



Agriculture is Special: Conclusions Drawn from the Death Throes of the Doha Round for a Development-friendly Agricultural Trade Policy

Summary

The Doha Round of World Trade Organization (WTO) talks is in its death throes. It could provide urgently needed stimuli for a rule-based enhancement of international trade, but there is currently no consensus on some of the main sticking-points. Probably the most important of these is the liberalisation of the agricultural sector. Whatever follows Doha, no significant progress will be made in the multilateral negotiations unless adequate account is taken of the circumstances and needs of both the developing and the industrialised countries in agricultural trade issues. The agricultural sector has many peculiarities, but where liberalisation is concerned, the conclusions for rich and poor countries differ. The following six conclusions can be drawn from the Doha Round talks:

- The discussions on the agricultural sector should continue within the WTO framework. In only very few instances do the bilateral trade agreements that are becoming increasingly numerous as the Doha Round goes into decline offer developing countries with an agricultural focus as strong a bargaining position as they have in the WTO framework; in particular, they are incapable of curbing subsidies in the industrialised countries.
 - Exempting developing countries from the general liberalisation of the agricultural sector is justified. This sector is often crucial to poverty reduction and food security, being the most important source of income for small farmers, who account for by far the largest proportion of the poor and hungry. Agro-based industrialisation and food economy also form
- the core component of the development of many poor countries, which is often impossible unless they receive special support and protection, especially at a time of distorted world markets.
- On the other hand, developing countries must realise that protection of and support for their agricultural sectors should be regulated in a transparent and contestable way – if only to promote South-South trade and the stability of world food markets.
 - In industrialised countries the food supply level is so high that they do not need to ensure food security by promoting the availability of food or pursuing price policies such that production and trade are distorted. There are enough alternative approaches to dealing with such problems as rising world market prices, foremost among them being the strengthening of social protection systems.
 - Special consideration of the multifunctionality of agriculture in agricultural and environmental policies is legitimate, but should be achieved with instruments (such as requiring or specifically promoting the preservation of cultural landscapes, biodiversity or water conservation) that do not, as far as possible, generate any hidden production or trade distortions, unlike both conventional price subsidies and the currently widespread direct area payments, for example.
 - Food export restrictions should be limited to protecting importing countries and smoothing out price fluctuations.

Agriculture in the Doha Round

The WTO's Doha Round could provide urgently needed stimuli for a rule-based enhancement of international trade, with major advantages for developing countries. Yet the Doha Round lies in its death throes, with hardly anyone expecting a successful outcome, and even talks on a small package of agreements in selected areas have meanwhile broken down. There is currently no consensus on such vital sticking-points as the liberalisation of the agricultural sector. In the following it is argued that, unless a special solution acceptable to developing countries is found for the agricultural sector, there will be neither a conclusion of the Doha Round nor other major multilateral trade agreements. The principles that should be taken into account in agreements with developing countries are then outlined.

Although market access for industrial goods has been the most serious stumbling-block for the Doha Round in recent months, the agricultural sector as a whole is at least as crucial. For a long time it was excluded from the most important forum for the regulation of world trade, the General Agreement on Tariffs and Trade (GATT). The 1994 Agreement on Agriculture (see Box 1) was the first serious attempt to regulate agriculture and to reduce the support it receives in the industrialised countries, which harms the developing countries' agricultural sectors by influencing world market prices and making exports cheaper.

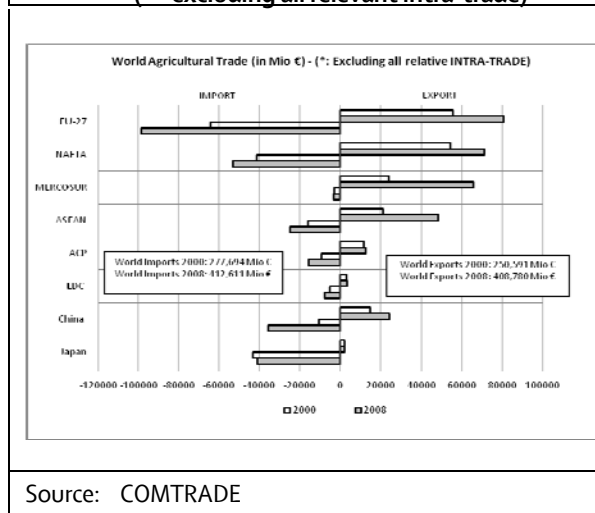
Box 1: The WTO Agreement on Agriculture

The 1994 WTO Agreement on Agriculture required an upper limit (bound rates) on and a gradual lowering of tariff rates. Export subsidies were capped. Domestic subsidies were categorised as trade-distorting (*amber box*) or minimally or non-trade-distorting subsidies (*green box*); the trade-distorting subsidies had to be linked to production-limiting conditions (*blue box*) or had to be limited, too. However, the agricultural sector was, on the whole, less strictly regulated than industrial products. A *special safeguard mechanism* (SSM) gives protection against the consequences of excessive liberalisation, but only if tariff rates are derived by special calculating rules, which have almost exclusively been used by industrialised countries. To meet the particular needs of the developing countries, provision is made for a number of special and differential treatments (SDTs).

The 1994 Agreement on Agriculture set the stage for world-wide reforms of agricultural policies, which also led to significant changes in international agricultural trade (see Figure 1). Trading partners with very extensive agricultural support measures, such as the European Union, lost market shares, while many developing countries were able to gain ground. However, even in 1994 it was clear that the Agreement on Agriculture would not be enough to ensure agricultural trade rules that were sufficiently fair. It was therefore agreed in the WTO, founded in 1995, that negotiations on the agricultural sector should continue. In November 2001 they were extended to include some 20 other topics and became known as the Doha Round, all the various topics being linked since final agreement can be reached only on all issues together (*single undertaking*). The

agricultural negotiations have since proved to be one of the most difficult aspects of the Doha Round, as was made particularly clear by the ministerial meeting held in Cancún in 2003. In 2007 and 2008 further attempts were made to bring the Doha Round to a conclusion, but they too failed, not least because of differences in the agricultural sector.

Figure 1: International agricultural trade in € millions
(* = excluding all relevant intra-trade)



Source: COMTRADE

The Doha Round would lead to further liberalisation of the agricultural sector. Export subsidies would be completely banned, while trade-distorting internal support measures outside the green box and tariff barriers to trade would be steadily reduced. The trade barriers applicable to a number of so-called *sensitive products* would not have to fall so sharply, but in return import quotas would have to be offered at a lower tariff. The cuts would be less severe for developing countries than for industrialised countries. In the developing countries' case there would also be so-called *special products* of importance to food security to which liberalisation would not or would hardly apply. The Least Developed Countries (LDCs) would not have to make any concessions. These arrangements do not, however, seem to suffice for an agreement to be reached. A fundamental bone of contention is market access, which the USA in particular, but such other agricultural exporters as Brazil too, want to gain for themselves. The definition, number and scale of arrangements for *special products* and SSM for developing countries play a key role in this context. An added difficulty is that countries with preferential access to heavily protected markets, if this protection is reduced, will be exposed to increased competitive pressure and earn less from exports of, say, tropical products. The conflicting interests in the agricultural sector are thus far more complex than the simplistic term "North-South confrontation" reveals. A new sticking-point is export restrictions, on which attention did not begin to focus until the food price crisis of 2007/08. Export restrictions had resulted in a further significant increase in already rising world market prices. The growth of controversial investment in large land purchases ("land grabbing") by emerging economies dependent on imports is largely due to the experience that international food markets cannot be entirely relied on. Whether and how export restrictions should be further negotiated in or outside the framework of the WTO and Doha Round are extremely contentious questions.

Agriculture's special role

To appreciate the special role played by the agricultural sector in such agricultural agreements as the Doha Round and by the minimum requirements for a developing-country-friendly agreement, the particular importance of agriculture for various stages in the development of economies needs to be understood. After all, the theory of improving welfare through trade liberalisation and specialisation comes up against limiting factors in the agricultural sector, particularly with regard to (1) food security and (2) the multifunctionality of agriculture. However, circumstances in developing and industrialised countries differ:

1. Food security: *In developing countries* agriculture is the most important source of food security, not only through subsistence production but also as a source of income for small farmers, who account for the vast majority of the poor and hungry. Even small farmers buy in a great deal of their food, and agricultural prices have a major influence on their food spending. The part of their food security that depends on the market is therefore at significant risk from agricultural price fluctuations in both directions: when prices are low, on the income side, and when prices are high, on the expenditure side. Government measures taken to stabilise agricultural prices thus have a huge bearing on the food security of the poor. At became clear no later than the food crisis in 2008 that being heavily dependent on world agricultural markets raises problems for poor countries, especially if their export revenues and/or foreign exchange reserves are insufficient or insecure, their food reserves are limited, staple foods account for a large proportion of average household expenditure and the state has few options for providing social protection. *In industrialised countries*, on the other hand, there is little to be said for the argument that agriculture needs to be supported to ensure food security: very few households now depend on agriculture for a living, supply is at a very high level, agricultural raw materials account for only a very small proportion of expenditure even of poorer households, and government transfer systems are able to cushion fluctuations in purchasing power by raising agricultural prices.

2. Multifunctionality of agriculture: This heading covers the many by-products and side-effects that occur during agricultural production in the form of external goods and costs: the shaping of the landscape, interactions with (agro)biodiversity, effects on the water balance and the quality of water, soil (erosion), animal health and welfare. Agriculture also plays a particularly important role in the greenhouse gas balance and thus in climate change. *In industrialised countries* the multifunctionality of agriculture is often cited as a factor that justifies subsidies and protection; but what is often left unsaid in this context is that subsidised agriculture has seriously negative externalities, such as increased discharges of nitrogen and phosphates into rivers and lakes and the reduction of biodiversity. *In developing countries* agriculture is similarly multifunctional, but their awareness of this fact is not yet strong and is rarely cited as an argument for agricultural support measures. On the whole, multifunctionality should be taken into account with the aid of instruments that trigger as few distortions of production or trade as possible.

In view of the abovementioned characteristics, special arrangements are often needed in the agricultural sector.

A minimum level of supply is generally a sensible objective, but not at any price, not for all countries and products and not to the extent that international trade is overly affected: on the one hand, advantage should continue to be taken of comparative cost advantages, if only to enable small farmers to earn incomes in what are usually particularly lucrative export markets; on the other hand, trade is becoming increasingly vital for the stabilisation of national and regional production fluctuations, especially at times of climate change.

Regulation of agriculture in the WTO

Despite agriculture's special role, agricultural trade should not be removed from the WTO, as some critics of globalisation insist with an eye, for example, to the concept of food sovereignty: it should be regulated within the WTO framework, and this primarily for three reasons:

1. Regulation of agriculture in the WTO will reduce the risk of richer countries giving their agricultural sectors massive support. Studies reveal that, by reducing world market prices and by distorting trade, external protection accounts for most of the harmful effects that agricultural policies have on third parties (countries or foreign societal and occupational groups), followed by internal subsidies. Experience shows that the agricultural lobby in rich countries is so strong that such regulating factors as the burden of high agricultural prices on consumers is not enough to curb distortions that are to the disadvantage of third parties. In the past it has been primarily the industrialised countries and emerging economies that have followed this logic; in the future they will be joined by advanced developing countries.

2. The WTO reduces the real asymmetries in the agricultural policy repertoire between different types of country: Although the current arrangements give developing countries rather more leeway for agricultural policy interventions than industrialised countries (see Box 1), it is only richer countries that can afford many of these options. But they have other means of supporting their poor and their small farmers that trigger less adverse external effects. Nor can poor countries do much with the leeway they have, firstly, because they do not have the funds for subsidies and, secondly, because even external protection, though apparently costing nothing, is very costly: a policy of keeping the prices of agricultural products high in poor countries means, for example, that a significant proportion of the poor in particular are forced to spend far more on food, which is hardly acceptable socially or politically. This explains why even poor countries that have very high bound tariff rates in the WTO often fail to take advantage of them. In general, then, asymmetrical agricultural policy leeway at a low support level is better for developing countries than such leeway at a high level.

3. Regulation in the WTO encourages fair world agricultural trade, which will play an increasingly important role in ensuring future food security. In the foreseeable future many developing countries will not, or will no longer, be able structurally to ensure adequate food production for themselves, even if agricultural promotion is increased (in the Middle East, for example), and in many other countries climate change will cause more (temporary) shortages, which can be safely offset only if surpluses are produced in as many regions of the world as possible.

“Development-promoting” agricultural trade rules

The wide variety of situations in developing countries in terms of agricultural capacity, food situation and availability of foreign exchange makes it difficult to recommend the “right” way for the WTO to regulate agriculture from a development point of view. For the Doha Round, but for other, future trade agreements too, four generally valid recommendations can, however, be put forward against the background of agriculture’s roles as described above:

Asymmetries in the regulation of agriculture designed to ensure food security in developing countries: For developing countries the agricultural sector is vital for food security, given the large number of small farmers. As poor countries have less financial, macroeconomic and political leeway than rich countries to support and protect their agricultural sectors, asymmetrical agricultural policy leeway at a lower support level is better for developing countries than such leeway at a high level. As even at a low level protective mechanisms are more important and more realistic than subsidisation options, industrialised countries must realise that *special products* and SSMs are necessary for developing countries and trust that many can and will use them only on a limited scale.

Transparency of asymmetries: Developing countries should realise that transparent, contestable regulation of exemptions is important and also in their own interest (South-South trade, changing positions in agricultural trade and promoting the stability of world agricultural markets).

Strict limits to support for and protection of agricultural sectors in industrialised countries: In the case of industrialised countries, achieving food security by supporting agriculture is acceptable to only a very limited degree: the level of supply is so high and farm-gate prices are so low relative

to retail food prices that food insecurity is almost always due to distribution problems and, not due to availability or pricing problems, even when world market prices soar. Protecting and promoting the multifunctionality of agriculture is legitimate, but the measures chosen should not entail any hidden subsidies or have any production-distorting effects, as is still often the case today with the *amber box* and direct area payments in the *green box*.

Post-Doha export restriction rules: In principle, it would be right to prohibit or curb food export restrictions to protecting importing countries and to smoothing out price fluctuations. At the same time it is important for governments to realise that, by imposing export restrictions, they impede their own farmers and, therefore, the development of their agricultural sectors and so endanger food security.

Outlook

Given the peculiarities of the agricultural sector, there is a need for regulation both in and beyond trade issues and for cooperation outside the WTO. Greater attention must be paid to the agricultural sector not only in the rapidly increasing number of bilateral trade agreements but also in climate negotiations, knowledge and technology transfer, environmental conventions and regional food security strategies. All these policy areas require complex overall coordination. For developing countries food security has absolute priority in this context. The newly activated Committee on World Food Security (CFS) may therefore have a crucial role to play. Finally, it is important that conditions imposed by such donors as the IMF and World Bank no longer interfere in the fine-tuning of the agricultural and trade policies pursued by poor countries or preclude the protective and support measures which, according to the WTO, countries are fully entitled to take.

Literature

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