CHAPTER 13

THE WTO AGRICULTURAL NEGOTIATIONS AND THE LEAST DEVELOPED COUNTRIES

Limitations and options

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THE WTO NEGOTIATIONS ON AGRICULTURE: WHERE ARE WE NOW?

World Trade Organization (WTO) negotiations on the trade agenda agreed at the fourth WTO Ministerial Conference in Doha, in November 2001 – known as the Doha Agenda – have been paralysed for several years and finally ended in a state of deadlock in July 2006. After a failed Ministerial Conference in Cancún in September 2003, WTO members succeeded in taking their first step towards agreement on the Doha Agenda in 2004, with a document called the July Framework (also known as the July Package)[1]. The Framework did not represent much progress, considering the original deadline to complete negotiations on the Doha Agenda was January 2005, but it was the first agreement WTO members came to after Doha, and was widely acknowledged to have renewed impetus for the talks. The proposals are reviewed in more detail in section "*The July Package, Hong Kong, Next Stop Geneva?*", below. The Ministerial Conference in Hong Kong, held in December 2005, made limited progress on most issues, and arguably least progress on agriculture. The Hong Kong outcomes are also reviewed below.

At the political level, negotiations on the July Framework reflected a new balance of power at the WTO. Particularly in the agriculture talks, the traditional USA/ EU hegemony is being challenged by Brazil, India and Australia. China, too, is playing an increasingly important role. Yet this new configuration of power, although it now includes the developing world, is still a long way from reflecting the needs and concerns of Least developed Countries (LDCs). Brazil, India and China

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pose significant challenges to LDCs: Brazil is a source of cheap exports that displace local producers in LDC domestic markets, while all three compete with LDC exporters for access to the gradually liberalizing markets in OECD countries. China, in particular, is also a big buyer of some agricultural commodities, competing with LDCs for imports and able to outbid them. While facing considerable development challenges of their own, countries such as Brazil have far more resources with which to tackle development challenges than do LDCs such as Tanzania or Haiti.

Of course the expansion of the power base to include developing countries in agricultural negotiations is positive, undeniably so. Yet the more powerful actors in the agricultural trade negotiations still for the most part have other needs and concerns than LDCs. The bigger economies will ignore LDC needs when the full pressure of negotiations is on, as the significant limitations of the so-called 'development package' cobbled together in Hong Kong underline. It is still the dominant exporters – and to a more limited extent the largest importers – that control WTO negotiations. Despite their often significant dependence on trade in their own economies, LDCs are not part of either group.

LDCS AT THE WTO

Thirty-two of the 50 LDCs are now WTO members. Least developed Countries (LDCs), although identified as a distinct category in the Uruguay Round Agreement on Agriculture, have not worked very closely as a group in the negotiations on agriculture. LDCs are exempt from a number of disciplines under the Agreement on Agriculture (AoA), which contributes to some extent to their being ignored by other WTO Members. Few exporters see potential in LDC markets, and LDC production in most cases is too limited to create problems, or opportunities, in world market terms.

However, LDCs are not only affected because they have to implement WTO rules as member states. They are also affected because the other members' implementation of WTO rules changes the entire global trading context. For example, the liberalization of trade between the US and the EU has important implications for some LDCs. Perhaps even more important are the changing trade relations among developing counties and between developing and developed countries. For example, the erosion of preferences as the WTO ratchets down tariffs for all WTO members is diminishing a once protected market for some LDCs' exports, particularly to the European Union. Privileged market access becomes meaningless as tariffs get closer to zero.

The exemptions proposed for LDCs by other states, especially developed countries, create tensions within the larger group of developing countries. The EU proposal known as 'Everything but Arms,' to give LDCs duty-free access for most products, upset other vulnerable, non-LDC developing countries. Particularly for the Caribbean states, which are not LDCs but which currently enjoy preferential market access to the European Union as members of the Africa, Caribbean and Pacific (ACP) group, their export income is directly threatened by the extension of duty-free access to all LDCs. In any case, a number of developed countries, including Japan and the US continue to protect a number of products that would be of export interest to LDCs, including sugar, rice and cotton.

LDCs have great difficulty participating fully in WTO negotiations. Many LDCs lack representation in Geneva because they cannot afford to staff a mission. LDCs also have very limited staff available to focus on WTO issues in the national capital, making it difficult to ensure the negotiations reflect LDCs' national priorities. Many LDCs are hampered because they must manage a number of trade negotiations simultaneously. Those that are members of the ACP group of countries, for example, are in the midst of negotiating bilateral Economic Partnership Agreements (EPAs). Since the EU is the primary export destination for many of these countries, the EPA talks take priority over negotiations at the WTO. At the same time, many LDCs find their voices muted by pressure from bilateral donor countries, on which they depend for foreign aid money. LDCs, and developing countries that benefit from preference schemes, are also vulnerable to pressure by the preference-providing countries.

All of these problems are profoundly exacerbated by the *ad hoc* nature of WTO procedures and the lack of formal rules. The flexibility of the WTO way of conducting business is undoubtedly a factor to the WTO's success, which is why the richer countries are loath to change it. However, the flexibility comes at the expense of countries that cannot attend meetings at a day's notice or less, or which are not considered important enough to be invited to the informal session where compromise positions are hammered out. While LDCs are generally included in such processes as Mini-Ministerial conferences, it is generally a hand-picked few LDCs – just one or two – that are invited, while the others are left out.

Despite these difficulties, however, a number of LDC WTO Members have recently been active in two arenas. First, the African Group (which includes many LDCs) now meets to determine joint positions ahead of key negotiations, such as Ministerial Conferences and the negotiations this past July in Geneva. Second, the so-called Group of 90, which comprises WTO members from LDCs, ACP countries and the members of the African Union, has also met several times since its inception at Cancún. The G-90 agenda is fairly general – for agriculture, it includes the demand to end EU export subsidies and to increase market access to developed countries' markets. In Hong Kong, this group met with the Group of 20 (G-20), which is also a grouping of developing countries in the agriculture talks. G-20 members include Brazil, India and China.

A demonstration of the potential strength of the G-90 was evident in its refusal to negotiate on three of the four issues introduced at the first WTO Ministerial Conference, held in Singapore in 1996: investment, competition and government procurement. These issues were clearly rejected by the WTO's poorest members when they were proposed as components of the Doha Agenda, and the WTO members left Doha with only an ambivalent mandate for their possible inclusion. Ultimately, in Cancún, only the fourth Singapore issue, trade facilitation, was accepted for inclusion in the Doha Round. G-90 resistance to the inclusion of the other three issues was an important reason for their relegation to working group (as opposed to negotiating committee) status at the WTO.

A number of multilateral coordinating mechanisms, such as the African Union, the UN Economic Commission for Africa, the Commonwealth Secretariat, the ACP Secretariat and others have placed staff in Geneva in an attempt to provide LDC and other poor country WTO missions with more technical and political capacity. Nonetheless, LDCs cannot participate as full members of the WTO at the moment. The simple fact that the WTO holds more meetings simultaneously than LDCs have staff to cover them is a severe limitation on LDCs' ability to engage. The WTO's dispute settlement system is also out of reach, as it is too expensive for LDCs to contemplate bringing cases in their own right, despite the establishment of a legal-aid centre to provide advice and assistance on a more affordable basis.

DOHA TO CANCÚN

The Uruguay Round Agreement on Agriculture included a provision for its renewal in Article 20. Agriculture was thus always to be part of the post-Uruguay negotiating agenda. In Doha, at the fourth WTO Ministerial Conference held in November 2001, it seemed until the eleventh hour had come (and gone) that WTO members would reject a broad new agenda for negotiations. Developing countries resisted the proposed expansion of the agenda into a multifaceted single undertaking, arguing that as small delegations they already found it difficult to keep up with the pace of negotiations and fearing that they would be negotiating areas where their own interests were still unclear. However, into the night after the conference was due to close, the countries that sought a broader round (particularly the EU, Japan and South Korea) prevailed, aided by the countries with an ambitious agenda for agricultural liberalization – particularly the Cairns Group – which were convinced that significant new disciplines on agriculture would be impossible without the inclusion of other issues[2]. The Doha Agenda was born.

The Doha Ministerial Declaration was launched with much fanfare as a Development Agenda. The WTO website continues to use Doha Development Agenda as the title for materials related to the Doha Ministerial Declaration and the negotiations it gave rise to. The Doha Agenda set out an ambitious (if ambiguous) programme for agriculture. The language echoed that of the existing Agreement on Agriculture, but was influenced by some of the disappointments that marked the implementation of the Uruguay Round Agreement. The ambiguity came in the mention of export subsidies, where many members had hoped for a clear commitment to their elimination, but instead got something less precise: "reductions of, with a view to phasing out, all forms of export subsidies". The Doha mandate for agriculture was on the whole well received by WTO member states – all except some of the members of the European Union, which were not, at least not publicly, prepared to accept that export subsidies were doomed.

Doha raised important procedural and substantive concerns for developing countries, concerns that grew in Geneva in the months following Doha. For many developing countries, and especially the poorest members, a development agenda had to start by addressing problems with the Uruguay Round agreements: areas of ambiguity that needed clarification, rules that were having unintended and perverse consequences, and the failure to implement some of the flanking decisions that were intended to facilitate developing country engagement in the multilateral trading system. For example, the Marrakech Decision on Net-Food Importing and LDCs was never implemented, although increases in world prices for food in 1995 and 1996 would have warranted it. These issues are known collectively as implementation issues. One by one, the deadlines assigned in Doha to resolving implementation issues slipped. These were the issues that developing countries had insisted be included in the Doha Agenda, and which developed countries had used to justify their claim to meeting development needs in the negotiations. So, too, the deadlines to mark progress on the new negotiations passed unmet. Developed countries showed no willingness to compromise, despite their promises in Doha, and developing countries were holding fast to their positions as well.

On agriculture, points of division included:

- Interpretations of export subsidy language – to fix a date for elimination, or only to work towards eventual elimination.
- The level of ambition on market access – cut all tariffs by the same average amount, as had been done in the Uruguay Round Agreement, or create a formula that ensured the highest tariffs were cut by much more than already low tariffs, known as the Swiss formula. Harbinson proposed a banded approach, which would effectively combine elements of both approaches. In practice, this was a soft version of the Swiss formula.
- The scope and application of special and differential treatment – how generous should such provisions be, and should they be extended to all or only some developing countries? Should a new category, or some kind of graduated approach, be established for transition economies?
- The role of non-trade concerns and the legitimacy of developed-country appeals to be allowed to protect their 'food security' through Blue Box supports and high tariffs on particular commodities.
- The expansion of non-trade concerns – some countries want to include measures to allow higher standards to meet animal welfare concerns in livestock rearing, the use of the Precautionary Principle in setting food safety standards, and mandatory labelling (the last two concerns were immediately contentious because they were invoked in relation to conflicts between the US and the EU on the use and handling of genetically modified organisms).

As the date for the fifth Ministerial Conference approached, it became clear negotiators were working on the unspoken assumption that modalities would only be agreed to at the Ministerial Conference. This was a setback from the Doha timetable, but still on track for possible final agreement by January 2005. In August 2003, a month before Cancún, the US and the EU published a joint text on agriculture: a remarkable achievement, given their public differences on many issues. The political signal sent by the joint text, however, was out of step with the times. This was not 1992, when an agreement at Blair House between the US and the EU had been enough to clinch a deal. By now the WTO had 146 members, and a number of them had strong views on agriculture – particularly Brazil, India and China, but also groups such as the African Group; Least developed Countries (LDCs) and landlocked countries; ACP countries; and newly acceded countries, including economies in transition. The majority of WTO members were ready to fight rather than let the US and EU resume control of the agriculture talks.

The US/EU deal did not propose a date for the elimination of export subsidies, did not propose any limits on income support to farmers (an issue revisited below in the discussion of Green Box reform) and proposed that a category called 'sensitive products' be established for developed and developing countries alike that would allow higher levels of protection for some products, in the context of deep cuts to most tariffs. The reaction in Geneva was immediate, public and by diplomatic standards hostile: India and Brazil both rejected the deal as inadequate and self-serving. "This seems to be an attempt to pry open the developing country markets without any clear commitment on the part of (the US and EU) to open their own markets", Indian Ambassador K.M. Chandrasekhar told reporters. "I think it isn't feasible for us."[3]

More importantly, developing countries organized a written response. Brazil, India and China took the initiative to produce a counter-proposal a week later – still ahead of Cancún. They were initially joined by 13 other WTO members (some others joined later), thereby ensuring that the US/EU text could not serve as the *de facto* basis for negotiation in Cancún. The Group was the basis for what evolved into the Group of 20, or G-20[4]. Tanzania is the only LDC member of the group[5]. Although not historically allies on agriculture, Brazil, China and India were united in their determination to challenge the presumed leadership of the EU and the US. The G-20 text called for a clear date for the elimination of export subsidies, deep cuts to domestic support, and for distinct tariff formulae that would ensure deeper tariff cuts for developed countries than for developing. The differences among positions were deep and there was little time before Cancún to resolve them.

The fifth WTO Ministerial Conference was held in Cancún, Mexico, 10-14 September 2003. The meeting collapsed early, in failure. Only one decision was adopted: that the General Council would meet before December 15, "to take the action necessary at that stage to enable us to move towards a successful and timely conclusion of the negotiations"[6].

Although the Singapore issues were the immediate cause of the collapse of the 5th Ministerial Conference, it is widely agreed that agriculture was as great a problem. The first three days of the conference were largely spent on agriculture. The battle lines were drawn between the US and the EU (somewhat improbably united) on one side and the by-then Group of 21 (the membership fluctuated and has since settled at 20) on the other. A third grouping, the Group of 33 or G-33, also played its part, defending the position of developing countries that were less focused on increasing market access than the G-20, and more concerned with protecting rural livelihoods and food production at home. Recriminations flew, as the US and the EU blamed G-20 members (and Brazil in particular) for their failure to compromise, while many others pointed out the lack of real compromise from the two major players. It later emerged that the G-20 had prepared a compromise position, but the Ministerial Conference collapsed before it could be tabled.

Throughout the meeting, substantive progress was undermined by inadequate process. The text on agriculture sent by the General Council chairman, Perez del

Castillo, to Cancún, for example, largely ignored the contribution made by Brazil, China, India and the others, as well as other positions put forward by various groupings of developing countries in the months before Cancún. In Cancún, despite efforts to avoid the Green Room process of the GATT days, meetings continued to be held with restricted numbers of delegates. Perhaps more seriously, the WTO continues to operate in an entirely informal way, despite the formal – and legally binding – nature of its negotiated outcomes[7]. The lack of rules of procedure acts against smaller, weaker delegations, which are left without recourse when the informal process excludes them. This fuelled the longstanding sense of mistrust, particularly evident among the African and Caribbean countries at Cancún, and made a consensus outcome less likely. As the Third World Network reported a minister from the Caribbean saying: "What kind of organization is this? Who does it belong to? Who does the drafting? Who appointed them? Why waste our time engaging seriously in consultations only to find our views not there at all in the draft?"[8].

CANCÚN TO THE JULY PACKAGE

Sceptics doubted developing countries would maintain their Cancún alliances. Indeed – almost certainly under strong pressure from the United States – five Latin American countries (Colombia, Costa Rica, El Salvador, Guatemala and Peru) left the G-20 soon after the Cancún Ministerial Conference[9]. However, the groups have proved more resilient than expected. For example, a number of the G-20 members met in Argentina only one month after Cancún to reaffirm their shared purpose. Despite significant differences among the members, particularly on the question of market access, the G-20 has maintained a clear identity in the negotiations. The G-20 has now held two Ministerial Conferences, one in Brasilia in December 2003 and the second in São Paulo in June 2004. The countries meet as a group in Geneva on a regular basis and the Brazilian government hosts the group's official website.

The December 15-16 2003 meeting of the General Council focused on procedure rather than substance; informal meetings had made it clear there was still no agreement among members on the core areas of the Doha Agenda. However, the General Council did decide to restart meetings of the issue specific negotiating groups and the committee pulling it all together, called the Trade Negotiations Committee (TNC).

On January 11, 2004, US Trade Representative Robert Zoellick sent an open letter to all WTO-member Trade Ministers, to try to get negotiations moving again[10]. The letter proved to be highly influential on the content of the eventual July Package. Zoellick suggested negotiators focus on the 'core market access topics', meaning agriculture, services and industrial goods. Ironically for the countries and non-governmental organizations that had wanted to avoid a new round of comprehensive talks in Doha, Zoellick was now proposing something similarly restricted. The letter insisted that a clear end date for all export subsidies was a *sine qua non* for completing a new agreement on agriculture. In exchange, Zoellick offered to negotiate the elimination of the 'subsidy component' of export credits (a tool mostly used by the US).

His second challenge to other developed countries concerned domestic support: Zoellick proposed a cap on Blue Box spending. The US no longer uses the Blue Box, but many other OECD members use it extensively. For the United States, Zoellick made it clear that two things would determine the level of cuts to domestic support they could agree to. One, countries with relatively higher AMS and Blue Box spending would have to make the deepest cuts (the cuts should be proportionate to spending levels, not identical across the board) and two, the level of cuts to domestic support would have to be matched by real and significant market access to both developed and developing countries.

The letter also addressed SDT. The letter clearly said progress on agreeing meaningful SDT provisions would depend on establishing criteria that narrowed the list of countries eligible for special treatment. Zoellick conceded the request by the G-33 to create a category of 'special products,' linked to concerns about rural development and subsistence farmers, who would be allowed higher levels of protection – but only for a 'very limited number' of crops. On the Singapore issues, Zoellick put forward the EU's compromise offer from Cancún (which the Commission had subsequently withdrawn) to 'unbundle' the issues and consider taking up one or more, but not all four, in the context of the Doha negotiations.

Finally, Zoellick called for a mid-year meeting to decide 'frameworks' for the negotiations, and for the next Ministerial Conference to be held ahead of schedule, by the end of 2004. The suggestion of moving the Ministerial to 2004 was quickly dismissed as unrealistic, but the idea of a mid-July high-level meeting in Geneva to agree frameworks did gain traction. The value of the letter was as much psychological as practical. It gave renewed impetus to the talks, showing the US was prepared to put political energy into the WTO.

Another important development over the first half of 2004 was European Union progress on Common Agricultural Policy (CAP) reform. In June 2003, the European Commission announced fundamental reforms for the CAP. Most significantly, payments were by and large to shift from payments linked to production to decoupled payments. The reforms freed the European Commission to play a more active role in the Doha negotiations because the CAP reforms are bringing most CAP spending into compliance with AoA disciplines.

THE JULY PACKAGE, HONG KONG, DEADLOCK IN GENEVA

Shortly after midnight on the 1st of August 2004, members of the WTO agreed a framework that provided a basis to continue negotiations on the Doha Agenda. A short overview text is accompanied by a series of annexes; Annex A deals with agriculture. Only one of the Singapore issues – trade facilitation – survived as a topic for negotiation, although the other three continue to be topics of discussion in working groups. Overall, the July Package reflects and expands on the Doha Agenda, with one or two changes and additions, together with the addition of considerable detail. A great deal remains to be negotiated, however, and the most recent Ministerial Conference, held in Hong Kong in December 2005, suggests WTO members are still very far apart on many areas under negotiation. In Hong Kong, WTO members gave themselves a deadline of April 30, 2006 to agree another series of difficult points, to keep the negotiations in motion. (The decisions actually taken in Hong Kong, particularly as regards agriculture, were very few, as is reviewed below). At the end of June, ministers and heads of delegations met in Geneva to negotiate once more on "modalities". However, the negotiations were suspended after an attempt by ministers from six key players to break the deadlock failed on 23 July. Final agreement on the Doha Agenda continues to look unlikely any time soon.

The July 2004 Framework reflected many of the elements that Zoellick proposed in his January letter: export subsidies will be eliminated (although not any time soon); the Blue Box will be capped (although also expanded to include programs that are not aimed at limiting production); and market access will be increased on all products (although some products will be granted less stringent tariff reductions than the rest). Some SDT measures are mentioned, but no detail is given. LDCs continue to be exempt from many provisions.

Up close, the proposals in the July Framework do not add up to much. Given the Doha Agenda's stated aim for agriculture: "to establish a fair and market-oriented agricultural trading system", progress on reducing government payments to the agricultural sector was limited. WTO members agreed to eliminate export subsidies – an outcome that received very favourable coverage – but the end-date was not set (finally, in December 2006, the E.C. limped to a commitment, promising to eliminate export subsidies but only by 2013, and only if several other forms of export support are also disciplined, including food aid, state trading export enterprises and export credits). Developed countries agreed to tighten the disciplines on their spending to support domestic agriculture, but not by much. All of the detail on how much tariffs will be cut and on which products was left open. So was the detail on what special and differential treatment for developing countries, including LDCs, would actually consist of.

Aside from the date for the elimination on export subsidies, and some clearer commitment from all members for the special products and special safeguard mechanism sought by developing countries for their agriculture, the Ministerial conference in Hong Kong added little to the agenda. Some progress on bands for tariff and domestic support reduction has been made since July 2004, and was confirmed in Hong Kong, but the detailed proposals from the E.C. and the US (presented in October 2005) revealed that little significant change to agriculture policy will be realized in the new agreement[11]. Not least, there is simply no support in their respective Parliaments for dramatic liberalization of agriculture that departs from the ongoing domestic reforms now in place. Even in the case of cotton, where the US was found by the WTO dispute body to be in violation of the Uruguay Round commitments to refrain from introducing new export subsidies and to ensure farm payments respected 'least trade distorting' criteria, the US is unable to offer four of the poorest WTO members even a gesture of political goodwill. Ambiguous statements about reducing domestic support to cotton ahead of other commodities were the extent of the undertaking in Hong Kong.

CHALLENGING THE ASSUMPTIONS OF MARKET LIBERALIZATION

Governments at the WTO identify three primary sources of distortion in world agricultural markets: export subsidies, domestic support, and market access barriers. The AoA-mandated reductions to these distortions did not, in most cases, change existing spending or increase market access in any significant degree. However, the categorization of programs was in some ways more significant than the spending limits set. The categorization was important because it sent a signal as to what kinds of programs would be acceptable in the future, and pressured WTO member states to shape their agricultural programs in a particular way. In practice, the agreement discouraged payments to producers that were aimed at limiting output. The Blue Box (article 6.5 of the AoA) created an exemption for production-limiting programs but could only be based on *historical*, not actual production, making the exemption of limited use for governments intent on managing changes in supply and demand needs in an on-going way. So-called decoupled payments, which are based on historical rather than actual production, were blessed as ‘non trade distorting’ although they have been demonstrated to encourage production. At the same time, the AoA put a ceiling on tariffs, while many developing countries had already lowered their tariffs unilaterally to meet their obligations under structural adjustment programs. The AoA narrows the options available to countries to determine what kind of agricultural development model they want to pursue.

Were the WTO negotiations in agriculture to succeed in eliminating all government-related sources of market distortions in world agricultural markets, would LDCs be better off? Even though such a clear outcome is rendered all but impossible by the politics of agriculture in developed countries, it is also important to ask whether the WTO is pushing its membership towards rules that make sense. In fact, assuming that perfectly open markets in agriculture were politically possible, the nature of agricultural markets themselves would then create another set of challenges for policy makers. Left without regulation, agricultural markets tend to over-production, unsustainable production, and price depression, interrupted by periodic (and, for consumers, devastating) price spikes. Market power in commodity production and processing accumulates in the centre, creating oligopolies that are difficult to regulate and yet which are known to raise prices and diminish welfare. Here are some facts that challenge the assumptions that underpin the WTO negotiations on agriculture.

1. Many sectors have welfare implications, but more is at stake when it comes to agriculture. Unemployment is a cruel hardship, but starvation is fatal. Governments have an obligation to protect food security, and therefore must step in when food markets fail, and may need to regulate markets to protect people’s access to food, even if that means distorting the market. Food security is protected in international law. UN member states are bound to protect and promote the universal human right to food. In an immediate sense, this means governments are bound not to restrict the policy space they need to move towards implementation of the right to food. Governments are also bound by their commitment to ensure food security, defined at the World Food Summit in 1996 as: “Food that is available at all times, that all persons have means of

access to it, that it is nutritionally adequate in terms of quantity, quality and variety, and that it is acceptable within the given culture"[12]. Governments cannot cut food imports the way they might decide to do without cars, or even fuel, if they had to.

2. The model for agricultural trade implicit in the AoA presumes that agricultural markets are only distorted by government interference. In practice, as researchers have increasingly documented, agricultural markets are heavily distorted by the presence of oligopoly buyers and sellers at different points in the agri-food chain. Monsanto, for example, makes some 90% of the genetically modified seed in commercial use. Cargill, ADM and Zen Noh control over 80% of maize sales from the US (which in turn has some 40% of the world maize market). Cargill, ADM and Bunge overwhelmingly dominate soybean sales from three major exporters: the US, Argentina and Brazil. Food retailers are also increasingly concentrated, and are penetrating developing country markets. Meanwhile, the countries most dependent on primary commodity exports – many of them LDCs – have been losing global market share over the past twenty years.
3. The external effects of farm production (the impact agriculture has on the environment, for example) pose another set of challenges to the assumption that agriculture can be left to the free market. For example, research in the Philippines has shown that while green-revolution technologies produce more rice per hectare than traditional methods, overall productivity on farms using green-revolution inputs is lower because the pesticide-filled water in the paddy no longer supports fish stocks[13]. These fish provided an additional source of protein for the household, which was a benefit not captured in the market equation, but which was very important to the well-being of the farm household.
4. Agricultural markets are distinct from other markets. Demand is both slow to respond to changes in price and unable to respond much, even over time. There is only so much food a body can digest, even when the food is free; new demand must come from alternative uses for the crops – making liquor, plastic or fuel additives – or from rising incomes, which increases the demand for value added crops (but is not a short-term solution to over-supply and falling prices). Supply responses are also slow and then often excessive (especially when prices spike upwards). Millions of individual farmers cannot affect price by changing their output; they are price-takers in commodity markets. Agricultural assets are fixed, making it hard to respond to price increases with increased supply, while the information available to individual farmers is imperfect, again inhibiting the ideal open market response. Poor information contributes to farmers over-reacting to price increases, leading to a new glut and further price depression in a cycle described as a cobweb, as each circle takes you further from the (ideal) centre. Agricultural supply is largely dependent on the weather, which is not an element farmers can control, although technology helps to manage its unpredictability. Together, these characteristics contribute to price volatility, where brief price spikes are followed by longer-lasting price declines. Futures and options markets, which are often proposed as a tool to reduce price risks, fuel unstable prices, particularly, as with grains and oilseeds, when the spot market is small relative to contracted production. Agricultural markets have

distinct characteristics from those that characterize the ideal in the dominant free-market model.

5. The second half of the 20th century presented the world with a new problem: what to do with surplus production, not just from a good year but also from massive increases in productivity year after year. At the turn of the 20th century, over 25% of agricultural production was used to feed the animals that helped till the soil and move people and goods. Then the combustion engine took over. Most of this land is now dedicated to growing food, adding to the surpluses. We need effective tools to manage production, not least to limit the damage caused by the technologies the productivity relies on. But we also need to keep an eye to the future, and plan for long-term food security, not just for keeping costs down today. We may not want any more yellow maize grown in the US (in fact, we may want a lot less), but we may want to keep the land used to grow that corn available for agricultural production in the future – either for food or for fuel. World population growth has moderated but the world's population is still increasing, while the total arable land available to the planet is not.
6. There is strong empirical evidence to show agricultural development is an effective – perhaps the most effective – way to generate employment and reduce poverty in developing countries. Increasing incomes in rural areas has an immediate and significant positive effect by increasing demand for local goods and services. It is those living without land in rural areas – the people who generally provide these services – who make up the majority of the extremely poor. Their livelihoods should be the first concern of the international community.
7. Climate change is posing many new challenges for agricultural planning. Climate change already affects agricultural production and most experts agree that it will have much more effect in the near future. Experts forecast that valuable agricultural land in Bangladesh and elsewhere will disappear under water as the world's glaciers melt. Although warmer climates in some places may increase their agricultural potential, the most likely change seems to be increased instability in weather patterns. Trade is likely to be an invaluable tool for societies and economies when they tackle these problems, but current trade patterns, to some extent locked in by WTO rules, inhibit needed initiatives to develop alternative energy uses and to transform resource use and management.

Despite the failures of the model in both theory and practice, many governments continue to assert that WTO rules for agriculture reflect a balance of interests among exporters and importers. However, a review of the rules and their implications suggests that a rather narrower set of interests is actually coming out ahead. In particular, the interests of the transnational agribusiness firms that most actively engage in world markets are strongly represented by governments of both developed and developing countries. Meanwhile, the WTO itself clearly equates increased trade with increased human welfare despite the clear debunking of such simplistic assertions by numerous development analysts. The culture and the working methodology of the WTO favour exporters over importers. Exporters are the *demandeurs*, and countries whose agriculture is predominantly for export have less to lose in structuring their economies to favour increased trade. Yet these countries are a minority of the world's countries: 27 or so countries are net food exporters. And an estimated 85% or more of world agricultural production never crosses an international border.

Countries face complicated trade-offs in assessing the best approach to tariff, domestic support and export strategies. Competing interests and scarce resources mean policy choices are highly contested. Some traders see the WTO as a place to pass multilateral rules that could never be agreed to domestically. Analysts argue that this was part of the motivation for the Reagan administration in its push to secure an Agreement on Agriculture as a part of the Uruguay Round. Yet if this was the strategy, it has had unintended consequences: in many countries the public does not see the WTO as a legitimate actor because there is little support for the rules imposed under the Uruguay Round agreements. Many farm organizations, together with trade unions, environmentalists, Church-based groups and others oppose many aspects of the WTO (and some groups reject it outright). Few of the these groups, and they include some parliamentarians, trust the organization to deliver rules for multilateral trade that take account of development needs, human rights, livelihood issues and other public policy priorities.

WHAT CAN BE DONE?

Agricultural commodity markets are plagued by over-production and depressed prices. Some consumers have benefited from lower prices but many of the world's poorest consumers depend on higher commodity prices for their welfare. Increasing levels of concentration in global commodity markets undermine the effectiveness of price transmission. The following five proposals are offered in light of this analysis.

1. *Stronger rules against dumping.* Current WTO rules tackle dumping by allowing countries to tax imports that are sold for less than the price in the home market, but this levy is insufficient. Extensive and chronic over-production of many commodities have depressed prices and made dumping endemic. Dumping should be measured against production costs including a normal return to labour and capital, not against heavily manipulated domestic prices. Developing countries, unable to protect their producers with subsidies, must be allowed to block dumped imports immediately at the border[14].
2. *Stabilize commodity prices.* Agricultural commodity markets are inherently unstable (e.g. due to crop failures) and prone to both price spikes and prolonged periods of over-production and low prices. Unregulated commodity markets have failed to manage these structural characteristics (consider the recent roller-coaster ride of coffee prices, which has devastated the lives of millions of poor coffee growers). The UN Commission on Trade and Development has established a task force to create a toolbox of policies to address the global commodity crisis, including international commodity agreements among major exporters, and regional grain reserves. These policies must be implemented.
3. *Regulate market concentration.* Vertical and horizontal concentration in global commodity markets is a primary cause of market distortion. Possible policy responses include an international review mechanism for proposed mergers and

acquisitions among agribusiness companies that are present in a number of countries simultaneously. At a minimum, transparency requirements now imposed on state trading enterprises should be extended to companies with 20% or more of a national or global market in any given commodity.

4. *Link tariffs to supply management and export controls.* The 1947 General Agreement on Tariffs and Trade (GATT) allowed countries to use import quotas on agricultural products if they practiced supply management and did not export surpluses. This approach should be revisited. Instead of assessing national programs by how much they cost, trade negotiators should focus on their trade-distorting impact.
5. *Protect standards and national development.* As the WTO itself has observed, lowering trade and investment barriers makes regulation of industry more difficult, creating a trade-off between increased efficiency and strong standards, whether environmental, labour-related or other. Governments should approach competition and investment issues with a view to protecting standards and national development objectives. The current approach instead emphasizes the obligation on governments to demonstrate that regulations are 'least trade restrictive'. All WTO member states are obligated under international law to uphold and implement the Universal Declaration on Human Rights and at least some of the related Covenants. International trade law should not take precedence over commitments to protect human welfare.

CONCLUSION: A MULTILATERAL TRADE SYSTEM FOR LDCS

LDCs have a lot to gain from a transparent and predictable global trading system, where large countries are discouraged from cheating by a system of enforceable rules, and where collective bargaining is possible, uniting poorer countries with shared interests. The market distortions that plague developed country agriculture must be stopped. This argues for LDC membership in the WTO. Nonetheless, if LDCs were in charge, the WTO negotiating agenda would look quite different.

A trade agenda for LDC agriculture would contribute to a more productive and profitable agricultural sector. Employment creation and sustainable management of often scarce and depleted natural resources are of the highest priority. LDCs are not big players in global markets, but are unusually dependent on trade for their income. This includes both foreign exchange earnings from the sale of exports and tariff revenue from imports. As trade policy expands to include services (and therefore investment), LDCs bring a distinct set of concerns to the table: they need foreign capital and know-how, but directed at building their own firms and creating domestic employment and capital, rather than a system in which profits are taken out of the country and ownership does not transfer to local control. Such infrastructure is needed for local and regional markets, not just to facilitate access to world markets.

To date, the liberalization of agriculture (for example, the end of price floor policies in the US and of efforts to coordinate supply policies through international commodity agreements) has increased price volatility in commodity markets. Although long-term price declines continue, spot prices are volatile and food import bills vary significantly from year to year for LDCs, especially when currency fluctuations are factored in. The strong pressure to reduce tariffs further in the Doha round will further lessen the value of the preferences on which some LDCs depend. LDCs tend to be less competitive than other developing country exporters, and experience suggests that in a deregulated, open market context, they will find it hard to catch up. All this creates problems that the WTO, as a system of one-size-fits-all rules that deliberately seeks to avoid concessions to non-trade concerns where possible, is ill-equipped to address.

The interest of LDCs in the WTO as an institution is also worth reviewing. Smaller, weaker countries look to the multilateral system for strength in numbers and protection from unilateral action or decisions that exclude them. However, the WTO is perhaps the multilateral forum that finds it hardest to fulfil this promise. There is unquestionably a trade-off between the WTO's strength and the WTO's ability to handle a broadly-based development agenda (it has refused to do this to date). The strength comes from the WTO's clear – and narrow – focus, the support and interest of the world's largest and most powerful economies (which give the institution more attention and proportionally more resources than many of its UN cousins) and the continuing vogue for trade liberalization as the pre-eminent engine for economic growth, although nay-sayers are there for those listening.

There is empirical evidence to show that the relationship between trade liberalization and growth, particularly growth that generates employment and reduces poverty, is a complicated one. The WTO has the potential to provide a forum for weaker voices; it is a multilateral organization that formally gives each member an equal voice (unlike, say, the World Bank). However, in practice, it is widely acknowledged that smaller economies, and LDCs in particular, are not able to participate on equal terms with larger countries. The most recent Ministerial Conference in Hong Kong showed again that the relatively informal and *ad hoc* negotiating system works against the participation of many countries, including the majority of LDCs. LDCs often have to depend on one or two voices in the Heads of Delegation meetings. Reports of unfair pressure by other WTO members, as bilateral donors or preference-offering countries also persist, contributing to a climate in which developing countries are suspicious and feel marginalized.

Many LDCs have come through extensive economic structural adjustment programs and are now operating in what UNCTAD terms a post-liberalization context. Their challenges are not so much in how to open their markets further, or in how to manage greater liberalization, but rather in how to make up for not having been able to sequence policy changes properly or to invest in the necessary supportive policies to ensure that the potential gains from liberalization were realized. In that context, the multilateral trade rules matter a great deal, but they cannot hope to be the main engine of growth and development for LDCs. Membership of the WTO is probably useful for most developing countries, but it cannot substitute for investment in diversification of the economy, meeting supply-side constraints and developing options for those who have lost their livelihoods in the process of moving to a market-based economy.

Many farmer and peasant associations in both the developed and the developing world, together with the non-governmental organizations (NGOs) they work with, question the legitimacy of the WTO to determine domestic agricultural policy. Many of these groups have joined a campaign that calls for the 'WTO out of agriculture' on the grounds that the attempt to shape domestic agricultural policies through an international trade law lens is bad for farmers and undermines the basis for a just and sustainable food system. Increasingly, a convergence among NGOs is evident, where, despite differences on what value to place on more liberalized trade as an engine for growth, many NGOs agree that developing countries need to maintain national policy flexibility to determine the best policy mix for their needs. These organizations are interested in strong multilateral rules for agricultural trade. They accept that many problems can only be solved by multilateral disciplines. However, they are sceptical that the WTO's pursuit of deregulated markets responds to developing country needs.

For their part, many developing country governments are still hopeful that the WTO can be made responsive to development needs. They are trying to use the Doha Round negotiations on agriculture to make the rules more responsive to their needs. Many developing countries are now pursuing a strategy to secure an outcome that will actually liberalize developed country agriculture while seeking to protect some of their vulnerable agricultural populations. LDCs are not adequately represented in the debates, but many have associated themselves with the wider developing country efforts. At the same time, LDC governments have joined efforts such as the G-90 to attempt to consolidate the voice of the poorest WTO members. This paper argues they should go much further in their proposals, to build a protected space within which to secure the best development outcome for people, using agriculture as an engine for growth.

It is questionable at this point if scarce LDC trade capacities are well spent on the WTO. Certainly those that are not yet members could ask themselves if the costs entailed are worth paying. At this point, WTO agreements curtail policy space, reflect interests of dominant member countries, while the accession process imposes even greater liberalization conditions than the WTO Uruguay Round Agreements require. Those LDCs that are WTO members might challenge the assumption that proceeding on the basis of one-size-fits-all rules in a multi-sectoral take it or leave it package is appropriate to their development needs. The WTO has yet to prove itself as able to meet the demands of a diverse and, in too many cases, deeply impoverished membership.

NOTES

[1] The texts of the ‘July Package’ are at the WTO website: http://www.wto.org/english/tratop_e/dda_e/draft_text_gc_dg_31july04_e.htm

[2] The Cairns Group of agricultural exporting countries at present has 17 members: Argentina, Australia, Bolivia, Brazil, Canada, Chile, Colombia, Costa Rica, Guatemala, Indonesia, Malaysia, New Zealand, Paraguay, the Philippines, South Africa, Thailand and Uruguay.

[3] ‘Cool Reception for EU, US Agreement on Framework for Farm Subsidies Cuts in WTO Talks’ story by Naomi Koppel, Associated Press. 14 August, 2003.

[4] The G-20 now has a website at http://www.G-20.mre.gov.br.

[5] There are currently 19 members of the G-20: from Africa – Egypt, Nigeria, South Africa, Tanzania and Zimbabwe; from Asia – China, India, Indonesia, Pakistan, Philippines and Thailand; and from Latin America – Argentina, Bolivia, Brazil, Chile, Cuba, Mexico, Paraguay and Venezuela.

[6] As cited in *Bridges*, No.7, September-October 2003, International Centre for Trade and Sustainable Development. Geneva. On-line at www.ictsd.org.

[7] Amrita Narlikar, ‘The World Trade Organization: A Case for G-20 Action on Institutional Reform,’ conference paper *Agricultural Subsidies and the WTO*, Oxford, UK, June 8-9, 2004. On-line at: http://www.globalcentres.org/html/project9.html.

[8] Third World Network, ‘Analysis of the Collapse of the Cancún Ministerial,’ TWN Info Service on WTO Issues (Sept 03/14), 16 September 2003. On-line at http://www.twnside.org.sg/title/twninfo76.htm.

[9] There are now 19 members in the Group – see footnote 5 for the current list.

[10] Available on-line at a number of sites, including www.tradeobservatory.org in the library and at www.ictsd.org. The USTR’s office has a summary version at http://www.ustr.gov/Document_Library/Press_Releases/2004/February/Zoellick_Embarks_on_Global_Push_to_Make_Strong_Progress_on_Doha_Negotiations.html.

[11] See for example the analysis by IATP, *The United States WTO Agriculture Proposal*, October 2005. On-line at http://www.tradeobservatory.org/library.cfm?refID=77195.

[12] FAO, 1996, Rome Declaration on World Food Security.

[13] Yap (Masipag), personal communication.

[14] Sophia Murphy, Ben Lilliston and Mary Beth Lake (2004), *WTO Agreement on Agriculture: A Decade of Dumping*, IATP. Minneapolis. USA.