used on trade flows, trade barriers and behavioural parameters as well as on the modelling strategy adopted. However, the broad orders of magnitude of the overall importance of agricultural and food trade liberalisation to developing countries are not surprising, given the relatively higher protection rates found in this sector and the significance of agriculture and agricultural exports in the economies of low-income countries.

Further, the figures discussed are aggregate gains to developing countries as a group. Developing countries, however, do not necessarily have common interests in these negotiations. At least five different groupings might be distinguished.[2] They include the major agricultural exporters such as Brazil, Argentina, Thailand and other developing country members of the Cairns group; large low-income countries close to self-sufficiency, such as India; large and medium-sized net food-importing developing countries, such as Egypt, Kenya, Pakistan; the small island states which also belong to the net food-importing developing country category, including Mauritius and Jamaica, most if not all of which benefit from preferential trade arrangements with developed countries; and the least-developed countries also with a net food-importing status. Food exporters and importers, and high- and low-potential food producers, are affected differently by food trade liberalisation and the introduction of disciplines on domestic agricultural trade and support policies and would be expected to pursue different agendas in the negotiations.

One way in which these potentially conflicting interests have been reconciled in the past is through the use of Special and Differential Treatment (SDT) for developing countries. SDT means not only that developing countries may be given more time to adjust to the introduction of new trade rules, but also that the rules themselves applying to developing countries may well be different. In this paper, I want to explore the ways in which SDT can act to maintain the unity of developing countries in the agricultural trade negotiations, while at the same time highlighting some of the pitfalls and controversies surrounding its use. One of the issues for developing countries in these negotiations is how far to push for exemptions and special treatment, knowing that the freedom to intervene in agricultural markets can potentially incur high costs.

Developing countries' recent experience in agricultural trade

The current negotiations should take into account the effect of the Uruguay Round reduction commitments on world trade in agriculture. Implementation of the Agreement was expected to lead to a structural change in world food markets whereby food production would shift from highly subsidised regions to low-subsidised or non-subsidised regions. If the Uruguay Round negotiating outcome had provided for a greater improvement of opportunities and terms of access for agricultural products of particular interest to developing countries, one would also expect to see a relative improvement in the growth of developing country agricultural exports. From the point of view of developing country importers, their fear was that the URAA would lead to higher world market prices and reductions in subsidised exports (including food aid) which would have negative effects on their food security. This section reviews agricultural trade data to examine to what extent these expectations or fears were fulfilled. The main difficulty in assessing the actual impact of the URAA commitments is that the time period for which data is available

(1994-98) is relatively short and is heavily influenced by special factors (the 1995-96 price spike in world cereal markets and the Asian crisis in 1997-98).

Agricultural exports of developing countries have expanded more rapidly than those of developed countries.[3] As a result, the share of developing countries in world agricultural exports, which had increased from 40 to 41½ per cent between 1990 and 1994, reached 42½ per cent in 1998. In the first three years of the implementation of the Uruguay Round Agreement, developing countries' export growth was stronger than in the pre-WTO phase with an annual increase of 7.2 per cent for 1994-97 versus 6.1 per cent for 1990-94. However, reflecting the impact of the Asian crisis in 1998, the corresponding figure for 1994-98 fell to 3.7 per cent (though still higher than for developed countries whose annual growth over the 1994-98 period was just 2.0 per cent). As the figures refer to all agricultural exports, including tropical products and raw materials, they do not necessarily reflect the performance of the commodities covered specifically by the URAA.

The growth of imports into developed countries alone should minimise the impact of the Asian crisis. Developed country imports of food from developing countries between 1990-94 grew slightly faster (7 per cent) than from all origins (5½ per cent) but at the same rate between both 1994-97 (4½ per cent) and 1994-98 (2½ per cent). These figures do not suggest a relative improvement in the market access opportunities available to developing countries in developed country markets, although a more thorough analysis would need to control for differences in the commodity composition of imports and for the supply capacity of developing countries.[4]

As important as the growth of exports is the changing geographical composition of world agricultural trade. In particular, developing countries' import markets are becoming increasingly important as outlets for agricultural exports from other developing countries. Around 40 per cent of developing country agricultural exports now go to other developing countries, as much as the import markets of Western Europe and North America combined. Furthermore, developing country import markets are much more dynamic than developed ones. Between 1990-98 (1990-97 figures in brackets) they grew by 90 (108) per cent, compared to 38 (44) per cent for developed countries. This underlines the importance, from a market access perspective, of developing countries' own trade barriers. Developing country exporters are relatively few and concentrated, however, in comparison to developing country importers, so it would not be surprising to find the importer perspective dominating developing country contributions to the WTO negotiations.

Higher prices as a result of the URAA leading to difficulties in financing normal levels of commercial imports were a concern of developing country importers. Indeed, data on non-fuel primary commodity prices show that prices were on an upward trend from 1992 onwards to reach a plateau of sorts between 1995-97. Since then, prices have been falling in nominal terms and also, if less rapidly, in real terms measured against the prices of manufactures exported by the industrial countries. Focusing specifically on wheat prices, nominal prices peaked in 1995/96 but have since fallen to their lowest level since 1990. FAO reports that, by 1998/99, total expenditures for commercial cereal imports (not including food aid most of which is provided on grant terms) were slightly lower than in 1994/95 while the volume of commercial imports was 14 per cent higher.[5] In the absence of a specific counterfactual one cannot infer that the Uruguay Round has had no effect on world prices. Nonetheless, to date there is no evidence that the Round ushered in a period of significantly stronger world market prices as some developing countries had feared.

Developing country food aid recipients also feared that a rundown of government-held stocks would lead to reduced food aid shipments. In the Marrakesh *Decision*[6] WTO Members agreed to establish appropriate mechanisms to ensure that the implementation of the URAA would not adversely affect the availability of food aid at a level which is sufficient to continue to provide assistance in meeting the food needs of developing countries, especially least-developed and net food-importing developing countries. Again, the evidence concerning actual food aid flows over a relatively short period is ambiguous. A number of donor countries pledge minimum food aid commitments under the Food Aid Convention. Under the 1986 Convention, these commitments amounted to 7.517 million tonnes, reducing to 5.35 million tonnes (wheat equivalent) under the 1995 Convention and to 4.895 million tonnes under the 1999 Convention. Actual food aid shipments fell from 10.4 million tonnes in 1992/93 to 5.8 million tonnes in 1996/97, although in all years except 1994/95 they exceeded FAC members' combined annual commitments. Since then, FAC donor food shipments have recovered to 8.1 million tonnes in 1998/99 and to an estimated 8.3 million tonnes in 1999/2000.[7]

The more comprehensive data on food aid deliveries gathered by the World Food Programme (which includes FAC members, other countries and non-governmental organisations) shows that global food aid deliveries reached a record 17.3 million tonnes in 1993 and thereafter declined to 7.2 million tonnes in 1996. Deliveries have since increased, to reach 14.5 million tonnes in 1999. This was mainly due to a sharp increase of deliveries to "other countries". Food aid deliveries to the two country groups singled out for particular attention in the Marrakesh *Decision* were lower over the implementation period than for a three-year average period prior to the URAA, although they had recovered by 1999. These countries have argued, with some justification, that the apparent commitments they received in the Uruguay Round have not been implemented in a meaningful way.

Developing countries' experience of Uruguay Round commitments

Market access

Uruguay Round disciplines were introduced in the areas of market access, export subsidies and domestic support. Prior to the Uruguay Round, only 55 per cent of agricultural tariffs in developed countries and 18 per cent in developing countries were bound. Furthermore, tariff barriers were reinforced by the widespread use of non-tariff barriers (variable import levies, quotas, minimum import prices, voluntary export restraints, etc.). The URAA mandated the tariffication of all previous agricultural trade barriers at the existing level of protection, the binding of these tariffs and their reduction by an average 36 per cent over the six-year implementation period. Developing countries were allowed the option of binding "ceiling tariffs" which could be set at whatever level they choose and did not have to be based on tariff equivalent calculations. Furthermore, they were only required to reduce these bindings by an average 21 per cent over a ten-year period (or not at all in the case of LDCs). Many choose quite high levels even though, in practice, applied tariffs are often much lower. For major agricultural products, developed countries' tariffs are about twice as high as those of developing countries.[8]

Because it was foreseen that tariffication on its own, even with the 36 percent average reduction in bound tariffs, might not create much additional market access, the URAA introduced tariff rate quotas (TRQs) in those situations where tariffs replaced non-tariff barriers. The TRQ quantities are set at 5 per cent of domestic consumption at the end of the implementation period (4 per cent for developing countries), while current access quotas were bound at their 1986-88 levels. TRQs are mainly a feature of developed country schedules because few developing countries engaged in tariffication. WTO figures show utilisation rates of just over 60 per cent in the period 1995-98 for all agricultural products for which TRQs were opened. Some of these TRQs merely incorporated existing import commitments from developing countries under preferential arrangements, and the amount of *new* market access created for developing countries by these arrangements has been small.

Export subsidies

Developed countries agreed to reduce by 36 per cent the *value* of export subsidies from their 1986-90 base level and to cut the *quantity* of subsidised exports by 21 per cent over six years. For developing countries, the reduction commitments are two-thirds of those applying to developed countries, and the implementation period is extended to ten years. No reductions were required of LDCs. Equally important, the URAA prohibits the use of new export subsidies where they are not reported in a country's Schedule as having existed in the base period. *Bona fide* food aid is excluded from these disciplines.

Only 27 WTO Members reported the use of export subsidies, of which just 10 were developing countries. In value terms, developed countries (and particularly the EU) account for the vast bulk of subsidised exports provided. Developing countries thus have little interest in a continuation of this support mechanism.

Domestic support

One of the significant achievements of the Uruguay Round was the recognition that production subsidies to agriculture constituted a potential trade distortion and thus should be regulated in the Agreement on Agriculture. Domestic subsidies are divided into three types. Those which are exempt from reduction because they are deemed to be non-, or minimally, trade-distorting are placed in the **Green Box**. Such supports include publicly-financed R&D, early retirement schemes for farmers and payments for long-term land retirement. Under SDT provisions (sometimes referred to as the **Development Box**), developing countries are also allowed to exempt from reduction commitments investment subsidies generally available to agriculture; agricultural input subsidies generally available to low-income or resource-poor developing country producers; and anti-narcotic diversification incentives. A further category of schemes exempt from reduction of interest mainly to developed countries comprising direct payments under ‘production limiting’ programmes was placed in the **Blue Box**.

Remaining subsidies must be counted towards a country’s Aggregate Measure of Support unless exempted under *de minimis* provisions. These allow support for a particular product to be exempted if that support is not greater than 5 per cent of its value of production (10 per cent for developing countries) or non-product specific support if it is less than 5 per cent of the total value of agricultural production (10 per cent for developing countries). The remaining support included in a country’s Base Aggregate Measure of Support (AMS) was to be reduced by 20 percent over a six year period. This reduction commitment was 13.3 per cent over a ten year period for developing countries and zero for the LDCs.

Examination of Table 2 shows that the Green Box is used most frequently by a small group of developed countries. Developing countries make the criticism that its provisions are too vague and provide leeway for abuse by those who can afford to provide outright financial supports, but that it is too narrow for the purposes of addressing developing countries’ non-trade concerns such as food security and protection of small farmers’ livelihoods.

This review of Uruguay Round commitments shows that there is far from being a level playing field between developed and developing countries in terms of the provision of agricultural support and protection. Because developed countries entered the Uruguay Round negotiations with much higher levels of support, despite the greater reduction commitments they took on, they still account for the lion’s share of support. This observation raises the meaning of equal burden-sharing in the negotiations. Should this be interpreted as equality in commitments which, given the inequality in initial positions, must inevitably lead to inequality in outcomes? Or conversely, should it be interpreted as achieving equality in outcomes, even where this would mean differential burden-sharing in terms of commitments. There is evidence already in these negotiations that some participants favour this second approach. The United States, for example, in its proposal on domestic support, has proposed that all countries move to a common ceiling on domestic support (expressed as a share of the value of agricultural production) by the end of the implementation period of any agreement emerging from this negotiating round. Similarly, many countries propose that there may agreement on maximum allowable tariff levels at the end of the next round, regardless of initial levels. Finally, the proposal put forward by many countries to eliminate export subsidies by the end of the round would, *de facto*, also result in an equality of outcome in this area too.

Negotiating issues

This section examines the position of developing countries with respect to the concrete issues under discussion in these negotiations, including market access, export subsidies, domestic support and non-trade concerns.

Market access

Tariff levels

Developing countries are agreed on the broad parameters for tariff reduction in the current round.[9] They cover four main areas:

- a substantial reduction in average tariff levels. No country has as yet made a concrete proposal on the average size of tariff reduction to be achieved. A reduction of a further one-third, the reduction agreed in the Uruguay Round, might be considered a minimum target. The significance of such a reduction would depend on whether it was applied to the Uruguay Round base period or final tariff bindings. If there was agreement on maximum levels of permitted tariffs at the end of the current round, this could imply different average reduction levels for individual countries depending on their initial starting positions.
- a substantial reduction or elimination of disparities in tariff levels. Countries could decide to follow the Uruguay Round precedent of setting an average reduction target and allowing countries to meet this target by implementing lower reductions for some commodities compensated by higher tariff cuts for others. This option would exacerbate the existing dispersion of tariff rates across commodities. Even an across-the-board linear reduction would leave many of the existing tariff peaks in agriculture. If an attempt is made to harmonise tariff rates, then something like the Swiss formula which was used in the Tokyo Round to harmonise tariff peaks on industrial products could be used.[10] The point of the Swiss formula is that it leads to greater percentage reductions in higher tariffs than in lower ones as well as setting a ceiling on maximum tariff levels.

- a substantial reduction in tariff escalation. Although this issue has been highlighted in previous trade rounds, it continues to adversely affect processing activities in developing countries. The solution is to ensure that tariff levels on imports of processed commodities are not higher than those imposed on the import of raw materials (which are often zero), and developing countries will want to see significant progress in this direction in the current round.
- greater transparency and less complexity in tariff structures. This last issue refers to whether tariffs are denominated on a specific, ad valorem or mixed basis. The denomination of tariffs on a specific basis results in lack of transparency and adversely affects trade in products of interest to developing countries (as India has argued).[11]

Tariff quotas and preferential access

Developing countries have called for the simplification of the administration of tariff rate quotas and that they should be made more transparent and equitable for all trading partners. Tariff quotas are of particular importance to the group of developing countries with preferential access to developed country markets. These exporters will experience losses from further tariff reductions in OECD markets, although these would have to be weighed against the potential gains from improved market access in other products and in other markets. It would be desirable to find ways of compensating these exporters for the erosion of these rents. Some compensation could be provided if tariff reductions were accompanied by increased market access by enlarging the TRQs, though this would only benefit efficient exporters who could recoup some of their losses through increased sales. Direct financial aid for diversification will also be important although, because preferential agreements had no standing in the WTO, it will be difficult to argue for a multilateral as opposed to bilateral commitment on this issue.

Developing country tariff levels

Developing country importers are less enthusiastic about pursuing large cuts in agricultural bound tariffs, despite the conclusions of the model simulations which suggest that this is the most important route to significant gains. For some countries, the loss of tariff revenue is a consideration. The continuation of special and differential treatment allowing developing countries to commit to a smaller percentage tariff reduction over a longer time period is one possible option. A more audacious proposal has been made by some developing countries that, in order to be able to promote domestic food production as a means to greater food security, developing countries should be able to raise tariff bindings on food staples, or alternatively that a positive list approach would be adopted under which WTO tariff disciplines would only apply to those products where developing countries wanted this. This attempt to reverse existing moves to liberalisation has been sharply rebuked by the EU as well as by a number of developing country exporters, but it does serve to remind us of the strength of feeling on this issue.

Few developing countries make use of the full extent of the protection permitted in their Schedules. However, high ceilings have the advantage that countries are not constrained in altering tariff rates in order to stabilise domestic farm prices in the face of low world prices. While the abolition of variable protection should, in theory, lead to more stable world prices, developing countries will be reluctant to forego this instrument until they have more confidence in the stability of the world market. Thus, there is a case that the use of variable tariff (price band) schemes might be placed under SDT and only allowed to developing countries. Developing countries have also argued that the right to make use of the Special Safeguard clause should be similarly confined to developing countries. The clause establishes conditions which allow temporary duty increases above the bound levels based on either a price-based or a quantity-based trigger. Current rules only permit its use by countries which have undergone tariffication (i.e. developed countries) where a formal designation has been made in a country's Schedule.

Sanitary and Phtyosanitary (SPS) barriers

Although not part of the ongoing negotiations on agricultural trade liberalisation, SPS measures are an increasingly important trade barrier to developing country agricultural exports. A major problem is that there is a lack of mutual recognition of inspections and standards. Major importing countries tend to demand 'sameness' in the process, rather than 'equivalence'. Where equivalence agreements have been entered into, they are all among developed countries. The arbitrariness of different standards is suggested by the data that, of the 135 countries which are WTO members, 15 are currently allowed to export fresh, chilled or frozen poultry meat to the EC, five may export to the US, one to Canada and none are allowed to export to

Australia.[12] The lack of technical and financial resources to implement the stringent standards being demanded for food imports, or even to play a significant role in the standard-setting process, are huge problems for developing countries and there has been little evidence of concrete assistance from developed countries, as promised under the SPS Agreement.

Export subsidies

Most developing countries share the views of the Cairns Group which has called for the complete elimination of export subsidies over a period of time. These countries argue that the use of export subsidies by a small number of countries, by depressing and destabilising international market prices, lowers farm incomes in other exporting countries and harms local production in food-importing countries.

There are some importing developing countries which feel that they currently benefit from export subsidies through access to cheaper imports.[13] These benefits, though, are very unreliable. Export subsidies are high when world food prices are low anyway, and disappear when world food prices are high when food-importing countries have most need of support (Tangermann and Josling 1999).

The Cairns group has proposed that SDT could include a longer implementation time frame for developing countries for those few developing countries which make use of export subsidies, as well as the extension of the existing special exemptions for developing countries under Article 9.4 of the Agreement.[14] This Article exempts developing countries from undertaking commitments in respect of subsidies to reduce the cost of marketing exports of agricultural products or of subsidies to provide more favourable internal transport and freight charges on export compared to domestic shipments. Under Article 8 of the Agreement countries undertake not to provide export subsidies otherwise than in conformity with the Agreement and with the commitments as specified in that country's schedule. This is interpreted to imply that countries which did not use export subsidies in the base period and declare them in their schedule of notifications will not be allowed to introduce them in the future. As developing countries were not required to make a commitment for these two particular types of export subsidy, this would appear to give them the flexibility to introduce them in the future even if they did not use them in the past.

Other export supports

The future of export subsidies is closely tied to the incorporation of disciplines on other forms of export support. In particular, the EU has indicated it is prepared to show flexibility on export subsidies provided rules are extended to cover indirect export subsidisation through export credits, state trading export boards and the abuse of food aid.

In the URAA the provision of export credits was defined as a form of export subsidy, but no agreement was reached on constraints. Within the OECD, countries have negotiated a code for non-agricultural export credits which puts limits on credit terms and the length of credit extension but agriculture is not yet included in this agreement. The obvious way to deal with this is to define allowable credit terms and to charge more generous terms against a country's export subsidies schedule. Again, some importing developing countries feel they benefit from the availability of these credits and may be reluctant to agree to a tightening of the rules, unless a more effective mechanism to protect them from food price increases in the future can be agreed.

Further export subsidy issues include the role of state trading exporters (single desk sellers) given the potential for cross-subsidisation and the role of two-price schemes (such as the EU's sugar regime) where high consumer support on the domestic market may indirectly cross-subsidise exports to the world market.

Article 10.4 contains rules on food aid transactions. Food aid should not be tied directly or indirectly to commercial exports, transactions should conform to the FAO Principles of Surplus Disposal and food aid should be provided to the fullest extent possible in grant form or on highly concessional terms. Food aid volumes increased substantially in the period 1997-99 when cereal prices were falling, and some donors (EU) believe that food aid is used to clear surplus stocks in donor countries as well as promoting market development. It proposes that the conditions and forms of food aid transactions should be discussed in WTO.

Export taxes

The converse of export subsidies – export taxes and controls – received relatively little attention in the Uruguay Round. Article XI of GATT 1947 prohibits quantitative export restrictions but makes an explicit exception for "export prohibitions or restrictions temporarily applied to prevent or relieve critical shortages of foodstuffs or other products essential to the exporting contracting party". Article 12 of the URAA tightens this a little by calling on Members, with respect to *new* restrictions on foodstuffs, to give "due consideration" to the food security concerns of importing countries and requires adequate notice and consultation prior to implementation. Developing countries are exempt from these provisions unless they are regular food exporters.

The US has proposed the prohibition of export taxes for competitive advantage or supply management purposes. However, some developing countries believe they need to retain the use of export taxes for supply management purposes.[15] But there is an inconsistency in expecting importers to open their markets to trade and then withholding exports from the market in times of shortage. In the interests of a transparent trading system, export taxes and controls should be covered in a new agreement.

Domestic supports

The main concern of developing countries under this heading is that their commitments should not make it more difficult to pursue desired food security and rural development policies. Only 20 developing countries reported positive Total Base AMS and, of these, only 12 reported Total Base AMS above the 10 per cent *de minimis* allowed.[16] Thus, for the great majority of developing countries, their ability to provide direct subsidies to agriculture in future under current rules will depend either on these being exempt under the SDT or *de minimis* provisions.

The future of domestic support disciplines is tied up with attitudes to non-trade concerns. Non-trade concerns should be taken into account in the negotiations. Food security and the environment are specifically mentioned in this connection in the Uruguay Round Agreement, although some developed countries also wish to extend the concept to include rural development and animal welfare. The EU, among others, would like to see the 'multifunctionality' of agriculture recognised and production-linked support allowed where it is targeted on these objectives.

At least four options are open to developing countries under this heading:

- to agree to a general widening of exempt subsidies in the Green Box to cover non-trade concerns
- to widen SDT exemptions under the Green Box

- to seek higher *de minimis* levels of non-exempt subsidies under the AMS
- to allow negative AMS to be explicitly set off against positive AMS.

Developing countries are unlikely to have the budgetary resources to embark on such programmes and should be wary of allowing the developed countries to proceed down this route. Some existing payments of this kind (e.g. the EU's agri-environment scheme) appear to compensate farmers for adopting less environmentally damaging production practices in a reversal of the polluter-pays principle. More generally, opening the opportunity for production-linked subsidies may simply result in the replacement of one category of trade-distorting measures by another.

SDT exemptions currently comprise investment and input subsidies and aid for diversifying away from narcotic crops. Given the exemptions for general government subsidies, it is not clear what further relief might be sought. Developing countries might seek to be allowed to continue Blue Box supports even if these are denied to developed countries. However, given the budgetary situation in developing countries, direct payments to farmers are unlikely to be a significant policy instrument, especially compared to the attractions of tariff protection.

Some developing countries have suggested that *de minimis* levels be raised to 20 per cent of the value of output for developing countries under SDT. Higher *de minimis* levels provide greater flexibility in the choice of policy instruments.

For some countries, the same objective of increased room for manoeuvre could be provided by allowing negative AMS to be offset in calculating a country's Total AMS. Negative AMS arises where domestic prices are below external reference prices. The Agreement does not discipline taxation of production and negative AMS is ignored in calculating the AMS level. The attraction to developing countries is that the AMS is aggregated over all commodities, so allowing negative AMS (for example, on export crops) to be included would permit greater support to be given to other production (for example, food crops). Whether this remains an important issue will depend on attitudes to export taxation in general in a new agreement.

Negative effects of reform on least developed and net food importing countries

To deal with the potential adverse indirect effects of higher world market food prices on low income and net food importing countries, the URAA was accompanied by a *Decision on Measures Concerning The Possible Negative Effects of the Reform Programme on Least-Developed Countries and Net Food-Importing Developing Countries (NFIDCs).* The main problem addressed by the *Decision* is the fear that the LDCs and NFIDCs may face difficulty in accessing adequate supplies of basic foodstuffs from external sources on reasonable terms, including financing. It mentions four specific responses to this difficulty: food aid; favourable treatment with export credits; concessional financing for food imports; and technical and financial assistance to increase agricultural productivity and production.

Few practical consequences have followed from the *Decision* to date, reflecting its non-legally-binding nature. In the case of food aid, a new Food Aid Convention (FAC) was concluded in 1999 which actually lowered the minimum guaranteed quantities donors intend to provide. On export credits, no agreement has been reached on how assistance might be provided. As regards financing facilities, the *Decision* recognises that the two groups of countries facing difficulties "may be eligible to draw on the resources" of existing facilities of the international financial institutions, or such new facilities as may be established. But most of the *Decision* countries already have access to these resources, and there has been no enthusiasm to set up a further facility. In any case, encouraging already heavily-indebted countries to borrow further to finance food imports hardly makes sense. Finally, on aid programmes, the *Decision* does not bind any country nor give any specific guideline on how "full consideration" is to be given to requests for technical and financial assistance to improve their agricultural productivity and infrastructure.

Some improvement in what is on offer to these countries will be a necessary ingredient to gain their support in the next round. Some countries would like eligibility for assistance to become automatic when world market prices rise above a certain level. On food aid, one of the criticisms of present policies is the tendency for food aid volumes to decrease when world prices increase and anticipated needs are greatest. Specific possibilities for improvement include writing food aid commitments, and indeed technical and financial assistance commitments, into country Schedules rather than leaving them simply as exhortations as at present.

Conclusions

Developing countries have demonstrated a strong interest in the new round of agricultural trade negotiations, and have taken an active part in presenting proposals in these early stages. From the point of view of the developed countries, and the EU in particular which has called for a new round to be a development round, two issues are of particular importance.

The first is the developing country demand for equality of outcomes in the negotiations, and not just equality of commitments. They have argued that, because the developed countries made the most use of agricultural support and protection in the past, equal reduction commitments still leave a very lop-sided playing-field in which the great bulk of support and protection continues to be provided by the developed countries. The Uruguay Round Agreement on Agriculture did make some small concessions to this principle, in that the reduction commitments taken on by developing countries were, on average, around two-thirds of those of the developed countries. However, as the experience in implementing these commitments has demonstrated, this was far from sufficient to eliminate the disparities in support. In making this demand, developing countries have some powerful allies among the low-subsidising developed countries, so it is clear that the demand for equality of outcomes is not just a North-South issue.

The second issue is, however, specific to developing countries and concerns the role and content of special and differential treatment in the current round. Developing countries have made clear that they want SDT to mean more than simply a longer time period in which to adjust to new trade and domestic support disciplines, and that it should embrace more favourable improvements in market access and greater flexibility in providing domestic support and protection than permitted to developed countries in any new agreement.

Developed countries have indicated that, in principle, they accept the principle of SDT. The EU supports SDT and has called for tariff free treatment to essentially all imports from the least developed countries.[17] The US has promised to give "special consideration for exempt support measures essential to the development objectives of developing countries". However, the additional specific criteria it proposes "to facilitate the development of targeted programs to increase investment and improve infrastructure, enhance domestic marketing systems, help farmers manage risk, provide access to new technologies promoting sustainability and resource conservation and increase productivity of subsistence producers" will not be broad enough for many developing countries.[18] The Cairns Group also proposes enhanced Green Box measures for developing countries which would address their specific concerns regarding food security, rural development and poverty eradication.[19] What is needed at this stage is more specific suggestions from developing countries on what additional exemptions they consider necessary under this heading.

While agreement should be possible on developed country market access and on domestic support issues, the demand by some developing countries to be allowed to maintain, and even to increase, protection for domestic food production if they wish to is much more problematic. And not only for developed countries, as many developing country exporters are aware of the growing importance of developing country markets. While the call to allow developing countries flexibility to pursue their food security objectives may appear persuasive, we should not encourage developing countries down a road which we, in Europe, have found leads to costly and poorly-targeted systems of support.

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[1] The following list includes objectives and concerns mentioned explicitly in Article 20 and, by reference in that Article, those mentioned in the Preamble to the Agreement on Agriculture.

[2] This classification is put forward by Mauritius in its paper ‘ Developing countries and non-trade concerns’, G/AG/NG/W/36, Discussion Paper Five.

[3] Data on agricultural trade in the next three paragraphs is taken from a WTO Secretariat paper prepared for the Special Session of the Committee on Agriculture ‘Agricultural Trade Performance by Developing Countries 1990-98’, G/AG/NG/S/6, 23 May 2000.

[4] Based on 14 country case studies, FAO concluded that few studies reported improvements in agricultural exports in the post-Uruguay Round period. See FAO paper ‘Synthesis of Country Case Studies’ in FAO Symposium on Agriculture, Trade and Food Security: Issues and Options in the Forthcoming WTO Negotiations from the Perspective of Developing Countries, Geneva, September 1999.

[5] International price data are taken from the report on the Implementation of the Decision on Measures Concerning the Possible Negative Effects of the Reform Programme on Least-Developed and Net Food-Importing Developing Countries, Annex III, Committee On Agriculture (Regular Meetings), General Council Overview of WTO Activities (2000), G/L/417, 20 November 2000.

[6] Decision on Measures Concerning the Possible Negative Effects of the Reform Programme on Least-Developed and Net Food-Importing Developing Countries.

[7] Information on food aid flows is taken from the report of the Committee On Agriculture *op. cit.*, G/L/417, 20 November 2000.

[8] Quoted in G/AG/NG/W/13 Proposal on Special and Differential Treatment and a Development Box by a Group of Developing Countries.

[9] See, for example, the proposal on market access submitted Cuba, Dominican Republic, El Salvador, Honduras, Kenya, India, Nigeria, Pakistan, Sri Lanka, Uganda and Zimbabwe, G/AG/NG/W/37.

[10] The Swiss formula is $T_n = (a_{max} * T_0)/(a_{max} + T_0)$ where T_0 is the original tariff, T_n is the new tariff and a_{max} is the upper bound on all resulting tariffs. With $a_{max} = 50$, an initial tariff of 40 per cent would be reduced to 22 per cent.

[11] G/AG/NG/W/33.

[12] Roberts, Orden and Josling, 1999, WTO disciplines on technical barriers to agricultural trade: progress, prospects and implications for developing countries, WTO/World Bank Conference on Agriculture and the New Trade Agenda in the WTO 2000 Negotiations, October, Geneva, quoted in Special Session Working Paper G/AG/NG/W/37**.**

[13] See, for example, Mauritius' statement to the Second Special Session of the Committee on Agriculture, G/AG/NG/W/28.

[14] G/AG/NG/W/11 Cairns Group Negotiating Proposal on Export Competition.

[15] For example, see India G/AG/NG/W/33.

[16] See WTO Secretariat Background Paper on Domestic Support, G/AG/NG/S/1.

[17] G/AG/NG/W/24 EU statement introducing EU negotiating proposals.

[18] G/AG/NG/W/15 US Proposal for Comprehensive Long-Term Agricultural Trade Reform.

[19] G/AG/NG/W/35 Cairns Group Negotiating Proposal on Domestic Support.

Table 1. Impact on economic welfare of removing post-Uruguay Round trade distortions in goods in 2005 using Version 4 of the GTAP database, 1995 US$ billion.

Liberalising region	**Benefiting region**	**Agriculture and food processing**	**Other primary**	**Textiles and clothing**	**Other manufactures**	**Total**
High income						
	High income	110.5	-0.0	-5.7	-8.1	96.6
	Low income	11.6	0.1	9.0	22.3	43.1
	Total	**122.1**	**0.0**	**3.3**	**14.2**	**139.7**
Low income						
	High income	11.2	0.2	10.5	27.7	49.6
	Low income	31.4	2.5	3.6	27.6	65.1
	Total	**42.6**	**2.7**	**14.1**	**55.3**	**114.7**
All countries						
	High income	121.7	0.1	4.8	19.6	146.2
	Low income	43.0	2.7	12.6	49.9	108.1
	Total	**164.7**	**2.8**	**17.4**	**69.5**	**254.3**

Source: Anderson 1999

Table 2: Total expenditure on Green Box measures, by member, 1995-6.

Country	**1995**		**1996**	
	Amount (US$ million)	**Share in reported GB expenditure of all members**	**Amount (US$ million)**	**Share in reported GB expenditure of all members**
Grand total of reported expenditure	129,440	100.0	126,735	100.0
Total of reporting developed countries	110,173	85.1	110,958	87.5
Total of reporting developing countries	19,266	14.9	15,776	12.5

Source: FAO 1999