

THE WTO AND THE DOHA DEVELOPMENT ROUND-THE STAND-OFF ON AGRICULTURE

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The Doha Round had been touted as 'the development round' in the hope that it would bring rule-making at the WTO more into consonance with the realities of the global economic situation and the weightage that was due for the developing countries which had admittedly received benefits from the WTO agreements below the expected levels. However, it is also clear that while paying some regard to the realities in terms of trade weightage, developed countries have been less than obliging in the application of rules or in the settlement of the outstanding issues of implementation.

It is hardly surprising, given the lack of commitment which the more advanced countries have displayed in the past and which they continue to display by working against the practicalities of comparative advantage that favour the progressive developing countries and the emerging market economies, that none of the deadlines of the Doha Round have been met and the stand-off continues to impact negatively on the future of the WTO.

Before tackling the thorny subject of agricultural negotiations, which have stalled the entire forward movement on the conclusion of the Doha Round, it is necessary to stress that it is in no one's interest that the WTO should become a monument to global political failure as the real casualty in that case would be the multilateral approach and the rule-based system of world trade that is sustained by the WTO process. As is evident for some time now, regional arrangements and rules are steadily eroding the WTO system the rules and practices of which have the merit of providing more support and defence for the weaker economies. The WTO rules have also been more supportive of comparative advantage. But all of this stands to be compromised by the proliferating regional trading arrangements on the one hand and the increasing adoption of unilateral standards and regulatory conditions on the other.

Given the need that the international system has to preserve the WTO, it is in the interest of countries like India that the global trade body is strengthened and that multilateralism is not substituted for by regional and unilateral arrangements. For instance it would be of interest at this stage to point to a practical illustration of what the weakening of the WTO is already leading to. Every one who has followed the shenanigans that accompanied the negotiations leading eventually to the adoption

of the Doha Development Agenda [DDA] would recall the attempts to introduce the social clause – although the move was resisted and finally foiled, it has since resurfaced in the form of the so called consumer and trade association actions. The textile exporters of India, for instance, have been the targets of what are called ‘clean labour practices’ that are ostensibly being imposed by the relevant European associations. This is a back door entry of a pernicious form of trade barrier rendered possible only because the WTO has so far failed to evolve rules that would prevent such unilateral practices assuming the form of trade barriers outside the control of the multilateral system.

Agriculture: GATT originally did not have any real rules on trade in agricultural goods. As part of the Uruguay Round of negotiations, agriculture was finally brought into the set of agreements constituting the Single Act and the WTO on the basis of a compromise arrived at between the USA and the EU. However, it was clear that the agenda for negotiations on implementation and other issues in agriculture had not been fully worked out and that a lot of work lay ahead to bring sophistication to the Agreement on Agriculture (AOA) so that it would benefit both the advanced and the developing countries in terms of a level playing field. This would naturally have to take account of the special needs of the developing countries where agriculture lay within the realms of subsistence and where the problems of poverty were also to be witnessed in their most acute form. The DDA was supposed to bring AOA’s promised benefits to fulfilment through substantial reduction of the gross and net levels of subsidies that the more advanced countries were continuing to apply to agriculture. But in the event there was acknowledgement by the dispute settlement system of the WTO that both these agriculture biggies, viz the EU and the USA, were not even adhering to the levels of reduction (of subsidies) during the currency of the AOA as agreed to by them prior to the adoption of the DDA. This is reflected in the rulings made by the Panels and subsequently endorsed by the appellate body in the cases of sugar and cotton subsidies. These rulings quite categorically established that the developing country producers of cotton and cane sugar were being directly affected by the poor returns that they were getting for these economically significant commercial crops because the substantial subsidies being offered by the USA in the case of cotton and the EU in the case of sugar had resulted in lower than average international prices for these products.

The advanced countries are also adopting policy positions that work effectively to negate the gains of developing countries from historical trade preferences. An illustration is the move by the EU to substantially negate the preferences that have been extended over the years to the ACP countries, initially under the Lome Conventions and subsequently under the Cotonou Agreements, by introducing now the provision of reciprocity. Here the greatest pressure is being exerted in respect of agricultural produce and textiles with the demand that these

countries on their part, with the exception of the small Island developing countries, extend tariff preferences in areas of export interest to the EU.

In retrospect, the heavily subsidising advanced agricultural economies have been clearly upto fragmenting the developing countries, into 'the progressive developing economies', 'the other developing countries' that need a degree of special and differential treatment and the small island and LDC economies that need more and longer lasting protective treatment. While the argument does not go to the extent of immediately excluding the progressive developing economies from the benefits of Special and Differential Treatment the pressure is on to reduce the period of benefit to a shorter tenure. The pressure has emerged concurrently with the stiffening of the stand of the developing countries, led by the G-20, on the issue of subsidies and market access in the negotiations on agriculture.

While looking at the present situation we have to note that the agricultural issue is a complex one and has within it a host of subjects varying from the strategic issues to the salience of politically dominating domestic pressure groups that represent either existing sectoral vulnerabilities within advanced economies arising from political commitments on providing a secure base to agriculture as part of coalition arrangements, or regional agreements among which the EU no doubt occupies the pride of place. Here lip service is paid by all important players to the mantra of the markets determining the economic and commercial mores of production in keeping with the tenets of free market philosophy. Such compacts which are driven by budgetary support for specific agricultural products deliberately negate the impact of international product flows with steps aimed at denying the fruits of comparative advantage that should normally accrue to the more efficient global producers - not surprisingly these are to a significant extent from the so called progressive developing countries. However the fault does not lie only with the advanced economies; developing countries like India do not hesitate to place the blame on global forces for the negatives arising out of their own deficient economic and developmental practices. These issues have been further complicated by vote bank politics and ideological underpinnings that go against the very impulse of permitting the market forces to be the deciding factor for the direction that the economy should take and the corrections that it should impose in order to maximise the benefits for all the real players.

At this stage in the arguments that are taking place at various forums the two most critical issues that have in tandem stalled the Doha Round are Agriculture and the Non Agricultural Market Access (NAMA). In the case of agriculture, the modalities and norms contain the fundamental formulae for the adoption of relevant rules that would also create a more level playing field through removal of unfair advantages derived from skewed policies. Now these modalities have seen a

considerable degree of debate and even though August 2004 saw agreement on the Framework, many contentious issues remain. Important among them relate to: export competition, domestic support and market access. These are still to be resolved although there have been a closing of the gap in regard to all the three issues. The gaps would need to be further narrowed down to the level where they could be brought to the table for resolution and for a closure to the negotiations. It is indeed a measure of the problems that remain on the table that even the contentions that the US and the EU policies on agriculture had led to distortions which were duly upheld through the rulings on sugar subsidies in the case of the EU and on cotton subsidies in the case of the USA, have not helped in reducing the enormity of what needs to be done for the elimination of all trade distorting subsidies and the removal of trade barriers based on unilateral adoptions of standards and health requirements.

The G-20 that have Brazil, India and South Africa, with China also involved, is clearly committed to achieving a conclusion that is fair and acceptable to all. It is now generally acknowledged that only an acceptable compromise that shows a positive movement in the direction of substantial commitments on trade distorting subsidies by the USA, the EU, and Japan could ensure that the Doha Round would be completed by the end of 2008. More important is the fact that the negotiations on agriculture and NAMA must be concluded by the middle of this year as thereafter the lame duck US President will not be in a position to make effective commitments and matters would get delayed till the new President takes over and settles down.

One of the key issues that has been taken on as a separate sub section is cotton where the West African producing countries are trying for removal of the subsidies that are coming directly in the way of their competitive exports. This is a classic example of what can be a sticking point in agricultural negotiations. In the first place the problem is of ensuring that the modalities are not effectively neutralised by the adoption of formulae that in some way make it possible for trade-distorting subsidies to be camouflaged in permitted policies. Secondly there has to be an assurance that flexibilities permitted under the modalities and the formulae do not lead to situations where the deviations permitted for the developing countries are neutralised under the guise of plugging loopholes.

In other words, the idea has to be that the modalities are translated into formulas for the adoption of commitments for reduction and final elimination of trade distorting subsidies, on the one hand, and, on the other for the adoption of acceptable levels of tariffs that also take into account the need for a degree of protection to the more vulnerable rural segments which form a vast majority of the socio-economic demographics of developing countries. This last aspect has come under negotiating pressure as the attempt has been to suggest that progressive emerging economies with a lower share of agriculture in GDP like India should

have a shorter time frame for the retention of protective tariff levels and that these tariffs should in themselves be reasonably lower. According to this argument existing committed levels are significantly higher than the global averages, and as such, the base levels of commitments would have to be significantly lowered along with a trimming of the list of sensitive items. The best way of illustrating the argument of countries like India for the retention of higher than average level tariffs and that too for a time frame is to describe them as defensive measures that are essential to be retained as they are needed to safeguard the interests of a large number of subsistence farmers who would find their incomes severely reduced if tariff walls are brought down, particularly for products that are the sole means to secure a livelihood.

Then there is the argument of the exporting developing countries whose agricultural products are of considerable importance to their export incomes but have to remain at lower than achievable levels because of the denial of market access through very heavy subsidisation of those products in the advanced market economies. Such a scheme of things is perceived as the very anti-thesis of export competition and comparative advantage. Sugar, cotton and other cash crops and grains of economic significance to such countries, all being exposed to this situation, form a well known set of examples. Accordingly the demand is not only for commitments to a substantial lowering and finally the elimination of such subsidies but also for the plugging of all technical and actual loopholes that would enable these economies to continue to protect the less competitive domestic producers while appearing to be in compliance with all the commitments adopted under the DDA.

With all this involved in the complex negotiating process, it is hardly surprising that the gaps remain and, for another, it is also quite evident that a greater degree of understanding and effective compromises would have to be undertaken in order for progress to be achieved and for the Doha Round to come to a conclusion. At present the modalities paper largely comprises expressions of views on the formulas as well as the contentious issues that have been made by the member countries. That is to say, it projects the positions of the various groups or important individual countries viz, the USA, the EU, Japan, the Cairns Group, the G-20 and the LDC's/Island developing countries. In a market level bargaining system it is understandable that the negotiations have to bring about an understanding among the countries with a larger market share of global trade and countries like India and China that are characterised by their increasing consumption levels and expanding middle class with a record of high growth in its purchasing power capacities. This is not the most transparent or representative basis for establishing a global set of rules that reflect the interests of the vast majority while ensuring that the growth that is projected is shared for the benefit of all and takes care of the poverty-stricken in the developing countries, but this is the only practical manner in which the most

beneficial global trade conditions for the majority can be achieved. Such an approach reflects the assumption that the rule making and regulatory/discipline aspects of the WTO offer the best way in which the interests of member countries can be secured and realised for the benefit of all in the global system. In the long run, the multilateral system that WTO embodies is also the best equipped to ensure that the global system is more fair and beneficial for all. Otherwise we shall continue to see a rise in the establishment of Regional Trading Arrangements with the prospect of an increasing number of unilateral actions and systems based on the dominance of the strong over the weaker members who would only receive limited benefits while the international disciplines themselves would gradually be weakened if not entirely negated. For the WTO to be reduced to the level of the UNCTAD in ineffectiveness in this way would indeed be a setback for the world trade system.

Under these circumstances, it is important that the so called senior and consequential member countries which include the G- 20 approach the current phase of the DDA in so far as it relates to the stand-off on agriculture with a clear sense of purpose and urgency, reducing their differences to a reasonable level and arrive at a pragmatic accord on the issues. Obviously, it is impossible for any of the groups of countries in the organisation to achieve all their ambitious targets as they can secure only what is feasible in practical terms.

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