

A Possible Scenario for a Deal on Agricultural Trade Reform

"Scenario Paper"

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Introduction

There are other issues a Leaders' G-20 could deal with as well, such as rescuing the current round of multilateral trade negotiations, where the biggest stumbling block is agriculture. Agriculture is not simply a trade issue that will be decided solely on its economic merit.

In countries like France, Japan and the United States, it is first and foremost a political issue, one which only political leaders at the highest level can deal with. Everyone agrees the failure of the Doha round is in no one's interest, and yet failure looms. If the talks collapse, then many countries, rightly or wrongly, will feel that although the international systems we have built over the decades may work for some – they do not work for them.

Prime Minister Paul Martin, Washington, D.C., April 29, 2004

These remarks by Prime Minister Paul Martin on the occasion of his first visit as Prime Minister to Washington were made in a luncheon speech co-sponsored by the Woodrow Wilson Center and the Center for Global Development.

For no issue in the field of international economics has developing good solutions been so elusive. Agricultural producers and traders and their governments have run out of patience with the predicament in which they find themselves. The problem of lack of reform in this sector is now seen as a denial of justice more than as an economic issue.

According to WTO statistics, agriculture's share of world merchandise exports in value terms has declined from 11.3 percent in 1995 to 9.3 percent in 2002. Astonishingly in 1995 the export of agricultural raw materials accounted for only 1.8 percent of world trade while food accounted for 7.5 percent.

Again using WTO statistics, in 1998 only one developing country, Brazil, made it into the ranks of the top ten exporters of agricultural products, albeit in ninth spot. Six member States of the European Union qualified for top ten honours.

This is not surprising in a world where according to the OECD its members support their producers to the tune of more than 300 billion dollars a year. Indeed, the last year support was less than 300 billion dollars was 1989; in 2002 it amounted to 318 billion dollars. In a bizarre twist on the Washington consensus, developing countries are being asked to open their markets, not to free competition, but to market distortions created by the wealthy nations.

The case for reform of world agriculture trade is overwhelming, as is the evidence of the benefits it would bring. These benefits would open markets for exports from developing countries but

would also improve conditions of poor farmers in many countries who now have to compete with subsidized imports from developed countries.

The sector is characterized by high levels of government intervention and large distortions in the use of economic resources. There are pressures for reform in most countries but they are counterbalanced by pressures from those interests benefiting from the status quo. Of course, the wealth of many farmers in developed countries results from the nature of government programs and measures rather than from activity on the farm. As a former Canadian minister was fond of saying “there was a big difference between those who farm the land and those who farm the system”. Not surprisingly, those who farm the system see the merit in spending time, energy and money to ensure that the conditions benefiting them remain in place or are further improved. The recent history of farm support legislation in the United States shows that efforts at reform can be unwound by subsequent domestic decisions. This is one reason why it is so important to enshrine domestic reform in international agreements to guard against the possibility that it may be reversed or eroded.

The only international organization equipped to undertake such an effort is the World Trade Organization. Obviously there are other organizations which can and should play a supporting role but examination of that is beyond the scope of this paper.

1. The WTO’s Doha Development Agenda

The Doha Declaration by which WTO Ministers initiated the Doha Round contains the following key objectives for agriculture:

Building on the work carried out to date and without prejudging the outcome of the negotiations we commit ourselves to comprehensive negotiations aimed at: substantial improvements in market access; reductions of, with a view to phasing out, all forms of export subsidies; and substantial reductions in trade-distorting domestic support.

We agree that special and differential treatment for developing countries shall be an integral part of all elements of the negotiations and shall be embodied in the schedules of concessions and commitments and as appropriate in the rules and disciplines to be negotiated, so as to be operationally effective and to enable developing countries to effectively take account of their development needs, including food security and rural development.¹

Before looking at the Doha Round it is important to set the stage by looking at the WTO as an institution. The WTO is at once highly political and highly technical. It is political because it is first and foremost a forum for negotiation among its Members. It is the Members which set the agenda and manage the organization through a Ministerial Conference in which each Member is represented. It is not the decisions of the organization that are important but rather what Members can be persuaded to do through negotiation. Reform of agricultural trade will not result from a WTO program but from specific changes to domestic programs that Members agree to make through negotiation. The WTO is technical because of the level of complexity in these domestic programs and in other matters on the WTO agenda. The basic principles are easily grasped but attention to the fine print is critical to ensuring that political will is carried into action.

¹ Doha Declaration paragraph 13, in part.

Real progress in this sort of environment requires input and direction from the highest political levels of government. This has been the case in the past and remains so today. The prospects for a successful outcome depend very much on the extent to which there is the political will to take the necessary domestic decisions to generate reform.

There is some criticism that the consensus rule in the WTO makes progress difficult. However, it is hard to imagine how to reach an agreement on a collective domestic reform agenda other than by consensus. Agreements entered into voluntarily will be much more durable and, importantly, easier to implement.

The above quotation from the Doha Declaration identifies what are known as the three pillars of the agriculture negotiations:

- Market access,
- All forms of export subsidies, and
- Trade-distorting domestic support.

These are the three areas of the reform process which emerged from the Uruguay Round and the results of which were incorporated into the WTO when it came into force in 1995. This new framework put agricultural trade squarely within WTO rules but left protection and support in many sectors at levels that effectively precluded increased trade. The reform process was left incomplete but a commitment was written into the Uruguay Round Agreement on Agriculture to enter new negotiations in the year 2000 to carry the reform process forward. Those negotiations are now for all practical purposes an integral part of the Doha Round.

The commitment in the Doha Declaration is to *substantial* results. It does not mean all support and protection is to be eliminated. There will still be some scope to shield some domestic producers from international competition. But there must be real, substantial improvements in export opportunities. Protected domestic sectors will be able to survive but they will need to accept change.

Finally the WTO is clearly the only existing forum where this reform process can be put together. We are talking about disciplining policies with global effects. No regional or bilateral agreement can effectively address these matters. No other multilateral organization has the necessary habitat for putting such a package together.

2. Harnessing Pressures for Reform

There are various forces which leaders can and should harness to help with the task making real reform a reality. First and most obviously, domestic pressure for reform should be engaged. This comes from a variety of quarters:

- Users of agricultural inputs who want access to such products at prices that will allow them to compete effectively on world markets;
- Treasuries and tax payers who want to reduce the burden subsidies put on the national accounts;

- Consumers who would like better choices and lower prices;
- Groups arguing the case for economic development in the third world who see the deck in world agricultural trade stacked against developing countries.

Second agriculture is the key to making the Doha Round a success. The lack of real progress on this file in the past has resulted in a situation where many developing countries simply refuse to countenance any movement in other areas if agriculture is not moving. There will be no outcome unless there is a real prospect of substantial results in agriculture. As noted above agriculture accounts for less than ten percent of world trade in goods. Services trade is another important area where a significant deal could be reached in this Round but once again agriculture will need to move first. Those interested in progress in the Round generally or in particular sectors outside agriculture are worried and are starting to put pressure on governments to address agricultural trade reform seriously. This process needs to be encouraged. A big result overall will encourage a range of business interests to enter the domestic political fight to ensure that large prospective gains are realized. A meagre outcome would likely result in large elements of the business community sitting on their hands.

Third we now see a number of significant complaints on agriculture working their way through the dispute settlement system. The Brazilian complaint against US cotton subsidies is the first real test of the whether the Uruguay Round Agreement on Subsidies and Countervailing Measures can be used to determine the existence of “serious prejudice” and therefore act as an operational tool to find certain subsidy practices inconsistent with the WTO. In this case the confidential interim report is now with the parties to the dispute. Press reports suggest a big win for Brazil is in prospect on a number of counts that could also have a real impact on the Round. It is certain to be appealed but a final WTO finding will be available before the end of the year. The WTO panel hearing the complaint by Australia, Brazil and Thailand against EU sugar subsidies has had its first meeting with the parties. A final panel report should be available before the end of the year although the appeal could go into early next year. The upshot of these two cases may well contain important clarifications on a number of WTO provisions directly relevant to agricultural trade including on export subsidies (where the scope of what is an export subsidy may be considerably enlarged), the “green box” (where certain measures declared to be in the green box will be found not to qualify for that category of subsidy) and in determining that certain domestic subsidies can violate WTO provisions by causing “serious prejudice”.

Furthermore with the expiry of the “peace clause” we may well see new complaints from other aggrieved exporters although it may be difficult to prove that that “serious prejudice” exists because of the relatively high price today of many agricultural commodities. Higher prices mean lower subsidies in the US and the EU because the world price is closer to the domestic price.

These pressures from the dispute settlement system should also promote progress. For one thing it will be much easier for WTO Members to implement difficult adverse findings in the context of a big negotiation rather than in direct response only to the legal finding. This is especially so when legislation is required. Indeed at the end of the Uruguay Round many dispute cases had a positive impact on the outcome of that negotiation; the famous “oilseeds” complaint by the US against the EU is a good example.

Indeed these same disputes illustrate the dangers inherent in the status quo. In addition many countries will not be satisfied with the Uruguay Round bargain until the reform of agricultural trade registers further substantial progress. The WTO as a deal is unstable until more is achieved. Prevention of erosion of commitment to the system is another reason to push forward vigorously.

As leaders look at how to do the right thing in agriculture these various pressures can be harnessed to help manage the process. Given the complex array of forces in all domestic constituencies bearing on this matter it is clear that ultimate judgments about what to do must be made at the level of leaders. If this does not happen paralysis could easily result and the Round would fail.

3. G 20 Leaders Can Build the Necessary Momentum

A G20 Leaders Group can play a critical catalytic role in building the necessary momentum for a successful result. As noted above, only leaders can provide the direction to progress the reform process. Furthermore, the most powerful must show the way since their policies and practices are causing the greatest distortions.

To be successful such a group would have to be seen to be broadly representative of the various interests in the negotiation. It will also need to make clear that it is trying to play a catalytic role, not developing the detailed agreement which will need to involve all WTO Member countries. Indeed, any ideas the Group evolves will need to be reflective of the range of interests at the broader WTO table. But virtually all WTO Members want to see the Round succeed and this will make all Members receptive to a well thought out initiative by leaders.

Obvious care would be needed in getting the right leaders to the table. By way of example it would need to include members from the following groups:

- The U.S. and the EU
- The G20 – (This group was put together with Brazilian leadership and includes India and China. It said no to the U.S.-EU approach in Cancun and kept the prospects for more significant reform alive.)
- The G10 – (This includes countries with no strong export interest who are reluctant to see any significant reform of their domestic policies.)
- The G33 – (This includes developing countries with problems in particular sectors who favour an approach which would allow flexibility for managing these problems.)
- The G90 – (This group is essentially the ACP countries who because of their preferential access to the EU are leery of the effects of multilateral liberalization.)
- The Cairns Group – (The group of developing and developed countries led by Australia that has promoted reform in the Uruguay Round. It has recently been overshadowed by the G20.)
- Others also need to be considered – (Small economies, the landlocked, small island states.)

Some countries might belong to several groups reflecting the diversity of their interests – some might say their schizophrenia! (Indonesia is a member of Cairns, the G20 and the G33.) In a

WTO negotiation no group can be ignored; indeed a certain amount of persuasion may be necessary to help persuade the reluctant to come on board. This is another task where the engagement of leaders would be critical to success. Participants in a Leaders' Group would need to be prepared to discuss their conclusions with other leaders particularly on a regional basis to enlarge the circle of support.

Finally those organizing a meeting would need to take some care to involve those leaders experienced in such matters and who have shown a capacity to be able to contribute to constructive solutions.

Another requirement for such an initiative to be successful is that its approach and outcome must be clearly rooted in the objectives of the negotiations set out in the Doha Declaration. (The key objectives for agriculture are set out above.) This seems straightforward but making this clear to all would help to dispel suspicions about the Group's motives.

To be effective any emerging solution will need to be effectively marketed. It should be seen by the public and civil society as fair and beneficial to all. It should be relatively untainted by too much obvious national interest, although in the end that is of course how it will have to be sold at home. Enlightened self-interest will be an important commodity.

4. Timing

Support from leaders is needed now as WTO Members try to agree to a framework for the agriculture negotiations at the end of July. Decisions at the end of July will be important for the credibility of the Round, not least among the negotiators. Another failure in July might mean no further effort would be expended on the negotiations until the political situation was clarified in the EU and the U.S. The bigger problem in terms of timing is in the U.S. because the election will be followed next winter by the vote in Congress required every five years by the Uruguay Round implementing legislation on whether the U.S. will stay in the WTO. The vote is not really in doubt, but much of what is said in the debate before it is taken will erode confidence. Next, the President is required by law to report to Congress by March 1 on the extension of the "fast track" negotiating authority. This is also the occasion for the President to request extension of that authority which would otherwise expire on June 1, 2005. The request for a two year extension is automatically agreed unless either House of Congress votes to disapprove of the extension. Thus the period of political uncertainty surrounding trade policy in the U.S. will probably continue until the beginning of next summer, regardless of who wins the Presidential election. The changing of the European Commission this fall and getting used to ten additional drivers at the wheel of the EU trade policy bus will also impact on what can be achieved.

That means that the window for getting agreement on a framework will probably close at the end of July. Hopefully a framework will be reached in July. That will give a psychological boost to the negotiations and create conditions in which necessary technical work could be engaged in Geneva without attracting much political attention. This work would set the stage for political level discussions on the detailed approaches to negotiation needed to move into the more decisive phase of the Round. It would also allow time for developing countries to get a better grasp of how different approaches would affect their interests.

The time for new political decisions in the WTO will be at the next Ministerial Conference, which ought to agree on detailed negotiating plans. The date has not yet been set but next summer or early fall of 2005 are the most likely time frames. Clearly this is the time when informal guidance from leaders would be beneficial. To be effective it would need to precede a more general WTO meeting. Next spring might be a good time – when an American President with a new mandate is planning what he would like to accomplish during his four year mandate. Similarly the new European Commission will have found its feet by then. It is likely that the attention of leaders will be required more than once as negotiations move towards their concluding phase. An informal coordinated involvement by G20 leaders would make a good outcome more likely.