

## *Session 1: Globalizing Agricultural Trade*

### **Progress in the WTO Negotiations**

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#### **Introduction**

Agriculture is once again at the center of the multilateral trade agenda. That such a relatively small and declining segment of world trade can threaten major delays in the broader project to advance the integration of developing countries into the trade system and restore growth to the global economy is a testament to the political sensitivity of the issue in many countries. The tail appears once more to be wagging the dog. A major effort to update the multilateral trade rules to reflect the realities of global commerce is effectively on hold until a few countries make much needed adjustments in some domestic farm policies.

This paper looks at the question of the timetable set for the current World Trade Organization (WTO) trade round, known as the Doha Development Agenda (DDA), and the problems that a delay in the agricultural talks may pose; examines the proposals that are on the table in the agricultural talks and asks whether they represent an acceptable and desirable outcome; and discusses the broader context in which the current agricultural talks are embedded. A conclusion summarizes the significance of progress, or lack of it, in the agricultural negotiations.

#### **Timing: Is it Important?**

Trade negotiations always seem to take longer than planned. In part this is because the timetables are deliberately intended to lend an air of urgency to the proceedings: they are not an unbiased estimate of the time the negotiations will take. Nevertheless, missed

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deadlines are an inconvenience at best and can unravel the careful plans of those who attempt the task of stage-managing talks among nearly 150 WTO members. At the worst they can seriously disrupt economic activity by influencing expectations about government behavior and consequently affecting investment decisions. Has the tardiness in agreeing the “modalities” of the agricultural negotiations significantly disrupted the DDA? It is too early to tell for sure, but one can point to certain windows of opportunity that can close and to the importance of momentum in dealing with a complex set of negotiations.

### **Links between parts of the negotiations**

The agricultural talks on the further reform of agricultural trade were started in March 2000, under the mandate of Article 20 of the Agreement on Agriculture, despite the failure of the Seattle Ministerial in December 1999. The agricultural negotiations were given a boost by the decision at the Doha Ministerial in 2001 to initiate a new round of trade talks. An ambitious timetable for the completion of the talks has now been established, culminating in an agreement by January 2005. The stages of the talks are summarized in Table 1. The initial stage of the talks took place in seven meetings at which an impressive array of proposals was tabled. These proposals were contained in 45 documents representing the opinions of 85 percent of the WTO membership.<sup>1</sup> After a stocktaking meeting in March 2001, a second phase began that focused on particular topics. Few new proposals were generated at that time, and for the most part countries put their ideas in “non-papers” that have not been released by the WTO Secretariat. The third phase, that of negotiating the modalities, began in June 2002 and culminated in March 2003.<sup>2</sup> The Chairman of the Agriculture Committee, Stuart Harbinson, presented an overview paper in December 2002 and a first draft of the modalities paper after discussion with the delegates in January 2003. A revised version of that paper was discussed at meetings in March but it did not prove possible to agree on the text of the

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<sup>1</sup> The WTO website has links to these documents, along with various notes and technical submissions, at [www.wto.org](http://www.wto.org).

<sup>2</sup> The modalities of the agricultural negotiations refer to the methods by which tariffs, export subsidies and domestic support are to be cut, and by extension to any rule changes that may also be agreed in the negotiations. They are translated later into national schedules that become part of the obligations and to new or amended articles in the Agreement on Agriculture.

modalities by the end of March. A short period of six months had been set aside for the submission of draft schedules based on the modalities agreement to be discussed at the Ministerial in Cancun in September 2003. It is this timetable that is now in jeopardy, as the likelihood recedes that negotiations on draft schedules will actually be possible at the Ministerial.

Table 1: Timetable of the WTO Agricultural Negotiations

<i>Date / period</i>	<i>Stage</i>
March 2000	Establishment of Negotiating Committee and appointment of Chairman
March 2000 – March 2001	Phase I. Initial Position papers presented
March 2001- Feb 2002	Phase II. Elaborations by countries on specific topics
November 2001	Doha Ministerial confirmed objectives and set timetable for negotiations
March 2002 – March 2003	“Modalities” phase. Developing modalities for further trade reform steps (Deadline missed)
March 2003- September 2003	Preparation of draft schedules to give effect to modalities
September 2003	WTO Ministerial in Cancun to take stock and integrate with other aspects of the negotiations (single undertaking)
January 2004	Peace Clause expires (unless renewed)
January 2005	Presumed end of negotiations

Source: WTO website ([www.wto.org](http://www.wto.org))

Within the talks as a whole, the Cancun Ministerial was to act as a pivot. Agreement on modalities for agriculture, services and non-agricultural tariffs were to trigger the start of talks on the wider agenda.<sup>3</sup> Not that agriculture is the only lagging issue: the timetable for the service negotiations is also behind schedule, as many countries see them moving in

<sup>3</sup> This wider agenda includes the so-called Singapore issues, of investment, competition, transparency in government procurement and trade facilitation, where working parties have been engaging in some “pre-negotiations” to identify the key topics to be addressed. Importantly, the Ministers will also be considering suggested “interpretations and clarifications” to such contentious trade issues as anti-dumping policies. Trade and labor is not on the agenda, and the environment issues are to be addressed in a report from the Committee on Trade and the Environment.

parallel to the talks on agriculture.<sup>4</sup> Similarly, the non-agricultural tariff discussions have been slowed by the lack of agreement in agriculture.<sup>5</sup> As important, several other issues that were built into the timetable at Doha are currently proving difficult to resolve. These include the implementation of one of the key aspects of the Doha agreement, on the application of the TRIPS to pharmaceuticals needed by developing countries, which missed the December 2002 deadline for agreement, and the issue of special and differential treatment for developing countries.<sup>6</sup> But for most countries it is agriculture that holds the key to the pace of the round.<sup>7</sup>

### **Links with domestic farm policy change**

Trade talks do not exist in a vacuum: the connection with domestic policy timetables is among the most important consideration. In this connection, all eyes are on the European Union (EU), where the progress of the Mid Term Review of the Common Agricultural Policy (CAP) is crucial to the ability of the EU to respond to the challenges of the DDA. Currently, the Council of (Agricultural) Ministers is considering a proposal by the EU Commission to deepen the reforms started in 1992, when the EU dropped prices for cereals and oilseeds and replaced them with payments to farmers, and continued in 2000 with an extension of these payments to the beef sector. The Commission reform proposal would complete the “decoupling” of the direct payments and allow the EU to count the majority of its arable subsidies as “green” in the WTO. This would immediately give the Commission the flexibility it would need to adhere to the Harbinson reductions (see below) in domestic support.

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<sup>4</sup> The services negotiations also had a deadline of March 31 for the submission of final offers.

<sup>5</sup> Draft modalities on non-agricultural tariffs were supposed to have been tabled by March 31, with agreement by May 31.

<sup>6</sup> Negotiations are also proceeding on “improvements and clarifications” to the dispute settlement process, due to be concluded by the end of May 2003, on the “establishment of a multilateral system of notification and registration of Geographical Indications for wines and spirits” before the Cancun Ministerial, and on the ways in which Least Developed Countries might be helped in their accession to the WTO. This latter set of talks is among the few that are progressing on target.

<sup>7</sup> Negotiations are said to have “positive linkages” when progress in one area encourages movement in another: and “negative linkages” when the slow progress is contagious. Cairns Group countries have in particular indicated an unwillingness to move on non-agricultural issues when there is no progress on agriculture.

The US can take a more relaxed view of the link between trade and domestic farm policy, as the 2002 Farm Bill, along with somewhat firmer world prices (and a weak dollar), has given US politicians some breathing room. In effect, the next time the US domestic legislative timetable for agriculture will have an impact on the talks is 2006.<sup>8</sup> In the US the issues of increased access to overseas markets for agricultural goods through tariff reductions has for the moment taken a backseat to the questions of restricted access to goods produced from transgenic crops and a range of issues to do with the importation of farm products into the US.<sup>9</sup>

### **Links with domestic political timetables**

There is however one aspect of the political timetable that is worrying. The US political process will be engulfed in a Presidential Election during 2004. September 2003 may be the last opportunity for a debate on trade that is not heavily weighted by short-term domestic electoral considerations. Trade politics have always been tightly constrained by domestic considerations: the difference in an election year is that the sensitivities within a party are brought to the fore in the primary season and promises made and positions taken on the campaign trail can make the US seem a more inflexible negotiating partner.

Another consideration is linked with the political cycle. The transatlantic trade relationship has been managed with skill and mutual respect by two long-standing professional negotiators, USTR Robert Zoellick and Trade Commissioner Pascal Lamy. Such willingness to understand the position of the other is not common in transatlantic relations. And it will not last forever. The position of USTR could of course change with the outcome of the next election. And the term of Lamy as Trade Commissioner ends in 2005 when the current European Commission leaves office. Of course, it is possible that both these men will be back in office for renewed terms, but the chances are not high. Indeed the end-point of the DDA was chosen in part as a reflection of the fact that the period of relative civility in transatlantic trade relations, despite the unusual range of

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<sup>8</sup> This same year, 2006, is the time the EU will need to agree on a new budgetary framework. An informal agreement between the French and German governments (or at least between Chirac and Schroeder) at the Brussels Summit last year appeared to lock in the same budget allocation for agriculture (with minimal growth) until 2013, but this has no force of law.

<sup>9</sup> These include the labeling of goods by country of origin, the controls implied by the Bio-terrorism Act and the concerns about the importation of diseases such as BSE.

contentious issues, could be coming to an end.

### **Linkages with international politics**

Current transatlantic tensions have been heightened by differences over the question of Iraq, and continue in a somewhat muted form as countries discuss the post-war policy and the role of the UN. Some observers have pointed to a deeper schism in the transatlantic relationship, with a rise in anti-American sentiment in many EU countries and a frustration, in particular with “Old Europe” in the US. How much this will impact on the DDA is not clear. The links between security policy and trade policy are not direct, and the desire to mend fences could even have a positive spill-over on trade relations. But it is difficult to avoid the conclusion that there is a connection between foreign policy disagreements and trade talks. After all, we are used to thinking about general equilibrium models of the economy: presumably international politics also has some general equilibrium characteristics.

### **Substance: Does it Matter?**

Whether the present lack of an agreement on agricultural trade reform in the current round matters is in large part a function of whether the negotiations are likely to result in a desirable outcome. If the proposals on the table are an important step in the ongoing process of agricultural trade reform then any serious delay compromises that process and could have long-run effects. On the other hand, if the package is so modest that agreeing to it would in effect pass up an opportunity for real reform and delay market opening (or if such market opening were to be considered undesirable) then perhaps it should be rejected in favor of something different. Thus an examination of the current proposal in its own terms is worthwhile regardless of its links with other sectoral discussions in the WTO.

### **What is on the Table?**

The Chairman of the Agriculture Committee, Stuart Harbinson, was asked to prepare a draft of the “modalities” that could be used to form the basis for an agreement. The “Harbinson draft” was presented to delegates for discussion at the February meeting of

the Agriculture Committee, and revised for the March meeting.<sup>10</sup> The discussion below relates to the revised Harbinson draft of 18 March 2003 (TN/AG/W/1/Rev.1).<sup>11</sup>

The suggested tariff reduction schedules in the Harbinson draft are reproduced in Tables 2 and 3. If agreed, there would be a major reduction in the high tariffs in both developed and developing countries, impacting on such highly-protected sectors as sugar and dairy in the US and the EU, as well as Japanese rice and Canadian poultry protection. The proposal to impose different cuts depending on the initial height of the tariff (sometimes known as the cocktail approach) mimics in a somewhat less direct way the impact of a “Swiss formula” that brings high tariffs down rapidly to a pre-determined level.<sup>12</sup> Cuts would be made from bound rates, and specific and variable tariffs would be reduced by calculating an ad-valorem equivalent.<sup>13</sup> However, as preferential tariffs under various regional trade agreements are much lower (and in many cases are zero), the impact on trade may not be so great as the tariff reductions would suggest. The preference margins themselves will be reduced, of course, which could allow some third-country agricultural produce to enter presently protected markets.<sup>14</sup>

The Harbinson proposal also calls for a doubling of the tariff-rate quotas, from 5 to 10 percent of consumption, though there is some suggested flexibility: countries that wish to limit this access to 8 percent for up to one-quarter of their TRQs can give additional access in other markets. Developing countries again would get a longer period in which to implement these changes. In-quota tariffs would not be controlled, unless quota-fill was below 65 percent or the good concerned was either a tropical product or one that was

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<sup>10</sup> The Agriculture Committee meets in Special Session as the negotiating body for agriculture, in addition to performing its regular monitoring functions.

<sup>11</sup> The numbers used in the tables are enclosed in square brackets (i.e. suggestions that will be subject to negotiation) in the Harbinson draft.

<sup>12</sup> The Swiss formula was used with success in non-agricultural tariffs in the Tokyo Round, and was proposed by the US, among others, for agriculture in this round. Under the US proposal, high agricultural tariffs would have converged on a level of 25 percent. The use of such a formula does not reduce low tariffs as much as the “across-the-board” reductions employed in the Uruguay Round.

<sup>13</sup> In addition, the draft includes a suggestion that tariff escalation be reduced, by cutting processed tariffs by a greater amount than those of raw materials.

<sup>14</sup> The Harbinson draft is sympathetic to the notion that preference margins be maintained “to the maximum extent technically feasible” including the slower liberalization of access where “long-standing preferences” are present.

encouraged as a substitute in production for narcotics.

The proposals on Special Safeguards laid out in the Harbinson draft envisage that they be phased out for developed countries but a possible new mechanism “to enable developing countries to effectively take account of their development needs” is under technical discussion. Similarly, possible disciplines on state trading importers, as well as rules for the administration of tariff-rate quotas, are also under technical discussion.<sup>15</sup>

**Table 2: Suggested tariff reduction schedules for developed countries**

Existing tariff	Average reduction (%)	Minimum reduction (%)	Period (years)
Above 90 percent	60	40	5
Between 15 and 90 percent	50	35	5
Less than 15 percent	40	25	5

Source: Harbinson draft (revised)

**Table 3: Suggested tariff reduction schedules for developing countries**

Existing tariff	Average reduction (%)	Minimum reduction (%)	Period (years)
Above 120 percent	40	30	10
Between 60 and 120 percent	35	25	10
Between 20 and 60 percent	30	20	10
Less than 20 percent	25	15	10
“SP” items	10	5	10

Source: Harbinson draft (revised)

The domestic support reductions suggested by the Harbinson draft are shown in Table 4. Though still aggregated across commodities, the Aggregate Measure of Support (AMS) would not be allowed to exceed the 1999-2000 average. Developed countries would have their *de minimis* allowance (currently 5 percent) reduced by one-half percentage point

<sup>15</sup> These technical discussions are planned throughout the summer. However, it is not clear at what stage such technical matters will be referred to a more political level. Meetings of the Agriculture Committee are scheduled for June and July.

each year over 5 years. Developing countries could include the “negative AMS” from taxation on agricultural production.

The reduction in support however has to be seen in conjunction with other aspects of a possible package. Harbinson suggests no change in the Green Box criteria, except to add the compensation payments for animal welfare regulations to those currently allowed in the green box for environmental payments, and to ease somewhat the categories applying to developing countries. The Blue Box would either be capped and reduced by 50 percent in 5 years (33 percent in ten years for developing countries) or included in the AMS (i.e. the Amber Box) immediately for developed countries and after 5 years for developing countries.<sup>16</sup>

**Table 4: Suggested reduction for domestic support (AMS)**

	Reduction (%)	Period (years)
Developed Countries	60	5
Developing Countries	40	10

Source: Harbinson draft (revised)

On export subsidies, the Harbinson draft suggested further reductions, but with some flexibility, as shown in Table 5. There would be no carry-over of unused subsidy entitlements from year to year. The longer time period for one-half of the export subsidies is a concession to the EU, that claims difficulty in removing export subsidies on dairy products in the short term. The US is no longer dependent on such subsidies and so can argue strongly for their removal.<sup>17</sup> The different schedule for developing countries is an almost empty gesture, as that instrument is rarely used as a development tool.

Importantly, Harbinson picks up on the notion of requiring private sector exporters to

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<sup>16</sup> The prospect of any significant tightening of the rules for allowable domestic support was diminished by the generous subsidies of the 2002 U.S. Farm Bill. Though technically not breaching WTO commitments, the bill has reduced the credibility of the U.S. as an advocate of the reduction of such payments. As the E.U. also has an interest in maintaining considerable flexibility for domestic subsidies, pressure from the Cairns Group and from developing countries will be needed to reach any agreement to further reductions. In this regard, the expiry of the Peace Clause at the end of 2003 (see below) gives some leverage to their position. If countries accept the view that the expiry of the Peace Clause will result in a number of successful challenges to the domestic (and export) subsidy programs, there will be an incentive by the E.U. and the U.S. to renew that clause, though at a cost in negotiating terms.

<sup>17</sup> The US still subsidizes dairy product exports, through the DEIP.

compete with current “single-desk sellers” such as the CWB, as well as other disciplines on state trading exporters (no exports at less than the purchase price, and no special financing) and also responds to the EU proposal for disciplining export credits (no hidden support) and food aid (where there should be no commercial advantage). So both the US and Canada would have to modify their programs if these proposals were to be adopted.

**Table 5: Suggested reduction schedule for export subsidies (expenditure and volume)**

	Developed Countries	Developing Countries
Products accounting for 50 percent of bound budget outlay	70 percent of previous year’s quantity and expenditure allowed for first five years	75 percent of previous year’s quantity and expenditure allowed for first ten years
The remaining export subsidies	75 percent of previous year’s quantity and expenditure allowed for first nine years	80 percent of previous year’s quantity and expenditure allowed for first twelve years

Source: Harbinson draft (revised)

**Is it acceptable to major players?**

But the question remains: will these proposals be acceptable to the major (and the smaller) players? The Harbinson draft does a skillful job of giving some support to both the EU and the US positions, without being too obviously aligned with either.<sup>18</sup> The EU can take some comfort from the fact that it can continue a part of its export subsidies for up to ten years. The US can point to the tariff reductions that reduce the high tariffs at a faster rate than the more modest levels, though it is concerned that tariff cuts are not very “ambitious” and that more should be done to “harmonize” levels of domestic support. And the developing countries can find a number of places where they do not have to reduce protection so fast. In addition, they are offered an acknowledgement of the importance of preferences, access to the use of a special safeguard, and the option of specifying a few commodities (“special products with respect to food security, rural

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<sup>18</sup> By contrast, the Chairman’s Draft in the Uruguay Round, in June 1990, was clearly tilted in the direction of the US and Cairns Group positions and enabled the EU to argue that it was “not a basis for negotiations.” The positions were further apart at that time, and the Draft was not able to incorporate the modalities. It was left to the Dunkel Draft of February 1991 to lay out the text around which the negotiations could revolve.

development and/or livelihood security concerns”) as sheltered from import liberalization. The number of these “SP” commodities is left for negotiation.

Whether this is enough to get agreement is doubtful. The Cairns Group will argue strongly that a more aggressive reduction in both domestic support and tariffs is needed, while Japan will continue to argue against “unfair” burdens on countries with high existing tariffs.<sup>19</sup> Indeed, the argument between those that argue that the highly protected markets should bear most of the changes and those that claim that the burden should be equally-shared is not likely to be resolved.

### **Is it good for the trade system?**

The Harbinson draft may have found a possible compromise among competing positions, but does it significantly liberalize agricultural trade? The Harbinson draft does in some ways go relatively far toward lowering protection in agricultural markets. Seen in conjunction with the reductions in the Uruguay Round, agreement on the cuts suggested by Harbinson would imply significant cuts in tariffs over a twenty-year period. Tariff protection benefiting domestic producers by \$100 per ton in 1990 (if the ad valorem rate or equivalent was between 15 and 90 percent) would be reduced to \$32 per ton by 2010 if the “full” (i.e. average) cuts of the UR and the Harbinson draft are implemented.<sup>20</sup> Protection through domestic support (if included in the AMS) would have also been reduced to \$32 per ton. Comparable support through export subsidies would have been removed entirely if it fell within the “fast track” 50 percent of subsidies, and otherwise reduced to \$53 and eliminated by 2015.

The Harbinson draft is much less restrictive on developing countries. The combination of the smaller reductions of the Uruguay Round and the Harbinson suggestions would imply that developing countries granting \$100 per ton protection through tariffs in 1990 would be able to retain between \$46 and \$77 per ton protection in 2015, depending on the initial

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<sup>19</sup> The Cairns Group is composed of seventeen agriculture-producing countries that claim to maintain little or no agricultural protection or subsidization. The seventeen members of the Cairns Group are Argentina, Australia, Bolivia, Brazil, Canada, Chile, Colombia, Costa Rica, Guatemala, Indonesia, Malaysia, New Zealand, Paraguay, Philippines, South Africa, Thailand and Uruguay.

<sup>20</sup> For the highest tariff levels the aggregated reduction would be to \$26 per ton, and the minimum cuts in the two rounds would allow the protection to be at \$51 per ton for the high tariffs and \$55 for the medium range tariff levels.

level of tariffs at the start of the Doha round implementation and whether the minimum or average cuts were imposed. For designated “special products” the protection could still be as high as \$86 per ton in 2015. Whether this is good for the developing countries themselves is debatable, but it certainly weakens the beneficial impact of the reductions on trade, both north-south and south-south exports.

### **Is it consistent with agricultural trade reform?**

Even if the Harbinson draft were to prove an acceptable basis for the agreement, and be adopted in some modified form, the question remains as to whether it improves the WTO rule structure for agriculture. Does it change the existing rules in a constructive way? Or does it create more exceptions and special rules? On the positive side, removing export subsidies is certainly constructive: the draft puts a deadline for their removal even if it allows some to continue for ten years. “New” export restrictions would be prohibited, except as specifically allowed under the GATT, improving the access to traded goods when prices are high.

Less clearly desirable from the viewpoint of trade rules is the continued differentiation by development status: this creates problems of discrimination in markets that reduces the effectiveness of the trade system. It is premised on the notion that developing countries are not able to participate in agricultural trade to the same extent as developed countries and have to be sheltered from its full impacts. The Harbinson draft exacerbates these distinctions, such as by the designation of “special products” which are subject to different reduction targets.

### **Broader Issues: Is the WTO at Risk?**

The issues of timing and substance are of course intertwined. And both are subsumed in a broader set of questions that hang over the trade system like Damocles’ sword. One is the tension within the WTO between the legislative and the judicial functions, in effect between the negotiation process and the panel process as alternative modes of rule-making. The second is the role of the developing countries in the trade system, and their demands on the system in areas other than the agricultural talks. A third is the significance of the parallel discussions on food safety, biotechnology, intellectual

property and bioterrorism, that may have a more substantial impact on agricultural and food trade than the core agenda of the trade talks. Many of these issues raise issues that involve are could cause difficulties for the WTO and add to the questions about its future role. And fourthly there is the area of regional trade agreements, a constant source of embarrassment to the multilateral system but also a plausible parallel rout for trade liberalization.

### **Link to WTO legal issues**

The tensions between the legislative and judicial aspects of WTO have been surfacing for some years. The Uruguay Round strengthened considerably the judicial functions of the GATT/WTO system by making it more difficult for countries to ignore adverse panel reports. But the attraction of using the “new and improved” dispute settlement mechanism has highlighted the underlying problem of the relation between trade rules and domestic political legitimacy. In a number of high-profile cases the implementation of a panel decision has necessitated changes in domestic legislation. This has both fuelled concerns about the democratic legitimacy of the WTO process and allowed interests considered threatened by a ruling to focus on the domestic political process as a way of slowing down or avoiding implementation. Trade sanctions, originally conceived as a way of putting gentle pressure on governments to adhere to agreed decisions, are in danger of becoming the norm as ways of avoiding difficult decisions, to the detriment of international trade.

These tensions are now impinging on agriculture. There are basically two ways in which exporters can attempt to open markets by using WTO rules and procedures: by negotiations or by panels. Since the Uruguay Round there has been little panel activity in the mainstream agricultural areas. This has been in part due to the Peace Clause (Article 13 of the Agreement on Agriculture) that shelters agricultural subsidies under various conditions from the application of the SCM Agreement (see Table 6). But the Peace Clause expires at the end of 2003, and is unlikely to be renewed unless there is tangible progress in the Round. In addition, the outcome of the Canadian Dairy case, that indicated that domestic price supports could in effect subsidize exports, together with Brazil’s challenge of the US cotton subsidies and the EU sugar regime suggest that it

might be “open season” on the domestic farm policies of the US and the EU.

**Table 6: The Peace Clause: Extent of Protection During the Peace Period**

	<b>CVDs</b>	<b>SCM Articles 5 &amp; 6</b>	<b>GATT 1994 Article XVI</b>	<b>Non-violation Nullification or Impairment</b>
<b>Green Box</b>	Not actionable	Not actionable	Not actionable	Not actionable
<b>Amber &amp; Blue Box subsidies that conform</b>	Actionable but with “due restraint”	Not actionable (if subsidies < or = 1992 levels)	Art. XVI:1 Not actionable (if subsidies < or = 1992 levels)	Not actionable (if subs. < or = 1992 levels)
<b>Export subsidies that conform</b>	Actionable but with “due restraint”	Not actionable	Not actionable	-----

Source: Steinberg and Josling (2003)

### **Link with developing countries and incorporation into WTO**

The biggest challenge for the DDA (and indeed for the WTO as a whole) is to complete the incorporation of the developing countries into the mainstream of the trade system.<sup>21</sup>

This task has become more urgent for both political and economic reasons. As developing countries have taken a greater interest in the operation of the trade system, they have become more critical of the trade rules for agricultural products. They see these rules as favoring the developed countries and their agricultural policies. They consider that they have yet to see the advantages promised in the UR, and they are wary of calls to make further changes in their own agricultural trade and development policies as a result of the current round. In addition, those that are food importers point to the weak provisions of the Ministerial Decision on food aid, which was of little help in the period of high prices - 1996-97. They fear that this round will also result in a deal between developed countries that will perpetuate the imbalance in world agricultural policy. As a consequence, the agricultural talks will only be successfully completed if there are tangible benefits for developing countries emerging from the round.<sup>22</sup>

<sup>21</sup> The significance of the developing countries in the trade system is discussed in Josling (2003).

<sup>22</sup> Such benefits can be of five kinds: (1) market access for products of special interest to developing countries, (2) “special and differential treatment” that would allow greater flexibility for developing countries to schedule reduction commitments, (3) firmer guarantees of assistance in the area of food

The key question in this connection is whether an agreement based on the Harbinson draft would provide the benefits that such countries seek. On the one hand, the draft has elements of Special and Differential Treatment (longer time period for smaller cuts), the possibility of using special safeguards and the designation of key commodities as “special products.” But developing countries may not be “bought off” that easily: the tariff cuts may still be too great and the cuts in domestic support too small for countries such as India and Egypt to sign on, and the market access provisions too weak to allow Brazil and South Africa to support the package. But that may indicate that no package is acceptable to all groups of developing countries, a conclusion that may in the end be the downfall of the round.

### **Links to food safety issues and confidence in the food system**

Another set of issues connected with international trade in food and agricultural products has come in recent months to dominate the traditional agricultural policy topics in international discourse.<sup>23</sup> These have to do with the approval and labeling of GMOs, the question of the differences among countries in their animal welfare policies, the significance of geographical indications (GIs), country-of-origin labels (COOL), the concerns about biosecurity and more specifically the US Bio-terrorism Bill that mandates traceability of a range of foodstuffs on sale in US markets. In many ways these are more important determinants of trade flows and potential irritants to trade relations than the traditional border and subsidy issues. How these issues link in with the agricultural negotiations is not at present clear. GMO labeling is being discussed in the WTO SPS and TBT Committees, as well as the Codex. The only specific link to the agricultural trade talks was the reference in the US proposal to ensuring that “the products of new technologies” were not discriminated against.<sup>24</sup> The question of the treatment of

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security, particularly if conditions for food aid and export credits are tightened, (4) constraints on export restrictions in times of high world prices, and (5) the ability to continue with development policies focused on the agricultural sector (to the extent that they can afford to finance such programs) without falling foul of the domestic support limits. Some movement on each of these items is likely and indeed essential to garner the support of the developing countries for an agreement (Josling, 2003).

<sup>23</sup> For a comprehensive account of the trade policy ramifications of these issues see Josling, Roberts and Orden (2003).

<sup>24</sup> Suggestions by the EU that the SPS Agreement be clarified to be consistent with the “precautionary principle” now widely used in environmental treaties were never explicitly considered a part of the

payments by countries for the additional cost of meeting strict animal welfare standards has come up in the trade talks, notably in the EU's proposal. Harbinson, in the revised draft, includes such payments in the green box, alongside the payments linked to the cost of meeting environmental standards that was already agreed in the Uruguay Round.

### **Links to regional trade talks**

The greatest systemic challenge to the WTO has always been the proliferation of preferential trade blocks and the negotiation of bilateral trade deals. Many economists object that such regional (and cross-regional) trade arrangements (RTAs) undermine the multilateral trade system and promote trade diversion. But their political attraction is undiminished, and yet another series of RTAs are under active negotiation. The WTO has learned to live with these agreements as a fact of economic life and to avoid direct confrontation.<sup>25</sup>

The link with the agricultural talks is both important and complex. Countries, including the major players, have regional "options" for gaining improved market access and stronger disciplines on export subsidies (though the regional track is notably weak in disciplining domestic support). Thus each agricultural trade issue in the Doha round has a counterpart in the regional talks. The result of the DDA will be determined in part by how much more countries can achieve in the WTO than in more limited trade talks. But the prospect for regional talks is itself dependent on the pace of the WTO negotiations. One would expect to see a revitalization of hemispheric talks toward an Free Trade Area for the Americas (FTAA) if the WTO process stalls, as Brazil and the US will shift their attention to wrapping up those negotiations by the deadline of 2005. If both China and Japan are convinced that their interests are well served with a regional trade bloc in Asia (such as that known as ASEAN + 3) then trade in that region could begin to turn inward as did European trade after the launch of the Common Market. "Competitive liberalization" is a high stakes game, but the prospect of a regionally-organized world

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agricultural talks. Obviously, in terms of the EU's domestic constituents there may be some trade-off between this matter and the lowering of support on farm products.

<sup>25</sup> The vast majority of WTO members belong to at least one such RTA (and many belong to several). As a "member-driven" organization, it is difficult to envisage the WTO taking a strong approach to disciplining the activities of RTAs. Negotiations to clarify the interpretation of Article XXIV are therefore progressing slowly.

trade system may be enough to convince waiverers to support the WTO initiative in agriculture as in other areas of trade.

## **Conclusion**

Missed deadlines not an insuperable problem in trade negotiations. What is significant is the reason for the delay. In the case of agriculture in the WTO talks the delay is a mixture of disagreement on the nature, extent and scope of further trade reforms in the sector and of a lack of political direction from the capitals for compromise and constructive negotiation. The missing of the end-March deadline is not in itself important, but a failure of the Ministerial at Cancun would be more serious, though even that could be rescued by some active trade diplomacy in the final months of the year.<sup>26</sup>

The Harbinson draft on agricultural modalities is a good basis for discussion. It would be a pity if the best were to be the enemy of the good. Those who claim that “no agreement is better than a bad agreement” usually want no agreement. On any rational, long-run perspective, an agreement to the Harbinson text would be a major step in continuing the path of reform in agricultural trade. It would be a pity if the US and the Cairns Group were to push the EU, Japan and the developing countries so hard as to force a stalemate.

The alternative to an agreement on agriculture is a new wave of litigation as the Peace Clause expires and the possible de-legitimization of WTO as a result of adverse rulings on domestic policy issues. Negotiations would also move to the regional and bilateral level, with the FTAA receiving a boost, along with Asian regional aspirations and the continued spread of EU bilateral and regional pacts.

An objective look at what is being discussed suggests that the agricultural talks could contribute significantly to the trade reforms started in the Uruguay Round. They are not just modest tinkering designed to postpone action. They provide a real framework for continued reform in domestic farm policies and for the trade liberalization in regional trade blocs. They help to integrate developing countries into the agricultural trade system

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<sup>26</sup> In searching for analogies, it is tempting to look at the stop-and-start progress in the Uruguay Round. Talks broke down on two occasions during that round, in both cases as a result of disagreement on agriculture. The analogy to Cancun is more with the “mid term review” of the Uruguay Round in Montreal rather than with the Ministerial in Heysel called to end the Uruguay Round. The talks on that occasion resumed after four months “shuttle diplomacy” by the GATT Director General.

without imposing politically impossible demands on their ability to open up their own markets. And they would demonstrate that the WTO can operate through diplomatic and legislative channels and not just act as a court to curb scofflaws and cheaters.

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