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Trade Note 19

Agricultural Negotiations: Recent Developments in the Doha Round

In the early hours of August 1, 2004, the WTO General Council reached a decision on frameworks to continue with the multilateral trade negotiations under the Doha Development Agenda (DDA). These agreements lay the foundations for future reform of global agricultural trade. On non-agricultural market access (NAMA), the framework sets the stage for the pursuit of tariff cuts and the reduction or elimination of non-tariff barriers. WTO members have also agreed to intensify efforts toward services liberalization and to incorporate trade facilitation in the DDA. These agreements help put the Doha round back on track after the “detour” of the WTO Ministerial in Cancun.

Arguably the most significant piece of the “July Package” concerns agricultural trade.¹ The agreed framework lays out a map for the future elimination of all forms of export subsidies and for better disciplines on export credits, exporting state trading enterprises and food aid. It also introduces new commitments to discipline trade-distorting farm subsidies, promoting deeper cuts in countries with higher subsidies. Moreover, it commits WTO members to pursue “progressivity” in tariff

reductions with a view to achieve substantial improvements in market access while allowing for flexibility in the treatment of sensitive products.

This outcome is most welcome, not only in view of the checkered history of multilateral disciplines for agricultural trade, but also in terms of its potential to help the DDA deliver on its promise of being a development-oriented round. As discussed below, this is just a first step (albeit an important one) in a long march and the complexities to achieve a final agreement should not be underestimated. Still, the agricultural negotiations have already played an important role in underscoring the emerging new geography of international trade in which developing countries have a growing weight and political voice in multilateral fora.

Agricultural Trade and Multilateral Disciplines

The GATT (1947) had disciplines for agricultural trade, but at the same time it contained many loopholes that allowed contracting parties to use non-tariff barriers and subsidies. Over the years, agricultural trade became more and more distorted with OECD countries, for example, increasingly making use of export subsidies to promote their agricultural sectors. The Uruguay Round (1986-1994) helped in bringing agricultural trade back into the multilateral system and in paving the way for future trade liberalization.

As an outcome of the Uruguay Round, new rules and disciplines were adopted in the areas of market access (trade restrictions affecting imports), domestic subsidies and export subsidies. The WTO Agreement on Agriculture introduced the following major commitments in these areas:

Market access: quotas and non-tariff barriers to trade were converted to tariffs in 1995. These tariffs, in turn, were subject to average reductions of 36 per cent for developed countries (in equal steps) over a period of six years and 24 per cent



over 10 years for developing countries. Moreover, the agreement established a minimum cut per product of 15 percent for developed countries and 10 per cent in the case of developing countries. For tariffed products, a system of “tariff-quotas” was also introduced to guarantee that the process of “tariffication” would not lead to a decline in market access.

Domestic support: domestic policies directly affecting production and trade were supposed to be cut. The support provided by these measures, included in the so-called “Amber Box,” was calculated using a methodology known as the “aggregate measure of support” (AMS) for the base years of 1986-88. Developed countries committed to reduce their AMS by 20 percent over a six year period, starting in 1995. Developing countries, in turn, agreed to reduce their AMS by 13 per cent over a ten year period. Measures with no or only minimal impact on trade were permitted (being placed in the so-called Green Box) and the same occurred to partially de-coupled measures under production-limiting programs (the so-called Blue Box measures) and small scale support (“de minimis” interventions).

Export subsidies: these subsidies were prohibited unless notified by a member country. Members were expected to limit spending and quantities affected by export subsidies. Taking 1986-90 as the base level, developed countries committed to cut the value of export subsidies by 36 per cent and the quantity of subsidized exports by 21 per cent over a six year period. The corresponding targets for developing countries were 24 and 14 per cent, respectively, over a ten year period.

The impact of these commitments in terms of effective liberalization of agricultural trade, however, was limited.² This reflected not only the flexibility embedded in the Agreement on Agriculture (that allowed countries to use “dirty tariffication” to set initial bindings and to switch their domestic support from one commodity to another), but also a flawed average-cut approach for tariff cuts that permitted countries to fulfill their commitments (cutting relatively low tariffs more than higher tariffs) without significant increase in market access. Moreover, the choice of the base period (1986-88) for subsidy-reduction

commitments also affected the impact of the cuts in this area since this period coincided with historically high levels of subsidies. Article 20 of the Agreement, however, recognized that this reform process should be a long-term objective and committed Member countries to engage in new negotiations on agriculture by 2000. These negotiations were already under way, when Members decided to launch a new round of multilateral negotiations at the Fourth WTO Ministerial which took place in Doha, Qatar, in November 2001.

The Doha Development Agenda

The DDA set a high level of ambition for future agricultural trade reform.³ Member countries, however, could not agree on the first draft of modalities for the negotiations presented by the Chairman of the Committee on Agriculture, Hong Kong’s Ambassador Stuart Harbinson, in February 2003. While the Cairns Group countries (17 agricultural exporting countries) found that the text was not ambitious enough, other WTO members such as the EU, Norway, Switzerland and Japan found it too ambitious and/or unbalanced in terms of the three pillars (market access, domestic support, and export subsidies) of the negotiations. Many developing countries also expressed concerns about the implications of trade liberalization in terms of their rural development needs and food security.

The road to the fifth WTO Ministerial in Cancun (September 10-14, 2003) was characterized by three major developments concerning negotiations in agriculture. First, on 10 June 2003, Benin, Burkina Faso, Chad and Mali (the “cotton-4”) presented a joint proposal introducing a “Sectoral Initiative in Favour of Cotton.” This proposal presented the cotton-4 views on the impact of cotton subsidies in wealthy countries upon their economies, asked for the elimination of these subsidies, and for compensation for economic losses. Cotton subsidies, particularly in the US, were estimated to depress cotton revenues in West Africa by as much as \$250 million per year.⁴ Second, on 13 August 2003, the EC and the US presented a joint framework paper for agricultural negotiations. This paper was characterized as a conservative approach to agricultural reform by



many observers. Third, on 20 August 2003, a group of developing countries led by Brazil, China, India and South Africa – the so-called G20 – dissatisfied with the EU-US paper presented their own framework proposal which was much more ambitious with respect to export subsidies and domestic support.⁵

The Cancun Ministerial collapsed in view of the inability of Members to reach consensus on how to proceed with respect to the so-called Singapore Issues (investment, competition, transparency in government procurement, and trade facilitation). In the background, however, deep differences concerning the future of the agricultural negotiations and the treatment of cotton contributed to the unraveling of the negotiations.

After Cancun, negotiations started anew only by March 2004. The new chair of the Agriculture Committee, Ambassador Tim Groser from New Zealand, entered a dialogue with all parties involved in an attempt to bridge existing differences. At the same time, the WTO Secretariat, in cooperation with the World Bank and other international agencies, engaged with the cotton-4 and other interested parties with a view to explore development-based actions to increase productivity and facilitate adjustment in parallel with the trade negotiations. A concerted effort was made to guarantee that cotton, although negotiated within the agricultural framework rather than as a stand-alone topic (as requested by the cotton-4), would be treated as a priority.

The negotiations leading to the July WTO General Council were marked by the emergence of new negotiating coalitions that significantly influenced the dynamics of the trade negotiations, Developing countries formed negotiating coalitions (e.g., the G20) with concrete reform proposals that differentiated their actions vis-à-vis blocking coalitions that typified their involvement in trade negotiations in the past. A parallel development (the preliminary findings of a WTO panel on cotton subsidies in favor of Brazil) added to the sense of urgency in achieving progress with respect to agricultural export subsidies.

The Framework for Establishing Modalities in Agriculture

The first draft of the WTO “July Package” was circulated on July 16, 2004. Intense negotiations followed leading to approval of a modified version of the text by the General Council two weeks later. The Framework for Establishing Modalities in Agriculture (Annex A of the General Council Decision) is the most elaborate component of the package. It is structured around the three pillars of the negotiations, although its specificity varies across the pillars, being particularly detailed with respect to export subsidies and domestic support and less so vis-à-vis market access.

Export subsidies: the framework calls for the parallel elimination of all forms of export subsidies, including all export measures with equivalent effect which are not in accordance with strengthened disciplines to be established (e.g., export credits, export credit guarantees or insurance programs, trade-distorting practices of exporting state-trading enterprises (STEs), and food aid). This is in itself a historic achievement. The end-date for the elimination of all forms of export subsidies, however, remains to be negotiated. In the same vein, the implementation profile is also left for future negotiations since the framework simply establishes that commitments will be implemented in annual installments. The disciplines with respect to export credits, STEs and food aid remain quite generic at this stage, but there is already a commitment to eliminate (by a date to be agreed) export credits, export credit guarantees or insurance programs with repayment periods beyond 180 days. Developing countries will benefit from special and differential (S&D) treatment not only in terms of longer implementation periods, but also in terms of the operations of their STEs (e.g., special consideration for maintaining their monopoly status).

Domestic support: the framework commits member countries to substantial reductions of trade-distorting support, encompassing amber and blue boxes, as well as de minimis subsidies.⁶ This will be accomplished via a tiered formula (still to be defined) that will promote harmonization in the reductions made by developed Members (i.e., deeper cuts for higher levels of trade-distorting



domestic support). In the first year of implementation of the agreement, countries are expected to cut at least 20 per cent of the overall level of trade-distorting support based on the sum of the Final Bound Total AMS, permitted de minimis and the Blue Box capped at 5 per cent of a Member's average total value agricultural production during a historical period to be agreed. The capped Blue Box itself will be modified to cover additional programs. However, the new criteria contained in the framework (essentially reflecting counter-cyclical payments) coupled with additional criteria to be negotiated are to ensure that Blue Box measures are less trade-distorting than Amber Box measures. Caps on support levels for specific commodities are also to be negotiated, to control for "box-shifting." Green box criteria, in turn, will be revised and clarified to guarantee that their trade-distorting effects are at most minimal. S&D treatment is explicitly mentioned with respect to de minimis programs for subsistence and resource-poor farmers in developing countries. These programs will be exempt from reduction commitments.

Market access: the framework calls for substantial improvements in market access for all products. Tariff reductions are expected to be made from bound rates using a tiered formula that will foster greater harmonization of tariff regimes with deeper cuts in higher tariffs.⁷ In the case of sensitive products, "substantial improvement" is to be achieved through combination of tariff quota expansion and tariff cuts. The framework, however, leaves to the next stage of the negotiations the details of the tiered formula (e.g., number of bands and type of tariff reduction in each band). The possibility of tariff caps is left as an issue for further evaluation. Moreover, the criteria for selection of sensitive products remain vague, with Members being allowed to designate an "appropriate" number, to be negotiated, of tariff lines as such. S&D treatment will be available to developing members not only in terms of proportionality (i.e., lesser tariff reduction or tariff quota expansion than required from developed members) and access to a yet to be defined Special Safeguard Mechanism, but also in terms of their capacity to select an appropriate number of "special products" based on criteria of food security, livelihood security and rural development needs.

The treatment of these "special products" will be defined in the next stage of the negotiations. It is also noted that the issue of preference erosion will be addressed in the negotiations.

Cotton: the framework confirms that the trade-related aspects of this topic will be dealt with in the context of the negotiations on agriculture. It emphasizes that the theme should be addressed "ambitiously, expeditiously, and specifically." In order to facilitate the prioritization of the cotton issue in the three pillars of the negotiations, a subcommittee on cotton will report periodically on progress achieved to the Special Session of the Committee on Agriculture. At the same time, the General Council calls on Members and instructs the WTO Director General to consult with relevant international organizations, including the World Bank, on how best to make progress on the development assistance dimensions of this topic.

In addition to the S&D treatment items weaved into the three pillars of the negotiations on agriculture, the framework is also explicit in establishing that least-developed countries will not be required to make reduction commitments in these negotiations. Developed Members (and developing-country Members in a position to do so) are called upon to provide duty-free and quota-free market access for exports from least-developed countries. More generally, there is an exhortation in the main body of the General Council's decision that in accordance with paragraph 35 of the Doha mandate, the trade-related issues identified for the fuller integration of small, vulnerable economies into the multilateral trading system should also be addressed in the future negotiations, without creating a new sub-category of Members.

The "July Package" also underscores that the decisions taken on the Doha Work Programme "shall not be used in any dispute settlement proceeding under the DSU and shall not be used for interpreting the existing WTO Agreements."⁸ This is intended to avoid introducing new issues in ongoing disputes as the ones that pitch Brazil, with third-party participation of Benin and Chad, against the US with respect to cotton subsidies and Brazil, Thailand, and Australia against EC's sugar subsidies. This clause also means that the framework should not be used to "legalize"



measures that had been found to be in breach of WTO obligations in the context of dispute settlement procedures. The influence, however, is likely to run in the other direction as the final rulings may impact domestic policies and negotiating positions. In the case of cotton, the ruling in favor of Brazil, may help clarify what support programs can be classified as “green box” subsidies and the precise meaning of decoupled support.⁹ With respect to sugar, the ruling – also in favor of the complainants – is likely to put the spotlight on cross-subsidization practices and WTO-compatible links between trade and aid.¹⁰

The implementation of these rulings is still months ahead and it will depend on the results of appeals. Assuming that the core recommendations of the panels are maintained, future decisions by the US and the EU on how to comply with these rulings will signal their commitment to the goal of significant agricultural trade reform in the context of the DDA. Accordingly, they are expected to affect the next stages of the negotiations.

Concluding Remarks

The framework is an important step in the right direction. Needless to say, the road ahead is long and full of obstacles. The “July package” explicitly mentions that the next WTO Ministerial will be held in Hong Kong, China, in December 2005. This date will provide an important point of reference for the final stage of the negotiations. Some WTO members – e.g., the countries of the G20 – would like to see the full set of modalities for the agricultural negotiations agreed by then. This objective will in the end depend not only on the progress of technical negotiations in the coming months, but also on the level of engagement that some of the key players will be able to commit to in view of their own domestic political processes.

It is also important to keep in mind that the final developmental impact of the negotiations in agriculture remains to be determined. Critical variables that will shape this impact include:

(i) the criteria for selection of sensitive products (and special products) – the greater the flexibility on this front, the smaller the potential for

substantive improvement in market access through tariff cuts;

(ii) the definition/implementation of the tiered formula – not only in terms of the type of tariff reduction mandated by band, but also with respect to the question whether tariff line caps will be established that could control for “strategic” behavior at the level of product classification;

(iii) the schedule of implementation of new disciplines in each one of the three pillars – the more back-ended is the reform, the less substantial will be its impact in present-value terms. This is of particular relevance with respect to the commitment to eliminate export subsidies, given the symbolism of such a decision;

(iv) the choice of the historical period for capping the Blue Box and the size of the cuts required on trade-distorting domestic support -- cuts based on bound levels will not curb market distortions significantly unless they are very large;¹¹

(v) the engagement of developing Members (including least-developed countries) in the process – the benefits of the multilateral negotiations are correlated not only with better market access in other markets, but also with each country’s own domestic reforms.

An outcome that promotes significant liberalization of agricultural trade – in terms of better market access, diminishing distortions in domestic support and eliminating export subsidies – while maintaining incentives for developing countries to further pursue market-oriented reforms can leverage the development promise of the Doha round.¹²

¹For the details of the “July Package” see WTO (2004a).

²For an analysis of the failure of the Uruguay Round in delivering significant liberalization in agriculture see Messerlin (2002).

³A detailed description of the history of WTO agriculture negotiations can be found in WTO (2004b).

⁴Badiane et al. (2003).

⁵See Jank and Jales (2004) for an analysis of the origins of the G20 and their original joint proposal.



⁶De minimis provisions allow subsidies equivalent to up to 5 percent of agricultural production for developed countries and 10 percent for developing countries to be excluded from the Amber Box.

⁷For a discussion of the implications of different formulas see Martin (2004).

⁸WTO (2004a).

⁹For details see Baffes (2004) and Bridges (2004).

¹⁰For an analysis of sugar policies in the EU and in the US see Mitchell (2004). Oxfam (2004) analyses the implications of the interim WTO panel ruling on sugar.

¹¹If one takes 2000 as the base year for the cuts, the overall reduction would only begin to require cuts in actual support (assuming that support remained at the 2000 level) for reductions of more than 35 per cent in the case of the US and 27 per cent in the case of the EU. It is worth noting, however, that the Blue Box cap (taking 2000 as the historical period) would be immediately binding in the case of the EU.

¹²For a discussion of the impact of agricultural trade reform on poverty alleviation see Anderson (2004).

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