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The WTO Agricultural Negotiations: Progress and Prospects

By Tim Josling

In the wee hours of August 1, 2004, the assembled trade negotiators in Geneva agreed to a framework for the continuation of the Doha Round of trade negotiations, the first under the auspices of the World Trade Organization (WTO).[1] Although it is somewhat behind the schedule envisaged when the talks were launched in November 2001, the agreement has at least kept the Doha Round alive and at best renewed hopes of a successful outcome.

A key part of the Framework Agreement was an accord on the way forward for the agricultural talks.[2] The agricultural component of the Doha Round has been a long time in the making. Talks started five years ago, in March 2000, as mandated by the Uruguay Round Agreement on Agriculture. Completing the negotiations has proved difficult. The world of agricultural trade negotiations is significantly more complex now that in the late 1980s, when the Uruguay Round was at a similar stage. Many more countries are taking an active part in the talks, both adding to the constraints and contributing new demands. Moreover, the impact of the stronger legal provisions of the WTO, relative to its predecessor the General Agreement on Tariffs and Trade (GATT), adds additional burdens on those negotiating new rules and reduction schedules for agricultural trade. This article discusses the main issues that are under negotiation in the agricultural talks and the prospects for success.

Although the framework, discussed below, was a necessary step in the agricultural talks, it did not signal the start of the final phase of the negotiations. The next step is to move to an agreement on how, by how much, and when cuts in tariffs and subsidies should be made (known as the *modalities*).[3] The essential disagreements among countries still remain, but they have been channeled into decisions on specific parameters, such as the depth of tariff cuts and reductions in domestic support. Importantly, this has ruled out discussion of many issues that were not included in the framework.

The main question now before the negotiators is how to move from the Framework Agreement to a modalities document in time for ministers to give their approval to it at the next ministerial meeting in Hong Kong in December 2005. Should that (optimistic but still possible) timetable hold, the year 2006 would be taken up by countries translating the agreed modalities into draft schedules of tariff cuts and subsidy reductions. A final end to the Doha Round could come in early 2007, making the process just a few months shorter than the previous round.

Several aspects of this round make it rather different from the Uruguay Round that ended a decade ago. First, the agricultural and food sector has "gone global" in the past decade. This has been fuelled by the explosive growth in supermarkets in developing countries and by the steady lengthening of supply chains in developed countries as retailers compete on price, quality, and choice. Second, input industries have continued to consolidate and cross borders, as have processing and transportation sectors.

1. *See WTO, Doha Work Programme: Decision Adopted by the General Council on 1 August 2004, WT/L/579. This document is sometimes called the July Framework, as it was largely negotiated in that month.*
2. *This agricultural framework is Annex A of the Framework Agreement.*
3. *The first attempt at a Modalities Draft was made by the then chairman of the Agricultural Committee Stuart Harbinson in February 2003. The document was ahead of its time, as countries were not ready to commit to the level of detail that it contained. Instead, the decision was taken to start with the framework to be agreed by the Cancun Ministerial. The July Framework essentially completes the work of the Cancun Ministerial.*

This has given rise to concerns about competition and the role of farmers in contract-driven agriculture. Third, much more agricultural trade is now in high-value-added goods, with the market for undifferentiated commodities relatively static (though still important). Profit margins in value-added products have continued to lure producers and processors. As a result of these trends, the aspects of the agricultural trade system that have dominated the debate for several decades—protective tariffs on temperate-zone foodstuffs and generous subsidies to producers where market prices were deemed inadequate—must now share attention with overly restrictive health and safety regulations and obtrusive intellectual property protection.

The country dynamics in the agricultural trade talks have changed along with the issues. The GATT was essentially dominated by developed countries: Many developing countries belonged to the GATT, but numerous opt-out provisions meant that their impact on the negotiating decisions was minimal. In the Uruguay Round, the negotiations could in effect only be concluded when the EU and the United States reached agreement among themselves (as they did at Blair House in November 1992). A similar attempt to develop a joint position in August 2003, just before the Cancun Ministerial, met a very different fate, as Brazil, India, China, and seventeen other countries objected strongly to the US-EU proposal and tabled their own plan for curbing subsidies and cutting tariffs. The G-20, as the group is known, has essentially taken the lead in the agricultural talks (particularly on subsidies) since that time, and the Framework Agreement gives them the possibility (if they can maintain their cohesion and credibility as a negotiating force) of achieving much of what they have sought.

So what is on the table in Geneva? The main features of the Framework Agreement for agriculture are given in Table 1. Negotiations have focused on the three pillars of the Uruguay Round Agreement on Agriculture, market access (tariffs and tariff quotas, along with safeguards), export competition (export subsidies and similar measures), and domestic support (farm subsidies paid or prices supported inside the border).

Improving market access is politically essential for an agreement, as is appropriate for trade talks aimed at opening up markets in developed and developing countries. Eliminating export subsidies is a cherished aim of several exporters and has been endorsed by all countries including those that would have to make significant adjustments.[4] Curbing domestic support is somewhat less essential in improving trade opportunities but has taken on a symbolic significance beyond its commercial impact. Competing exporters consider that US farm programs enable farmers to sell below production costs; developing country governments claim that such subsidies deny their farmers of a chance to make a living. Policies in the developed countries are in any case moving in the direction of being less trade-distorting, as a by-product of improving the targeting of farm payments at home, but they will be anxious to gain some concessions from developing countries at the bargaining table for such changes.

The Framework Agreement specifies that conditions of market access be improved by means of significant tariff cuts, using a tiered formula that imposes higher percentage cuts on items with higher levels of current tariffs. This attempt at harmonization, if applied consistently and with substantial cuts, would also create new trade opportunities. It could also significantly reduce the tariff "overhang" (between applied and bound tariffs) and the "water" in the tariff (the extent to which a tariff can be reduced before imports are competitive). However, the Framework Agreement would allow all countries to shelter some farm commodities (designated as *sensitive products*) from sharp cuts in tariffs, with the option of increasing tariff-rate quotas (TRQs) in these products to have an equivalent effect on improving market access.[5] If the TRQs are not expanded enough, much of the benefit of the tariff cuts could be lost. The agreement does, however, allow for a tariff cap to be imposed; this could apply some constraints to the continued protection of sensitive products.[6]

For many countries, opening up markets brings concerns about import surges and other disruptions of the domestic market. The Uruguay Round Agreement included a *special agricultural safeguard* (SSG), a mechanism that allowed for temporary tariff increases in response to price drops or import surges for some products, mainly in developed countries.[7] The fate of the SSG is still

4. *The EU is by far the greatest user of direct export subsidies, whereas the United States has programs in export credit and food aid that contain potential subsidy elements; Canada sells wheat abroad through a state trading agency that also is deemed to distort competition. Elimination of the subsidy element of these programs would have a relatively small impact on trade but remove a glaring exception to WTO rules and a continued irritant to trade relations.*

Table 1. Summary of the main agricultural provisions of the WTO Framework Agreement.

Market access	
Tariff cuts	•Substantial improvement in market access through tariff reductions from bound rates. •Single approach for all countries: tiered formula to ensure progressivity. Types of reduction commitments within bands and number of bands to be negotiated. •Role of a tariff cap to be evaluated. •Designation of an "appropriate number" of sensitive products, which would be subject to a mix of tariff cuts and TRQ expansion.
Tariff rate quotas	•Reduce in-quota tariffs and improve administration (as part of balance of concessions). •Some TRQ expansion for all sensitive products.
Safeguards	•Future of special agricultural safeguard (SSG) under negotiation. •Establish new special safeguard mechanism (SSM) for developing countries.
Special and differential treatment for developing countries	•Proportionately less tariff reductions for developing countries, with longer implementation period. •Developing countries may designate special products on criteria of "food and livelihood security," which would be subject to more flexible treatment. •Fullest possible liberalization of trade in tropical products and alternatives to illicit narcotic crops by developed countries.
Other	•Tariff escalation reduced by formula to be agreed upon. •Erosion of preferences to be addressed using Harbinson Para 16 as reference.
Export competition	
Export subsidies	•Eliminate export subsidies by a credible end date. •Schedule and modalities of reductions to be agreed.
Export credits	•Eliminate export credits, guarantees, and insurance programs with repayment period of more than 180 days.
Food aid	•Eliminate food aid that is not in conformity with disciplines to be agreed. Disciplines will be aimed at preventing commercial displacement. •Other food aid issues (role of international organizations, humanitarian and development issues, and provision of aid in grant form) will be discussed in negotiations.
State trading enterprises	•Eliminate trade-distorting practices of state trading enterprises. •Further negotiation on issue of use of monopoly powers.
Special and differential treatment for developing countries	•Longer implementation periods for reductions and elimination. •Developing countries to continue to benefit from Article 9.4 exceptions. •Appropriate provisions for export credits in line with Decision on Least Developed and Net Food-Importing Countries. •Developing countries to receive special consideration in negotiation of disciplines on STEs. •Ad hoc temporary financing arrangements relating to exports to developing countries may be agreed in exceptional circumstances.
Export restrictions	•Strengthen disciplines on export prohibitions and restrictions.
Domestic support	
Overall trade-distorting support	•Move to harmonize trade-distorting support (TDS) in developed countries (total AMS plus *de minimis* plus Blue Box levels) by use of tiered formula: greater efforts to reduce support by countries with higher TDS payments. •Reduce overall trade-distorting support substantially: downpayment (20%) in first year.
Amber Box	•Reduce total aggregate measures of support (AMS) substantially by use of tiered formula: greater efforts to reduce support by countries with higher Amber Box payments. •Cap product-specific AMS levels at historical averages. •Reductions in total AMS should lead to product-specific reductions.
Blue Box	•Redefine to include payments with production limiting requirement and those with no production required: include payments based on fixed areas and yields and headage as well as payments based on less than 85% of base production. •Cap payments to 5% of agricultural production from start of implementation period.
Green Box	•Review Green Box criteria and improve surveillance and monitoring.
***De minimis* level**	•Negotiate the reduction of the level of *de minimis* support.
Special and differential treatment for developing countries	•Developing countries have longer implementation periods. •Developing countries have lower reduction coefficients and higher *de minimis* levels. •Developing countries retain the use of Article 6.2, allowing extra scope for domestic program.

Note. Data from author's compilation based on WTO, Doha Work Programme: Decision Adopted by the General Council on 1 August 2004, WT/L/579 (2004).

under negotiation. The Framework Agreement does, however, call for the introduction of a *special safeguard mechanism* (SSM) for developing countries, with the aim of giving these countries some contingent protection and encourage them to lower tariffs.

On export subsidies, the Framework Agreement is more clearly defined. The Framework Agreement calls for the negotiation of a credible date for eliminating export subsidies and similar export aids, though that date may be several years away. A key provision is that there is parallel treatment for the export subsidy component of export credits (long time periods and below-market interest rates) and of state trading exporters (low-interest loans and government underwriting of losses). Food aid is to be disciplined to avoid disruption of commercial trade flows. Export taxes and restrictions are also to be subject to tighter rules. If an ambitious but feasible date can be set for the removal of export subsidies, the trade system for agricultural products will at last come into line with that for manufactured goods, where export aids have been banned for 40 years.

Negotiations on domestic support touch closest to home, as they circumscribe the ability of domestic legislatures to use particular farm policy instruments. Domestic support (i.e., that not given at the border, through tariffs or export assistance) is classified under the WTO Agreement on Agriculture as falling into three "boxes." *Amber Box* policies are those deemed to be the most trade-distorting and include deficiency payments and other producer subsidies. *Blue Box* policies are also potentially trade-distorting, but as they include supply restrictions, they are considered less likely to harm other countries. *Green Box* payments are those subsidies that are not related to current price or output and are therefore considered minimally trade-distorting.[8] In addition to the boxes, subsidies up to a fixed proportion of the value of production (5%) can be given in product-specific support, and another similar proportion can be given in non-product-specific support (de minimis payments).

The Framework Agreement calls for a harmonization of levels of trade-distorting domestic support (TDS) and substantial cuts in the individual components of this TDS—the total aggregate measure of support (AMS) or Amber Box payments, the Blue Box, and the *de minimis* levels. The TDS would be reduced progressively, with higher levels coming down by a greater percentage. A downpayment of a 20% cut in the first year would be followed by annual cuts. The Blue Box criteria would be modified to include payments on fixed acres and yields but not linked to production cuts, and the total Blue Box would be limited to 5% of the value of production. Green Box definitions would not change, and there would be no restrictions on this (minimally trade-distorting) support. However, tighter scrutiny (along with the implementation of the outcome of the cotton panel) could yet cause some adjustments in Green Box policies.

Impacts on individual developed countries would vary, with significant policy changes needed in the operation of both US and EU farm programs and some modification to Japanese programs.[9] The change in the Blue Box definition would accommodate countercyclical payments under current US programs, and the downpayment would be feasible without too immediate reductions. Significant AMS cuts would limit payments under some other programs, as the United States is approaching its current AMS ceiling ($19.1 billion). The EU has recently moved many of its payments into line with Green Box criteria, and so would be able to live with steep cuts

5. *Tariff-rate quotas (reduced tariffs for specified quantities of imports) were introduced in the Uruguay Round as a way of ensuring some degree of market access for products formerly subject to nontariff import barriers (quotas and licenses, as well as minimum import prices). Many of these products will also be on the lists of sensitive products in the current round. The Framework Agreement mentions the reduction of in-quota tariffs as part of the achievement of a balanced result, but it confines the expansion of TRQs to the sensitive products.*
6. *Developing countries successfully pushed for the creation of a category of "special products" that would be subject to lower levels of tariff cuts.*
7. *The SSG has been available only for products where protection was converted from nontariff to tariff barriers in the Uruguay Round; this took place predominantly in developed countries.*
8. *Green Box payments include direct payments based on historical yields and acreage, or animal numbers, as well as the provision of public goods such as research and extension.*
9. *The United States, Japan, and the EU account for most of the domestic support notified to the WTO. However, other developed countries, such as Norway and Switzerland, have an active interest in the extent of further constraints on domestic support.*

in TDS and AMS. Japan has also shown flexibility in modifying the details of its domestic programs, though with little impact so far on its overall level of protection.

The players in the WTO game include the EU and the United States, of course, although the traditional conflict in agricultural matters between the transatlantic partners is muted. The Cairns Group of fourteen small and medium-sized farm exporters, led by Australia, which was active in the Uruguay Round, has played a minor role in the Doha talks since the Cancún Ministerial. Even the "Quad" (the United States, the EU, Japan, and Canada), who for years acted as an informal executive for the GATT and WTO negotiations, has lost some of its significance. Of increased stature in the talks is the G-20 (mentioned above), who agree on the importance of eliminating export subsidies and curbing developed country subsidies but have somewhat divergent internal views on opening up developing-country markets.

Several other groups have emerged. The G-90—countries with special access into the EU market as well as many of the LDCs—was formed at about the time of the Cancún Ministerial. This group of countries is concerned that they will be asked to watch their preferences being eroded in the European market but would be unlikely to reap comparable benefits in other areas. The G-10—developed country importers with high levels of protection—was formed to counter what they saw as an alliance of exporters (including the EU) pushing for greater market access and lower domestic support than their own political system could accept. Finally, the July package was brokered by a "nongroup" comprising the United States, the EU, Brazil, India, and Australia, known as the Five Interested Parties (FIPS), who agreed on the need to keep the talks going even if they disagreed on the details.

So, if these groups stay together, the dynamic of the talks will reflect the tensions within and between these groups. The G-20 is pressuring the EU and United States to make significant cuts in domestic support but will have to concede significant tariff cuts if a balanced outcome is to be reached. The ability of countries such as Brazil to persuade India to go along with deep tariff cuts will be crucial both for the deal with the United States and the EU but also to expand south-south trade—an objective of the Latin American negotiators. The G-90 will be keen to limit the cuts in tariffs in the EU and the United States for products such as sugar and bananas where their preferences are particularly significant, although compensation schemes could blunt some of this opposition. Overuse of the special products option by developing countries, particularly those with relatively competitive agricultural sectors, would weaken their bargaining power in other areas of the talks. The G-10, of reluctant but not poor importers, will be under extreme pressure from domestic constituencies to resist the sharp cuts in tariffs implied by the tiered formula. However, the potential use of the sensitive product category could help them to accept inevitability and open up their markets to competition.[10] The G-10 will also be keen to keep flexibility in domestic support, as many of them regard national farm programs as part of the social and economic fabric of rural life. The issue of whether the sensitive products option is a minor refinement to allow a balanced agreement or a deal-breaking loophole that undermines the impact of tariff cuts in major commodities and markets will be only be resolved by hard bargaining on the details.

Is there the political will for a deal? To have any realistic chance of agreeing on a modalities document at Hong Kong, negotiators will have to have a fairly complete draft of a Modalities Agreement by late summer. Although this timetable may seem somewhat optimistic for a round that has yet to pick up any political momentum, there are reasons to think that many countries may wish to settle soon rather than delay further. The expiry of the US 2002 Farm Bill gives the best chance for other countries to steer the course of US policy back to the path set in 1996, when payments were essentially decoupled from production and current prices, and the government relaxed its attempts to control supply and handle surpluses. A farm bill negotiated in the context of a stalled round would not be so restrained. The need for renewal of Trade Promotion Authority will also add urgency to the discussions.[11] Across the Atlantic, the necessity for further

10. *For these countries, the main reason to reach an agreement is the benefits that they can get from the nonagricultural aspects of the negotiations. The depth of cuts in farm tariffs are therefore linked with the agreement to cut tariffs in other sectors in the nonagricultural market access (NAMA) negotiations and that in services. Keeping this balance is a challenge for negotiators in the run-up to the Hong Kong Ministerial.*
11. *Extension of TPA is needed in June 2005, although this is considered more likely to be approved than the reauthorization needed after the expiry of TPA in 2007.*

reforms in the EU's Common Agricultural Policy will increase, as the budgetary pressures from enlargement will intensify as Bulgaria, Romania, and Croatia join around 2007 and as talks continue with Turkey. In addition, increased pressure for policy modifications from WTO dispute settlement decisions—particularly those related to cotton and sugar—could be enough to energize the trade talks in the next two years. If changes are to be made to bring a program into compliance with WTO rules, why not get some credit for those changes at the bargaining table?

Countries do have an alternative option to agreeing to a deal on agriculture in the WTO. There has been an increased tendency for countries to negotiate regional trade agreements, with most WTO members now belonging to a regional group. But such talks are not ideal venues for removing trade impediments in agriculture, and there is a tendency to omit sensitive farm products in order to reach an agreement. Domestic policy curbs are not easily included in such talks, as that would give an advantage to other competitors, and export subsidies from third countries could still disrupt markets even if such subsidies are banned within the free trade zone. Therefore, the option for exporting developing countries, in particular, looks less attractive. Even importing developing countries may find that pressures to open up markets are no less relentless in regional agreements: They will have to reduce their trade barriers to partner countries that will often include competitive supplies of the good in question. So, although the regional talks may receive a boost from a stalled Doha Round, the outcome may be less comprehensive and just as difficult to achieve.

The Doha Round agricultural talks are important in the long-run development of agricultural trade. The opportunity to build upon the Uruguay Round rules for agriculture and reduce tariffs sharply is not to be passed up lightly. Unless the modalities become watered down with large loopholes for sensitive and special products, the reductions in tariffs should translate into real market access opportunities. Significant cuts in trade-distorting subsidies are in the cards and will put relatively tight constraints on farm policies. In addition, to have finally eliminated export subsidies would of itself be a welcome and long-overdue step in improving the functioning of the agricultural trade system.

Tim Josling is Senior Fellow at the Stanford Institute for International Studies and visiting professor at the Imperial College at Wye. *The author would like to thank two anonymous referees for helpful comments.*