



Agriculture Subsidies and the Doha Round: A Role for the G20

Diana Tussie

Director, Latin American Trade Network (LATN), FLACSO, Argentina

Introduction

Since its inception, the agenda of the G20 has focused primarily on global financial architecture with trade issues relegated to a secondary place. Statements have usually pointed out the need for a more equitable distribution of the economic gains from globalization and the positive effects of free trade for developing countries. Indeed, G20 documents have encouraged progress in WTO negotiations, while also vaguely condemning the negative effect of trade distortions.

What Role for the G20?

The transformation of the G20 into a Heads of State Summit process could be an asset in trade negotiations. In the first place, as Table 1 shows, the G20 includes several members of the Cairns Group as well as Cancun's G20 countries. A leaders' summit could bring the opportunity to move an otherwise stalled agenda. As can be drawn from Table 1, seven countries are members of both the G20 and Cancun's G20: Argentina, Brazil, China, India, Indonesia, Mexico and South Africa. This list includes mainly

emerging markets, and among them some middle powers that have a high standing on global issues.

Table 1: G20, Cancun's G20 and Cairns Group members

G20	Cancun's G20	Cairns Group
Argentina*	Argentina*	Argentina
Australia	Brazil*	Australia
Brazil*	Bolivia	Bolivia
Canada	China*	Brazil
China*	Chile	Brazil
France	Cuba	Canada
Germany	Ecuador	Chile
India*	Guatemala	Colombia
Indonesia*	India*	Costa Rica
Japan	Indonesia*	Guatemala
México*	México*	Indonesia
Russia	Nigeria	Malaysia
Saudi Arabia	Pakistan	New Zealand
South Africa*	Paraguay	New Zealand
South Korea	Philippines	Paraguay
Spain	South Africa*	Philippines
United Kingdom	Thailand	South Africa
United States	Venezuela	South Africa
International Monetary Fund	Egypt	Thailand
World Bank		Uruguay
European Union		Uruguay

* Countries belonging to both the G20 and Cancun's G20

In the second place, the G20 can become an appropriate forum for linking debt and trade subsidies issues. Until now, the G20 has addressed debt and trade issues separately, but has never attempted to establish a link between the two. Removing trade subsidies would contribute to promote developing countries exports. Both the IMF and the World Bank raised this issue in September 2002 during their Annual Assembly. As a matter of fact, the relation between international trade and the international financial system occupies one chapter in the 2002 edition of the IMF's World Economic Outlook.¹ General Equilibrium models run by the IMF show that "if all countries removed their agricultural protection, all regions of the world would gain \$128 billion, with about three-fourths of the gains accruing to industrial countries and one fourth to developing countries".² The point to be highlighted is that exports, not fiscal adjustment alone, can contribute to meet foreign debt payments without unnecessarily undermining domestic social fabric.

What role if there for Canada?

Canada can play an active role bridging developing and industrialized countries positions in agricultural subsidies matters, given the fact that Canada belongs both to the G7 and to the Cairns Group. G20's first chairman, former Canadian Minister of Finance and recently elected Prime Minister, Paul Martin, stated in 1999: "there is virtually no major aspect of the global economy or international financial system that will be outside of the group's purview".

Prime Minister Martin has also shown sympathy for developing countries' claims against industrialized economies' protectionism. In this vein he declared: "I think that everybody understands that free trade benefits only the wealthy countries (essentially the

¹ International Monetary Fund, *World Economic Outlook*, (IMF), September 2002.

² Ibid., p. 88.

wealthy countries that now have tariffs with negative impacts on the poorer countries)...

I think that that's something that more countries are beginning to realize we have to do something about".³

Constructing the G20 Leaders agenda

Much of the conflict over the issue of agriculture can be attributed to the problems of past implementation, since most of the reforms carried out by the major players conformed to the letter of the agreement, but violated its spirit. Thus, agriculture has brought to the fore the conflicting interest of the members of the WTO. It has become the key to moving the Doha agenda forward.

In the run up to Cancun the dynamic of the WTO process was changed as the Cairns Group which had had such a high profile in the Uruguay Round lost momentum and the so-called *G20*, composed of developing countries, was formed.

There is a sharp contrast in the agenda and operating procedures of these groups. The Cairns Group had traditionally made a strong pitch for first best, all inclusive liberalization. *Cancun's G20* has taken a more pragmatic approach, taking into consideration the serious bottlenecks for "first best" policies, especially in developing countries. An expansion of the G20 (finance ministers) must rein in parts of these proposals because of the political backing and credibility they harness. The importance of *Cancun's G20* is that it provides the wherewithal to promote a reduction of unfair subsidies taking care, at the same time, to consider the long term sustainability of agriculture.

The interests of the major players must also be taken into account. The EU has always had a relatively defensive position on agriculture. The United States has recently stepped up support under the 2002 Farm Bill. The so-called Derbez text tabled at

³ Unedited interview, conducted by Candida Tamar Paltiel, G8 Research Group, November 18th Ottawa (<http://www.g7.utoronto.ca/g20/interviews/nov2001.html>)

Cancun made some headway toward leveling the playing field in this regard: it took into consideration the polarized positions trying to reduce the flexibility that the large players still retain to dole out large volumes of subsidies under the existing Agreement on Agriculture of the Uruguay Round and also brought in several proposals to protect the interests of developing countries under special and differential clauses.

The idea behind the construction of the following agenda was to draw out do-able proposals which could marshal sufficient political support. The process has been to draw contrasts among the joint U.S.-EU proposal (that gave rise to Cancun's G20); the Derbez text; the Cairns text (including Canada's self-standing papers) and the text proposed by Cancun's G20.

Export Support

Export subsidies are the most trade-distorting agricultural policies and damage both developed and developing countries. By depressing and destabilizing international market prices, the use of export subsidies by a small number of countries lowers farm incomes in other exporting countries and harms local production in food-importing countries. They undermine environmentally sustainable production methods. The agenda should cover the following items:

- The elimination of export subsidies on products of interest to developing countries (Proponents: USA, European Union, G20).
- The phasing out with a definite end date of all other export subsidies that have not been nominated by developing countries (Proponents: Cairns Group, Derbez Text).
- The placing of disciplines on food aid operations (Proponents: USA, European Union, G20).

- The elimination of subsidy elements of export credits (Proponents: Cairns Group, G20, Derbez Text).

Market Access

The market access provisions need to be carefully balanced so that the asymmetries already inherent in the process begin to be leveled. On one hand, tariffs constitute the major instrument to protect small farmers in developing countries. On the other, if border protection is eliminated while export subsidies remain rampant domestic agriculture faces the threat of displacement from cheap imports. A constructive agenda needs to consider all aspects of market access, including:

- The reduction of all tariffs, tariff peaks and tariff escalation (Proponents: Cairns Group, G20, USA, European Union, Derbez Text).
- The increase in tariff quota volumes, and marked improvements to the tariff quota administration and other rules applying to market access commitments (Proponents: Cairns Group, G20).
- The introduction of special products (SPs), including the right of developing countries to self-designate SPs in accordance with their own development needs, and for tariffs on SPs to be unbound (Proponents: G20).
- The elimination of the special safeguard mechanism (SSM) for developed countries (Proponents: Cairns Group, G20).
- The introduction of a SSM for developing countries which were not able to notify their safeguard needs and have thus remained un-armed vis-à-vis sudden surges in subsidized imports (Proponents: USA, European Union, G20).

Domestic Support

The Uruguay Round disciplines governing domestic support distinguished between trade and production-distorting forms of support (Aggregate Measurement of Support (AMS) and "blue box") and those which have no, or at most minimal, trade and production-distorting effect ("green box"). However, current disciplines and reductions are clearly inadequate because they have allowed flexibility to increase domestic subsidies especially in the countries that had already employed high levels of support. A realistic proposition in this area could include:

- The reduction and eventual phasing out of the AMS, "blue box" and *de minimis support* (Proponents: Cairns Group, USA, European Union, G20, Derbez Text).
- The elimination of domestic subsidies for products that are predominantly exported by developing countries (Proponents: G20).
- The establishment of stricter criteria for eligibility of subsidies under "blue box" support, so that production remains de-linked from the amount of subsidy granted (Proponents: USA, European Union, Derbez Text).
- The capping of subsidies allowed under the "green box" forms of support (Proponents: G20).

Developing countries should not be expected to undertake fast, deep and across the board agricultural trade liberalization as a result of the current negotiations, given the negative impact of such liberalization on their food security situation. This basic element of a development round should be reflected both in the market access formula applied to developing countries, and in the expansion of the role of S&D.

The Cotton Issue

The controversy over cotton subsidies that acquired unprecedented attention during the meeting in Cancun may be an issue in which Canada could weigh in as a neutral broker, given its long history of support of development programs and developing countries. The questions surrounding cotton subsidies, especially in the U.S., will not easily be swept under the rug without some concessions to the four West African countries that have tabled a request for compensation. Subsidies on cotton increased by 7000% from 1995 to 1999 following the enforcement of the Uruguay Round Agreement and prior to the passage in Washington of the current Farm Bill. West African countries whose foreign exchange earnings are dependent on cotton exports may not be legally entitled to the compensation they are advocating but some form of compensation will need to be devised to increase the legitimacy of agreements that allow such egregious disparities. Under current rules, the U.S. was not only able to increase support by such huge percentages but also increased its share in world cotton exports from one-fourth to one-third.

Building the Process

In order to move the agenda suggested above, the G20 needs some changes. It has not been free from criticism. Gerry Helleiner has denounced its lack of legitimacy, its restricted agenda and the fact that it was a U.S.-originated initiative. Despite these flaws, the G20 leaves room for its non-G7 members to lead initiatives and promote a wider agenda and for it to become a transmission belt of agenda-moving ideas.

How could the refurbished G20 gain legitimacy and play an active role in order to unlock trade subsidies negotiations? Building consensus among those G20 members advocating the removal of the most egregious forms of distorting trade subsidies appears a key task in order to achieve this goal. Increasing the G20's legitimacy is also crucial. To do this, the following items should be taken into consideration:

- Regional Development Banks should be invited to the group, in order to incorporate regional views about the issues at stake, and also as a mean of increasing the group's representativeness among countries excluded from the negotiating table. Besides, regional banks could counterbalance the IMF and the World Bank, where industrialized country power is larger.
- Think tanks that serve as policy-entrepreneurs, such as the Indian Institute of Foreign Trade, Tips (South Africa), FLACSO (Latin America), FUNCEX (Brazil) and CEBRI (Brazil) among others, should play an active role in order to strengthen the G20.
- G20 documents should be fully disclosed and posted on the internet.
- The G20 agenda should not be overburdened, in order to avoid the deadlock and paralysis that usually accompanies large agendas.
- The creation of a small and agile Secretariat would add more effectiveness to the G20 task, guaranteeing to a certain extent that G20 issues will go beyond a Heads of State "photo op".
- The risk of EU over-representation should be addressed by providing a single chair, as is the case in the WTO.