Essay
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The Agreement on Agriculture
Economic Effects and Functionality

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Introduction

Even after implementing the Uruguay Round Agreement on Agriculture (URAA), the agricultural sector remains the most highly protected, subsidized and distorted sector under the WTO. However, the URAA was the first step to bring agriculture on the agenda of the WTO, leading to more transparency in the regulation measures of member countries. Considering the huge potential welfare gains from liberalizing trade in agriculture, many countries are pushing for further reforms, especially countries with a comparative advantage in producing agricultural products.

There is a wide range of literature that discovers trade liberalisation in agriculture. While some papers emphasize the potential gains of further liberalisation (such as Martin/Anderson 2006), other authors examined the three pillars of the URAA (such as Gorter et al. 2003, Abbott/Young 2004 and Bureau/Salvatici 2004). Other areas include historical aspects (Davey 1993) and the current developments in the Doha Round (Das 2006 and Martin/Anderson 2006). The large volume of literature that deals with this topic shows the importance of the issue.

The paper is organized as follows. Section two examines the economics of regulatory measures, such as market access regulations, domestic support and export subsidies. Section three explains the agreement in detail, while section four focuses on its deficiencies. Section five looks at current developments in the Doha Round and section six concludes.

2 Economics of Regulation and Origins of the Agreement

The following section analyses the three main pillars of the Uruguay Round Agreement on Agriculture (URAA), namely market access, domestic support and export subsidies from an economic perspective in order to understand the impacts of the regulations.

2.1 Economics of Market Access Regulations

Import barriers such as tariffs and quotas reduce the level of imports, thereby increasing the price in the importing country and reducing world prices to exporters and other importers. Importing countries accumulate tariff revenues while farmers in the protected import market increase supply and consumers reduce their demand. The opposite occurs in exporting and other importing countries. Hence, import barriers reduce economic efficiency by distorting relative prices in both the importing and exporting countries (Krugman/Obstfeld 2006, p. 179), and also impose an externality in the form of lower world prices that adversely affects all farmers outside the protectionist importing countries (Gorter et al. 2004, p. 77).
As shown in Figure 1, the introduction of a tariff drives a wedge between the prices in the two markets. The tariff raises the price in the Home Market and lowers the price in the Foreign Market. Domestic producers supply more at the higher price, while consumers demand less, so that fewer imports are demanded. Producers abroad reduce supply and consumers increase demand (due to the lower price), leading to a smaller export supply. Thus, the increase in the domestic price is less than the amount of the tariff, because part of the tariff is reflected in a decline in the foreign export price. However, when a small country imposes a tariff, this effect is often very small, as its share of the world market is small, so that its import reduction has very little effect on the world price (Krugman/Obstfeld 2006, p. 180). The costs and benefits of a tariff for the importing country is shown in Figure 2.
The loss triangles (b+d) represent the efficiency loss that arises because a tariff distorts incentives to consume and produce. The rectangle (e) represents the terms of trade gain because of lower foreign export prices. Thus, the gain depends on the ability of the tariff-imposing country to drive down foreign export prices. If a (small) country cannot affect world prices, the gains in terms of trade disappear, and the tariff reduces welfare. Generally speaking, the economic impacts of an imposed quota are similar, but the government loses tariff revenues (area c). Instead, this quota rent is skimmed by product quota holders.

Barriers to market access were collapsed into two forms by the URAA: import tariffs and tariff rate quotas (Gorter et al. 2004, p. 64). The tariffication process converted quantitative barriers into tariffs and ensured access at bound tariffs for all commodities. Each country was also able to designate tariff rate quotas for most commodities where quantitative barriers were tariffied. Tariff rate quotas are commitments to allow access at least up to a quota level at an in-quota tariff rate, leading to a two-tier tariff system.

2.2 Economics of Domestic Support Measures

Another widespread trade distorting measure in agricultural markets are price supports. Economists generally argue that domestic support is less trade-distorting than border protection because the latter reduces consumption as well. But because the supply curve is very likely to be elastic and the demand for food inelastic in developed countries, the difference in trade-distorting effects between domestic and border support may not be large (Gorter et al. 2004, p. 135).

Much of the American and European agricultural policy is based on a system of price supports, whereby the government sets the market price of a good above the free-market level and buys up whatever output is needed to maintain that price (Pindyck/Rubinfeld 2005, p. 314). Under such price support programs, the government sets a support price $P_s$ and then buys up whatever output is needed to keep the market price at this level. The effects of such measures can be seen in the following Figure.
To maintain a price $P_S$ above the market-clearing price $P_0$, the government buys a quantity $Q_g$. The gain to producers is $A+B+D$. The loss to consumers is $A+B$. The cost to the government is the speckled rectangle (Pindyck/Rubinfeld 2005, p. 315). While these measures were essential in the Common Agricultural Policy within the European Community after the Second World War due to a shortage in agricultural products, these policies led to a considerable oversupply of agricultural products since the 1980s. Therefore, the European Community subsidized exports to sell this oversupply to other countries (as explained in the following section). During the negotiations in the Uruguay Round several nations (especially members of the so-called “Cairns Group”) questioned the purpose of domestic support policies (Tyres 1993, p. 49) leading to supports “decoupled from production” (Landau 2001, p. 916). Such measures are both cheaper for the government and less trade distorting, as they do not stimulate over-production.

### 2.3 Economics of Export Subsidies

An export subsidy is a payment to a firm that exports a good abroad. The effects of an export subsidy on prices are exactly the reverse of those of a tariff, as shown in Figure 4. The price in the exporting country rises (from $P_W$ to $P_S$), but because the price in the importing country falls (from $P_W$ to $P_S^*$), the price rise is less than the subsidy. In the exporting country, consumers are hurt, producers gain, and the government loses because it must expend money on the subsidy (Krugman/Obstfeld 2006, p. 187). In addition, contrary to a tariff, the export subsidy worsens the terms of trade by lowering the price of the export in the foreign market. Thus, from the exporting country’s point of view, an export subsidy unambiguously leads to costs that exceed its benefits.
Following the line of arguments above, the three areas of trade distorting measures are closely linked to each other. Domestic support can lead to an oversupply of agricultural products, which makes border measures (such as tariffs and export subsidies) necessary in order to maintain a certain domestic price level. The URAA aimed to reduce trade distorting policies in these three specific areas. The success and deficiencies of the outcome will be discussed in section three and four, while section five highlights recent developments in the Doha Round.

### 2.4 Is it necessary to regulate agriculture?

While most of the trade distorting measures explained above do not make sense from a purely economic perspective, advocates of protectionism in agriculture focus on non-trade concerns, such as special characteristics of the agricultural sector. The concept of multifunctionality especially plays a major role in current negotiations, including rationales such as exceptional price and income stability; the importance to national security of agricultural self-sufficiency; and the cultural and social value of preserving rural lifestyles (Trebilcock/Howse 2005, p. 321).

However, one main reason for the highly protected agricultural sector in world markets can be found in the history of the US and European policies after the Second World War. The European Union’s Common Agricultural Policy (CAP) began not as an export subsidy, but as an effort to guarantee high prices to European farmers by having the European Union buy agricultural products whenever the prices fell below specified support levels (Krugman/Obstfeld 2006, p. 188). These policies aimed to solve the problem of food shortages in Europe after the war. Since the 1970s, however, the support prices set by the European Union have turned out to be so high that Europe, which would under free
trade be an importer of most agricultural products, was producing more than consumers were willing
to pay. This made it necessary to subsidize exports to dispose of surplus production (Tangemann
1999).

2.5 Origins of the Agreement

Trade in agricultural products has always been subject to GATT rules (Davey 1993, p. 3). During much
of GATT’s history, however, those rules have not been effectively enforced in respect of agricultural
products. This has been in part due to exemptions (such as waivers and an extensive number of un-
bound tariffs), in part due to a lack of complainants asking for enforcement of the rules under the
dispute settlement system and in part due to an overly broad reading given by dispute settlement
panels to certain exceptions to the GATT rules (Davey 1993, p. 4).

Since GATT’s inception in 1947, agricultural exports have been subject to generally applicable GATT
rules. However, those rules do not deal with export subsidies. This omission may not have seemed
significant, as it was expected that the International Trade Organization (ITO) would effectively sup-
plant the General Agreement within a short period of time (Davey 1993, p. 4), and its charter did
have specific provisions dealing with export subsidies and with trade in agricultural commodities. The
General Agreement also treated imports of agricultural products like other imports, with an excep-
tion applying to the GATT’s ban on quantitative restrictions in Article XI (GATT, WTO 1947). This al-
 lows the use of such restrictions on imports of an agricultural product in conjunction with domestic
production or marketing controls on that product. This exception had been proposed by the US and
fit with the then existing US farm programs (Gardner/Brown 1969, p. 25).

However, soon thereafter the US changed its farm policy and later insisted on a waiver of its GATT
obligations to allow it to impose quotas that would otherwise violate Article XI general prohibition on
quantitative restrictions. This meant that the world’s largest single market for agricultural products
was in part protected from import competition (Davey 1993, p. 5).

Similar policies prevailed in Europe, where the creation of the European Community (EC) in 1958 had
an even more deleterious effect on GATT control of trade in agricultural products. In implementing
its Common Agricultural Policy (CAP), the EC renegotiated its GATT tariff commitments so as to
eliminate tariff bindings made in GATT by its member states on many agricultural products. Thus, the
EC could charge any amount that it wished on imports of those products without violating GATT
rules. These policies ensured that foreign agricultural products would not be able to compete with EC
products on price terms as long as EC producers could satisfy domestic demand. Complaints against
this variable levy system were never raised against the CAP in formal dispute settlement proceeding in GATT, probably because such a formal complaint would have challenged Europe’s membership in the GATT.

The upshot of all this was that the GATT rules for agricultural imports were not enforced. Furthermore, the GATT rules applicable to export subsidies, namely Article 16 which allowed export subsidies provided that this would not lead to more than a fair share in the world market (Koning 2007, p. 7), were interpreted so as to make them largely meaningless (Davey 1993, p. 7).

As a result, an orderly organisation of agricultural world markets failed to evolve, leading to increasing protectionism both in the US and in Europe. The EC in particular adopted a system of protection with almost no production controls. As mentioned before, this led to an increasing self-sufficiency rate of the EU and in the case of oversupply products (such as dairy and sugar products) to increasing government costs. In essence, the EC failed to introduce effective production control programs and protectionism in the agricultural sector kept rising. The farm policies of the US and Europe harmed agricultural exporting countries like Australia and Canada. This eventually led to the establishment of the Cairns Group in 1986, which pushed for further liberalization in agricultural trade.

To take Australia, the leader of the Cairns Group as an example, its dependence on agricultural exports means that it cannot compete in the export markets of industrial products. The benefit of the most-favoured-nation principle (MFN) to Australia has been limited like that of developing nations. However, the current WTO legal framework discriminate against agricultural trade in that it is yet to be placed on the same footing as trade in manufactured goods (Islam 2002, p. 777). Due to the prevailing high levels of protectionism in agriculture, nations with a comparative advantage in producing agricultural goods, such as Australia, are disadvantaged in the current WTO framework. The URAA was the first step to bring agriculture on the agenda of the WTO. The following section takes a closer look at the Uruguay Agreement on Agriculture.

### 3 The Agreement on Agriculture

#### 3.1 General objectives of the agreement

The Agreement on Agriculture was one of the most controversial topics in the Uruguay Round. As mentioned before, the agricultural sector was largely excluded from the GATT due to economic and political circumstances, especially in Europe, Japan and the US. It is generally accepted that developing countries, with their high levels of low-skilled labour would benefit most from greater liberalisa-
tion in the agricultural sector. Compared to their industrialised counterparts, the sector plays a much more significant role in their economies (Hunter 2003, p. 307).

However, protectionist policies in developed countries in the second half of the last century have resulted in the flooding of world markets with artificially cheap agricultural products leading to diminishing growth in developing countries which would otherwise enjoy a comparative advantage in agricultural world markets (Hunter 2003, p. 307). As the current framework of trade regulation in agriculture has not reduced protectionist policies in the market substantially, the treatment of agriculture is now one of the key issues of concern to developing countries in the current Doha Round.

The Agreement on Agriculture aimed to “establish a fair and market-oriented agricultural trading system” by “correcting and preventing restrictions and distortions in world agricultural markets” (AoA, WTO 1994). It is committed to “achieving specific binding commitments in each of the following areas: market access; domestic support; export competition; and to reaching an agreement on sanitary and phytosanitary issues” (AoA, WTO 1994).

Despite the objectives to establish a market-oriented agricultural trading system, the sector remains the most highly protected, subsidized and distorted sector under the WTO (Islam 2002, p. 783). To understand the framework of the agreement as well as the difficulties in liberalizing world agricultural markets, the following sections examine the core issues of the Agreement.

3.2 Market access

Market access is a major issue in multilateral trade negotiations on agriculture. Countries with a comparative advantage in agriculture, namely the Cairns Group and some developing countries, find it unacceptable that trade in manufacturing goods has been liberalized while many developed countries have maintained considerable restrictions on imports of agricultural and food products (Bureau/Salvatici 2004, p. 207).

Under the URAA, existing non-tariff border measures are to be converted into tariffs and, unless specifically permitted, members are generally prohibited from introducing new non-tariff barriers (AoA, Article 4.2, WTO 1994). That measure gives transparency to border protection that was previously missing in the agricultural sector (Josling 1993). Furthermore, the resulting tariff levels are bound in the member schedules and are to be reduced by at least 36% on an unweighted basis by each member, with a minimum 15% reduction on each product category, to be implemented over six years (Trebilcock/Howse 2005, p. 339). However, although some guidelines for the determination of base
period tariff equivalents of former non-tariff barriers are prescribed by the agreement, these are rather loose (Ingersent et al. 1995, p. 710). The guidelines clearly leave scope for considerable flexibility in their interpretation and application (AoA, Annex 5, WTO 1994). The calculation of base period tariff equivalents and final bound tariffs appears to have been left entirely to national governments, with no provision for independent monitoring of adherence to the guidelines (Ingersent et al. 1995, p. 710).

Additionally, the URAA required the creation of minimum access import opportunities where imports had been less than five percent of domestic consumption during the 1986 to 1988 base period. For similar situations where imports were more than five percent of consumption, countries had to maintain existing access opportunities (Green 2000, p. 821). Existing non-tariff border measures must be reduced to the extent required to allow foreign producers a minimum of 3% market access in each product category, rising to 5% at the end of the six-year phase-in period.

### 3.3 Domestic support

Another controversial issue in the negotiations was the reduction of domestic support measures. The agreement requires the categorization, measurement and limitation of domestic support (Green 2000, p. 821). The member countries committed to reduce domestic support in terms of the AMS (Aggregate Measure of Support) by 20 percent over a six-year period. The calculation of the AMS works as follows.

“For the purpose of Current Total AMS calculations, price support is generally measured by multiplying the gap between the applied administered price and a specified fixed external reference price (‘world market price’) by the quantity of production eligible to receive the administered price.” (WTO 2007)

Policies are subject to different levels of discipline according to their degree of distortion (Landau 2001, p. 914):

- “Green box” measures (AoA, Annex 2, WTO 1994) are assumed to have no or minimally trade distorting effects and are therefore exempted from reductions.
- “Blue box” measures (AoA, Article 6, WTO 1994) are linked to production factors, but not to price and volume of output and are partly exempted from reductions (under “production-limiting programmes”).
- “Amber box” measures have an impact on trade and are thus subject to a reduction by 20 percent over a six-year period based both on price and the volume of output.
As mentioned before, the members have to quantify the value of their domestic support measures in the base period (1986-88) based on the calculation of their AMS, albeit measures that fall within Article 6 and Annex 2 are excluded from reductions.

To take a closer look to the “blue box” policies, Article 6.2 (AoA, WTO 1994) refers to exceptions for developing countries, especially in terms of agricultural and rural development. Furthermore, Article 6.4 exempts “support that does not exceed 5 percent of that member’s total value of production of a basic agricultural product [or] of the value of that member’s total agricultural production” (de minimis percentage amounts to 10 percent for developing countries). Even more importantly, Article 6.5 excludes “direct payments under production-limiting programmes” that are “based on fixed area and yields; or ... are made on 85 per cent or less of the base level of production; or livestock payments ... made on a fixed number of head”. These exemptions are excluded from the calculation of a members total AMS.

“Green box” measures in Annex 2 of the Agreement are also excluded from reductions. These measures have the “fundamental requirement that they have no, or at most minimal trade-distorting effects or effects on production” and the support “shall be provided through a publicly-funded government programme not involving transfers from consumers” (AoA, Annex 2, WTO 1994). Such programmes under the “green box” include, amongst others, general services, such as research and training services, domestic food aid, and direct payments to producers. However, such programmes are not restricted to the list included in Article 2 (Annex 2), given that they meet the general criteria in Article 1 in Annex 2, as mentioned above. This extended list of exemptions led to criticism of the agreement, especially among members of the Cairns Group.

Additionally, Annex 2 subsidies (“green box”) are exempted from countervailing duties or other subsidy action under the GATT and the Agreement on Subsidies and Countervailing Measures through the so-called “peace clause” in Article 13 of the Agreement (Hunter 2003, p. 309). On the contrary, Article 6 domestic support measures may be subject to countervailing measures where there is “a determination of injury or threat thereof” (AoA, WTO 1994). This peace clause was interpreted, especially by the EU, as signalling the granting of outside to legitimacy on the reformed CAP for the first time (Tangermann 1994, p. 16). The peace clause expired at the end of 2003.

3.4 Export subsidies

The third pillar upon which agricultural trade liberalization was built in the URRAA concerns export subsidies. Article 9.1 sets out the categories of subsidies that are subject to reduction commitments
The Agreement on Agriculture (AoA, WTO 1994). Agriculture still receives exceptional treatment as existing export subsidies are still permitted (Ingersent et al. 1995, p. 709), albeit capped at base period (1986-1990) levels in expenditure and volume terms. Members commit to reducing the base period quantity of subsidised products by 21 percent and the total value of these subsidies by 36 percent over the six-year implementation period (Hunter 2003, p. 309), in each of 22 product categories. The Agreement also includes a prohibition of export subsidies on commodities that were not subsidised in the base period.

As mentioned above, all types of export subsidy covered by the reduction commitments are listed and defined. However, export credits are omitted (Ingersent et al. 1995, p. 713). As the OECD negotiations failed to resolve this issue, export credits are now on the agenda of the Doha Round (Abbott/Young 2004, p. 253).

4 Deficiencies of the Agreement

4.1 Market access

Without question, the tariffication of existing non-tariff barriers was an important step to make liberalization in agricultural trade more transparent and to facilitate future negotiations in this area. However, although some guidelines for the determination of base period tariff equivalents of former non-tariff barriers are prescribed by the agreement (AoA, Annex 5, WTO 1994), these are rather loose (Ingersent et al. 1995, p. 710). This fact led to very high base period tariffs shown in national schedules of reduction commitments. Thus, the relatively low average reduction of 36 percent can have little impact on market access. Furthermore, the amounts of required reductions in specific tariffs are based on the ‘fixed external reference price’ (FERP) principle, or in other words, upon average world prices prevailing in the base period (1986-1988), leading to lower ad valorem impact of reduced tariffs when world prices rise (Ingersent et al. 1995, p. 710).

The inclusion of special safeguards to cushion the effects of unusually large surges in the volume of imports or reductions of import prices is another important aspect. In these cases, normal tariffs are permitted to be supplemented by additional duties as and when actual import volumes rise above, or import prices fall below, ‘triggers” based upon actual base period levels (Article 5). This provision could seriously interfere with the realisation of the main goal of the agreement, namely the systematic reduction of tariffs (Ingersent et al. 1995, p. 712).

With regard to developing countries, the process of tariffication has reinforced existing inequalities between rich and poor economies. Unlike developed countries, few developing countries used non-
tariff barriers to restrict market access. As a result, bound tariff levels in members’ schedules are substantially higher for developed countries (Hunter 2003, p. 311).

Generally, the agreement itself did not lead to much liberalization of agricultural trade, but it limits the type of border instruments countries can use. Thus, market access issues are more easily negotiable in the current negotiations (Gorter et al. 2004 B, p. 63).

4.2 Domestic support

With regard to domestic support measures, there are several crucial aspects. Firstly, the 20 percent reduction is global and not commodity specific. Thus, it is possible to cut the support of individual commodities by more or less than 20 percent. Secondly, as mentioned before in the context of market access, the required reductions in domestic support are based upon the fixed external reference price (FERP). Finally, there are numerous exemptions included in “green box” and “blue box” measures that are not subject to any reduction commitments (Ingersent et al. 1995, p. 708).

Remarkably, most of the signaturing countries do not use their full allowed “available” AMS. In 1999, for instance, the US used 85, the EU 69 and Japan only 18 percent of its allowed AMS (Josling 2004, p. 161). Apparently, the agreement has not resulted in lower domestic support. Several countries, including the US and the EU have increased their use of green or blue box area payments (Landau 2001, p. 915). Furthermore, much of the decline in the AMS had already occurred by the mid-1990s and implementing the agricultural reforms agreed to in the Uruguay Round involved only very modest liberalisation by 2000 (Anderson 2001, p. 103).

As mentioned before, the value of non-exempt domestic support that was provided in the base period is bound in each member’s schedule and subject to reduction commitments. If a member’s schedule does not list a Total AMS commitment, that member is prohibited from providing non-green box support in excess of the ‘de minimis’ level. This leads to increasing discrepancies between developing and industrial countries, because farmers in developed countries continue receiving high levels of trade-distorting support, while countries that provide no or much lower levels of support in the base period (such as most of the developing countries) are prohibited from providing support above the ‘de minimis’ level (Hunter 2003, p. 312).

4.3 Export subsidies

Export subsidies are still permitted under the Agreement, which was widely criticised due to their trade-distorting impacts. While all covered types of export subsidies are listed in the Agreement (Ar-
Article 9), export credits are omitted (Ingersent et al. 1995, p. 713). WTO members were instructed to work toward disciplines for export credits in the OECD. As the OECD negotiations failed to resolve this issue, export credits are on the agenda of the Doha Round agricultural negotiations on export competition (Abbott/Young 2004, p. 253). Moreover, as long as aggregate expenditure and volume limits are respected there is no restriction on the magnitude of unit export subsidies.

In general, reduction commitments in the area of export subsidies were less effective than originally thought, as the base period from which reductions were agreed was unrepresentative, since it was a time of low world prices and high levels of export subsidies (Gorter et al. 2004, p. 44).

4.4 Special & Differential Treatment for Developing Countries

Some clauses of the agreement recognise that developing country members need special and differential treatment as they are disadvantaged in the multilateral trade regime due to their limited institutional, technical and financial capacity (Hunter 2003, p. 310). In essence, this special and differential treatment includes the following points (AoA, WTO 1994).

- Article 15(2) permits developing countries to implement reduction commitments over a 10 year period and exempts least developed countries from all reduction commitments.
- Tariffs are only reduced by 24 percent across the board, with a minimum 10 percent reduction on each product.
- The value of export subsidies must be reduced by 24 percent (instead of 36) and the volume of exports subsidies must have been reduced by 14 percent (instead of 21).
- Regarding domestic support, the AMS of developing countries must fall by 13 percent over 10 years (instead of 20 percent). Moreover, Article 6 increases the permissible ’de minimis’ level of support for developing countries to 10 percent.
- Article 9(4) permits the unrestricted use by developing countries of export subsidies that reduce the cost of marketing agricultural exports.

Despite this and others exemptions for developing countries (such as those mentioned in Article 6 and Annex 2) the URAA remains biased towards the interest of developed countries and fails to address the broader obstacles faced by developing countries to their participation within the multilateral trading system (Hunter 2003, p. 310).

These shortcomings, especially for developing countries, were one of the main factors that led to the failure of the Seattle Conference in 1999. Indeed, countries with a comparative advantage in agricul-
tural production, such as Australia, New Zealand and many developing countries, claimed that the agreement falls short in liberalizing trade in agriculture. Consequently, agriculture is one of the controversial topics in the current Doha Round. The agenda of the current negotiations is highlighted in the following section.

5 Developments in the current Doha Round

5.1 Current position and opposing groups in the new negotiations

As argued in previous sections, the Agreement on Agriculture failed to bring significant liberalization in this sector. According to Messerlin (2003, p. 1), there has been no liberalization at all since 1995. On the contrary, the greatest achievement of the URAA was to bring agricultural policies under multilateral discipline, leading to facilitated negotiations in the next negotiation round. However, as seen at the Ministerial Conference in Seattle in 1999 and at the negotiation rounds since then, further liberalization in agriculture still remains a very controversial topic, although reducing barriers in the currently highly protected agricultural sector would bring substantial welfare gains for the world economy.

"From the total estimated potential gains of $287 billion per year from full global trade reform, our results suggest that 63% would be obtainable from the abolition of tariffs, domestic support, and export subsidies in the agricultural sector. This result is striking given the relatively small share (less than 7%) of agriculture in global production and trade, but not surprising when it is recognized that world agricultural trade is extremely distorted in both developed and developing countries." (Martin/Anderson 2006, p. 1211)

In the current Doha Round, a number of food importing countries with high agricultural protection (such as Japan, Norway and Switzerland) emphasize the multifunctional characteristics of agriculture, including national food security, environment, landscapes and rural societies (Koning 2007, p. 9). Their position is supported by the EU, where the agricultural sector is still highly protected.

This block is opposed by the Cairns Group (Australia, New Zealand and Canada amongst others) claiming that the high level of protection relative to the manufacturing sector is unfair competition. Given their comparative advantage in agriculture, farmers in these countries suffer from low world market prices (Koning 2007, p. 9). The Cairns Group is partly supported by the US. However, the US wants to continue to support its farmers by direct payments and cheap export credits.
5.2 What to include in the Doha Round

The “core issues” for the Doha Round are the same as in the Uruguay Round, namely market access, domestic support and export competition (Tangermann/Josling 2001, p. 68). Additionally, special and differential treatment for developing countries as well as non-trade concerns, often referred to as multifunctionality of the agricultural sector, play a major role in the negotiations.

Concerning the core issues, tariff reductions under the market access pillar seem to be overwhelming important, accounting for 93% of the potential global gains from agricultural reform, while domestic and export subsidies are almost trivial by comparison, contributing only 5% and 2% of the global gains (Martin/Anderson 2006, p. 1212). Thus, another round of tariff reductions is urgently needed, to squeeze the ‘water’ out of current bindings (Josling/Tangermann 1999, p. 378). Anderson et al. (2001, p. 202) mention three options for reducing bound tariffs. These possibilities are

- an across-the-board tariff cut, which would still leave some very high tariffs,
- the “Swiss Formula” approach, whereby the rate of reduction for each item is higher the greater the item’s tariff level, leading to a reduction in the dispersion of tariff rates, and
- the “zero-for-zero” approach, whereby, for selected products, tariffs are eliminated altogether.

Another urgent area is the future of the tariff rate quotas (TRQ). Originally created to open up previously closed markets, they led to governmental interference with agricultural trade through licensing procedures and provided a playground for rent-seeking traders (Josling/Tangermann 2001, p. 379). There are many possibilities to improve the situation in this regard. For TRQs that result from minimum access provisions, an increase of quota volumes could be necessary. Furthermore, it could be agreed that the lower within-quota tariffs must not exceed a given percentage of the base tariffs. According to Anderson et al. (2001), expanding the TRQ could be potentially much more liberalizing in the medium term than reducing the very high above-quota tariffs.

Concerning reduction commitments in domestic support, much tighter definitions of the green box may be necessary to make a further reduction of the AMS effective. Moreover, further decoupling of farm income support from production, such as in America’s FAIR Act in 1996 (Anderson et al. 2001), could enable the elimination of the “blue box”.

On export subsidies, the objective seems to negotiate a complete elimination in the Doha Round. Furthermore, agricultural exports are often assisted by export credits and credit guarantees, which
are forms of indirect export subsidisation (Josling/Tangermann 1999, p. 381). This fact must be picked up in the Doha Round to avoid this form of circumventing established rules in this area.

### 5.3 Status quo of current negotiations

The Doha Declaration (WTO 2001) committed to negotiate “substantial improvements in market access; reductions of, with a view of phasing out, all forms of export subsidies; and substantial reductions in trade-distorting domestic support”. The following section is based on the agreement at the December 2005 Trade Ministerial Meeting in Hong Kong, whereby the shape of a potential Doha agreement can be discerned.

The document provides for protection to be cut from the existing bound tariff and subsidy rates, which is important because of the large gaps (binding overhang) between applied rates and the bindings (commitments) in many WTO countries (Martin/Anderson 2006, p. 1213). The highest tariffs and levels of domestic support were to be cut at higher rates under tiered formulas. Concerning export subsidies, there was an agreement on abolition by 2013. However, in regard to domestic support and market access measures, there remained considerable disagreement between WTO members about the depth of the proposed cuts, as shown in Table 1.

<table>
<thead>
<tr>
<th>Proposal</th>
<th>Top Tariff Cut (%)</th>
<th>Sensitive Products (%)</th>
<th>EU/US AMS Cut (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. proposal</td>
<td>90</td>
<td>1</td>
<td>83/60</td>
</tr>
<tr>
<td>EU proposal</td>
<td>60</td>
<td>8</td>
<td>70/60</td>
</tr>
<tr>
<td>G-20 proposal</td>
<td>75</td>
<td></td>
<td>80/70</td>
</tr>
</tbody>
</table>

*Table 1: Proposed cuts in protection (Martin/Anderson 2006, p. 1213)*

To take a closer look at the pillar of domestic support, the proposal emphasizes the special and differential treatment for developing countries. Furthermore, there will be a strong element of harmonization in the reductions in domestic support made by industrial countries. The Final Bound Total AMS and permitted *de minimis* levels will be subject to substantial reductions. With the tiered formula, members having higher levels of trade-distorting domestic support need to make greater overall reductions in order to achieve a harmonization result (Das 2006, p. 280). Concerning certain criteria to ensure that “blue box” payments are less trade distorting than AMS measures have been left open for negotiations. The same applies for the “green box”, where further negotiations will take place.
A similar tiered formula system is proposed for tariff cuts (Das 2006, p. 281), where progressivity in tariff reductions will be achieved through deeper cuts in higher tariffs with flexibilities for sensitive products. Substantial overall tariff reductions will be made from bound rates.

However, differing views of multifunctionality continue to be an obstacle in WTO negotiations. Such non-market benefits to agricultural production include environmental protection, food security, outdoor recreational activities as well as cultural heritage and rural traditions (Paarlberg et al. 2002, p. 323). The Doha Round was supposed to be finished in 2005. However, the differing positions of the EU (and other protectionist countries) on the one side and the Cairns Group on the other side made an agreement impossible. As the negotiations are still in progress, the final outcome is still insecure.

6 Conclusions

Under the current framework of the WTO, the agricultural sector still receives exceptional treatment in comparison to other goods. The GATT 1947 failed to establish an orderly organisation of agricultural world markets, leading to increasing protectionism both in the US and in Europe. Despite the objectives of the URAA to establish a market-oriented agricultural trading system, the sector still remains the most highly protected, subsidized and distorted sector under the WTO. The greatest achievement of the URAA was to bring agriculture under multilateral discipline. In particular, the tariffication of non-tariff barriers and the classification of domestic support measures in “boxes” should facilitate future negotiations within the WTO. However, despite the special and differential treatment clauses for developing countries, the URAA remains biased towards the interest of developed countries and has failed to bring substantial reductions in trade barriers.

The current Doha Round deals with the same three main pillars, namely market access, domestic support and export subsidies. Despite the enormous potential for welfare gains through liberalisation the issue remains highly controversial. Opponents of further liberalisation base their arguments on the concept of multifunctionality and non-market benefits of agriculture. On the contrary, the Cairns group and other advocates of liberalisation argue that the current WTO legal framework discriminates against agricultural trade, leading to disadvantages for nations with a comparative advantage in producing agricultural products. The Doha Round, originally scheduled to finish in 2005, is still in progress. It is likely that the new agreement will bring further reductions in trade barriers, albeit the extent of reductions is difficult to predict. A fairer treatment of developing countries seems essential, not only for agriculture, but for world development in general.
References


