

A Possible Scenario for a Deal on Agricultural Trade Reform

"Scenario Paper"

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Introduction

There are other issues a Leaders' G-20 could deal with as well, such as rescuing the current round of multilateral trade negotiations, where the biggest stumbling block is agriculture. Agriculture is not simply a trade issue that will be decided solely on its economic merit.

In countries like France, Japan and the United States, it is first and foremost a political issue, one which only political leaders at the highest level can deal with. Everyone agrees the failure of the Doha round is in no one's interest, and yet failure looms. If the talks collapse, then many countries, rightly or wrongly, will feel that although the international systems we have built over the decades may work for some – they do not work for them.

Prime Minister Paul Martin, Washington, D.C., April 29, 2004

These remarks by Prime Minister Paul Martin on the occasion of his first visit as Prime Minister to Washington were made in a luncheon speech co-sponsored by the Woodrow Wilson Center and the Center for Global Development.

For no issue in the field of international economics has developing good solutions been so elusive. Agricultural producers and traders and their governments have run out of patience with the predicament in which they find themselves. The problem of lack of reform in this sector is now seen as a denial of justice more than as an economic issue.

According to WTO statistics, agriculture's share of world merchandise exports in value terms has declined from 11.3 percent in 1995 to 9.3 percent in 2002. Astonishingly in 1995 the export of agricultural raw materials accounted for only 1.8 percent of world trade while food accounted for 7.5 percent.

Again using WTO statistics, in 1998 only one developing country, Brazil, made it into the ranks of the top ten exporters of agricultural products, albeit in ninth spot. Six member States of the European Union qualified for top ten honours.

This is not surprising in a world where according to the OECD its members support their m. s suppoTJ-31jtuopi]

would also improve conditions of poor farmers in many countries who now have to compete with subsidized imports from developed countries.

The sector is characterized by high levels of government intervention and large distortions in the use of economic resources. There are pressures for reform in most countries but they are counterbalanced by pressures from those interests benefiting from the status quo. Of course, the wealth of many farmers in developed countries results from the nature of government programs and measures rather than from activity on the farm. As a former Canadian minister was fond of saying “there was a big difference between those who farm the land and those who farm the system”. Not surprisingly, those who farm the system see the merit in spending time, energy and money to ensure that the conditions benefiting them remain in place or are further improved. The recent history of farm support legislation in the United States shows that efforts at reform can be unwound by subsequent domestic decisions. This is one reason why it is so important to enshrine domestic reform in international agreements to guard against the possibility that it may be reversed or eroded.

The only international organization equipped to undertake such an effort is the World Trade Organization. Obviously there are other organizations which can and should play a supporting role but examination of that is beyond the scope of this paper.

1. The WTO’s Doha Development Agenda

The Doha Declaration by which WTO Ministers initiated the Doha Round contains the following key objectives for agriculture:

Building on the work carried out to date and without prejudging the outcome of the negotiations we commit ourselves to comprehensive negotiations

Real progress in this sort of environment requires input and direction from the highest political levels of government. This has been the case in the past and remains so today. The prospects for a successful outcome depend very much on the extent to which there is the political will to take the necessary domestic decisions to generate reform.

There is some criticism that the consensus rule in the WTO makes progress difficult. However, it is hard to imagine how to reach an agreement on a collective domestic reform agenda other than by consensus. Agreements entered into voluntarily will be much more durable and, importantly, easier to implement.

The above quotation from the Doha Declaration identifies what are known as the three pillars of the agriculture negotiations:

Market access,
All forms of export subsidies, and
Trade-distorting domestic support.

These are the three areas of the reform process which emerged from the Uruguay Round and the results of which were incorporated into the WTO when it came into force in 1995. This new framework put agricultural trade squarely within WTO rules but left protection and support in many sectors at levels that effectively precluded increased trade. The reform process was left incomplete but a commitment was written into the Uruguay Round Agreement on Agriculture to enter new negotiations in the year 2000 to carry the reform process forward. Those negotiations are now for all practical purposes an integral part of the Doha Round.

The commitment in the Doha Declaration is to *substantial* results. It does not mean all support and protection is to be eliminated. There will still be some scope to shield some domestic producers from international competition. But there must be real, substantial improvements in export opportunities. Protected domestic sectors will be able to survive but they will need to accept change.

Finally the WTO is clearly the only existing forum where this reform process can be put together. We are talking about disciplining policies with global effects. No regional or bilateral agreement can effectively address these matters. No other multilateral organization has the necessary habitat for putting such a package together.

2. Harnessing Pressures for Reform

There are various forces which leaders can and should harness to help with the task making real reform a reality. First and most obviously, domestic pressure for reform should be engaged. This comes from a variety of quarters:

Users of agricultural inputs who want access to such products at prices that will allow them to compete effectively on world markets;
Treasuries and tax payers who want to reduce the burden subsidies put on the national accounts;

Consumers who would like better choices and lower prices;
Groups arguing the case for economic development in the third world who see the deck in world agricultural trade stacked against developing countries.

Second agriculture is the key to making the Doha Round a success. The lack of real progress on this file in the past has resulted in a situation where many developing countries simply refuse to countenance any movement in other areas if agriculture is not moving. There will be no outcome unless there is a real prospect of substantial results in agriculture. As noted above agriculture accounts for less than ten percent

Indeed these same disputes illustrate the dangers inherent in the status quo. In addition many countries will not be satisfied with the Uruguay Round bargain until the reform of agricultural trade registers further substantial progress. The WTO as a deal is unstable until more is achieved. Prevention of erosion of commitment to the system is another reason to push forward vigorously.

As leaders look at how to do the right thing in agriculture these various pressures can be harnessed to help manage the process. Given the complex array of forces in all domestic constituencies bearing on this matter it is clear that ultimate judgments about what to do must be made at the level of leaders. If this does not happen paralysis could easily result and the Round would fail.

3. G 20 Leaders Can Build the Necessary Momentum

A G20 Leaders Group can play a critical catalytic role in building the necessary momentum for a successful result. As noted above, only leaders can provide the direction to progress the reform process. Furthermore, the most powerful must show the way since their policies and practices are causing the greatest distortions.

To be successful such a group would have to be seen to be broadly representative of the various interests in the negotiation. It will also need to make clear that it is trying to play a catalytic role, not developing the detailed agreement which will

WTO negotiation no group can be ignored; indeed a certain amount of persuasion may be necessary to help persuade the reluctant to come on board. This is another task where the engagement of leaders would be critical to success. Participants in a Leaders' Group would need to be prepared to discuss their conclusions with other leaders particularly on a regional basis to enlarge the circle of support.

Finally those organizing a meeting would need to take some care to involve those leaders experienced in such matters and who have shown a capacity to be able to contribute to constructive solutions.

Another requirement for such an initiative to be successful is that its approach and outcome must be clearly rooted in the objectives of the negotiations set out in the Doha Declaration. (The key objectives for agriculture are set out above.) This seems straightforward but making this clear to all would help to dispel suspicions about the Group's motives.

To be effective any emerging solution will need to be effectively marketed. It should be seen by the public and civil society as fair and beneficial to all. It should be relatively untainted by too much obvious national interest, although in the end that is of course how it will have to be sold at home. Enlightened self-interest will be an important commodity.

4. Timing

Support from leaders is needed now as WTO Members try to agree to a framework for the agriculture negotiations at the end of July. Decisions at the end of July will be important for the credibility of the Round, not least among the negotiators. Another failure in July might mean no further effort would be expended on the negotiations until the political situation was clarified in the EU and the U.S. The bigger problem in terms of timing is in the U.S. because the election will be followed next winter by the vote in Congress required every five years by the Uruguay Round implementing legislation on whether the U.S. will stay in the WTO. The vote is not really in doubt, but much of what is said in the debate before it is taken will erode confidence. Next, the President is required by law to report to Congress by March 1 on the extension of the "fast track" negotiating authority. This is also the occasion for the President to request extension of that authority which would otherwise expire on June 1, 2005. The request for a two year extension is automatically agreed unless either House of Congress votes to disapprove to re-polxtension is

