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The agricultural negotiations as part of the Doha Development Agenda – progress or stagnation?

Harald Grethe
Humboldt-Universität zu Berlin, Germany

Current state of the negotiations

Negotiations on the Doha Development Agenda (DDA) have been ongoing since 2001, and progress has been slow most of the time. In July 2007 the chairman of the agricultural negotiating group, Crawford Falconer, presented draft modalities for agriculture (WTO, 2007) which document considerable progress compared to earlier stages of the negotiations. Whether these draft modalities will turn out to mark the foundations for a successful conclusion of the DDA in the future remains open. At the very least, none of the major players in the World Trade Organization (WTO) negotiations has rejected the Falconer proposal in general, indeed, many consider it to be a solid basis for further negotiations.

The Falconer proposal lays down rules for the three pillars of agricultural support: export competition, domestic support and market access. Of these, the proposals on domestic support and market access clearly represent the most relevant elements, given that the use of export subsidies has enormously declined over the last decade, making the complete abolition envisaged in the draft modalities of more symbolic value than high economic relevance. Furthermore, the European Union (EU), which has always been the main user of export subsidies, has recently announced its intention to abolish them even in case the DDA fails to be concluded (AGRA INFORMA, 2007a).

For overall trade-distorting domestic support, however, the Falconer proposal foresees that the EU should reduce such support by 75-85%, and the US by 66-73%. The EU is likely to comply with these reductions even without further policy reforms, as the bulk of domestic support is meanwhile granted in the form of decoupled direct payments which are likely to fall within the green box category exempt from reduction, or could easily be modified in order to fit the green box criteria. For the US, however, the proposed reductions may put pressure on domestic agricultural policy, depending on the development of world market price levels. They could in particular clash with recent proposals for a new farm bill presented in the House of Representatives for the period 2007-2012 (AGRA INFORMA, 2007b). One of the aspects that is not satisfying from an export-oriented developing country perspective is the disappointingly modest revision of the green box criteria for policies such as decoupled income support and

crop insurance schemes, whose unlimited qualification for the green box must be questioned, especially in light of increasing evidence of their distorting effect on production and trade (BLANDFORD and JOSLING, 2007).

The most heavily disputed policy field in the DDA agricultural negotiations is market access. The Falconer proposal lays down ranges for four tariff bands and respective ranges for progressive tariff reductions. Reduction rates substantially exceed the last official EU proposal of 60% at maximum (EUROPEAN COMMISSION, 2005) and comprise reductions of 66-73% for tariffs of above 75%. These ambitious reduction rates contrast sharply with the proposal for a relatively high number of "sensitive" tariff lines for developed countries of 4-6%, for which lower reduction rates would apply, and new tariff rate quotas would have to be opened to ensure minimum market access. Recent studies have shown that even slight numbers of sensitive products would probably reduce average tariff reductions substantially (JEAN et al., 2005; ANDERSON et al., 2005). In addition, the provision of exemptions for sensitive products adds to the preservation of a rather heterogeneous tariff structure, which is in contradiction with the idea of a progressively tiered tariff reduction formula; on top of this, tariff rate quotas add to the non-transparent structure of international trade policies. Finally, some important topics in the area of market access are left open in the Falconer proposal: the future of the Special Agricultural Safeguard, which is a remnant from the Uruguay Round process of tariffication and should be abolished in order to work towards more equal rules and protection levels between developed and developing countries; the establishment of a tariff cap; the reduction of tariff escalation; and the modalities for the potential category of special products for developing countries.

Perspective of the negotiations

WTO officials and trade negotiators keep stressing the possibility that a successful agreement on modalities could be reached in autumn 2007, which would allow the preparation and verification of country schedules in winter 2007/2008, and could lead to the DDA being concluded in the first half of 2008. Such a scenario, however, is subject to three significant uncertainties. First, many details in the area of agriculture still need to be agreed upon. Second, agreement is also lacking in other fields of negotiations, especially the modalities on non-agricultural market access. And third, it is questionable whether an agreement would be ratified by the US Congress, in which the Democrats hold a majority, so soon before the 2008 presidential elections.

Alternatively, the negotiations could stall and be reopened at a later date, after a new US government has taken office. Finally, the negotiations on further multilateral liberalisation could breakdown for a much longer period. Under such a scenario, the

existing rules which stem from the Uruguay Round would remain in place. However, the long-term stagnation of the DDA would undermine the role of the WTO in the regulation of international trade and would further enhance the tendency towards the conclusion of bilateral and regional trade agreements, which have proliferated in recent years. Furthermore, a rise in litigation is likely to ensue should progress stall with the multilateral framework. But WTO members could also become increasingly unwilling to accept and comply with the outcomes of litigation without further negotiations about the framework which is the basis for such litigation.

Assessment from a developing country perspective

It is impossible to assess the current state of negotiations as laid down in the Falconer proposal for the group of developing countries as a whole, as their interests are so different, depending on their net trade position in agriculture, their bound and applied agricultural policies, and the degree to which they enjoy preferential market access. Broadly speaking, one can distinguish between "offensive" interests, which largely concentrate on obtaining access to other countries' markets, and prevail in the more competitive and export-oriented developing countries such as Brazil, South Africa or Chile; and "defensive" interests, which prevail in the currently less competitive developing countries that tend to shield their agricultural markets from international competition through high tariffs and other market access barriers. Often such contrasting interests are combined in individual countries – for example, many West African countries have offensive interests with respect to cotton, but more defensive interests concerning cereals and meat.

With regard to offensive interests, the Falconer proposal comes close to the G-20 proposal for tariff reductions (G-20, 2005) and is probably near the limit of what is acceptable for policymakers in many developed countries. Major flaws are still the lack of a commitment to abolish the Special Agricultural Safeguard, the missing tariff cap, and the high share of sensitive tariff lines, which clearly contradicts the principle of progressive tariff reductions. The Falconer proposal is similarly ambitious and close to the G-20 proposal in the area of domestic support. In light of the increasing level of domestic support in the US since the late 1990s and the current proposals for a new farm bill, the proposed reduction rates are highly relevant. For cotton, the proposed reduction of 82% of domestic support in the US comes close to the complete abolition originally called for by four West African countries.

With regard to defensive interests, not much is specified in the Falconer proposal as yet except the Uruguay Round approach, which comprises two-thirds of the reduction rates applied to developed countries and a longer implementation period. Still open issues comprise the question of how to define and treat special products, an exemption

category for which developing countries would have to provide less market access, and the formulation of a Special Safeguard Mechanism exclusively designed for developing countries. The category of special products is a double-edged instrument, as it is extremely difficult to distinguish between justified rural development and food security motives on the one hand, which anyhow can be better addressed by other than trade policies in most cases, and protectionist ones to serve well-established interest groups on the other. Protection does not typically serve the poor if applied to agriculture in developing countries, as many of poor households are net buyers of food products. Furthermore, quantitative analyses typically show that most of the welfare gains to be realised by developing countries would stem from their own liberalisation (IVANIC, 2006) and would actually be jeopardised by a high share of special products (IVANIC and MARTIN, 2006). The rationale for a Special Safeguard Mechanism, in contrast, is unambiguous in order to protect developing country farmers from strong price fluctuations, as these are difficult to bear, especially for small farmers.

Several studies have quantified the potential gains from full agricultural trade liberalisation, which may serve as an upper limit of what could be gained through the WTO process. The estimates of the potential benefits for the group of developing countries as a whole differ widely. For example, HERTEL and KEENEY (2005) report USD 12 billion per year, compared with ANDERSON and MARTIN (2005), who project 54 billion per year, or HUFF et al. (2007), who report between 6 and 16 billion from various model analyses. BOUET (2006) moreover reviews various recent studies which vary considerably between 15 and 221 billion. Of course, while these are large aggregate numbers, they are nevertheless relatively insignificant when compared to developing countries' GDP (typically below 1%). In addition, gains are highly concentrated in a few countries. HERTEL and KEENEY (2005) find that 62% of the expected gains for developing countries would accrue to just three countries: Brazil, Argentina and India. Finally, most studies identify aggregate welfare losses for some developing countries. These are countries for which the negative terms of trade effects outweigh the gains resulting from their reallocation of resources due to their own liberalisation. Typically, these countries are net food importers which face higher import bills after liberalisation, and/or countries which receive substantial trade preferences (e.g. for sugar) and suffer from preference erosion.

The extremely wide range of quantitative results may appear at first glance unsatisfying. However, in recent years, equilibrium modellers have been increasingly concerned about the sources of differences between different simulation analyses, and many of the factors behind these differences have been identified, such as scenario and model specifications, base policy data and assumptions on the size of core parameters (e.g. BOUET, 2006; ANDERSON and MARTIN, 2005; HUFF et al., 2007). Still, even the welfare results of the more optimistic model analyses (assuming relatively high

Armington elasticities, applying dynamic model formulations including endogenous productivity growth) are small if contrasted to the level of overall GDP.

Two conclusions follow. First, this shows that the effect of trade policies on agricultural development is often overvalued. It is much more important to have in place an enabling macroeconomic environment, sound domestic institutions and a domestic agricultural policy focused on productivity improvement. Second, this raises the question as to whether the aggregate welfare gains as simulated based on neoclassical models are the most relevant parameters for determining how favourable liberalisation scenarios are from a development perspective. At least two additional issues appear important: the distribution of welfare within developing countries and the transparency and reliability of the international trading system.

With respect to distribution, it is clear that welfare gains are not only heterogeneously distributed among countries, but also within them. Recent research has increasingly addressed the distributional aspects of trade policy scenarios (e.g. HERTEL and WINTERS, 2006), which has produced heterogeneous results among countries. The liberalisation of agricultural trade raises the level of poverty in some countries and decreases it in others. On aggregate, however, it tends to reduce poverty, especially in the long run.

With regard to the transparency and reliability of the international trading system, the expected proliferation of bilateral and regional trade agreements as a reaction to the stagnation of multilateral liberalisation seems a bad alternative for two reasons. First, developing countries usually have less negotiating power in such settings than they have collectively in the WTO process. And second, bilateral or regional trade preferences tend to be non-transparent, uncertain in the long run and trade-distorting (GRETHE, 2005). In addition, should the multilateral system stagnate, powerful countries may be less inclined to respect existing rules or to comply with the results of litigation.

In conclusion, developing countries as a group have more to gain than to lose from a DDA agreement in agriculture along the lines of the Falconer proposal. This is not only because it involves welfare gains, but also because it further strengthens the emergence of a rule-based multilateral trading system.

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Harald Grethe
Humboldt-Universität zu Berlin, Landwirtschaftlich-Gärtnerische Fakultät, Unter den Linden 6, 10099 Berlin, Germany
phone: +(49)-30-20 93 67 87 fax: +(49)-30-20 93 63 01 e-mail: harald.grethe@agrar.hu-berlin.de