

Research and Library Services



**Northern Ireland
Assembly**

Research Paper 23/02

April 2002

THE WTO AND AGRICULTURAL TRADE

The future of agriculture is being decided at a number of political levels. The long process of negotiation addressing reform of the Common Agricultural Policy continues within Europe, while parallel negotiations on the liberalisation of agricultural trade are also ongoing at the WTO. National governments must then work to implement the decisions reached at such negotiations. This paper aims to outline how the talks on agriculture have developed within the WTO, and the recent agreement at the Doha Ministerial Conference which set the agenda for future agriculture negotiations for the WTO.

Library Research Papers are compiled for the benefit of Members of The Assembly and their personal staff. Authors are available to discuss the contents of these papers with Members and their staff but cannot advise members of the general public.

SUMMARY OF KEY POINTS

The political necessity to reform European agriculture has perhaps never been greater. The Common Agricultural Policy consumes over 40% of the entire EU budget; production in many commodities exceeds demand; concern for food safety, the environment and animal welfare have assumed huge importance; and enlargement of the EU poses serious questions as to the funding of accession countries with large agriculture industries.

While there have been attempts to reform European agriculture these have often been restricted due to national interest of individual member states. The Agenda 2000 proposals again stimulated debate between liberalising and protectionist positions and, though eventually agreed by Heads of Government or States, are viewed by many as constituting a compromised reform document.

The Agenda 2000 document was however perceived by the European Union's chief negotiator as containing all the 'essential elements' of the EU position required for negotiation in the WTO talks held at Doha. This meeting was another in the process of WTO negotiations on trade. The Uruguay Round of WTO talks 1986-1994 led to the *Agreement on Agriculture* which resulted in some reform, specifically in:

- Market Access;
- Domestic Support; and
- Export Subsidies

Importantly, Article 20 of the Agreement committed Members to continue the reform process. The Doha conference launched new negotiations on a range of subjects including agriculture. It therefore *set the agenda for the continuing negotiation on agriculture* i.e. the decisions that were made at Doha relate only to those issues to be included in the continuing negotiation, it was not to decide the outcome. Agriculture is now part of the single undertaking in which virtually all the linked negotiations are to end by 1 January 2005.

CONTENTS

1. Introduction	1
2. Reform of the CAP	1
3. The WTO AND GATT	1
4. The WTO Agreement on Agriculture.....	2
5. Outline of the European Union's negotiating position in relation to the Doha talks	3
6. The Doha Conference.....	4
7. EU reaction to the outcome of Doha.....	5
8. Conclusion	5

1. INTRODUCTION

From a European perspective there are two international forums for negotiation of agricultural policies:

1. At a European level the 15 members of the European Union have been involved in continuing *internal* negotiations over the reform of the Common Agricultural Policy; and
2. On a global level the World Trade Organisation (WTO) provides the platform on which the EU as a *single entity* negotiates agricultural trade issues.

The reform of the CAP is strongly linked to the reform of the European Union since it consumes approximately 42% of the entire EU budget. Public debate on the reform of the European Union culminated in the EU summit in Berlin on March 1999 when the Heads of State or Governments of the 15 EU countries agreed on a package of reforms. These reforms are contained in Agenda 2000 and cover the period 2000 – 2006 and comprise 3 basic elements:

- The reform of the CAP;
- The reform of the structural funds; and
- Decision about own resources and imbalanced budget (Schrader, 2000)¹.

2. REFORM OF THE CAP

The reform of the CAP is based on a number of factors including:

- Growing world demand for food;
- Moves towards liberalising international trade; and
- Enlargement of the European Union.

Franz Fischler, in the 1999 review of the CAP², stated that the Agenda 2000 agriculture agreement “*equally constitutes the “essential elements” of the EU position for negotiations on further agricultural trade liberalisation within the context of the WTO*”.

3. THE WTO AND GATT

The WTO is the successor to the General Agreement on Tariffs and Trade (GATT) and was established in 1995. GATT itself was a multilateral trading system and it is this system that forms the basis for how the WTO operates consisting of trade negotiations referred to as rounds. It was the last round of trade negotiations – the 1986-1994 *Uruguay Round* – that led to the creation of the WTO. The GATT did apply to agriculture but did not prevent countries from subsidising their agricultural industries. This has resulted in distortion of agricultural trade. For example, import barriers and domestic subsidies have had the effect of raising prices in the internal market of member states and, therefore, encouraging over-production resulting in surpluses. If these surpluses are released on to the world market, where prices are lower, then export subsidies have to be paid³. This has had the effect of placing

those countries that do not, or are unable to, subsidise their agriculture industry at a disadvantage since surplus products on a world market result in a lower price for those products than these countries can produce them for.

The Uruguay Round established the framework to implement new rules and regulations to address protection and trade-distorting support. Importantly, Article 20 of the Agreement committed members to *continue the reform* and it formed the basis for negotiation:

Article 20 of the Agriculture Agreement
Continuation of the Reform Process

Recognising the long-term objective of substantial progressive reductions in support and protection resulting in fundamental reform is an ongoing process, Members agree that negotiations for continuing the process will be initiated one year before the end of the implementation period, taking into account:

- (a) the experience to that date from implementing the reduction commitments;
- (b) the effects of the reduction commitments on world trade in agriculture;
- (c) non-trade concerns, special and differential treatment to developing-country Members, and the objective to establish a fair and market-oriented agricultural trading system, and the other objectives and concerns mentioned in the preamble to this agreement; and
- (d) what further commitments are necessary to achieve the above-mentioned long-term objectives.

4. THE WTO AGREEMENT ON AGRICULTURE

Central to the WTO are *Agreements* that cover a wide range of international trade and policy issues in goods, services and intellectual property⁴. The *Agreement on Agriculture* was finalised in the Uruguay Round and aimed to reduce market distortion of agricultural products.

The Agreement addressed three main areas in relation to trade:

- Market Access;
- Domestic Support; and
- Export Subsidies

(i) Market Access

This dealt with restrictions placed on imports by, for example, the imposition of quotas. Specifically, *non-tariff* border measures were replaced with tariffs that, while providing the same level of protection, had to be reduced by 36% in the case of developed countries over a period of six years. Minimum access tariff quotas were also established. The amount to be applied depended on the quantities imported. For example, where access to the domestic market was less than 3% a minimum tariff was applied. The tariff increased where imports made up a greater proportion of the market.

(ii) Domestic Support

Measures were adopted that address domestic policies that contribute to higher prices and over-production. WTO members determined how much of this type of support they were providing, using calculations termed “total aggregate measurement of support”. Developed countries agreed to reduce this by 20% over six years starting from 1995¹.

Measures that also have a limited impact on agricultural trade can be used freely⁵ i.e. “green box” measures (research, food security, direct payments under environmental programmes).

Direct payments are also permitted for measures whose aim is to limit production (“blue box” measures).

(iii) Export Subsidies

Export subsidies are prohibited under the Agriculture Agreement except where specified in a member’s list of commitments. Based on the 1986-1990 average, countries agreed to cut export subsidies by 36% over six years starting in 1995.

(iv) Non-trade concerns

In addition there were a number of other non-trade concerns recognised in the Uruguay Round Agreement on Agriculture (URAA) such as rural development, the environment, food safety and animal welfare.

5. OUTLINE OF THE EUROPEAN UNION’S NEGOTIATING POSITION IN RELATION TO THE DOHA TALKS

(i) Market Access

The EU hoped to ensure that there would be tougher rules to protect quality and regional export products particularly from fraud.

(ii) Domestic Support

Outlining the EU’s negotiating position in relation to domestic support the Directorate-General for Agriculture indicated that the EU was prepared to reduce farm support measures as long as the blue and green boxes remained⁶.

(iii) Export Competition

The EU stated it was willing to negotiate further cuts in its export refund programme. However it was only willing to do this if *all* forms of export competition were on the negotiating table.

(iv) Non-trade concerns

Other issues that needed to be addressed in the negotiations from a European Perspective were rural development, environment, food safety and animal welfare.

6. THE DOHA CONFERENCE

In November 2001, the fourth WTO ministerial conference was held in Doha, Qatar. A declaration was issued on the 14th November (see below), which launched new negotiations on a range on subjects including agriculture. The declaration essentially builds on earlier objectives arrived at during previous negotiations which began in early 2000 under Article 20 of the WTO Agriculture Agreement. The Doha conference therefore *set the agenda for the continuing negotiation on agriculture* i.e. the decisions that were made at Doha relate only to those issues to be included in the continuing negotiation, it was not to decide the outcome. The Doha conference did not result in any change in agricultural policy. Agriculture is now part of the single undertaking¹ in which virtually all the linked negotiations are to end by 1 January 2005.

THE DOHA MANDATE

from the Doha Ministerial Declaration, November 2001

Agriculture

13. We recognize the work already undertaken in the negotiations initiated in early 2000 under Article 20 of the Agreement on Agriculture, including the large number of negotiating proposals submitted on behalf of a total of 121 members. We recall the long-term objective referred to in the Agreement to establish a fair and market-oriented trading system through a programme of fundamental reform encompassing strengthened rules and specific commitments on support and protection in order to correct and prevent restrictions and distortions in world agricultural markets. We reconfirm our commitment to this programme. Building on the work carried out to date and without prejudging the outcome of the negotiations we commit ourselves to comprehensive negotiations aimed at: substantial improvements in market access; reductions of, with a view to phasing out, all forms of export subsidies; and substantial reductions in trade-distorting domestic support. We agree that special and differential treatment for developing countries shall be an integral part of all elements of the negotiations and shall be embodied in the schedules of concessions and commitments and as appropriate in the rules and disciplines to be negotiated, so as to be operationally effective and to enable developing countries to effectively take account of their development needs, including food security and rural development. We take note of the non-trade concerns reflected in the negotiating proposals submitted by Members and confirm that non-trade concerns will be taken into account in the negotiations as provided for in the Agreement on Agriculture.

14. Modalities for the further commitments, including provisions for special and differential treatment, shall be established no later than 31 March 2003. Participants shall submit their comprehensive draft Schedules based on these modalities no later than the date of the Fifth Session of the Ministerial Conference. The negotiations, including with respect to rules and disciplines and related legal texts, shall be concluded as part and at the date of conclusion of the negotiating agenda as a whole.

¹ Single undertaking means that no part of the negotiations on agriculture can be agreed on separately i.e. "Nothing is agreed until everything is agreed".

7. EU REACTION TO THE OUTCOME OF DOHA

Franz Fischler, EU Farm Minister, described the outcome of the WTO Trade Round as “a slap in the face for isolationism”⁷. In light of the Doha Declaration, and Commissioner Fischler’s subsequent announcement, it appears that the outcome of the talks have addressed the concerns of the EU. One important excerpt from the Doha Declaration on agriculture issues that perhaps more than any other indicates this is the commitment to *reductions in trade-distorting domestic support*”. As Fischler pointed out in his Press statement this will include US export credits and subsidy provision used by some Cairns Group countries and not just European domestic support and subsidies.

Another key issue for the EU was the necessity to have non-trade issues included on the agenda for future discussions. This has also been achieved as confirmed by the Declaration:

“that non-trade concerns will be taken into account in the negotiations as provided for in the Agreement on Agriculture”.

8. CONCLUSION

The Ministerial meeting in Doha set the agenda for forthcoming negotiations. The Trade Negotiations Committee (TNC) comprised of WTO member countries and countries negotiating membership will establish negotiating mechanisms and supervise the continuing negotiations under the authority of the General Council (see Appendix 1 for organisational chart). Negotiations on agriculture will take place in special session of the agriculture committee. Stock taking of progress will take place at the Ministerial Council meeting in Mexico in 2003, with the date for conclusion of the negotiations being 1st January 2005⁸.

8. REFERENCES

¹ Schrader, Jorg-Voler (2000). CAP reform, the Berlin Summit, and EU enlargement. Kiel Working Paper No. 973. Kiel Institute of World Economics.

² The Common Agricultural Policy, 1999 Review. European Commission Directorate-General for Agriculture.

³ http://www.wto.org/english/thewto_e/whatis_e/tif_e/agrm3_e.htm#distorted

⁴ http://www.wto.org/english/thewto_e/whatis_e/tif_e/agrm0_e.htm

⁵ http://www.wto.org/english/thewto_e/whatis_e/tif_e/agrm3_e.htm#tariffquota

⁶ EU agriculture and the WTO: Chapter 4, Domestic support. European Commission, Directorate-General for Agriculture.

⁷ Press Release, European Commission. “New WTO round slap in the face for isolationism”, says EU Farm Commissioner Fischler. Doha, 14 November 2001.

⁸ WTO Agricultural Negotiations: The issues and where we are now
http://www.wto.org/english/tratop_e/agric_e/negs_bkgrnd00_contents_e.htm