Agricultural Trade: Time for a New Framework

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Introduction

To the consternation of the U.S. government and the joy of much of the rest of the world, Brazil just won a case at the World Trade Organization (WTO) against U.S. subsidies on upland cotton. The WTO ruled that the U.S. violated its obligations under the Agreement on Agriculture by exceeding its spending limits for cotton. The U.S. will almost certainly appeal the ruling, but no one expects the finding to be overturned. After fifty years of waivers and carefully worded exemptions for agriculture, rich countries may have lost their power to set their agricultural policies without regard for the rest of the world.

In international negotiations on agriculture, whether at the WTO, at the Food and Agriculture Organization, or elsewhere in the multilateral system, spending on domestic agriculture programs in the world's richest countries has been under heavy attack. Leaders such as Kofi Anan at the UN, James Wolfensohn at the World Bank and Rubens Ricupero at UNCTAD have all made much the same speech: tremendous resources for development await if developed countries can be forced or persuaded to eliminate their agricultural subsidies. By eliminating subsidies, these leaders claim, production in the North will slow or cease and developing country farmers will gain access to large and lucrative markets.

Might the Agreement on Agriculture, to date a considerable disappointment to developing countries, be about to come into its own? No. Unfortunately, the ruling on upland cotton subsidies will prove most important as a symbol: rich country spending on agriculture is not unassailable. The symbol is, of course, important. The legitimacy of the multilateral trading system depends on its ability to protect countries that are too small to defend their trade rights on their own. Agriculture has been a glaring example of the system's failure to protect small countries. But even if governments succeed in eliminating all subsidies to U.S. agriculture, world markets will not make the dramatic recovery predicted by such authorities as the World Bank: agricultural dumping and low prices will continue at damaging levels.

The existing multilateral trade rules for agriculture fail to discipline one of the most egregious market distortions: dumping of agricultural products at below cost of production prices. More worryingly, the rules fail to respect the fundamental objectives people have for agriculture, including fulfilment of the right to food and the establishment of a resilient rural sector as a basis for economic development. Agriculture has proven itself a sound basis for broadly based, lasting development of the whole economy. The contribution of agricultural exports to development, however, is far more contentious—exports can make an important contribution, but only if a number of other conditions are met first. Governments have undertaken to eradicate extreme poverty and hunger by 2015, as one of the Millennium Development Goals. Their focus on breaking the deadlock on agriculture at the WTO cannot come at the expense of keeping this promise to the 800 million people who live with hunger every day.

The Agreement on Agriculture has failed developing countries. Indeed, it has failed agriculture around the world. We need new multilateral rules for agriculture, and they must include trade rules. However, those trade rules must be rooted in the world we inhabit, not in assumptions that reflect an ideal, but unreal, world.

Paradoxically, we need regulations to harness the power of the market. To end distortions in world agricultural markets:

- Governments must prohibit agricultural dumping, which means imposing restrictions on supply.
- Governments must restore competition in agricultural markets by reducing the market power of transnational agribusiness.
- Governments must revitalize international commodity agreements, which in turn they must support with sound national commodity policies.

Those policies must take account of scarce, fragile resources; unstable weather patterns; increasing global population; and the persistence of an unacceptable divide between the few people who enjoy enormous wealth and the hundreds of millions of people who live in abject poverty.

The deadlock in agricultural negotiations is above all political. The political fights are not just between the United States and the G20 (Ag)[1] over market access, or just about everyone and the European Union over export subsidy programmes. The important political struggles over agriculture are going on inside WTO Member States. Mexican peasants marched from all over the country to Mexico City on January 1, 2003 to protest at the continued implementation of the North American Free Trade Agreement because of the agreement's exacerbation of the crisis in rural areas. Luis Inacio Lula da Silva (Lula) ran his successful bid for the Presidency of Brazil on a platform to end acute hunger in Brazil in three years. José Bové, the French Roquefort farmer from Larzac, has led rallies of French farmers calling for the WTO to "get out of agriculture," a cry that echoes at peasant rallies around the world. Across the globe, peasant associations are fighting for food sovereignty—for the right of countries to determine their agricultural policies independently of multilateral rules. In Cancún, a Korean peasant committed suicide, to express his despair at the impact of trade liberalization on his livelihood.

To resolve the deadlock in agriculture, G8 leaders—or the leaders of a newly configured G20—do not need to find a perfect formula for tariff reductions or to just accommodate exemptions for developing countries' food security priorities. Resolution will come when the leaders think about global agriculture writ large, and then define a role for trade within that larger canvas—a role that will necessarily differ according to the challenges facing different countries.

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[1] G20(Ag) is used to distinguish the G20 in the context of the WTO agriculture negotiations from the G20 proposed as an alternative to the existing G8.

1. Starting Assumptions

The solution to today's *impasse* on agricultural trade rules requires us to re-examine assumptions. Sound agricultural trade policies can only be built on sound foundations. Here are some of the assumptions that underpin the proposals that follow.

1. A properly functioning free market is the collective outcome of millions of self-interested decisions by buyers and sellers, producers and consumers. Without centralized planning or guidance from the state, this market maximizes the common good. It ensures the most efficient use of the productive resources available. The perfect open market mediates between supply and demand through price, providing the best price for producers and consumers alike.

2. Nonetheless, the "free" market does not come without cost. Without clear and enforceable rules there is no "free" market. To work, markets depend on a wide body of law, on impartial implementation of that law, and on constant vigilance. The magic of the invisible hand depends on a lot of visible support: property law, contract law, border administration, and more. A perfect open market depends on perfect competition, yet many markets—agricultural commodity markets are a prime example—tend to oligopoly and therefore require regulation. There is no single way to structure a free market. Societies have enormous choice in deciding how to marshal the powerful forces of competition and self-interest, which—*if properly managed*—stimulate growth.

3. All markets have their failures, but more is at stake when it comes to agriculture. Unemployment is a cruel hardship, but starvation is fatal. That is why food security is protected in international law. UN member states are bound to protect and fulfill the universal human right to food. Governments are also bound by their commitment to ensure food security, defined at the World Food Summit in 1996 as: "Food that is available at all times, that all persons have means of access to it, that it is nutritionally adequate in terms of quantity, quality and variety, and that it is acceptable within the given culture."[2] Governments cannot deprive the country of food the way they might decide to do without cars, or even fuel, if they had to.

4. There is strong empirical evidence to show agricultural development is an effective way to generate employment and reduce poverty.[3] Increasing incomes in rural areas has an immediate and significant positive effect by increasing demand for local goods and services. People living in rural areas without land, together with small land-holders who have to sell their labor part-time to make a living, make up the majority of the extremely poor. They depend on jobs in the local service economy to survive. Interventions to eradicate poverty have to target these groups, and particularly women within them:

[2] FAO, 1996, Rome Declaration on World Food Security.

[3] John W. Mellor, Background Paper: "Reducing Poverty, Buffering Economic Shocks—Agriculture and the Non-tradable Economy", prepared for Experts' Meeting, 19-21 March, 2001, Roles of Agriculture Project, FAO: Rome. On-line at http://www.fao.org/es/esa/roa/roa-e/EMPDF/PROCEED/BG/MELLOR.pdf

women are over-represented among the poorest and are often the most effective agents to combat poverty in the wider community.[4]

5. The market cannot capture all that people value in agricultural production. Agricultural production is a central strategy to combat hunger, both directly and as a livelihood, but it is more than that. Other factors need to be taken into account to understand agriculture's contribution to human welfare. Traditional farmers are caretakers of knowledge gained over millennia in cultivating thousands of crops and animal breeds. In most cultures, that knowledge extends to uncultivated species, such as non-timber forest products (honey, berries, medicinal plants and much more). The globalization of world agricultural production has already undermined this biological and cultural diversity to a shocking extent. With the world's climate changing in ways that are still not clearly predictable, governments have an obligation to protect biological diversity to safeguard food production for the generations to come.

2. Renegotiating the Agreement on Agriculture

Governments identified three primary sources of distortion in world agricultural markets when they designed the Uruguay Round Agreement on Agriculture: export subsidies, domestic support, and market access barriers. The agreement set about reducing all three, and prohibited certain tools (such as variable levies on imports). The actual reductions agreed to did not, in most cases, change existing spending or increase market access in any significant degree. In fact, the categorization of programs was in some ways more profound than any spending limits set. The categorization was important, because it sent a signal as to what kinds of programs would be acceptable in the future, and pressured WTO member states to shape their agricultural programs in a particular way. In practice, the agreement discouraged payments to producers that were tied to output, and blessed decoupled payments, which are based on historic rather than actual production.

In the negotiations to revise the Agreement on Agriculture, the U.S. and E.U. are fighting what is likely to be a losing battle to maintain their export share in world agricultural markets. U.S. and E.U. member state governments are pulled in different directions over the interests they should protect: those of producers, who live, spend and vote in the country, or those of agribusiness, which increasingly operates without regard to international borders. These groups have conflicting interests. Producers' primary interest is in markets—whether local, national or international—that will allow them to recover their production costs and ideally make a profit. Transnational agribusiness is interested in ensuring the lowest possible price for commodities (and therefore in over-production if possible), in lowering the costs of doing business across international borders, and in access to the growing middle class markets of populous countries such as China.

By and large, transnational agribusiness has greater access to political power at the executive level, where trade policy is formed. However, the weighting of electoral systems to favour rural areas (fewer people/ constituency) gives farmers considerable political weight in parliaments

[4] If governments hope to realize their commitment to the Millenium Development Goal of eradicating extreme poverty and hunger then international co-operation on agriculture must clearly be an urgent priority.

despite their relatively small numbers. The political stance on trade within E.U. member states and the U.S. can be characterized as the executive branch pushing to expand market access opportunities for firms, which in turn requires acceptance of increased access for imports and disciplines on allowable domestic and export support programs. Meanwhile, increasingly skeptical yet relatively impotent parliamentarians have had to respond to farmers' growing doubts about free trade. Legislators resort to standards (in the case of the U.S., these include evaluations of a country's human rights performance, or its perceived effectiveness in countering the production of illicit drugs), subsidies (for example rewarding processors for purchasing domestic rather than imported commodities), and exceptions (for example, the U.S. continues to maintain high tariffs for certain dairy products).

At the same time, a small number of large developing countries are poised to provide agribusiness with cheaper commodities than either the U.S. or E.U. can manage, even with their considerable subsidies. The logic of the existing negotiations on agriculture can only accelerate the already well-established trend that is shifting production from the U.S. and E.U. to Brazil, Argentina, Russia and others. China and India are also increasingly important as suppliers of commodities for export. US-based agribusiness is increasingly investing in these developing countries. While the U.S., E.U. and Cairns Group/ G20(Ag) fight with each other over who will get (or keep) the investment of transnational agribusiness, most developing countries are left on the sidelines. The countries most dependent on primary commodity exports—many of them in sub-Saharan Africa—have been losing global market share for the past twenty years.

For whom are multilateral trade rules crafted? Most governments would claim the rules reflect a balance of interests among exporters and importers. However, it is clear that transnational agribusiness interests' are strongly represented on all sides, by developed and developing country governments. And the WTO itself clearly equates increased trade with increased welfare despite the at best mixed evidence for the equation. In practice, the culture and the working methodology of the WTO favours exporters over importers. Exporters are the *demandeurs*, and countries whose agriculture is predominantly for export have less to lose in structuring their economies to favor increased trade. Yet these countries are a minority of the world's countries. Some 80 percent of agricultural production is consumed in the country where it is grown or raised.

Most countries face complicated trade-offs in the attempt to assess the best approach to tariffs, domestic support and export strategies. Competing interests and scarce resources make policy choices tough and highly contested. Some traders see the WTO as a place to pass international rules that could never be agreed to domestically. Analysts argue that this was what motivated the United States in its push to secure an Agreement on Agriculture as a part of the Uruguay Round. Yet the strategy has backfired: in many countries the public does not see the WTO as a legitimate actor (in contrast to the United Nations, which retains a strong measure of legitimacy despite its many problems). Solutions to the impasse on agricultural trade reform have to tackle these basic challenges if they are to have any hope of success.

3. What is Wrong with the Agreement on Agriculture?

Many developing countries calculated that it was worth signing the Uruguay Round Agreements just because they included an agreement on agriculture. They were fed up with U.S. and E.U.

abuses of export subsidies and the U.S. and E.U. failure to pay attention to the international consequences of the drive for export markets. Developing countries saw the WTO as a forum where multilateral disciplines could be enforced. Meanwhile, the World Bank and others promised hundreds of millions of dollars would be generated by the elimination of agricultural protection in OECD member states. The calculation did not pay off. The final agreement did not deregulate agricultural policy in developed countries. In violation of the spirit of the agreement, the E.U. and U.S. agreed to baselines that minimized the impact of the rules on their own domestic programs..

The failure of the Agreement on Agriculture to change developed country policy was exacerbated by the single-minded pursuit of trade liberalization pushed on developing countries by developed countries through bilateral and regional trade accords, structural adjustment programs and development assistance conditionalities. These self-serving policies of developed countries have fuelled significant resentment among developing countries, resentment that was clearly expressed in the proposals from the Friends of the Development Box, including the idea of Special Products and a new special safeguard mechanism.

It is difficult to overstate the tension, unhappiness, and profound mistrust that characterize the current negotiations on agriculture at the WTO. Deeply skeptical, developing countries still hope that reform is possible and are trying to use the scheduled review of the Agreement on Agriculture to tighten international trade disciplines on agriculture. Their proposed solution is an outcome that will actually liberalize developed country agriculture while protecting some of their vulnerable agricultural populations through exemptions for special products and higher allowable tariffs and countervailing duties.

Further liberalization of agriculture in developed countries will be tough but not impossible. The American and European public have lost patience with the expense and inefficiency of the existing programs, which have failed rural populations at home at the same time as they have devastated developing countries. The programs are expensive, concentrate payments in the hands of the richest landowners, increase the tendency to oligopolistic processing and distribution, and damage the environment. The programs have failed to keep farmers on the land, and have failed to control production. The programs have become victims of their own success, generating unprecedented surpluses that cannot be sold (at times they cannot even be given away), which further depresses prices.

Even if liberalization is possible, however, there is reason to question whether its pursuit along the lines set out by the WTO Agreement on Agriculture is the right strategy for developing countries to adopt. Given that states are obliged to fulfill the human right to food, liberalization is particularly questionable. Moreover, developing countries know from history that a strong rural sector provides a strong basis for economic development, and that this might not be compatible with the dismantling of the large part of agricultural tariffs. Hoping that full deregulation of agricultural trade will bring expected market-based benefits for the South is open to question as well.

1. Lower tariffs will not guarantee that developing country exports find a market in the North. Neither the U.S. nor members of the European Union have the political support they need to match their trade rhetoric with action. While the public resents the cost and

perverse outcomes of the existing programs, the public is also increasingly worried about nutritional and environmental standards. Far from seeking deregulation, the public in these countries is asking for tougher standards, greater clarity on where its food comes from, and more transparency about what goes into food. The controversy over the introduction of genetically engineered foods reflects public mistrust in food companies. This shift in public attitudes has serious implications for developing country exporters, as much as for the Common Agricultural Policy or U.S. farm legislation.

2. Farmers do not necessarily benefit from increased exports in deregulated markets. The experience in the U.S., Canada and the E.U. has shown exports can increase at the very same time as on-farm income declines. Farmers rarely export directly. They sell their crops to middlemen, supply crops under contract to multinationals, or work as hired labour while maintaining a subsistence plot for the family. Farmers are interested in keeping production costs low and in maximizing the price for which their production can sell. Market choice is good for farmers, but few of them have the capital to participate actively in markets that are thousands of miles away. More often, open markets bring dumped imports that undercut prices on local markets where most producers sell their produce.

3. Open borders are no guarantee of cheap food for consumers. Price transmission in most commodity markets is imperfect. In the United States, food and commodity prices are virtually independent. Food prices reflect prevailing inflation levels, not raw commodity prices. It is not that trade liberalization cannot benefit consumers, but that in practice it often has not. This failure for consumer prices to reflect commodity prices can in large part be attributed to the concentrated market power of food processors and retailers. When commodity prices fall, these companies simply increase their profit margin. Moreover, many of the poorest consumers are also food producers, whose ability to buy the extra food they need depends on what price they can get for their crops. Even poorer, landless labourers depend on a healthy local agricultural economy to earn the money they need to buy food.

4. Countries do not all have the same agricultural priorities. Many developed countries are coping with unprecedented surpluses of production, while a number of developing countries need to increase their production to stimulate economic development. Special and differential treatment is vital, but it has yet to show itself capable of accepting more than slower implementation timetables for less radical reform within a common framework. In practice, countries may find that the best way forward from a developmental perspective will require that governments cut some tariffs, and increase others. Some countries may need to have market access guaranteed, such as exists under GSP schemes. Some situations may warrant export taxes. The bewildering variety of situations that face WTO member states (not to mention the 50 or so countries who are not yet members) make a one-size fits all approach to agricultural reform highly problematic.

Logically, governments should be neutral as to the use of subsidies, tariffs and other instruments to govern agriculture. As with any policy tool, they have costs and benefits that need to be weighed. We know that perfectly competitive markets are in theory welfare-maximizing, but we also know that markets are not perfectly competitive in practice. Some markets are better able to approximate perfect competition than others. Agriculture—like the energy sector—is not a market that is best structured according to the free market. Given these difficulties, how should agricultural markets be structured? Before suggesting what trade rules might work better, it is worth a moment to consider the issue of subsidies, since they dominate the debate on agricultural trade.

4. What About the Subsidies?

The conflation of subsidies with the existence of a price discrepancy between domestic and world markets confuses the debate on how to reform multilateral agricultural trade. A subsidy is payment from the public purse for a normal, usually recurring, cost of doing business. For example, an input (such as fertilizer) is provided at less than cost price: the government pays the difference. Or the government pays part of the cost of shipping grain to port, or of on-farm storage. There are grey areas—is the public provision of infrastructure (roads, grain terminals) an *investment* or a *subsidy*? Either way, taxpayer money is spent on the business of growing, processing and distributing food.

However, the OECD's Producer Support Estimate (PSE) is commonly used as a measure of OECD member state subsidy levels, although it measures much more than just subsidies. In fact, subsidies represent only about one-third of the total PSE for OECD countries. The bulk of the PSE – 70% in 1999-2002 – comes in the form of "Market Price Support" (MPS), which is an estimate of the transfers to producers from consumers (as opposed to taxpayers) due to government policies that result in higher prices[5]. Most common among these policies are tariffs, quotas, and price supports (or administered prices).[6]

Market Price Support is obviously an important measure. But it is not a measure of government subsidies. The conflation of PSE with subsidy exaggerates the importance of subsidies as a source of market distortion. Moreover, domestic and world prices differ for many reasons; these are not all due to government actions. As Tim Wise has shown in his recent working paper on the PSE (cited above), important distortions arise from other sources, not least the preponderance of oligopolistic traders and processors in global commodity markets. Moreover, many developing country economies are not fully integrated into the global economy, and may not want to be. As a number of countries in sub-Saharan Africa and Latin America have learned to their cost, without great care fuller integration under current conditions can result in a process of deindustrialization and massive social and economic dislocation.

A growing number of academics deny that subsidies cause over-production and therefore depress prices. Thus they also deny that eliminating subsidies will reduce production and cause prices to rise. The Agricultural Policy Analysis Center at the University of Tennessee, for example, developed a model to simulate what would happen if subsidies were reduced on five of the most heavily subsidized U.S. commodities: corn (maize), wheat, soy, cotton and rice. Their results suggest that complete elimination of marketing loans, counter-cyclical payments and direct

[5] OECD (2003). Agricultural Policies in OECD Countries: Monitoring and Evaluation.
[6] Tim Wise, "The Paradox of Agricultural Subsidies: Measurement Issues, Agricultural Dumping, and Policy Reform," Global Development And Environment Institute , Working Paper No. 04-02. Tufts University. USA.

payments would have little impact on production levels and world prices. Elimination of these programs, however, would cause dramatic upheaval to rural America by slashing on-farm income and bankrupting rural banks.[7]

As for decoupled payments, they have given rise to widespread dissatisfaction. They have failed the farmers who get the money, they cost enormous sums of money, and they draw the ire of exporting countries with smaller budgets. As such, they are not a workable solution to the *impasse* in global agricultural talks. Although they have possibly helped by fueling demand among U.S. farmers for a return to market-based supply management tools, including on-farm reserves, floor prices, and land set-asides. These policies are relatively cheap to run and, by controlling production, ultimately offer a less distorting approach to managing agriculture.

5. What should be done?

Agricultural commodity markets are plagued by over-production and depressed prices. Some consumers have benefited from lower prices but many of the world's poorest consumers depend on higher commodity prices for their welfare. The increasing levels of concentration in global commodity markets undermine the effectiveness of price transmission by distorting markets. The following proposals are offered in light of this analysis.

1. If the subsidy imposes net costs on people poorer than the beneficiaries, it cannot be justified. Subsidies are inherently unfair. They are an instrument of rich countries and should be subject to multilateral disciplines, especially when they hurt other, poorer countries. Export subsidies are particularly egregious, but any subsidy should be carefully assessed for the costs and benefits it confers. Governments and NGOs need to maintain the pressure to eliminate export subsidies and to find alternative domestic support payments that do not fuel over-production of under-priced commodities. Decoupled supports fail this test.

2. The G30 proposals to allow developing countries to protect their agriculture through designating special products (crops that are strongly related to the country's food security in some way) and the creation of a special safeguard mechanism that would create a responsive and effective system to protect agricultural markets from import surges are both important. NGOs have worked hard alongside these governments to provide arguments and analysis to support these proposals. However, they are defensive proposals, aimed at carving out some breathing room in a system that is hostile to the G30's self-identified interests as countries with important agricultural sectors and small, although important, agricultural export interests. The proposals are useful but far from adequate to realizing the objectives set out in this paper.

3. The GATT had a provision to allow agricultural tariffs if the country concerned practiced supply management. That is, the protected domestic production could not be exported. This approach should be revived.

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[7] Daryl E. Ray, Daniel G. De La Torre Ugarte and Kelly J. Tiller, *Rethining U.S. Agricultural Policy: Changing Course to Secure Farmer Livelihoods Worldwide*, Agricultural Policy Analysis Center, The University of Tennessee. USA.

4. The WTO needs stronger rules against agricultural dumping. Article VI of the 1947 General Agreement on Tariffs and Trade tackles the problem by addressing export sales at less than cost of production prices. But Article VI is inadequate. Severe over-production in many commodities has made dumping endemic. Developing countries, unable to protect their producers with subsidies, must be allowed to block dumped imports at the border to protect the livelihoods of their own farmers. Countries must be allowed to make constructive use of tariffs as part of their overall tax policy and as a way to protect against the distortion of under-priced imports. Argentina, the Philippines and some others proposed rules along these lines early in the agricultural negotiations. These ideas need to be revived.

5. To address dumping, the WTO needs access to accurate and complete cost of production numbers for all crops that a country wants to export, including the dollar value of domestic support measures that cover production costs. A minimum threshold level could be established, such that a country would be exempt from this assessment if it provided say three percent or less of the world market. Elements of the PSE provide a useful starting point for this measurement.

6. Countries need diverse models of agricultural management to choose from in deciding how to regulate their agricultural markets. Priority should be given to the development of farmer-owned, value-added cooperatives, where benefits flow to and within the community, where wage-laborers are paid a living wage, where the result is more competition in the local cash market and where good stewardship of natural resources is rewarded through the market.[8] The WTO should not prohibit State-Trading Enterprises either explicitly, or *de facto*, by outlawing policies necessary to the establishment and operation of a single desk seller. State-trading enterprises are a useful response to concentrated export markets. STEs have real costs and are an obvious temptation for corruption. Nonetheless, properly overseen, they offer important benefits in countries where the private sector is weak or under-capitalized. STEs should continue to be subject to disciplines under GATT rules.

7. Governments need to dramatically improve transparency in international commodity markets. UNCTAD had a mandate to monitor this behaviour, but developed countries eliminated this mandate in the 1980s. As a contribution to what will have to be a more broadly based effort, the WTO should extend the transparency measures required of state-trading enterprises to private companies operating in international agricultural markets. This would increase market transparency, improve the efficiency of the market and allow more accurate modeling of the likely results of proposed policy reforms.

8. Trade rules to end market distortions cannot succeed if they focus on government programs alone. Vertical and horizontal concentration in global commodity markets is a central cause of market distortion. Possible policy responses could include an international review mechanism for proposed mergers and acquisitions among agribusiness companies that are present in a number of countries simultaneously. For

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[8] Based on a recommendation made by the National Commission on Small Farms to the U.S. government in 1998 (*A Time to Act*, p. 11, U.S. Department of Agriculture: USA.)

example, a proposed merger in a given country might involve two companies that do not have significant market power in that country. However, the merger might significantly diminish competition in a third country, where the two companies share a dominant market position. The third country should have some recourse to protect itself. One of the contradictory outcomes of liberalized trade is that it can increase competition in a local market, as foreign entrants arrive, but it can also consolidate market power, as some firms become global players.[9].

9. Eventually, investment and competition rules will both form a part of the solution to distortions in global agricultural markets. The proposals made by the European Commission and others at the WTO in these areas, however, are not helpful. They focus on deregulating national regimes to encourage increased foreign investment and to allow foreign companies to bid on all contracts in a given country. The evidence strongly suggests that governments must regulate capital if foreign investment is to create employment and contribute to local business expansion. As the WTO itself has observed, lowering trade and investment barriers makes regulation of industry more difficult, creating a trade-off between increased efficiency, which is of particular benefit to the TNCs involved, and strong standards, whether environmental, labor-related or other.[10] Competition and investment need instead to be approached from the perspective of protecting standards and national development objectives. The UN provides a better forum for this discussion than the WTO, while governments explore the implications and trade-offs more thoroughly. The E.U. currently suggests that it will reform its agriculture in exchange f or acceptance of its agenda for investment and competition. The proposal is a lose-lose offer to developing countries and they should roundly reject it.

6. Why Would Governments Sign Up?

The argument presented here suggests that the deadlock over agriculture at the WTO is indicative of a wider *malaise* in international relations. The WTO is in some sense a victim of its own success—it cannot solve all the problems laid at its door. The deadlock on agriculture will not be resolved until world leaders take the problem out of Geneva and build a new basis for a deal that situates trade in the context of development. Increased trade is not a proxy for development and eliminating export subsidies is no substitute for eliminating the distortions that plague world agricultural markets. Multilateral trade rules have an important role to play in the solution, but only if they acknowledge the importance of other aspects of agriculture.

The United States. The U.S. has to face the fact that it is steadily losing its trade surplus in agriculture. The current level of support to its farmers is unsustainable: it is widely expected to fall significantly in the 2005 budget reconciliation process. Decoupled payments, supplemented with emergency relief and various other creative programmes, have cost billions of dollars. At the same time, U.S. farmers have begun to challenge corporate concentration in the courts and have won some important victories. The U.S. has a proud history of busting cartels, and some commentators sense a shift back to a more aggressive stance against oligopoly power. It would be

[9] MacLaren, D. & Josling, T. (1999), "Competition Policy and International Agricultural Trade," p. 2, Working Paper #99-7 for the International Agricultural Trade Research Consortium. On-line at http://www.umn.edu/iatrc

[10] Nordtröm, H. & Vaughan, S., (1999), *Trade and the Environment*, World Trade Organization Special Studies 4, WTO: Switzerland.

cheaper and more effective to restore reformed supply management policies than to persist with the stopgap approach of counter-cyclical and decoupled payments.

Transnational agribusiness is already voting with its dollars, and is taking its investment elsewhere. The U.S. is slowly, painfully acknowledging the need to address water shortages, soil erosion, health hazards and other problems created by industrial agricultural production methods. This process is strengthening the voices of Americans who demand a different kind of agriculture.

The European Union. The European Commission now speaks for twenty-five member states. The new members are likely to exacerbate the tensions that have long marked meetings among the E.U. Agricultural Ministers. The contradictions of European policy are evident in their positions, which demand large tariff reductions from developing countries without offering the reductions in tariffs, domestic support and export subsidies that would make the demands reciprocal.

The Common Agricultural Policy (CAP) is in some ways the victim of its own success. The original EEC members designed the CAP to ensure that Europe would not depend on food imports to avert famine, as it did in the years after the Second World War. It succeeded all too well, ultimately generating surpluses for which there was no market. The failure to impose workable production controls was a significant failure, and the use of the world market as a dumping ground for the surplus is unconscionable.

However, the logic of the Agreement on Agriculture as currently configured is very difficult for the E.U. to work with. The E.U. is sympathetic to the G10—countries who express concern for the non-market functions that agriculture plays in their societies. There is considerable public support in European member states for policies that would enhance the environmental and social contribution that agriculture can make, even if the contribution comes at the cost of higher priced food. Although the E.U. is home to very large food processing and retail companies, who want to expand their markets to the largest of the developing country economies, it is not clear these interests can win the political struggle over trade policy.

Export subsidies are probably more or less dead, but their phase-out will be very slow. Domestic support is going the way of the US, towards decoupled payments. However, this will force a two-tier EU, as the costs of expanding such programs to the newly acceded states are prohibitive. This is sure to generate tension for the E.U. down the line, and may make a common E.U. policy on WTO negotiations even more difficult than it is now.

Tariffs are a key sticking point. To date the E.U. has maintained very high tariffs on particular commodities, using average reductions across the board to protect the most sensitive products. The political fight needed to tear down these remaining tariffs will be enormous. The E.U. is trying to buy off specific groups of developing countries to maintain its selective high tariffs while ensuring that most developing countries increase their market access. The E.U. has, overall, a greater willingness to make concessions on development grounds than the U.S. Public sympathy for the South is an important factor.

G20 (Ag). This group of countries differs from the Cairns Group in two important ways. First, there are no developed country members, giving it a clearer alliance with the South. This makes the group more open to working with the G33 and others to find some accommodation for developing country interests. While primarily exporters, the members of the G20(Ag) all have significant food security concerns and domestic producers that need protection. Secondly, China and India are members of the G20. These two countries, accounting for 25 percent of the world's population and hundreds of millions of farmers between them, are large importers and exporters and provide a more balanced view of agriculture than the export-only perspective that dominates Cairns Group positions.

The emergence of the G20(Ag) can be interpreted as a failure of the Cairns Group—the Group moved too little, too slowly to accommodate its members, such as the Philippines and Indonesia, who looked for support from the Group to protect some of their domestic agricultural constituencies while remaining part of the wider alliance. The presence of countries such as Australia muted criticism of the U.S. position, although the U.S. position offered little more than the E.U. in terms of addressing its market distorting practices.

The group includes countries whose domestic agribusiness firms would be served by greater control of the existing multinational oligopolies. Supply management and the elimination of dumping would raise world prices, an obvious boon to their producers. If the analysis above is correct—that eliminating agricultural subsidies and reducing tariffs will not create significant market opening or raise world prices—then G20(Ag) have a strong interest in finding disciplines that will achieve these objectives.

G10. This group of countries, including Japan, South Korea, Switzerland and Norway are taking the position that agriculture is too important for them to accept the logic of the global market as the Cairns Group would structure it: their producers are not competitive. Logically they should be sympathetic to an approach that focuses on dumping and oligopoly control rather than tariff reduction. Their own statements emphasise food security and other such "non-trade concerns" as central to their agriculture.

A fundamental criticism of G10 member proposals is that they do not go far enough to stop their exporting firms from dumping agricultural exports at below cost of production prices, relying on export subsidies and inflated domestic prices to do so. However, Norway and others have indicated that their core objective is to protect their right to use tariffs, and they are open to negotiation on export subsidy and domestic support that ends up in exported production. G10 members should also consider compensatory measures for developing countries that cannot afford to make up agricultural market failures through generous government payments.

G33. The G33 brings together developing countries that want markets for their exports while protecting their domestic markets from imports dumped from the North. G33 members have articulated the need for specific protective measures, such as the special safeguard, but want clear disciplines on developed country agriculture at the same time. Although their proposals in many ways echo those of the G10, the groups are very far apart politically. Building trust and defining the problems confronting agricultural trade rules on a larger canvas, as proposed here, would highlight the overlapping elements in each other's proposals. Targeting dumping and controlling over-supply from the North would better respond to this group's ambitions than eliminating subsidies and lower tariffs.

LDCs, Small Island States, the African Group. A Leaders approach will not have legitimacy if it ignores the smallest states. While its share of total world commodity trade is shrinking, sub-Saharan Africa is the region most dependent on agricultural commodities for its economic wellbeing. The G90 includes the most countries yet is the least powerful group in the agricultural negotiations. The E.U. irritatingly suggests LDCs are getting a "round for free" because they will not have to make reduction commitments in the proposed framework for the agriculture agreement. This is nonsense—no countries have more at stake in the outcome of the agricultural talks. The "free pass" effectively silences these countries although they have a lot to lose from a bad agreement. A number of these countries have been pushed into unilateral liberalization under structural adjustment programmes. They need trade rules that control the dumping of agricultural products on their local markets and preferential access for their exports. Many will need to overhaul their tariff structures, in some cases increasing tariffs, to generate the revenue they need to administer their borders. The Africa Group has already signalled the importance of ending the crisis in global commodity markets, a need that would be addressed by the proposals made here.