

The Green Barrier to Free Trade

C. P. Chandrasekhar, Jayati Ghosh and Parthapratim Pal

At the end of the latest round of meetings of the agricultural negotiations committee of the WTO, the optimism that negotiators would manage to come at a consensus on numerical targets, formulas and other “modalities” through which countries can frame their liberalisation commitments in a new full-fledged round of trade negotiations has almost disappeared. In a report by the negotiations’ chairperson to the Trade Negotiations Committee, circulated to WTO member governments on 7 July 2003, the chairperson Stuart Harbinson says: “Achieving the objective of establishing modalities as soon as possible has continued to remain elusive. ... As matters stand, collective guidance and decisions are required on a number of key issues in order to clear the way for reaching [the goal set out in the Doha mandate]”. Establishing modalities before the Cancun ministerial was important for two reasons. First, it is now becoming clear, that even more than was true during the Uruguay Round, forging an agreement in the agricultural area is bound to prove extremely difficult. Progress in the agricultural negotiations was key to persuading the unconvinced that a new ‘Doha Round’ of trade negotiations is useful and feasible.

Second, the Doha declaration made agricultural negotiations one part of a ‘single undertaking’ to be completed by January 1, 2005. That is, in a take ‘all-or-nothing’ scheme, countries had to arrive at and be bound by agreements in all areas in which negotiations were to be initiated in the new round. This means that if agreement is not worked out with regard to agriculture, there would be no change in the multilateral trade regime governing industry, services or related areas and no progress in new areas, such as competition policy, foreign investment and public procurement, all of which are crucial to the economic agenda of the developed countries.

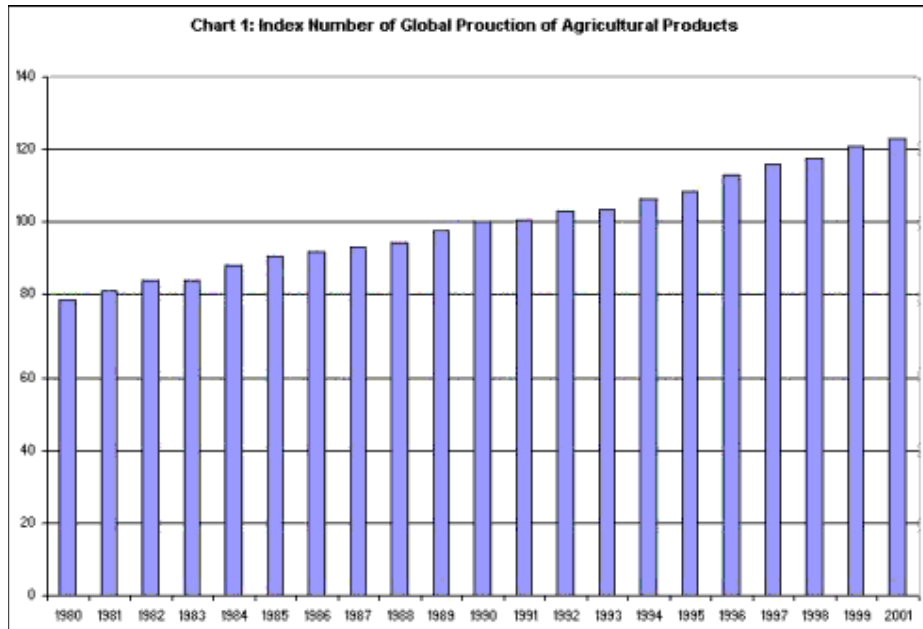
The factors making agriculture the sticking point on this occasion are numerous. As in the last Round, there is little agreement among the developed countries themselves on the appropriate shape of the global agricultural trade regime. There are substantial differences in the agenda of the US, the EU and the developed countries within the Cairns group of agricultural exporters. When the rich and the powerful disagree, a global consensus is not easy to come by.

In this round of negotiation, the complexity of the situation is likely to increase because a number of developing country including Cuba, Chile, Kenya, India, Nigeria, Pakistan, Sri Lanka, Uganda and Zimbabwe has taken a very pro-active role in the negotiations and have often expressed vies which are significantly different from the views expressed by the big three. The extent of disagreement among different country groups can be gauged from a recent paper by the Chairman of WTO Agriculture Committee Stuart Harbinson. This paper is based on the country proposals submitted during the current round of agricultural negations and the follow up consultations among the WTO Members conducted after Doha ministerial. The objective of this paper is to summarize the main features and results of the consultations and to provide a basis for working towards the establishment of modalities for the further commitments. This paper shows that not only there are still wide gaps in the positions among participants regarding fundamental aspects of the further negotiations but there also exist significant differences in the level of ambition among the member countries. What is even more worrying for the future of the agricultural negotiation is that even the latest round of talks, countries are not showing any inclination towards reconciliation. According to reports published in the International Trade Daily, after a negotiating group session held during 22-24th January 2003, Harbinson noted that the meeting was intended to "build bridges" between opposing camps and push the WTO talks forward as members head towards their March 31

deadline for finalizing negotiating modalities. Instead, he adds, "we have made very little headway in building bridges". It is expected that with members failing to mend their differences, the first draft of a methodology framework for agricultural negotiations will be chair driven and is expected to be circulated before a mini-Ministerial scheduled for Tokyo Feb. 14-16. Given the progress so far, it seems virtually impossible that the March 31st deadline of finalizing the modalities will be met.

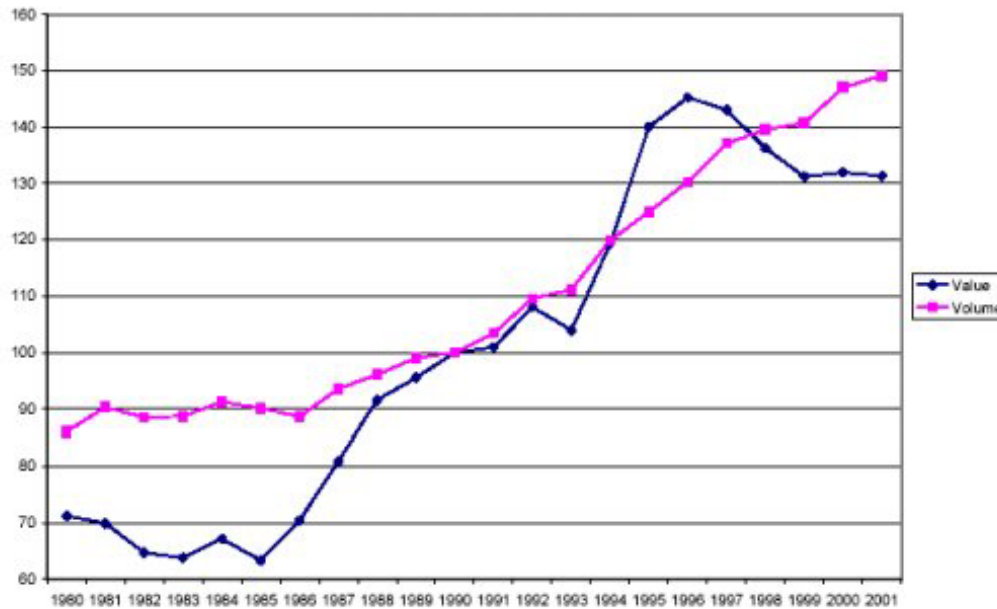
But that is not all. Even if an agreement is stitched up between the rich nations, through manoeuvres such as the Blair House accord, getting the rest of the world to go along would be more difficult this time. This is because the outcomes in the agricultural trade area since the implementation of the Uruguay Round (UR) Agreement on Agriculture (AoA) began have fallen far short of expectations. In the course of Round, advocates of the UR regime had promised global production adjustments that would increase the value of world agricultural trade and an increase in developing country share of such trade.

As Chart 1 shows, global production volumes continued to rise after 1994 when the implementation of the Uruguay Round began, with signs of tapering off only in 2000 and 2001. As is widely known, this increase in production occurred in the developed countries as well.



Not surprisingly, therefore, the volume of world trade continued to rise after 1994 (Chart 2). The real shift occurred in agricultural prices which, after some buoyancy between 1993 and 1995, have declined thereafter, and particularly sharply after 1997. It is this decline in unit values that resulted in a situation where the value of world trade stagnated and then declined after 1995, when the implementation of the Uruguay Round began.

Chart 2: Index Numbers of Value and Volume of World Exports of Agricultural Products



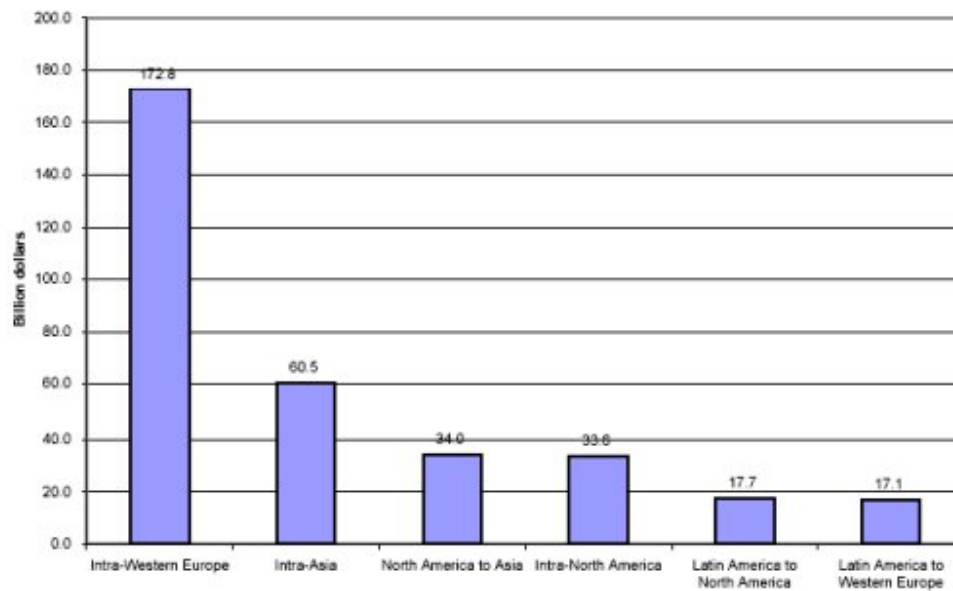
As Table 1 shows, there was a sharp fall in the rate of growth of global agricultural trade between the second half of the 1980s and the 1990s, with the decline in growth in the 1990s being due to the particularly poor performance during the 1998 to 2001 period.

Value 2000	558
Value 2001	547
Annual percentage change	
1980-85	-2
1985-90	9
1990-01	3
1998	-5
1999	-3
2000	1
2001	-1
Share in world merchandise trade 2001	9.1
Share in world exports of primary products 2001	40.9

Price declines and stagnation in agricultural trade values in the wake of the UR Agreement on Agriculture were accompanied and partly influenced by the persisting regionalisation of world agricultural trade. The foci of such regionalisation were Western Europe and Asia, with 32 and 11 per cent of global agricultural trade being intra-Western European and intra-Asian trade respectively (Chart 3). What is noteworthy, however, is that agricultural exports accounted for a much higher share of both merchandise and primary products trade in North America and Western Europe (besides Latin America and Africa) than it did for Asia. Thus

despite being the developed regions of the world, agricultural production and exports were important influences on the economic performance of North America and Western Europe.

Chart 3: Major regional flows in world exports of agricultural products, 2001



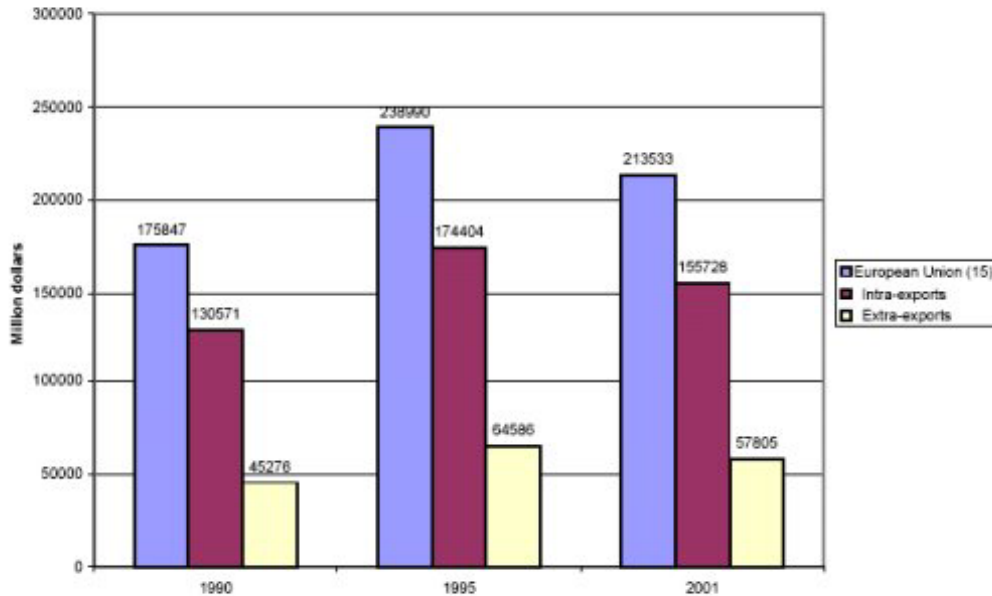
It is therefore not surprising that Europe is keen on maintaining its agricultural sector through protection, while the US is keen on expanding its role in world agricultural markets by subsidising its own farmers and forcing other countries to open up their markets. The problem is that the US has been more successful in prising open developing country markets than the large EU market. Thus out of \$104 billion worth of exports from North America in 2001, \$34 billion went to Asia and \$15 billion to Latin America, whereas exports to Europe amounted to \$14 billion (Table 2).

Table 2: Share of agricultural products in total merchandise and primary products trade by region, 2001		
(Percentage)		
	Exports	Imports
Share of agricultural products in total merchandise		
World	9.1	9.1
North America	10.5	6.0
Latin America	18.1	9.3
Western Europe	9.2	9.9
C /E. Europe/Baltic States/CIS	8.7	10.5
Africa	14.7	15.3
Middle East	3.3	13.4
Asia	6.7	9.7
Share of agricultural products in primary products		
World	40.9	40.9
North America	58.3	32.7
Latin America	45.6	45.7
Western Europe	56.0	46.6
C /E. Europe/Baltic States/CIS	21.0	43.1
Africa	20.5	56.9
Middle East	4.3	62.2
Asia	46.7	35.0

The Cairns group of exporting countries (Argentina, Australia, Bolivia, Brazil, Canada, Chile, Colombia, Costa Rica, Guatemala, Indonesia, Malaysia, New Zealand, Paraguay, Philippines, South Africa, Thailand and Uruguay), for some of who at least agricultural exports are extremely important, want world market to be freed of protection *as well as* the surpluses that result from huge domestic support in the US and the EC. We must note that \$35 billion of the \$63 billion of exports from Latin America went to the US and the EU. More open markets and less domestic support in those destinations is therefore crucial for the region.

The fact that Europe has been successful in its effort at retaining its agricultural space with the help of a Common Agricultural Policy that both supports and subsidises its agricultural producers is clear from Chart 4, which shows that intra-EC trade which accounted for 74 per cent of EU exports in 1990, continued to account for 73 per cent of total EU exports in 1995 and 2001. But North America, with far fewer countries in its fold, has also been quite insular. Close to a third of North American exports are intra-regional. Little has changed since the Uruguay Round Agreement on Agriculture.

Chart 4: Exports of agricultural products from EU



As far as developing countries are concerned, a WTO secretariat paper published in 2000¹ asserts that the agricultural exports of developing countries have expanded more rapidly than those of the developed countries in the post WTO period. However, data presented in the paper show that the share of developing countries in global agricultural exports has increased by only 1 percent during the period of 1994 to 1998 (Table 3). This minimal increase should be viewed against the fact that more than 75 percent of WTO Member countries are from the developing world and foreign trade in a large number of developing countries is dominated by agricultural products. And yet, these countries together account for less than 50 percent of the global agricultural trade and even after 5 years of implementation of the Agreement on Agriculture the situation remains virtually unchanged for them. Secondly, the paper also mentions “*developing countries' import markets (and in some cases transition economies) are becoming increasingly important as outlets for agricultural exports from developing countries*”. This, on one hand shows that developing countries are progressively opening up their agricultural sector but on the other hand, it also implies that the Agreement on Agriculture has not yet helped developing countries to gain increased market access in developed countries.

¹ “Agricultural Trade Performance by Developing Countries 1990-98” –WTO Secretariat, WTO Document Number: G/AG/NG/S/6

Table 3. Share of Developing Countries in World Agricultural Exports by Region, 1990-98 (per cent)									
	1990	1991	1992	1993	1994	1995	1996	1997	1998
Africa	5	4½	4½	4	4	4½	4½	4½	4½
Developing Asia	18	19½	19½	19½	20	20	19	18½	18
Latin America and the Caribbean	14	13½	13	13	14	14½	14½	16	16½
Middle East	1½	1½	1½	1½	1½	1½	1½	1½	1½
Other	2½	2	1½	2	2	1½	1½	1½	2
All Developing Countries	40	41	40	40	41½	42	41	42	42½

Note: Data for *Africa* exclude South Africa.

The figures for "Other" include European developing economies as defined by the WTO Statistics Division: Malta, Turkey, Bosnia and Herzegovina, Croatia, the Former Yugoslav Republic of Macedonia, Slovenia, Yugoslavia and territories in Western Europe n.e.s..

The shares are expressed in per cent of world agricultural exports excluding intra-EU trade.

Source: WTO Document Number G/AG/NG/S/6

It is widely accepted that three sets of actors account for this failure of the AoA. The first, is that in order to push through an agreement when there were signs that the Uruguay Round was faltering, the liberalisation of agricultural trade in the developed countries was not pushed far enough. Second, is the ability to use "loopholes", especially those in the form of inadequately well-defined Green and Blue Box measures, in the AoA, to continue to support and protect farmers on the grounds that such support was non-trade distorting. Finally, there are violations of even the lax UR rules in the course of implementation, which have been aided by the failure of the agreement to ensure transparency in implementation.

Not surprisingly, some countries, especially the Cairns group of exporting countries have proposed an ambitious agenda of liberalisation in the agricultural area. Tariffs are to be reduced sharply, using the "Swiss formula", which would ensure that the proportionate reduction in the tariffs imposed by a country would be larger, the higher is the prevailing bound or applied tariff in that country. The formula arrives at the level to which tariffs in a country would be reduced by multiplying the existing (bound or applied) tariff by a numerical factor, and dividing the result by the sum of the current tariff rate and the numerical factor. The factor for developed countries proposed by the Cairns group is 25. Thus, a country with a tariff rate of 100 per cent on a particular product would have to reduce the rate to 20 per cent (2500/125), whereas a country with a 75 per cent tariff rate would have to reduce it proportionately less to 18.75 per cent (1875/100). Further, in keeping with the Special and Differential treatment requirement, the factor for the developing countries is proposed at 50, making their reduction requirements much smaller (to 33.3 and 30 per cent respectively in the case of a 100 and 75 per cent tariff).

Besides tariff reduction, the Cairns group has called for an enhancement of the minimum import levels of particular commodities by using lower tariffs (tariff rate quotas), argued for a sharp reduction in the aggregate support that can be provided using impermissible support measures, supported the scrapping of the so-called Blue Box measures fashioned during the Uruguay Round to appease the EU countries, and recommended stricter guidelines for assessing whether particular measures of support fall under fully permissible Green Box provisions.

These ambitious demands notwithstanding, it is clear that an agreement on modalities in time for the March 31 deadline is unlikely to materialise. Around the time of the January 22-24 meetings of the agricultural negotiators, the European Union Agricultural Commissioner Franz Fischler made it clear that the late March deadline will be missed. Fischler reportedly declared that the March 31 deadline set at Doha was for the chairman of the agricultural negotiating group to present his proposal for modalities and that did “not mean automatically that the next day all members of the WTO will agree to that proposal.” In any case, with discussions on the reform of the EU’s Common Agricultural Policy expected to continue well into the summer, the EC does not yet have a fully formulated position to adopt in the course of the negotiations. Thus, the March 31 deadline cannot be met.

Till such time as these issues are cleared it is not at all certain that an agreement on agriculture, which is a prerequisite for the launch and completion of the ‘Doha Round’ of trade negotiations, can be ensured by 2005. Those in a hurry to get to that goal are in for a disappointment. But that prospect is not new. WTO members have already missed a December deadline for an agreement on patents and the supply of essential commodities, because of US intransigence. They have also missed the deadline to work out modalities for special and differential treatment of developing countries.

In the media’s blame game seeking to identify the culprit holding up progress towards an agreement on agriculture, once again the lead contender is the European Union. The grounds for this focus on the EU are, however, shaky. The United States too offers substantial support to its farmers, and has significantly hiked this support through the Farm Security and Rural Investment Act of 2002. Outlays on farm programmes in the US, principally income and price support programmes, averaged more than \$15 billion a year between 1996 and 2002, and had touched a high of \$32.3 billion in 2000. The 2002 Act promises on paper to keep this high support going, by authorising expenditures totalling \$118.5 billion over a six-year period ending 2007. The actual figure is expected to be much higher. It is well known that this support goes disproportionately in favour of a few large commercial farms, which are the ones accounting for a majority of supplies to the US and international markets.

In as much as such support, even if provided in the form of direct income payments “decoupled” from actual production, indirectly affects farmers’ production and pricing decisions, they influence availability and prices in world markets. That is they do distort world trade, even if the UR round agreement claims they do not. What the 2002 Farm Act indicates is that the US has no intention of cutting back on such support, and is unlikely to accede to any agreement that warrants such a cut. The reason why this implicit stance of the US does not lead to its identification as a bottleneck in the current negotiations on agriculture is that almost all of this support is in the form of Green Box measures, or measures of support that are acceptable under the Uruguay Round agreement because they are ostensibly “non-trade distorting”.

Not surprisingly, the US proposals advanced in the course of the work programme that began in March 2002, combine (i) a plea for export subsidy abolition; (ii) recommendations for increased market access through quota abolition, tariff reduction and enhanced tariff-rate quotas (or a minimum level of imports of each commodity that needs to be ensured with lower tariffs); and (iii) a case for either doing away with domestic support that does not fall in the Green Box category or the substitution of such support with outlays on new Green Box measures. That is the US proposals are clearly not in the direction of reducing state support

for agriculture, but of manipulating the agricultural support regime in the direction of what was defined to be non-trade distorting in the course of the Uruguay Round.

Seen in this background the new stand on agricultural support still being discussed among EU members is by no means bizarre. The European Commission's recently released proposals for reform of the Common Agricultural Policy (CAP) do not promise any cut in total spending. But they do not point to any substantial increase either, since the EU leaders agreed last year to a 1 per cent ceiling on annual increases in the farm budget. In addition, the proposals currently being discussed make an effort to link subsidies less directly with production, thereby rendering them non-trade distorting.

The difficulty the EU faces is that of mooting and then winning agreement among its members on doing away with export subsidies and on making a complete transition to Green Box measures. Since the support afforded to agriculture in EU countries is large and multifarious, a complete transition is not easy to achieve. France, for example, which receives more money from the CAP than any other country is vehemently opposed to that transition, with vocal support from President Chirac. As a result the EU in its proposals submitted in December to the agricultural negotiations committee has called for retaining the Blue Box and for continuing with the Peace Clause, which protected Blue Box measures from being challenged during the implementation period of the Uruguay Round. That is the EU wants the right to openly and transparently support and protect its farmers, and wants adequate elbowroom within the agreement to do so. But the fact that it is unwilling to go the US way, by opting for less transparent support measures that have been defined as acceptable helps those who paint it as the stumbling block on the road to free trade.

The reason for the peculiar situation is that through the manoeuvres made during the Uruguay Round, especially the famous Blair House accord, the rich nations managed to obtain Cairns group concurrence and developing country support for an agreement that provided inadequate market access and little reduction in protection in the developed countries in the agricultural area. This they did by holding out the threat of trade chaos if no agreement was reached and by promising (i) that this was an interim arrangement which would be assessed starting a year before the completion of the implementation period; (ii) that the worst form of domestic support such as the blue box measures would be dropped at that point; and (iii) liberalisation would be further intensified starting in 2000.

Unfortunately, not only has the experience with the implementation of the not-so-liberal Uruguay Round Agreement on Agriculture been wanting on many counts, but there is strong pressure to continue with the manoeuvring by dressing up all support measures in Green, as is the case with the US, or by just refusing to meet the Uruguay Round commitments, as is true of the EU. This makes it extremely difficult to once more win Cairns group concurrence and developing country support for a new Agreement on Agriculture, which offers merely a small advance along an older protectionist route.

Unfortunately for the developed countries they had gone for the "single undertaking", all-or-nothing strategy with the hope that they can use small concessions in areas like agriculture, drug patents and Special and Differential treatment to win major battles in the areas of competition policy, foreign investment and public procurement. But with no agreement among them even on those concessions and an agreement on agriculture proving a stumbling block, those visions born of greed are threatening to blur. The threat to the forces of corporate globalisation comes not just from the anti-globalisation movement outside. An important enemy seems to lie within, as well.