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The Development Dimension of the Agriculture Negotiations

I. Introduction

In view of the role of agriculture in their social and economic development and the experience developing countries had implementing rules and liberalization commitments related to agricultural trade, the need to mainstream development concerns into the World Trade Organization (WTO) rules has emerged and the enhancement of Special and Differential Treatment (SDT) provisions has been suggested.

This Policy Brief identifies issues of interest and concern for developing countries in these negotiations and advocates for a redefinition of the boundaries of the development dimension in multilateral trade rules related to agriculture, as a result of the ongoing Doha Round.

II. The need to redefine the boundaries of the development dimension in multilateral rules governing agricultural trade

In view of the role of agriculture in their social and economic development and the experience

Executive Summary

In view of the role of agriculture in the social and economic development of developing countries and their experience implementing rules and liberalization commitments related to agricultural trade, the need to redefine the boundaries of the development dimension in multilateral rules governing agricultural trade has emerged.

Many developing countries view their development prospects adversely affected by multilateral negotiations on agriculture and their outcomes. This belief is rooted in the perception that these have resulted in painful concessions for developing countries while at the same time, not effectively advancing agriculture reform towards a fairer and more equitable global trading system.

This Policy Brief identifies the development concern underlying in proposals and positions presented by developing countries in the WTO negotiations. These would have to be addressed, as a result of the ongoing Doha Round, in order to advance agriculture reform towards a more fair and equitable global trading system.

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developing countries had implementing rules and liberalization commitments related to agricultural trade, the need to mainstream development concerns into WTO Rules has emerged and the enhancement of Special and Differential Treatment (SDT) provisions has been suggested.

A. The importance of the agricultural sector in developing countries.

Agriculture plays a central role in the well-being of developing countries' economies and their people. In the developing world, an average of 50 per cent of people make their living from farming and agriculture, and in some countries, this figure rises to over 80 per cent.

There is an intimate relationship between poverty and agriculture. Three quarters of the 1.2 billion people who live on less than a dollar a day, work and live in rural areas. Repeated studies have shown that agriculture is key in the fight against poverty and must therefore play a central role in achieving the Millennium Development Goals.

Agriculture is key to future poverty reduction. Growth in the agricultural sector has a singularly more powerful impact on poverty reduction than any other economic sector.[1] A one per cent growth in agricultural productivity reduces the number of people living on less than a US$1 a day by up to 1.2 per cent.[2]

B. Special and Differential Treatment in the current rules related to agriculture.

The WTO legal system recognizes the need for differentiating commitments undertaken by developing and developed countries. Conceptually, the rationale for SDT is the asymmetry in economic power that results in unequal gains from the trading system. In accordance with a six-fold typology developed by the WTO Secretariat,[3] the three legal instruments pertaining to agricultural trade contain the following provisions:

In this respect, the Marrakesh Decision has not led to specific actions, technical assistance provisions were limited to best endeavour clauses and flexibility of rules was limited to longer implementation periods. Hence, these provisions have been ineffective in terms of enhancing the capacity of developing countries to appropriate development gains from liberalization.

C. The disbelief of developing countries in the gains expected from multilateral liberalization of agricultural trade.

The WTO Agreement on Agriculture (AoA) was negotiated in the Uruguay Round (1986–94) and included specific commitments to improve market access and reduce trade-distorting subsidies in agriculture. The long-term objective of this reform process is establishing a fair and market-oriented agricultural trading system. The preamble of the AoA also mentions that these negotiations aim at

Agreement on Agriculture	Marrakesh Decision on Measures Concerning the Possible Negative Effects of the Reform Programme on Least-Developed and Net Food-Importing Developing Countries	Agreement on Sanitary and Phyto-Sanitary Measures
Provisions aimed at increasing trade opportunities for developing countries	Provisions under which WTO Members should safeguard the interests of developing country Members	Provisions under which WTO Members should safeguard the interests of developing country Members
Transitional time periods	Technical assistance	Transitional time periods
Flexibility of commitments, of action, and use of policy instruments		Technical assistance
Provisions relating to measures to Least - developed Country Members		

correcting and preventing restrictions and distortions in world agricultural markets by strengthening and rendering more operationally effective GATT rules and disciplines on agriculture support and protection and substantially reducing agricultural support. Negotiations for continuing the reform process initiated with the Uruguay Round began in 2000.

The 2001 Ministerial Conference in Doha, Qatar incorporated these talks into the broader negotiating agenda of the ongoing Round. The Doha Ministerial Declaration broadly reflected the concerns of developing countries stating: "*SDT for developing countries shall be an integral part of all elements of the negotiations so as to be operationally effective and enable developing countries to effectively take account of their needs, including food security and rural development*".

In spite of these objectives, many developing countries view their development prospects adversely affected by multilateral negotiations on agriculture and their outcomes. Their experience with trade liberalization during the last decade has shown that these have led to renouncing to policy tools that can foster development while not redressing imbalances that allow for massive subsidization and protection of agriculture in major developed countries.

Developed countries have faced less pressure to open their markets. In fact, WTO rules have not prevented developed countries from resorting to trade-distorting domestic support and export subsidies. On the other hand, developing countries (who mainly rely on tariffs and border measures to protect and support their agriculture) have been encouraged to open their markets and reduce their trade barriers to the entry of agricultural products (as a result of ongoing trade negotiations, as well as due to policy advice from donors and international organizations). The misguided notion that further agricultural trade liberalization is appropriate and beneficial for all countries is the basis for much of this pressure.

Many developing countries that expected agriculture sector gains, given their relative resource endowments and export opportunities, have seen their exports as a share of total world agricultural trade decrease, their agricultural imports increase and their agricultural trade balances decline after the Uruguay Round. The trend towards a widening agricultural trade deficit is more pronounced for the Least-Developed Countries (LDCs). The LDCs became net importers of agricultural products in the mid-1980s and by the end of the 1990s, imports were more than twice as high as exports.[4]

According to Food and Agriculture Organization (FAO),[5] there is room to question whether liberalization of trade in agricultural products should be a key component of trade policy reform in countries with underdeveloped agricultural sectors in the context of existing market failures. For the Carnegie Endowment for International Peace,[6] agriculture liberalisation will not benefit developing countries that are net food importers, those that may lose relative advantages they now enjoy under special preference programs and developing countries that have widespread small-scale farming that is often uncompetitive and suffers from low productivity. In these cases, unskilled rural labour cannot be easily and quickly absorbed by other sectors, there will be a higher cost of adjustment (derived from liberalization) in particular in the case of less diversified economies. Because of these reasons, liberalisation of these countries' agricultural sectors can lead to significant net losses – with the burden falling heaviest on the poorest sections of their populations.

The arguments mentioned before suggest that agriculture export expansion alone does not necessarily provide a viable option for poverty reduction in all developing countries. In this context, most developing countries do not see export expansion as an end in itself but rather a means to achieve human development, if it contributes to raising the standards of living and to ensuring full and adequately remunerated employment. Mainstreaming development concerns in the WTO rules is a way of meeting these expectations.

III. What are the issues in the context of the agriculture negotiations that developing countries consider critical for their development?

In the ongoing WTO agriculture negotiations, developing countries have identified several issues of their interest and concern, which could incorporate new elements to a development dimension to multilateral rules affecting agricultural trade.

A. Market access pillar

The underlying development concern under this pillar is related to the belief that indiscriminate trade liberalization in agriculture negatively affects food security in developing countries and destroys the livelihood of the rural poor, increasing poverty and inequality in the developing world. In this context, the flexibilities proposed seek to address concerns related to food security and livelihood security and rural development, in accordance with the Doha Ministerial Declaration.

- **Lower tariff reductions, less tariff-rate quota expansion and longer implementation periods.**

In accordance with the SDT principle and WTO practice, developing countries are expected to contribute differently than developed countries by means of lower tariff reductions and longer implementation periods. In the context of ongoing discussions, the outcome of the negotiations should reflect this principle in the bands of the tiered formula, in the reduction percentage per band and in the average tariff reduction, taking into account the tariff structures, capacity and development needs of developing countries.

- **Flexibility to designate Special Products (SPs).**

Members have already agreed that developing countries could self-designate an "appropriate number" of tariff lines, based on criteria of food security, livelihood security and rural development needs. Such provision will allow a more gradual liberalisation of a limited number of tariff lines. It is intended to provide developing countries with a transitional period during which governments can enable economically vulnerable producers to adjust to a new market environment, invest in productivity enhancing technology and forestall the negative economic and social consequences that might result from large numbers of such producers being rapidly plunged into poverty.

Few developing countries established Tariff-Rate Quotas (TRQs) as a result of the Uruguay Round (UR) and hence, most of them rely on tariffs to protect sensitive sectors, particularly those characterized by a very large numbers of small and often mainly subsistence farmers. In the context of further liberalisation of agricultural markets, SP provisions will be fundamental for developing countries, in order to take into account their structural disadvantages, the conditions of vulnerable sectors and populations and avoid significant disruptions in the rural areas that could compromise the development prospects of agrarian populations for years to come.

- **Establishment of a "Special Safeguard Mechanism" (SSM) for developing countries.**

Members have already agreed that developing countries will have the right to have recourse to an SSM based on import quantity and price triggers.

The SSM was proposed as a short-term mechanism to help developing countries cope with fluctuations in prices and import surges. This is a justified mechanism because (a) not all developing countries had access to the mechanism adopted during the UR to prevent risks of import surges in sectors where non-tariff measures were eliminated and (b) reduction in tariffs will increase developing countries' vulnerability to import surges and abnormally depressed import prices. This mechanism should be simple and operational for developing countries to implement.

- **Preference erosion.**

As a result of MFN liberalization, current duty-free and quota-free special treatment will be eroded. Some developing countries have underscored that their heavy dependence on unilateral preferential schemes poses serious challenges for their development prospects, in particular in connection with the diversification of their exports and strengthening of their competitiveness. This issue is quite sensitive for LDC and African, Caribbean and Pacific (ACP) countries and for products such as bananas sugar, beef, fisheries and textiles. Proponents of this issue seek to obtain a response that effectively addresses the impact of reform in this area.

These countries have proposed to mitigate preference erosion through an appropriate tariff reduction formula, taking advantage of the provisions of sensitive products and delaying the implementation of tariff reduction. It is worth noting however that other developing countries believe that long-standing preferences and preference erosion should not frustrate development endeavors through MFN tariff liberalization.

Another underlying concern related to development under this pillar relates to the extent to which international trade can be used as an instrument to facilitate development. In this context, many barriers to exports from developing countries remain. Thus, developing countries have voiced the following interests and concerns:

- **Accelerated market access for tropical products and alternatives to narcotic products.**

Some developing countries (Bolivia, Colombia, Costa Rica, Ecuador, Guatemala, Nicaragua, Panama and Peru) have underscored that fullest liberalization for these products is key for their development prospects.

These countries have proposed to achieve this objective through complete elimination of tariffs and no tropical product being eligible for designation as sensitive. Several ACP countries, whose bananas and sugar have preferential access to the EU, strongly opposed both the interpretation of fullest liberalization and the proposed list of products to be liberalized.

- **Sensitive Products.**

Members have already agreed on establishing sensitive products as means to address considerations of sensitivities of a commercial nature, raised primarily by developed countries. Based on the provisions on SDT contained in paragraph 39 of the Framework agreement,[7] developing countries should be entitled to a larger number of sensitive products and more flexible treatment for such products.

Some developing countries have voiced concerns for developed countries sheltering key sectors of export interest for developing countries using sensitive product designation given (a) the highly skewed nature of agricultural tariffs in some countries and (b) attempts to improve market access conditions through assigning country-specific quota entitlements.

Some developing countries have expressed that, in accordance with SDT provisions, they should be allowed to backload tariff reduction commitments on sensitive products or that they should have an additional timeframe to implement them.

- **Reducing tariff escalation in products of export interest to developing countries, namely processed products.**

Tariff escalation restricts the export of the higher value, processed product and may prevent exporters from developing new skills and expanding employment in rural areas. Developing countries have listed products characterized by this problem and a formula has been proposed, in case reduction through the tiered formula does not address it.

B. Domestic support pillar

In this pillar, the underlying development concern relates to unfair competition, faced by developing countries, in local and third country markets because of farm support policies from developed countries. Policies aimed at maintaining domestic prices above world prices have resulted in surpluses that were needed to dispose of onto world markets. Other farm support programmes have insulated developed country farmers from world price signals and artificially encouraged production resulting in price suppression in world markets.

Changes to trade rules affecting agricultural trade should not promote continued trade distortions in developed countries. In this sense, developing countries' positions have advocated for:

- **Significant cuts in Overall Trade-Distorting Support**[8] (OTDS), to ensure that percentage reduction agreed for OTDS will have a real effect on reducing the total of the non-green support. Studies have clearly demonstrated that the US offer of a 53 per cent would be equivalent to a nominal cut.

- **Tightening disciplines and criteria for Amber Box**, in order to avoid "box shifting" and to establish product-specific caps to minimizing the potential concentration of support in few commodities. The July 2004 decision leading to relax Blue Box disciplines (expanding its scope beyond production-limiting programmes) are a source or particular concern in this respect.

- **A review and tightening of Green Box criteria,** to prevent its abuse and ensure that it truly encompasses only non-or minimally trade distorting support. A recent study conducted by UNCTAD-India[9] revealed that Green Box subsidies do have significant distortive effects on trade and production.

- In addition, **developing countries have also advocated for SDT provisions in this pillar that allow the use of policies that promote growth and development in developing countries,** based on (a) their development status, (b) the important role of the agricultural sector in economic transformation and (c) the limited extent to which their treasuries can support their farmers, as compared with those of rich industrialized countries.

C. Export Competition pillar

Developing countries' underlying concern under this pillar is to achieve less distorted competition in domestic and export markets. In this sense they have called for an end to export subsidies and measures with equivalent effects, provided by developed countries. Under this pillar, developing countries have also called for:

- Appropriate provisions for LDCs and net-food importing developing countries.

- Exempting state trading enterprises in developing countries (aiming to preserve domestic consumer price stability and ensuring food security) from application of any new disciplines.

Box 1

Interests and concerns of cotton-producing countries. The problem of cotton subsidies and the harm they cause to developing countries have become a symbol of the inequities of global trade rules, and a litmus test of whether Doha negotiations will produce results for developing countries. Seeking a rule-based solution to the cotton crisis that impoverished their countries, Benin, Burkina Faso, Chad and Mali (C-4) submitted the sectoral initiative on cotton in the WTO in May 2003. The initiative aims at correcting distortions in the international cotton market by:

- Immediate elimination of all forms of export subsidies on cotton;
- A more ambitious phasing-out of all trade-distorting domestic support, limiting Blue Box cotton expenditures to one-third of the general ceiling, implemented in one-third of the normal time-frame;
- Immediate duty free and quota free market access to exports of cotton and its by-products from cotton-dependent developing countries;
- Establishing an emergency support fund for cotton to compensate revenue losses resulting from cotton price depression in international markets and provide technical and financial assistance for the cotton sector in Africa.

IV. Conclusions

Many developing countries view multilateral negotiations on agriculture and their outcomes as adversely affecting their development prospects. This belief is rooted in the perception that negotiations have resulted in painful concessions and little gains for developing countries while at the same time, perpetuating imbalanced rules in favor of developed countries.

Evidence suggests that agriculture export expansion does not necessarily provide for a viable option for poverty reduction in all developing countries. In order to advance agriculture reform towards a fairer and more equitable global trading system, developing countries have called for mainstreaming development concerns in multilateral trade rules related to agriculture. Unless the underlying development concerns are taken on board, the Doha Round runs the risk of causing more disbelief in the system than the Uruguay Round did. An outcome that would incorporate these concerns would have to:

1. Provide developing countries with enough flexibility in their market access obligations related to the tariff reduction formula, given the fact that these countries rely mainly on tariffs and border measures to support their agriculture, as opposed to developed countries, which can resort to measures under the two remaining pillars.
2. Enable developing countries to promote the interests of their small farmers and their development needs related to food security and rural development through effective SP and SSM provisions.
3. Address preference erosion
4. Increase market access opportunities for products of export interest to developing countries, addressing tariff escalation and providing real TRQ expansion.
5. Achieve significant and real reduction in domestic support from developed countries through (a) a significant cut of actual OTDS levels and (b) effectively disciplining Blue, Amber and Green Box subsidies, including expenditure limits at the product level (c) elimination of export subsidies.

End Notes

1. See for example: Lucia Hanmer, David Booth (2001) "*Pro poor growth: why do we need it, what does it mean and what does it imply for policy?*", Second Draft August 2001, London and ODI and Timmer, C.P. (1997) "*How well do the poor connect to the growth process?*" Cambridge, Mass: Harvard Institute for International Development.
2. Robert Eastwood and Michael Lipton (2001) 'Pro Poor Growth and Pro growth poverty reduction: what do they mean? What does the evidence mean? What can policymakers do?', paper delivered at the Asia and Pacific Forum on Poverty: Reforming Policies and Institutions for Poverty Reduction, held at the Asian Development Bank, Manila, 5-9 February 2001.
3. WTO Secretariat. Implementation of special and differential treatment provisions in WTO agreements and decisions. Document No WT/COMTD/W/77 dated 25 October 2000
4. FAO. The State of Food and Agriculture 2006. Rome, 2006
5. FAO Trade Policy Technical Notes on issues related to the WTO negotiations on agriculture: No. 14 Towards appropriate agricultural trade policy for low-income developing countries
6. Polaski, Sandra. "Winners and Losers: impact of the Doha Round on Developing Countries". Carnegie Endowment for International Peace, 2006. Available at: http://www.carnegieendowment.org/files/BWfinal.pdf
7. Annex A (Framework for Establishing Modalities in Agriculture) of the Decision Adopted by the General Council on 1 August 2004 on the Doha Work Programme (WT/L/579 of 2 August 2004).
8. OTDS encompasses the Amber and Blue Boxes and *de minimis.* Blue box measures refer to certain direct payment to farmers where farmers are required to limit production. De minimis refers to small-scale support when compared to the total value of the product supported. Green Box measures include government services such as research, food inspection, infrastructure and food security. They also include payments made directly to farmers that do not stimulate production, such as certain forms of direct income support, assistance to help farmers restructure agriculture and direct payments under environmental and regional assistance programs
9. UNCTAD India Team. "Green Box Subsidies: A Theoretical and Empirical Assessment", February 2007.

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- ICTSD. Can the impasse be overcome on Agriculture modalities? Bridges N°3. May 2006.
- International Food and Agricultural Trade Policy Council. Unblocking the Doha Round Impasse: possible scenarios for the Agriculture negotiations. IPC Issue Brief. 21 November 2006.

Other South Centre publications

- State of Play in Agricultural Negotiations: Country Grouping' Positions (Market Access Pillar, Domestic Support Pillar, Export Competition Pillar and Cotton Initiative). *South Centre Analytical Note***.** November 2006 update.
- Observations on the Proposal for a New Peace Clause. *South Centre Analytical Note* **.** November 2005.
- Current Trends in Organic Agriculture Markets and Their Implications for Farmers. *South Centre Analytical Note*. May 2005.

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