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Reforming Global Trade in Agriculture: A Developing-Country Perspective

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In signing the Agreement on Agriculture (AOA) in 1994, the countries belonging to the newly formed World Trade Organization (WTO) committed themselves for the first time to a market-oriented agricultural trading system through significant reductions of export subsidies, domestic support, and import duties. At the time, experts predicted that a reduction in price-distorting subsidies would boost global agricultural trade, stabilize global commodity prices, and benefit developing countries.

More than seven years have passed since the AOA went into effect, time enough to evaluate its effects. Suffice it to say that the agreement has not had its intended results for many signatories, particularly developing countries hoping to export agricultural products to industrial countries. A study published in July 2001 by Dimitris Diakosavvas of the Organization for Economic Cooperation and Development (OECD) concluded that there has not been any significant increase in market access for agricultural commodities in OECD member countries.

The AOA has engendered widespread dissatisfaction among all categories of developing countries, whether they are agriculture exporters, food importers, single-commodity exporters, predominantly agrarian economies, or small-island developing states. Compounding the market-access problem is the fact that many developing countries have suffered import surges since the reduction or elimination of domestic barriers to trade. This has been especially damaging to the world's poorest countries, whose low-income or resource-poor

farmers suffer from a lack of adequate and secure food sources.

This paper argues for two changes in the current AOA disciplines. First, the provisions of a new agreement must provide the requisite flexibility to enable developing countries to enhance domestic production and protect the livelihoods of their poor citizens. In particular, the rules should enable such countries to promote domestic production and distribution of "food security" crops, those that are either staple foods or the main sources of income for low-income or resource-poor farmers. Second, industrial countries must keep their promise to open up their markets. Nontariff barriers, most often domestic subsidies or food safety standards, should not be used to protect wealthy economies from developing-country imports.

Accomplishing these two objectives will require that industrial countries agree to three steps. First, they must agree to an interpretation of the language on special and differential treatment that would enable developing countries to take appropriate domestic policy measures. Technical assistance and capacity-building resources now available through the WTO can then be used by developing countries to devise policies consistent with WTO rules.

Second, industrial countries must reduce their excessive support for domestic products, which distorts world markets and hurts poor farmers. They must also lower tariff peaks in the commodities produced by developing countries and stop using sanitary and phytosanitary standards and other

SUMMARY

More than seven years after the members of the World Trade Organization signed the landmark Agreement on Agriculture, the benefits and drawbacks of that accord are coming into stark relief. For developing countries dependent on agriculture exports, the AOA has not succeeded in opening markets in industrial countries. Even more crucially, the low-income and resource-poor farmers in the world's poor and vulnerable countries continue to suffer from a lack of adequate and secure food sources, while having to contend with import surges and other forces of global competition.

The new round of agriculture negotiations, the mandate of which was further strengthened in the November 2001 Doha Ministerial Declaration, gives the WTO and its members a chance to rectify these imbalances. A new agreement should give developing countries the flexibility to adopt domestic policies that are geared to enhance domestic production and protect the livelihoods of their rural poor. One way to do this would be through a "development box," the provisions of which would enable developing countries to support production of staple food security crops and take measures to counter import surges. A new agreement should also help to chip away at the high levels of domestic support provided in wealthy countries, which depress world food prices and undercut developing-country farmers. The iniquitous treatment of some of the developing-country concerns under the present provisions and the urgency of addressing their needs for food security and poverty reduction offer ample justification for these policy recommendations.

The views expressed in this paper are those of the author and do not in any way reflect the views of the South Centre, where the author was on the staff when he wrote the paper, or the World Trade Organization, where he is now employed. The paper draws largely upon an essay on the "development box" written by the author and Duncan Green of the Catholic Agency for Overseas Development.

ABOUT THE AUTHOR

Shishir Priyadarshi is on the staff of the Development and Economic Research Division of the World Trade Organization in Geneva. He is responsible for the work of the WTO's Committee on Trade and Development, including the mandated work arising out of the Doha Development Agenda on technology transfer and special and differential treatment. Until recently, he was on the staff of the South Centre, an inter-governmental organization of developing countries based in Geneva, where he was responsible for providing developing countries with analytical and technical assistance on issues being considered by the WTO.

Having worked for the Government of India for nearly twenty years, Mr. Priyadarshi has much experience with WTO agreements, especially from a developmental perspective. For nearly four years, he was a counselor at India's mission to the WTO. Before that, he worked in the Cabinet office in India dealing with WTO-related issues. He has also worked in rural areas of northern India, implementing and monitoring rural development and poverty alleviation efforts.

nontrade barriers to restrict market access.

Third, industrial countries should improve market access for small single-commodity exporters that are net importers of food and otherwise compensate them in case their preferential trading relationships are eroded.

These steps are possible under the WTO's Doha Ministerial Declaration, which instructed agriculture negotiators to give greater consideration to the needs of developing countries, and the original directives in Article 20 of the AOA, which instructed negotiators to take into account "non-trade concerns [and] special and differential treatment to developing country Members."

It must be emphasized that to achieve these objectives, including food security and rural development, developing countries need to take remedial policy measures to overcome their supply-side deficiencies. Clearly, reform requires policy changes at both the industrial- and developing-country levels. This paper, however, concentrates on broader policy issues that need to be addressed, primarily by industrial countries, in light of the enhanced measures for special and differential treatment that developing countries have proposed for a "development box" in the AOA.

Background

Until 1995, global trade rules had little influence on trade in agricultural products. By and large, countries were able to use market-distorting export and domestic subsidies with little regard to their impact. As part of the Uruguay Round negotiations

the purview of the global trading system.

The AOA committed WTO members to reduce export subsidies and trade-distorting domestic support. Parties negotiated legally binding "bound rates," or tariff ceilings, and were expected to convert their remaining nontariff barriers into

COUNTRY TARIFF QUOTAS (number of products)	
Australia	2
Barbados	36
Brazil	2
Bulgaria	73
Canada	21
Colombia	67
Costa Rica	27
Czech Republic	24
Dominican Republic	8
Ecuador	14
El Salvador	11
EU members	87
Guatemala	22
Hungary	70
Iceland	90
Indonesia	2
Israel	12
Japan	20
Latvia	4
Malaysia	19
Mexico	11
Morocco	16
New Zealand	3
Nicaragua	9
Norway	232
Panama	19
Philippines	14
Poland	109
Romania	12
Slovak Republic	24
Slovenia	20
South Africa	53
South Korea	67
Switzerland	28
Thailand	23
Tunisia	13
United States	54
Venezuela	61

Source: WTO

tariffs, a process known as "tariffication." Because some of the converted tariffs made trade impossible,

The experience of implementing the AOA has revealed basic shortcomings in its provisions.

of the General Agreement on Tariffs and Trade (GATT), countries agreed to negotiate commitments to reduce export subsidies, domestic support, and import duties on agricultural products. In April 1994, more than 100 countries met in Marrakech to sign the agreement creating the WTO and to endorse the AOA, at last bringing agriculture into

countries agreed to a system of tariff-rate quotas to maintain existing import access levels and provide a minimal access to global markets. Currently, 38 WTO members have negotiated quotas on a total of 1,379 products (see box above). Of these products, 562 are scheduled to increase, 812 to remain unchanged, and 5 to decrease



during the implementation period.

In addition to quotas, some WTO members enjoy certain “safeguards” designed to provide temporary protection from trade. In general, higher duties on imported products can be triggered automatically if import volumes rise above or prices fall below a

COUNTRY SAFEGUARDS ON AGRICULTURAL PRODUCTS (number of products)		
Australia	10	Nicaragua 21
Barbados	37	Norway 581
Botswana	161	Panama 6
Bulgaria	21	Philippines 118
Canada	150	Poland 144
Colombia	56	Romania 175
Costa Rica	87	Slovak Republic . . . 114
Czech Republic	236	South Africa 166
Ecuador	7	South Korea 111
El Salvador	84	Swaziland 166
EU members	539	Switzerland and Liechtenstein 961
Guatemala	107	Thailand 52
Hungary	117	Tunisia 32
Iceland	462	United States 189
Indonesia	13	Uruguay 2
Israel	41	Venezuela 76
Japan	121	
Malaysia	72	

Source: WTO

certain level. Under the terms of the agreement, it is not necessary for a party to demonstrate that the changes in volume or price result in “serious injury” to the affected domestic industry to implement safeguard measures. Thirty-nine WTO members, mainly industrial countries, reserved the right to use safeguard measures on a total of 6,072 agricultural products (see box above).

Finally, with certain conditionalities, including commitments to reduce payments, WTO members were permitted to continue providing domestic support to agricultural producers. The subsidies that were deemed trade distorting were grouped into an “amber box,” and members committed themselves to reducing the total value of these subsidies over time (see sidebar at right). A “green box” subsidy was regarded as being minimally trade-distorting and

included payments for indirect income support for farmers, research, and the implementation of government-mandated environmental programs. No limit was set on the subsidies that could be provided under this category. Finally, “blue box” subsidies linked to production-limiting programs were permitted for those countries that had used them in the past, including European Union members and Iceland, Japan, Norway, the Slovak Republic, Slovenia, and the United States.

In addition to defining rules on tariffs, safeguards, and subsidies, the AOA was intended to “take fully into account the particular needs and conditions of developing country Members by providing for a greater improvement of opportunities and terms of access for agricultural products” in industrial markets. It also noted that environmental protection and special and differential treatment are integral to the agreement’s success. Even though it under-emphasized food security, the AOA nevertheless introduced the concept—then deeply embedded in the culture of a large number of developing countries—into the broader debate. Later, the 1996 World Food Summit defined food security as follows:

Food security, at the individual, household, national, regional and global levels, [is achieved] when all people, at all times, have physical and economic access to sufficient, safe and nutritious food to meet their dietary needs and food preferences for an active and healthy life.

At the World Food Summit, leaders of 186 countries committed their governments to halving the number of malnourished people in the world by 2015. The latest projections from the U.N. Food and Agriculture Organization (FAO), however, suggest that actual progress is likely to fall well short of that figure, with 580 million people expected to be malnourished in 2015, instead of the targeted figure of 400 million.

To summarize, the AOA was an ambitious, complicated agreement that represented a “down payment” on further liberalization. To ensure continued progress, WTO members committed under Article 20 to negotiate further reductions in tariffs and subsidies, instructing negotiators to take

AMBER BOX MEMBER COUNTRIES

- Argentina
- Australia
- Brazil
- Bulgaria
- Canada
- Colombia
- Costa Rica
- Cyprus
- Czech Republic
- EU members
- Hungary
- Iceland
- Israel
- Japan
- Jordan
- Mexico
- Morocco
- New Zealand
- Norway
- Papua New Guinea
- Poland
- Slovak Republic
- Slovenia
- South Africa
- South Korea
- Switzerland and Liechtenstein
- Thailand
- Tunisia
- United States
- Venezuela

SOURCE: WTO



into account their experience implementing the agreement, the nontrade concerns outlined above, and special and differential treatment.

Critique of the Agreement on Agriculture

The experience of implementing the AOA has revealed seven basic shortcomings in the provisions. The first shortcoming relates to *design and application* inequities. The AOA was designed with industrial-country agriculture in mind, institutionalizing the production and trade-distorting practices employed

between the role of agriculture in developing and industrial economies. Agriculture is a way of life for most people in many developing countries. According to the FAO, agriculture continues to be an important source of foreign exchange for developing countries, accounting for 27.3 percent of developing-country and 34 percent of least-developed-country merchandise exports from 1995 to 1997.

By contrast, agriculture accounted for only 8.3 percent of industrial-country exports during the

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by the most powerful countries. These countries now enjoy a unique privilege among members of the WTO, in the sense that the AOA gives them the legal right to continue to distort agricultural markets. Thanks in part to the blue and green box exemptions, in practice there is no limit to how much domestic support wealthy countries can provide, and—despite commitments to reduce support—payments continue to be very high.

According to the OECD, subsidies to producers in OECD member countries made up 40 percent of farm income in 1999, the same percentage as in the mid-1980s. For Japan, Norway, South Korea, and Switzerland, this figure was more than 66 percent. Total OECD support for agriculture in 1999 was \$360 billion—90 percent of it in the European Union, Japan, and the United States. In comparison, agricultural exports from developing countries reported by the United Nations Conference on Trade and Development totaled \$170 billion, and the FAO estimated that it would cost \$180 billion to provide the investment needed to halve the number of undernourished people in the world by 2015.

The second shortcoming relates to *the failure of the AOA to recognize the fundamental differences*

same period. Moreover, given the large share of household expenditures dedicated to food, even small changes in agricultural employment or prices can have major socioeconomic effects in developing countries. Therefore, the goal of government agricultural policies in most developing countries is to raise agricultural productivity. In contrast, the primary goal of such policies in industrial countries appears to be income parity between the small proportion of the workforce in farming and that in industry.

The third shortcoming concerns *the failure to appropriately address growing food-production demands in developing countries.* Because of expected increases in population and income, nearly all of the increase in global demand for food during the next few decades will come from developing countries. Given the role agriculture plays in many of these countries, most of the food required to meet these needs will have to be produced locally, within the country. Despite these trends, the AOA fails to differentiate between support used to boost exports and support used to enhance production in growing domestic markets.

The fourth shortcoming concerns the fact that *there is no sincere commitment to the concept of food*



security. The most recent figures from the FAO show that 792 million people in developing countries are currently undernourished. In the words of the FAO's *The State of Food and Agriculture 2000*:

Despite past progress, during the 1990s one in five people in developing countries ate less than the caloric minima for metabolic, work and other functions. Worldwide, there are still more than 150 million children under five who are underweight; more than 200 million—more than one in four—are stunted. These conditions appear to be implicated in about half of the 12 million deaths annually of children under five and, for some of the more damaged survivors, in physical and even mental retardation.

Even though there are references to “food security” in the AOA, both in the preamble and in Annex 2 of the Agreement (the green box), there is no attempt to define the term or set out any specific measures that would enable developing countries to address their food security concerns. In addition, aside from a very specific exception in Annex 5, the AOA does not distinguish between staple foods needed for food security and other crops. Given the centrality of agriculture to the livelihoods of the world's poor people, this is a serious omission. In the light of this, and of the international community's undertakings at the World Food Summit, food security should have figured far

low levels. These binding commitments have increased the vulnerability of their farmers to the drop in global commodity prices, a situation compounded by the fact that they also did not reserve the right to use emergency safeguard measures. Correcting these problems, especially for food security crops like wheat and rice and others important to industrial-country exports, will exact enormous costs because industrial countries will demand additional concessions in the new negotiations.

The sixth shortcoming concerns *the insufficient recognition of the possible impact of import surges.* The AOA does not recognize the impact of cheap imports on low-income or resource-poor farmers and fails to answer the crucial question as to how to address the threats to small farmers when the agriculture sector is liberalized. According to the FAO, the experience of the GATT Uruguay Round already shows that, following trade liberalization, agricultural imports in developing countries have risen more rapidly than have exports, leading to import surges and a deterioration of net agricultural trade.

Rules and procedures should take account of, and allow governments to compensate for, this asymmetrical reaction to trade liberalization. However, the current provisions fail to do so. Few developing countries have the resources or institutional capacity to apply the measures in the general safeguard agreement. Only 21 developing

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more explicitly and prominently in the AOA.

The fifth shortcoming concerns *the lack of any flexibility to correct anomalies in the tariff structure, particularly related to sensitive staple crops.* In signing the AOA, several developing countries bound tariffs of important and sensitive staple products at very

countries are eligible for the Special Safeguard provisions within the AOA, and then only on a limited range of nominated product lines; this is because only those developing countries opting for line-by-line tariffication, rather than general-ceiling bindings, are eligible for these provisions.



The seventh shortcoming concerns *the ineffective implementation of the Marrakech decision*. The 1994 Marrakech Ministerial Decision was supposed to protect net food-importing developing countries from price spikes caused by the AOA. However, prices rose, but members from industrial countries refused to implement the decision. Proposals for reform include the creation of a fund, managed by the FAO, that could be drawn on to cover price

the work already completed, it instructs negotiators to substantially improve market access for agricultural products, substantially reduce trade-distorting domestic support, and reduce—with a view to phasing out—all forms of export subsidies. Of equal importance, agriculture negotiations have been folded into the “single undertaking,” a concept that links together all the different negotiations into a single negotiated settlement.

Translating ideas for a development box into effective provisions would require building instruments into a new agreement that address the food security concerns of developing countries.

hikes, and an automatic trigger for the fund, to avoid the politics that have marked the decision’s implementation since 1996.

Under the terms of Article 20, WTO members began agriculture negotiations in late 1999. During the first phase, countries engaged in a proposal-making exercise. Six negotiating meetings were held between January 2000 and March 2001, in which 45 country proposals and 3 technical documents were considered. The second phase of negotiations included specific issue-based proposals. Several developing countries argued in their submissions that food security is as critical as national security and tried to link it with GATT Article XXI, which provides that national security issues may be exempted from WTO rules. These countries say that chronic food insecurity and dependence on imported food jeopardizes national security by weakening sovereignty, threatening public health, and inciting turmoil. They have used these arguments to create an opening to push for the exemption of food security crops from the disciplines of the new agreement.

The fourth WTO Ministerial, held in Doha, Qatar, in November 2001, issued more specific negotiating instructions on agriculture. Building on

The Development Box: A Proposal

In a June 2000 submission to the WTO Committee on Agriculture, eleven countries—Cuba, the Dominican Republic, El Salvador, Haiti, Honduras, Kenya, Nicaragua, Pakistan, Sri Lanka, Uganda, and Zimbabwe—suggested creating a “development box” as a solution to some of the problems associated with food security. The provisions of the development box are designed to provide developing countries with the flexibility they need to enhance domestic production for domestic consumption and to take other necessary measures to protect the livelihood of their farmers.

Given the widespread confusion over terms such as food security and special and differential treatment, it is important to clearly state the objectives that are being sought with the development box.

Broadly, the endeavor seeks to suggest provisions that are at best minimally trade-distorting and yet are able to provide developing countries with the flexibility they need to pursue policies aimed at reducing poverty and achieving sustainable development. This leads to three broad parameters.

First, *this proposal only applies to developing countries*. Given the fundamental differences in the kinds of agriculture practiced and the role agriculture



plays in developing and industrial countries, there is a clear case for devising a development box whose provisions would apply only to developing countries. Arguments offered by industrial countries about “multifunctionality”—the notion that government supports for agriculture serve many purposes beyond keeping food prices low—may have merit, but they should not be confused or conflated with the problems of rural poor people in developing countries.

For this reason, the proposal was termed a “development box” by its proponents, rather than a “food security box,” which could have been interpreted to also include industrial-country concerns. As was discussed above, the world’s poorest people cannot meet their most basic nutritional needs, and it is important that these concerns are appropriately addressed in negotiations.

The second underlying objective is that even *within developing countries, the focus of the proposals is on low-income or resource-poor farmers.* The key to poverty reduction and rural development is to defend and enhance the livelihoods of these farmers. Granted, it is sometimes difficult to distinguish clearly between large farmers and these disadvantaged ones. But that said, market access reforms should focus on those crops produced by low-income or resource-poor farmers, and flexibility for domestic support to these farmers should be consistent with Article 6.2 of the AOA and offer a way forward in ensuring that the AOA’s special and differential treatment provisions do benefit the poor.

This approach should also allay any fears that measures for special and differential treatment might be misused to further the interests of agribusiness lobbies in developing countries, even though this has rarely been the case. Although distinguishing between different kinds of producers in this way may carry an administrative burden, it is important to give governments the flexibility within WTO rules to balance for themselves the costs and benefits of supporting small producers as part of their poverty reduction strategies.

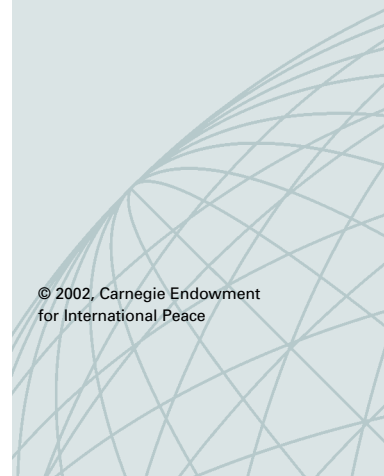
The third *main objective of the development box is to ensure food security.* This proposal focuses on what it terms “food security crops,” which it defines as crops and livestock products that are either staple foods in developing countries or the

main source of livelihood for low-income or resource-poor farmers.

On the basis of these overall objectives, the development box aims to

- protect low-income or resource-poor farmers, who are often engaged in subsistence farming of food security crops, from surges of cheap or unfairly subsidized imports;
- protect and enhance the efficiency of developing countries’ domestic food production capacity, particularly in key staples;
- provide and sustain existing employment opportunities for the rural poor; and
- promote improved in-country movement of surplus production.

Translating the above ideas for a development box into provisions that can be effectively implemented would require building instruments into a new agreement that are designed to address the food security concerns of developing countries under the three pillars of the negotiations. Such a development box would allow developing countries, including net food-importing developing countries, to further their food security by having the flexibility to support their agriculture sectors and to protect the livelihoods of their rural poor if imports surge. The box would also seek to exempt their food security crops from WTO rules on market access and tariff reductions so that they could take steps to increase their production for domestic consumption and become more self-reliant. ■





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