Key issues for developing countries in the Doha Development Agenda: a negotiating perspective

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Key to symbols used in tables

n.a. not applicable
.. not available
- zero
. insignificant

Abbreviations

ABARE Australian Bureau of Agricultural and Resource Economics
AARES Australian Agricultural and Resource Economics Society
ACIAR Australian Centre for International Agricultural Research
ACP African, Caribbean and Pacific
AusAID Australian Agency for International Development
FAO Food and Agriculture Organization of the United Nations
GMO genetically modified organism
LDC least developed country
MEA multilateral environment agreement
OECD Organization for Economic Cooperation and Development
S&D special and differential
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The need for reform

The importance of reforming agricultural trade and facilitating growth and economic prosperity cannot be overstated. Despite the growth in the world economy over the last fifty years—underpinned by the opening of world markets—there are still almost 3 billion people living in poverty on less than US$2 a day. There is no doubt that much more needs to be done to support the development of developing economies and to allow them full access to the world trading system. Reform of world agricultural trade is a fundamental part of this.

Reform of world agricultural trade offers the developing economies an important source of hope for alleviating poverty and hunger. Agriculture provides, on average, 70 per cent of employment and 30 per cent of output in these countries. Yet these countries are often cut out of markets, or their agricultural sectors are forced to compete with industrial country subsidies.

The Uruguay Round has been critical for agricultural trade reform, introducing for the first time WTO disciplines on the use of agricultural subsidies. It also has been seemingly successful in stemming the rapid escalation in protection that occurred in rich countries during the 1970s and early 1980s.

However, it was only ever a first step. As many have subsequently pointed out, the disciplines agreed upon at the end of the Uruguay Round do not go nearly far enough. Indeed, support levels for agriculture are currently no lower than they were in 1986–88. While more of this support is perhaps delivered in ways that are less trade distorting than previously seen, clearly more needs to be done.

This story is well known, and the impact of these policies on developing economic producers are substantial.

1) According to the Organization for Economic Cooperation and Development (OECD), support for OECD farmers currently comes to around US$360 billion a year, an amount five times higher than total Official Development Assistance provided by these countries and twice the value of agricultural exports from all developing economies.

2) The OECD puts the level of support for the average European or American farmer at US$16–20,000 a year. This is the average rate, and most support flows to large, rich farmers. (In the United States, the top 25 per cent of farms receive over 80 per cent of the support.) The costs of these policies for an average family of four come to around US$1,300 a year.

3) Access to OECD markets is very restrictive. European OECD countries alone account for almost half of the tariff rate import quotas embedded in WTO member country market access commitments.

4) The average WTO tariff on agricultural products stands at 60 per cent, compared with the average tariff on manufacturing goods of just 4 per cent.
The Doha Round

The importance of the agricultural negotiations and their likely difficulty should not be underestimated. The final WTO Agreement on Agriculture, made back in 1994, foreshadowed the necessity of the resumption of negotiations on agriculture—as in fact occurred in early 2000. Various proposals regarding negotiations on agriculture have been put forward by a large number of countries, and as a result there is a good picture of most WTO members’ priorities.

But such negotiations, without the benefit of a larger round with the scope to produce benefits across a range of national interests, offered little prospect of substantial reform. In the lead up to the WTO Ministerial Meeting in Seattle in 1999, negotiators had hoped for the launch of a broad-based trade round to give impetus to this smaller round of negotiations—but this was not to be.

The launch of the new round at Doha, however, will create a new dynamic for negotiations on agriculture. These negotiations will form part of a single undertaking covering a range of sectors and disciplines, offering much greater scope for making the deals that will support fundamental agricultural trade reform. An ambitious timeframe has been agreed upon for these negotiations, with the deadline for completion set for 1 January 2005.

Why has Doha been successful where Seattle failed? Certainly, many WTO members were pushed by fears of a repeat of the Seattle failure. There were also strong concerns about Doha sending a negative signal after the events of 11 September 2001, which would have been unhelpful for the global economy and multilateral cooperation.

Just as importantly, Doha’s success reflected the careful preparations made in the months before Doha, and attention to the interests of all members. This work was directed at finding the necessary balance of interests to reach consensus on the launch of a round. For developing economies, this meant attention to issues such as implementation, textiles, technical assistance and capacity building, as well as agriculture.

With regard to these issues, important concessions were offered. Indeed, fully two-thirds of the Doha declaration makes reference to special provisions for developing economies. These economies were also able to win a special agreement on implementation issues left over from the Uruguay Round, and they were successful in negotiating special provisions on the use of medicines.

Agriculture was one of the keys to the success at Doha, not just for the fifteen Cairns Group developing economies but also for the many others that worked closely with the Cairns Group prior to and at Doha.

Typically of all negotiations on agriculture, the negotiations on agriculture at Doha proved very difficult—it was one of the last issues to be resolved. Nevertheless, the final Declaration achieves a number of important goals.

1) It confirms the commitment to the long term objective set out in the WTO Agreement on Agriculture, that of fundamental reform to correct and prevent market distortions in global agricultural markets.

2) It sets out a mandate for these negotiations to reduce agricultural support in the area of the ‘three pillars’, including substantial improvements in market access, substantial reductions in domestic support and reductions in—with a view to phasing out—the use of export subsidies. On export subsidies it is clear that the tide of support for their
elimination is now overwhelming. The vast majority of WTO members are now focused not on whether export subsidies will be eliminated but when.

3) The Declaration includes strong references to developing economic interests, making clear that negotiations on special and differential treatment for developing countries should be an integral part of the process.

It should be observed that the references to non-trade concerns in the Declaration were more limited than some had sought. The Cairns Group had strongly opposed giving non-trade concerns the same place in the overall hierarchy of negotiating priorities as the ‘three pillars’. At one level, many of these non-trade concerns seem quite reasonable. Too often, however, they suggest a search for excuses to delay or derail reform—a sort of special and differential treatment for the rich, industrial countries.

The Cairns Group is not opposed to policies aimed at the rural sector for social or environmental reasons. Australia also faces rural problems of a social and environmental nature. The group’s concern, however, is to ensure that the ‘three pillars’ of fundamental reform—market access, domestic support and export subsidies—remain the priority of these negotiations. Non-trade concerns are ‘to be taken into account’, that is addressed in ways consistent with the objectives of reform, and through policies that are targeted and transparent and do not distort production and trade.

In any event, the Cairns Group now has a negotiating mandate. In February 2002 in Geneva a negotiating group was established to conduct the agricultural negotiations. The key issue for discussion will include the modalities for improvements in market access, reductions in domestic support and elimination of export subsidies before the end of March 2003.

In this process special and differential treatment provisions will be addressed and non-trade concerns taken into account. Australia and the Cairns Group will work closely with developing economies throughout.

**Trade preferences**

Next, it is relevant to consider the influence of trade preferences on the position of developing economies in agricultural trade reform. While some are sensitive about reducing market access barriers for agricultural products, developing economies generally have low domestic subsidy levels and no export subsidies. Not surprisingly, most analysis suggests that they would gain from agricultural liberalisation as the high subsidies and protection of developed countries were reduced, and—despite their own reform sensitivities—they would gain even more if they joined in and reformed as well.

All things being equal, agricultural producers in developing economies would be expected to have a clear interest in agricultural reform. However, all things aren’t equal and, therefore, it is apparent that trade preferences have undermined developing country support for trade reform.

To see how this works, one might consider the import of African, Carribbean and Pacific (ACP) sugar into the European Union under the Cotonou Agreement. Analysis suggests that full reform of European Union sugar policies would bring large benefits to developing countries. The Australian Bureau of Agricultural and Resource Economics (ABARE) estimates the benefits to be around US$1.1 billion.
However, the ACP countries—mostly small, former European colonies—receive privileged market access into the European Union and European Union prices, perhaps two–three times world prices. ABARE modelling puts the value of these arrangements to ACP countries at US$300 million a year.

The transfer to ACP countries may be considerable, but it comes at great cost (by some estimates ten times the value of the benefits received), and in practice the preferences deliver little. In addition, the negative impact of preferences goes beyond financial waste. They encourage rent-seeking behaviour, create vested interests that block reform and divert resources from other, possibly more competitive, industries within developing economic recipients.

But the European Union continues to promote trade preferences as its preferred form of liberalisation, championing its ‘Everything but Arms’ initiative especially as a way of giving substance to a development round. In offering preferential access to a certain group of least developed countries (LDCs), however, the European Union actively discriminates against efficient developing economic suppliers.

These European Union tactics threaten to dilute developing economy calls for fundamental reform of OECD policies.

**Special and differential treatment for developing countries**

What about reform of the agricultural policies of developing economies? In the context of global agricultural trade reform and in response to food security and rural development concerns, the Doha Declaration makes clear that developing economies should be afforded special and differential treatment. What this means in practice, however, remains to be seen.

There is no doubt that many countries have misgivings about agricultural reform. The Agreement on Agriculture recognises developing economy concerns and provides for a range of special and differential (S&D) measures to allow them to better cope with the challenges of reform, including lesser commitments and longer timeframes in which to implement them, as well as the freedom to use certain investment, input and marketing, transport and marketing subsidies not available to developing economy members.

Nonetheless, many developing economies insist that the S&D mechanisms currently available are inadequate and have put forward the idea of a special ‘development box’. The development box is still a fairly vague concept and probably means different things to different people, however in Geneva in February 2002 some of the ideas for the development box began to be fleshed out.

Countries such as Pakistan, India and Kenya have argued for exemptions from reduction commitments for what they term ‘food security’ or staple crops. Moreover, they argue that tariffs should be allowed to be increased, where appropriate, given the low bindings often agreed upon as part of the Uruguay Round, and for the introduction of special import safeguards for use by developing economies to prevent import surges. These proposals raise a number of questions that could be of interest to economists.
Food security and development

Food security is an important issue for many developing economies and is often cited as a rationale for the establishment of a development box. Put simply, the argument is that developing economies need to restrict food imports and subsidise their own production to promote food security.

Food security, however, is not the same as national self-sufficiency. The 1996 Food and Agriculture Organization (FAO) World Food Summit defined food security in terms of food affordability and accessibility rather than national food production. In this context it is possible to conceive of a role for international trade in helping to improve food security, and also to make a case for the food security benefits that trade liberalisation might bring as well—the opposite of policies that promote national food self-sufficiency.

Nevertheless, it is also clear that trade policy alone will not provide a solution to food security and development concerns. Many other factors, some cultural, some driven by domestic policy, may well be more important. In this regard, other institutions like the World Bank and the FAO have a role to play. Discussions with Bank officials suggest that we should examine carefully the way in which some developing countries have under-invested in ‘green box’ support, and the scope for these countries to better support such activities.

Promoting reform in developing countries

Addressing the whole question of a development box will be difficult. Those who call for increased subsidy levels for developing countries are often driven by a sense of injustice. They point to the relatively high current levels of support maintained by the European Union and others on the basis of historically high levels—less the uniform cuts negotiated in the Uruguay Round. Whilst this sense of injustice is perhaps widely felt, the answer is not to demand equal rights to use the same large subsidies since this would run counter to the usual dynamic of a trade round—which is to agree on reciprocal reductions in protection for all countries—and ease the pressure to reform on the Europeans and other subsidisers. It also makes no sense because developing countries simply do not have the funds to provide more subsidies and are not even using up their current subsidy entitlements.

Demands for increased protection are also understandable. Why should producers in developing economies have to compete with subsidised imports in their own domestic markets? This is simply unfair. Undoubtedly, the world is unfair, however, raising subsidies and market access barriers is not the way to go for developing countries. Precisely because agriculture is so important to developing countries, they cannot afford to cut themselves off from global markets and turn their agricultural sectors into welfare sectors as the United States, Japan and the European Union have done. Agriculture in developing countries has to contribute to the economy rather than be a burden on it—it is simply too important for any other approach to work. We also need to keep in mind that developing country exports of agricultural products to other developing countries are growing rapidly and now account for more than 40 per cent of overall agricultural exports from developing economies. To choke this growth would only damage developing countries.
One is able to be positive and open-minded about a development box if it targets sensible measures that enable developing economies to deal with adjustment challenges in measured ways and boosts their capacity to take advantage of the opportunities that liberalisation will bring. The Cairns Group is not in favour of a development box that creates additional exceptions and removes developing country agriculture from the global economy. This is not in the interests of Australia, the longer-term interests of developing economies or the interests of the multilateral trading system as a whole.

Other topics

A number of other issues relating to agriculture will arise in the course of the negotiations. For example, there may be intellectual property issues, with some countries wanting to limit Australia’s ability to use common Geographic Indications such as ‘Parmesan’. Trade and environmental issues also have the potential to impinge on agriculture through discussion of the relationships between existing WTO rules and the specific trade obligations of multilateral environment agreements (MEAs). The production and use of genetically modified organisms (GMOs) and biotechnologies might feature in this case. Agriculture might also figure in discussions on reforms that promote ‘win–win’ benefits for both trade and the environment, especially in developing countries.

Conclusion

In conclusion, the remarks of United States Trade Representative Bob Zoellick in a speech he gave in 2001 are apposite. He described the WTO in the following terms: ‘The WTO respects…state sovereignty while sponsoring…rules that discourage discrimination in trade, restrain protectionist groups and encourage the mobilisation of groups that promote the general welfare.’