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**SHIFTING SANDS:
SEARCHING FOR A COMPROMISE
IN THE WTO NEGOTIATIONS ON AGRICULTURE**

by

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ABSTRACT

The WTO negotiations on agriculture remain deadlocked after four years of discussion, and efforts to find a solution at Cancún failed. Analysis shows that the recent draft Cancún text offers more flexibility than earlier proposals, and such flexibility most likely implies a lower level of ambition overall. However, developing countries are less able to take advantage of this flexibility and their bound tariffs will be reduced to levels at or below applied rates. The reduction in levels of intervention and the expiry of the Peace Clause make it more likely that there will be greater resort in the future to safeguards and countervailing measures.

Analysis of the various proposals using the UNCTAD/FAO Agricultural Trade Policy Simulation Model (ATPSM) shows that most of the benefits from liberalization accrue to developed countries, which currently have the highest levels of intervention. The group of developing countries, which include both exporters and importers of agricultural products, gain from liberalization, but those gains are small and unevenly distributed. In fact, net-food importing developing countries tend to lose because of higher world prices. Within developing countries, producers tend to gain from higher world prices at the expense of consumers. Since negotiating positions suggest that governments attach a higher weight to producer than consumer benefits, a possible solution to the impasse lies in switching support in developed countries from border measures to less-trade-distorting measures such as direct income support. Providing compensation to current beneficiaries of European Union support in ACP countries for the erosion of preferences may also assist in the search for a compromise.

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INTRODUCTION

Intransigence, shifting alliances and miscalculation have plagued and at least temporarily derailed the WTO sponsored multilateral trade negotiations. The Cancún Ministerial Conference, as part of the Doha Work Programme, ended in failure. The 2001 Doha Ministerial Declaration had launched new negotiations on a range of subjects, including agriculture, on which negotiations had begun earlier under the “built-in agenda” of the Uruguay Round. Agriculture was made part of Doha’s Single Undertaking in which virtually all the linked negotiations were supposed to end by January 2005. After the first deadline for a commitment on “modalities” in March 2003 was missed, Ministers discussed in Cancún a framework for these modalities. Discrepancies about how to reform the agricultural trading sector were, together with the so-called Singapore issues, mainly responsible for the breakdown of the negotiations. The road ahead seems like a trackless waste.

What can be done to put the negotiations back on track? There are a large number of issues and options, with far-reaching but barely predictable consequences. Some restructuring of the negotiations seems to be necessary in order to exploit the possibilities of an agreement without endangering developing and less-developed countries on issues such as food security. Recognition of developing country concerns was emphasised at the Doha Ministerial Meeting in November 2001, which put development issues at the centre of the WTO work programme. The impact on developing

countries of the various proposals under consideration is therefore a central focus of this study.

The study attempts to provide a rigorous quantitative assessment of various options being discussed in the WTO agriculture negotiations. In particular, it focuses on the Framework for Establishing Modalities in Agriculture, which was an annex of the draft Cancún Ministerial Text, Second Revision, submitted on the 13th of September. It analyses the positions of some of the key players and the joint EC-United States proposal. Earlier, the Chairman of the WTO Committee on Agriculture, Mr. Harbinson, had put forward, and subsequently revised, a compromise proposal.

In order to quantify the economic effects of these proposals, the study uses a computable global trade model, the Agriculture Trade Policy Simulation Model (ATPSM).¹ This model is a deterministic, comparative static, partial equilibrium trade model designed to analyse trade policy issues. A goal of the study is to show that a trade model can be used to assist in the preparation and evaluation of negotiating positions.

The study is laid out as follows. The next two chapters describe the negotiating context and the key proposals. In Chapter IV the computable model is described in some detail. In Chapter V the draft Cancún text and other recent proposals are analysed. Chapter VI deals with policy implications, limitations and conclusions.

¹ The ATPSM modelling framework was initially developed by UNCTAD and further refined by FAO and UNCTAD.

I. THE STATE OF PLAY

(a) Negotiations on Agriculture

The WTO Agreement on Agriculture was a significant step towards reforming agricultural trade. It brought agricultural products under more effective multilateral rules and paved the way for further liberalization of agricultural production and trade. The Doha Ministerial Declaration of 2001 launched new negotiations on a range of subjects, include the 'built-in' negotiations on agriculture which had already begun in 2000 under the Marrakesh Agreement. Agriculture is now part of the Single Undertaking in which virtually all the linked negotiations are to end by January 2005.

The Uruguay Round Agreement on Agriculture "tariffed" and bound many non-tariff barriers and some progress was made in reducing tariffs on fast-growing, high-value-added products. However, much remains to be done, including reducing tariff peaks and tariff escalation. Tariffs in agriculture are still significant, even high in some product areas.

Table 1 shows average applied and bound rates for country groups.

Before and at Cancún, countries expressed their disappointment with the draft Ministerial text. Developed Cairns Group members want to see a less flexible and more ambitious round, whereas countries including Japan, Norway and Switzerland want more flexibility, particularly in the areas of non-trade concerns, and less ambition. Most developing countries want the developed countries to liberalize, but, at this stage, for reasons of rural development and food security are reluctant to open their own markets. Some developed countries such as the European Union do not want at this time to eliminate export subsidies, although such subsidies constitute one of the most trade-distorting policy instruments. Essentially, the positions differ concerning the two dimensions of ambition and the degree of special and differential treatment. Figure 1 shows the positions of some WTO members.

Table 1
Bound and applied tariffs on agricultural products
(in per cent)

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