Agricultural Trade Frameworks

Next Steps for Agricultural Trade Agreements

Peter Gallagher peter@petergallagher.com.au

ABSTRACT

Note on the implications of the Doha Round collapse

Next steps for agricultural trade agreements

Doha has failed, not 'collapsed'

Doha did not fail because of the disagreement over the SSM trigger. The poor quality of the proposed agreements reflected much broader problems; there were other issues that might also have caused the collapse of consensus. The Doha enterprise had priorities that were no longer aligned with the *commercial realities* of world markets and that had been by-passed by the *political realities* of the trading system.

It is important to understand the lessons of the Doha Round's collapse and not be misled by the hope that extending its processes still further (more 'Chairman's' texts) will cure its shortcomings. Even if more tweaking could reveal the elusive 'landing zone' for consensus, agreement could only resuscitate a feeble and—in agriculture—a partly irrelevant result for the sake of closure, rather than for the sake of substantial progress on contemporary trade problems.

Because the multilateral trading system is an essential safeguard for Australia's interests, we should take the time to reflect on the systemic changes needed before returning to the project of multilateral market liberalization. Fortunately, some of the factors that brought Doha to an end favor our market interests and allow us time to undertake the research and the diplomatic work necessary to help re-construct a more effective framework for multilateral trade agreements.

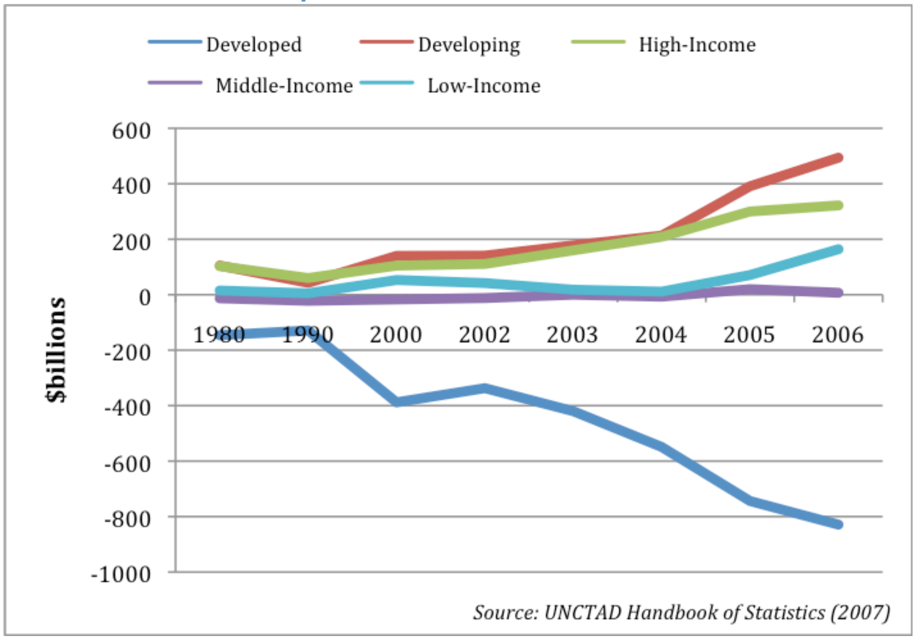
Doha's rear-vision

Most trade policy is made in the 'rear-view' mirror because of the need for political legitimacy (consensus-building, settlements among competing interests) and on account of lags in the information available to government. Changes in the regulation of markets tend to follow—rarely to lead—changes in technology, investment, distribution, production etc. The Doha mandate was no different in this respect from the first seven rounds of GATT/WTO trade negotiations. But two remarkable changes in the world economy over the period of the Doha negotiations have made the objects in the rear-view mirror more distant than they appeared at first.

The first change is due to the growth rates of most of the emerging economies over last decade, reflected in their rapidly growing share of trade flows and accumulation of huge external balances. Their trade performance affects both the central objective of the Doha enterprise and the management of the enterprise.

Although income inequalities among economies remain a major concern, poverty levels in the rapidly growing, trade exposed, developing economies, including the largest low-income economies, are falling rapidly. The evidence for a link between openness to trade and rising average incomes, already demonstrated by the "Asian Tigers" of the 1980s, has strengthened with the rise of incomes in China, Vietnam, Russia and India. Accordingly, the Doha mandate to address the needs of development primarily by opening markets *other than developing country markets* such as China and India, which seemed little more than a ritualistic recollection of the GATT's 'enabling clause' seven years ago, appears now as a bizarre and costly relic of an era bygone.

Merchandise trade surpluses

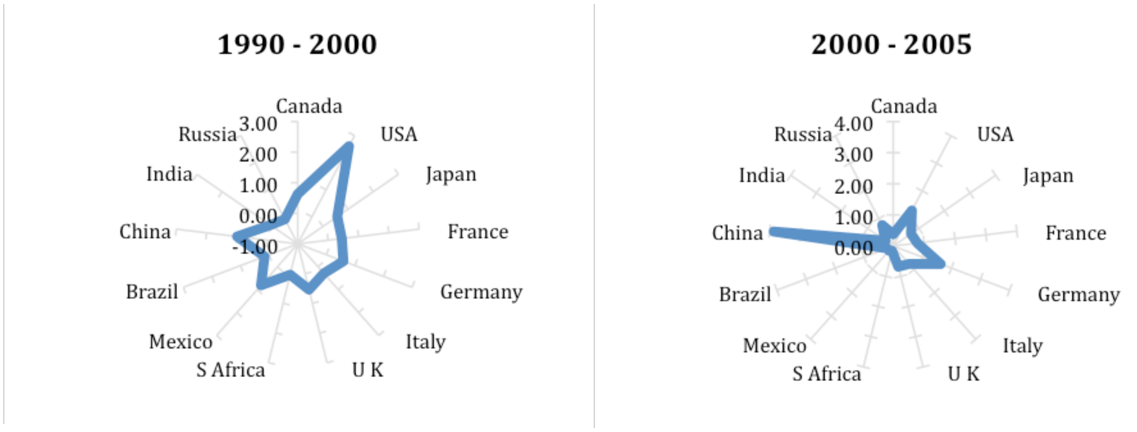


A direct consequence of this misdirected objective is that, in Doha's proposed agriculture agreement, more than half of all developing Members of WTO—including the world's most successful trading economies over the past decade—would have had few if any obligations to open their markets and many opportunities to exclude product markets from any future barrier cuts.

Meanwhile, some of these same emerging developing countries consolidated their political influence in the management of the system. The creation of the G-20 in 2003 was a symptom of this growing influence which was expressed in obscure ways, however, owing to India's rhetorical prominence (despite its much smaller trade foot-print), the specific concerns of Brazil and Indonesia, and China's reluctance to assert a leading role that might expose it to negotiations during a time when its export performance had brought considerable bilateral pressure from Europe and the United States.

The divergence between their rapidly growing share of world trade (and trade surpluses) and role in managing the system, on one hand, and their minimal contribution to the collective benefits of the system, on the other hand, undermined the credibility of the Doha project as the negotiations continued.

Trade 'momentum' of selected economies[1]



The second 'retrospective' aspect of Doha's agenda concerns agriculture, especially, where the Doha mandate adopted the format and objectives of the 'continuing reform' program of the Uruguay Round whose roots were in the 1980s. Thirty years ago, when this program was first created, export subsidies were still growing on the back of massive transfers to agricultural producers in Europe, Japan and (to a lesser extent) North America, behind quotas and variable levies at the border. Developing country markets for temperate agricultural produce were small and volatile.

Doha followed the same path because it could—the *technology* existed in the Uruguay Round agreement on Agriculture—rather than because these distortions remained top priorities for the first decades of the 21st century. The EC had already started down the path to more fundamental reform of its agriculture; the USA had all but abandoned export subsidies and had adopted a reformist farm bill (within 4 years the two could agree on the elimination of export subsidies because they had already got there). The real priority for Doha, in 2001 as now, was market access reform in developing as well as developed countries to clear away the excess protection left by the Uruguay Round mechanisms.

But this priority was muddled from the outset by the belts-and-braces 'development' exceptions for developing countries. Agricultural prices were at historically depressed levels in 2001 (grains at 70% of the 1995 price levels) and

---

[1] Momentum is defined as each country's share of world merchandise trade ('mass') weighted by the annual average rate of growth of that country's trade over the preceding decade ('velocity'). The United States dominates the shape of the polygon over three decades to 2000. China first begins to capture a share of the trade momentum in this group in the 1980s and continues pulling on the shape of the polygon through the 1990s when Mexico emerges (thanks to the 'NAFTA effect'). From 2000 through 2005 there is a dramatic redistribution toward China with a 'spike' toward the Russian Federation, balanced to an extent by the continuing weight of European economies. Source: UNCTAD Handbook of Statistics (2007) and own calculations.

depressed trade and investment flows (recession in industrialized economies) had sharpened the focus of governments and multilateral institutions on poverty in developing countries. Although the next seven years saw a rapid return to the high growth path that developing countries had established in the mid-1990s and prices in global agricultural markets that made concern about subsidies irrelevant in most commodities, the Doha mandate kept negotiators' objectives fixed in the rear-view mirror.

Terms of Trade ($US prices)[2]

	1989–98	*1999–2006*	1999	2000	2001	2002	2003	2004	2005	2006
Manufactures	*0.30*	*2.68*	-2.40	-5.90	-3.80	2.30	14.10	9.30	3.40	4.40
Oil	*-1.20*	*23.94*	37.50	57.00	-13.80	2.50	15.80	30.70	41.30	20.50
Nonfuel primary commodities	*-2.20*	*7.31*	-7.20	4.80	-4.90	1.70	6.90	18.50	10.30	28.40

Source: IMF World Economic Outlook, 2007

Seeing the world as it is

The absence of an explicit demand from the half-dozen giant developing economies (including Russia, from now on) for a change in the management of the trading system cannot disguise the fact that this change has already taken place.

From 1947 to 2001, the accommodation between the USA, Europe and to a lesser extent Japan that formed the basis for the management of the GATT and the WTO was reached between economies on the same 'plane'. They were of similar size and wealth and shared institutions and history. The change in the distribution of world trade and production that has already taken place removes that steady platform and replaces it with something that is more like a set of steps. On one rank: large economies that are wealthy, dominated by the services sector and growing slowly. On the other: large economies that are growing rapidly but are still poor by any standards and predominantly rural (or commodity based).

The definition of objectives for the trading system from now on must take this 'stepped' configuration of the leadership into account. The industrialized countries' post-war economic recovery and growth defined the objectives, sectoral focus and program of the GATT. Under its new leadership, WTO will need more than one set of objectives, sectoral focus and program in the future. Somehow, it will have to fit them into a coherent whole in order to maintain a multilateral consensus.

---

[2] Exporters of non-fuel commodities saw a strong and steady improvement in their purchasing power with respect to e.g. manufactured imports over the period from 2001 to 2006 (although their oil import bills rose even more strongly).

Poles of the trading system

Overall indicators^	Current 'poles' of trading system: European Union*	Current 'poles' of trading system: United States	Potential 'poles' of trading system: Brazil	China	India	Russia
Population, millions	459	299	189	1312	1110	142
GDP, billions PPPUS$	12634	13202	1708	10048	4247	1704
Total merchandise exports, billions US$	1456(1)	1037(2)	138(16)	969(3)	121(20)	304(8)
(Rank in world) [% world total]	[16.22]	[8.56]	[1.14]	[8.00]	[1.00]	[2.51]
Total merchandise imports, billions US$	1697(2)	1918(1)	95(19)	791(3)	175(11)	165(12)
(Rank in world) [% world total]	[18.26]	[15.44]	[0.77]	[6.37]	[1.41]	[1.33]
Total services exports, billions US$	539(1)	398(2)	18(19)	91(4)	75(5)	31(13)
(Rank in world) [% world total]	[26.57]	[14.38]	[0.65]	[3.31]	[2.71]	[1.11]
Total services imports, billions US$	453(1)	308(2)	27(16)	100(4)	63(7)	44(9)
(Rank in world) [% world total]	[23.36]	[11.74]	[1.03]	[6.37]	[2.40]	[1.66]
Total trade, billions US$	4145	3660	178	1951	434	544
Total trade/GDP, %	26.4	26.0	26.4	69.0	42.2	55.8
Total trade per capita, US$	7444	9714	1235	1207	309	3047
Percentage of merchandise exports shipped to EU and USA - -	23.1	20.7#	40.6	30.6	36.2	59.0#
Trade policy related indicators						
Tariff binding coverage, %	100	100	100	100	73.8	-
Simple average applied tariff rate for agricultural goods, %	15.0	5.5	10.3	15.8	34.4	14.6
Simple average applied tariff rate for non-agricultural goods, %	3.8	3.2	12.4	9.1	11.5	10.5
MFN duty free imports, % of agricultural goods %	39.7	38.9	1.8	78	6.9	5.9
MFN duty free imports, % of non-agricultural goods %	62.3	54.5	33.3	44.2	9.7	22.5
GATS services sectors with commitments	115	110	43	93	37	-
Membership of goods-related (services-related) RTAs notified to WTO	23(3)	9(8)	4(1)	6(2)	6(1)	5(0)

^ Trade data=2006, Trade policies=2007 * EU=EU27, data excludes intra-EU trade #Exports to EU only
Based on Evenett, S.J. "EU Comercial Policy in a Multipolar Trading System", sourced from stat.wto.org

How that coherence can be managed is the question that governments now need to answer. It is very unlikely to be the *'single undertaking'* that yoked the Doha negotiations to the world of the late 1980s. But what will stand in its place, and how some of the most valuable acquisitions of that period can be retained (especially the unique Disputes system) under different principles is far from clear. Very likely, a stable system of reciprocal obligations will have to accommodate the differences in the preoccupations of the WTO membership in a way that the 'single undertaking' does not: for example by allowing for *'critical mass' agreements* among subsets of the WTO membership that retain, however, some crucial characteristics of the MFN principle.

The 'development' orientation of the Doha round was more spin than substance since no trade agreement is well adapted to advancing economic growth much less development. But development strategies still hold the clue to where the global trading system is headed. The *stylized account* is this: poor developing economies with predominantly rural populations and enormous demographic and infrastructure (physical, non-physical) challenges necessarily have specific economic strategies and priorities.[3] They have the capacity determine these priorities with a high degree of autonomy because they play a crucial role in world merchandise *and* asset markets to the benefit of themselves and their wealthier trading partners. Any future global regime must provide for this policy autonomy in a way that WTO's *single undertaking* does not, but also for the interests of developed economies in moving ahead on a rapid trade liberalization trajectory, possibly at a tangent to the directions of the giant emerging economies in the short term but wherever possible on an intersecting path.

Next steps for agriculture

Obviously, the strategic challenge from now on is more complex. GATT/WTO has never offered *quick wins* but under the old configuration it was reasonably clear what a 'win' meant. From now on, we must consider not only the pace of progress but also the definition of *'progress'*, which will be different for some economies than for others. The challenge for Australian industry is to make sure each step in a multilateral trade strategy represents measurable progress toward opening markets, not some component of a 'random walk' through the trading system (one step forward, one step back) that leaves progress in the hands of arbitrary political processes.

The July 2008 drafts for a Doha agreement on agriculture were much too close to such a 'random walk'. They promised some improvements in market access for some Australian agricultural commodity exporters if all of the IOUs on 'sensitive' and 'special' products and the limits on the SSG and the full impact (otherwise) of the 'tiered' tariff formulas were honored. But even then, the result would have fallen a long way short of 'substantial improvement' for most products. The top tiers of the tariff cuts barely plumbed the water or bound-rate overhand of developed or developing market protection on temperate products and some markets (China, India, Indonesia) would have had an almost 'free ride' under various status exceptions.

The only basis on which the deal was 'doable' was that these meager improvements—the forward steps—came at no immediate cost other than, possibly, the extension of GIs. They did, however, have a high structural cost–the backward steps. They cemented into place a new series of categorical ('sensitive', 'special') and status ('net food importing', RAMs etc.) exceptions for product groups and country groups and made permanent a number of procedural exceptions (SSG,

[3] These specific strategies are sometimes held up as evidence for the 'many recipes' approach to contrast them with the (allegedly) monolithic approaches of the liberal 'Washington Consensus'.

peace clause) that were once supposed to be temporary. This gobbledygook would have continued to disrupt cross-border agricultural business; probably ensuring the 'special' legal status of agriculture would never be eliminated from the trading system rules. That alone represents a prospect that should dissuade Australian producers and exporters from any resurrection of the Doha agenda.

In the post-Doha trading system, the priorities for Australian agricultural producers and exporters will now be shaped by two different opportunities that may be on different time-scales

Regional Trade Agreements

We already have agreement to the negotiation of three important regional FTAs: with ASEAN, China and Japan. There is also a reasonable chance of establishing a negotiation with Korea, but the timing may depend on the ratification of the USA/Korea FTA.

The three current negotiations are lagging badly with few or no recent signs of progress. Whether and when these negotiations will lead to agreement also depends on specific factors: the motives, opportunities and pressures for agreement are different in each case. But one thread that links the delay in all three is the degree of 'comprehensive' coverage on which Australia insists and, in the case of China, our apparently limited concessions on motor vehicles and our restrictions on foreign investments. Since 'comprehensive' coverage often relates to agriculture, there seems to be little prospect of quicker progress on these agreements unless the Australian government reduces its ambitions in a way that will apparently hurt prospects for agricultural exports to those markets.

Closer investigation is likely to show, however, that the barriers faced by each industry have different degrees of significance and that Australian agriculture's commercial concerns do not require 'comprehensive' agreements. For example, in Japan, there are few agricultural products where Australia could expect to see substantial increases in volumes or margins on a discriminatory basis. Although *some* improvements in both could be expected e.g. in dairy powders, some horticulture, and possibly fresh pork the opportunity for significant increases is limited by the slow growth of most Japanese commodity markets, our existing high shares and returns and the limits of Japanese flexibility in a discriminatory deal that *dis*favored either the USA or EC. In China there are much larger volume opportunities, despite China's high level of self-sufficiency in many horticultural, cereal and livestock products because of the size of the market. But prices in China in most commodity markets are below the premiums available in other markets. Accordingly, different industries have different priorities for the Chinese market. The same is true of the ASEAN market where the most significant barriers are now found in particular product areas (dairy, horticulture) and markets.

It is also pertinent to our regional (and multilateral, *see below*) strategy that most of these countries (not China) are substantial net food importers for whom the high price outlook and concerns about food security for urban populations are near the top of the agenda.

Considering that prices in world markets are likely to remain above historical (post 1970s) averages in real terms for the medium term[4], we have the opportunity to be selective about the product coverage in these agreements. For the sake of restoring momentum to these negotiations, we should focus on those products and markets where the potential returns are greatest rather than adhere to a dogmatic view about the coverage of the agreements.

This does **not** mean omitting any product from the legal scope of an agreement; rather, it means tailoring the liberalization schedules to include only our top priorities and using our reputation for secure and competitive supply, with some degree of government assurance, as a bargaining chip to secure lower barriers where supply assurance would be in the interests of ourselves and our customers.[5]

WTO

Picking up the draft texts where they lay at the end of July 2008, would only compound the errors of the Doha round. It is time to abandon the 'single undertaking' in agricultural negotiations and to devise better approaches based on plurilateral market access agreements that bring together those trading partners who have identified an interest in reducing market access barriers in order to e.g. cut the (urban) consumer penalty while allowing producers to take full advantage of high costs, or; to improve supply security, or; for macroeconomic reasons to improve economic performance (etc. etc.).[6]

So-called 'critical mass' agreements are winning attention as a potential way out of the narrow constraints of negotiations under the single undertaking. They already have an encouraging track record in WTO in NAMA and Services. It is unclear whether they will work in Agriculture but there is no reason in principle why they should not, especially in those products where a high proportion of global trade is confined to a relatively small number of WTO members. The WTO precedents (e.g. the Information Technology Agreement) have concerned market access rather than than 'rules' (such as export or production subsidies), but there are also precedents in GATT for the negotiation of rules within a CM that could contribute to reducing other distortions such as production subsidies.

The strength of the 'critical mass' approach is that it would allow interested Members of WTO to reach early agreement on a reciprocal basis to open markets without implicating those Members whose policies or development strategies would preclude their acceptance of the obligation, while also providing a secure basis for the extension of benefits on an MFN basis, once the 'critical mass' of participation has been reached.[7] The challenge of this approach is to define an appropriate *critical mass*. On the one hand, an agreement on agriculture that potentially extended unreciprocated MFN benefits to e.g. China or India or Russia might not attract the

---

[4] Current prices for food commodities–two or three times the 2001 levels–are likely to be temporary, however.

[5] See my note for the FTA Reference Panel on 'A Layered Approach' to FTA negotiations.

[6] The same recommendation can be made for NAMA

[7] Those economies that accept the obligations of the agreement will enjoy some additional privileges in terms of the right to manage the agreement and access to dispute settlement under the agreement.

adherence of e.g. Japan or Europe or the United States. On the other hand, an agreement among countries accounting for a substantial proportion of trade in a product or sector such as grains or sugar would create a framework for supply security and price stability that most producer countries would want to join whatever their trade-exposure.

As with RTAs, the opportunities that arise from a CM need to be tested in the market; from the perspective of interested parties, the perceived benefits will change as the potential CM membership grows. Given this, and the variety of commercial, economic and security concerns that may motivate economies to participate, there seems to be no way to define the opportunities for gains from a potential CM agreement *a priori*.

Finally, product and even sector CMs do not necessarily stand on their own.[8] It is likely that a CM approach to liberalizing markets for agricultural products will have to be matched by CMs in NAMA and Services in order to succeed.

[8] There is some evidence, for example, that a deal between the USA and EC on the reduction of duties and the protection of GIs for spirits ('Scotch') was part of the package that got the ITA to launch stage.