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An alternative to the single undertaking approach

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by Peter Gallagher & Andrew Stoler

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Foreword

The long-term health of the Australian economy and those of our neighbours in the region depend on the maintenance and expansion of international markets for our exports and a liberal trading environment facilitating imports. The need for open markets is especially critical in the case of agricultural products. The World Trade Organization (WTO) is the central locus in the global framework for the trading system where trade liberalisation and reform is pursued, but the WTO's Doha Round of trade negotiations is now more than six years late, mainly because of a continuing impasse in the agricultural trade negotiations. This project was undertaken because there was a belief that an important reason for the impasse was the use of the "single undertaking" framework for negotiations, that forces all WTO Members, no matter how marginal they may be, to participate in all of the negotiations. The researchers' view was that an alternative means needs to be found to provide for more successful agricultural trade negotiations in the future.

Finding an alternative approach, or a new framework, for agricultural trade talks that would not lead to blockages in the future would benefit not only those interested in agricultural trade liberalisation but also everyone with a stake in continuing trade liberalisation. This is because it is normal in the WTO for most other negotiations' progress to be linked to that of agriculture, so if agriculture moves, so does everything else.

In this research into alternative frameworks for agricultural trade negotiations, the need was identified to be able to show that an alternative framework is technically feasible; that it is capable of producing an economic outcome at least as significant as the "single undertaking approach; and, that it is politically viable as a negotiating framework. The researchers have shown that agriculture could be negotiated on the basis of a "critical mass" framework and that this framework would yield economic outcomes superior to that expected from the ongoing Doha Round. However, too much is invested in the current Round's modalities to expect that "critical mass" could be applied to the current negotiations. Also the testing of the political viability of the framework shows that many key policy-makers will find it difficult to think outside the box of the so-called "single undertaking".

This project was funded jointly by the Rural Industries Research and Development Corporation (RIRDC) and the Australian Centre for International Agricultural Research (ACIAR). It is an addition to RIRDC's diverse range of over 2000 research publications and forms part of our Global Competitive R&D program, which aimed to identify the impediments to a globally competitive Australian agricultural sector and support research into options and strategies to remove these impediments.

Most of RIRDC's publications are available for viewing, free downloading or purchasing online at www.rirdc.gov.au. Purchases can also be made by phoning 1300 634 313.

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Peter Gallagher is a trade and public policy analyst who provides advice and analysis on international trade, public policy, and business communications. His clients include Australian food companies, industry organisations, government agencies and international institutions.

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We were privileged to have the collaboration, in this project of distinguished researchers from four top economic research centers: Saulo Nogueira and André Nassar of The Institute for International Trade Negotiations (ICONE), Brazil; Jikun Huang and Jun Yang of the Center for Chinese Agricultural Policy, Chinese Academy of Sciences, Beijing; Surabhi Mittal, Senior fellow of the Indian Council for Research on International Economic Relations (ICRIER); M. Husein Sawit and Prabowo, Senior Associate and Director of Strategic Asia, Jakarta.

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We would also like to acknowledge the speakers at our 20 November 2009 “Conclusions Conference” held in Canberra: H.E Fernando de Mello Barreto, Ambassador of Brazil to Australia; Mr. Bruce Gosper, Deputy Secretary, Department of Foreign Affairs and Trade; Mr. Tim Yeend, First Assistant Secretary, Department of Foreign Affairs and Trade, Mr. John Tuckwell, Senior Adviser, Trade, Economics and Agriculture at the EU Delegation; and, Mr. Grant Pettrie, Agricultural Counsellor at the American Embassy in Canberra.

Abbreviations

ATPSM	Agricultural Trade Policy Simulation Model
CM	Critical Mass
CMA	Critical Mass Agreement
DSB	Dispute Settlement Body (World Trade Organization)
EFTA	European Free Trade Association
EU	European Union
FAO	Food and Agriculture Organization (United Nations)
GATT	General Agreement on Tariffs and Trade
GIs	Geographic Indications
GSP	Generalised System of Preferences
IT	Information Technology
ITA	Information Technology Agreement
ITC	International Trade Centre (WTO-UNCTAD)
MFN	Most-Favoured-Nation
NAMA	Non-Agricultural Market Access
OECD	Organization for Economic Cooperation and Development
RAMS	Recently Acceded Members (to the World Trade Organization)
SPS	Sanitary and Phytosanitary Measures
UNCTAD	United Nations Conference on Trade and Development
WTO	World Trade Organization

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Executive Summary

What the report is about

This report is about finding a better way to conduct negotiations on international trade in agriculture. In the current Doha Round negotiations, the modalities for the agriculture negotiations were to have been agreed in 2003. At the close of 2009, there is still no agreement on what has grown to be 123 pages of draft modalities. We think there has to be a better way to negotiate agriculture and we believe we have identified an approach – based on the so-called "critical mass" concept – that would be a better way to negotiate agriculture in the future.

Who is the report targeted at?

This report is targeted at government policy-makers, industry leaders in the agriculture sector, officials of intergovernmental organisations dealing with trade in agriculture, and independent trade experts and academics with an interest in agriculture trade negotiations.

Background

The long-term health of the Australian economy and those of our neighbours in the region depend on the maintenance and expansion of international markets for our exports and a liberal trading environment facilitating imports. The need for open markets is especially critical in the case of agricultural products. The World Trade Organization (WTO) is the central locus in the global framework for the trading system where trade liberalisation and reform is pursued, but the WTO's Doha Round of trade negotiations is now more than six years late, mainly because of a continuing impasse in the agricultural trade negotiations. We undertook this project because we believed that an important reason for the impasse was the use of the "single undertaking" framework for negotiations, that forces all WTO Members, no matter how marginal they may be, to participate in all of the negotiations. Our view was that an alternative means needs to be found to provide for more successful agricultural trade negotiations in the future.

Aims/objectives

The aim of the research project was to identify and test a workable framework in which agriculture negotiations could be conducted that would produce better results than the current "single undertaking" approach being employed in the Doha Round negotiations. Our objectives were to find or design an approach that would be technically feasible, capable of producing a significant economic outcome that would be as least as good as if not better than what is expected from the Doha Round and which would be viable from a political economy standpoint.

Methods used

We employed a variety of methods in our research. To test attitudes toward a "critical mass" approach and agriculture negotiations more generally in key developing countries, we contracted expert researchers in Brazil, Indonesia, India and China to prepare country studies and attitude surveys. We conducted our own research into the parameters of possible "critical mass" agreements and undertook economic modelling of the results. We sought the opinions of a large number of independent experts from around the world on the feasibility of "critical mass" negotiations on trade in agriculture. In September 2008 and again in October 2009, we conducted two large-scale global opinion surveys designed to test attitudes toward "critical mass" agreements. Finally, we "peer-reviewed" our project in two conferences in Australia (Adelaide in December 2008 and Canberra in November 2009). We also spoke on the topic of the research project in industry meetings in Maui, Hawaii (January, 2009) and in an academic symposium in Sydney in August, 2009. Feedback from these public debates, surveys and the results of the research undertaken by our collaborators informed our research project and are incorporated in this report.

Results/key findings

In this report we describe one alternative to the current 'single undertaking' model in the form of a 'critical mass' (CM) agreement that would achieve or exceed the expected welfare gains from the proposed Doha round agreement on agriculture. We evaluate the idea with the help of our collaborators in Brazil, China, India and Indonesia—especially on the political economy of agricultural trade reform—with the advice of expert international analysts, and using some detailed modelling simulations.

We show that a CM approach to agreement on opening markets for agriculture would be feasible and economically valuable. There is no WTO 'constitutional' impediment to a non-discriminatory CM agreement and the economic benefits which we describe for the first time are compelling. We show that even if China, India and Indonesia stand-back from the agreement for political economy reasons—as our collaborators consider likely—a CM agreement would deliver substantial net benefits to participants. Some developing countries would experience welfare losses due to the terms-of-trade impacts of higher food import prices. But we show that the global gains from the agreement would easily permit full compensation of any losses, leaving every economy either better-off or no worse off.

The crucial question is whether the OECD countries and other developing countries would participate in a CM agreement that did not include the emerging giants. If Europe, for example, proved unable to coordinate an agreement to open its markets (as one expert commentator suggested) or if the United States or Japan, for example, declined to participate in an agreement that appeared to give China a 'free ride', then the CM approach to negotiated reductions in protection would not 'fly'. We hope, however, that the arguments we offer in favor of the simpler 'modality', quicker negotiations, and more valuable outcome of a CM agreement to open global agricultural markets will convince both the OECD and emerging country governments otherwise.

In the aftermath of a Doha conclusion, for example on a more modest basis than originally proposed, the CM agreement we describe could dramatically extend the economic benefits of agricultural liberalisation on a non-discriminatory basis. In those circumstances, the political opportunity for global reform (including in their own economies) might outweigh concerns about small short-term losses in the calculations of the Chinese, Indian and Indonesian leadership.

We have shown in this research project that critical mass is a framework that could work well for agricultural trade, both from the standpoint of technical feasibility and from the standpoint of being able to produce a "big" economic outcome. However, it is apparent from our polling and from the comments made by participants in our two "peer review" conferences, that experimentation with the critical mass framework will need to await the post-Doha Round period. It is also clear, that while many would be willing to entertain critical mass as a framework for agriculture, they do not see it possible to negotiate agriculture on its own – as a stand alone proposition – and progress in agriculture would need to be accompanied by liberalisation in other areas, like lower tariffs on industrial goods or the opening of services markets.

Implications for relevant stakeholders

The implications of our research for relevant stakeholders are that a change of attitude is required in policy-making circles. We know that the "critical mass" approach has been employed successfully in other WTO negotiations, ranging from the 1997 basic telecommunications and financial services agreements to the Information Technologies Agreement. We have shown in this project that such an approach is technically feasible for agriculture and that it would produce economically interesting outcomes. However, policy-makers are finding it difficult to think outside the “single undertaking” box when it comes to agriculture trade negotiations. If we are to avoid a repeat of the long drawn-out Doha Round, stakeholders are going to need to take a fresh look at alternatives like the one we propose for a critical mass agreement in agriculture.

Recommendations

We do not propose the adoption of a “critical mass” approach as a way of ending the impasse in the Doha Round. However, for future multilateral trade negotiations addressed to trade in agriculture, we recommend to policy-makers that they give serious consideration to structuring the talks on agriculture in line with our “critical mass” approach. Such an approach would be quicker, more robust in its results and avoid many of the pitfalls of the current “single undertaking” negotiations. We recommend that governments study the possibilities for a CM approach in the next negotiations in greater depth than we have been able to do in this project.

Introduction

“A better way”

This project started looking for a better way to reach WTO agreements on opening agricultural markets. The lack of agreement in the Doha Round after eight years of negotiations and the complexity and retrograde character of many of the proposals now on the table suggested to us that WTO Members should take a different approach to achieve the goals of “substantial improvements” in market access and “substantial reductions” in trade-distorting domestic supports.

Objective measures suggest that the Doha Round proposals will fail to meet the objectives set in 2001. The current proposals, based on a complex tiered tariff cut, offset by “special” and “sensitive” product exceptions and a range of categorical exceptions for groups of participating countries will produce small, not substantial, access improvements. The anticipated cuts in domestic supports will be mostly theoretical – an artefact of the high “baseline” set by the 1994 commitments of the biggest subsidisers and re-definition of the subsidies. The projected net welfare benefits for most developing countries will be non-existent.

In an earlier paper (Gallagher, P. and Stoler, A. 2009 “Work in Progress”), we observed that the giant emerging developing economies have apparently not been convinced that these opportunities are as valuable as claimed; at least in relation to the costs that they perceive to their current growth or distributive strategies. Analysis subsequently contributed to this project by our collaborators in China, India and Indonesia detailed a variety of reasons – ranging from an implicit cost/benefit assessment of further tariff reductions in China through political and institutional barriers in India to a state of disarray in Indonesian agricultural policies – for this reluctance to pursue the modality most likely to deliver the biggest gains from the Doha negotiations. They also suggest that these policies are unlikely to change in the near future; in the time frame in which Member governments will want to conclude the Doha negotiations.

We blamed the “single undertaking” of WTO for the mess that the Doha Round negotiations has become. The “single undertaking” – effected through consensus decision-making – can now only lead to lowest common denominator agreements, including the regressive exceptions in Doha’s proposed agriculture modalities, that will impede the opening of global markets in the future. We argued that freed from the shackles of the “single undertaking” negotiations would have revealed the private objectives and valuations of the Members more quickly. Those Members that wanted to pursue ambitious goals and those that did not may have found some common ground but otherwise could have pursued separate paths that could have seen more ambitious goals embodied in plurilateral agreements, attached – via a MFN provision – to the multilateral framework.

With the benefit of advice from our collaborators, expert commentators and the results of polling – both globally and in the emerging economies – we are now able to extend our exploration of the options for better frameworks for agreements to open agricultural markets. We have found general agreement that the “single undertaking” is a problem, but no determination to abandon it in the context of Doha – in part because it also offers some important benefits for developing countries. There is interest in “critical mass” as an alternative approach, but some hesitation to move to a new framework.

In this report, we describe one alternative to the current ‘single undertaking’ model in the form of a ‘critical mass’ (CM) agreement that would achieve or exceed the expected welfare gains from the proposed Doha round agreement on agriculture. We evaluate the idea with the help of our collaborators in Brazil, China, India and Indonesia—especially on the political economy of agricultural trade reform—with the advice of expert international analysts, and using some detailed modelling simulations.

Objectives

An important priority for Australia and the partner countries that are the focus of this particular research project is the liberalisation of international trade in agriculture so that competitive producers here in Australia and in China, India, Indonesia and Brazil are able to access world markets under fair conditions and generate income that contributes to economic development and poverty reduction, A more effective framework for agreements will help to mainstream trade in development policies by creating incentives to direct resources away from import competing activities and into more productive channels – in agriculture and in other sectors of developing economies.

This project is centred on the hypothesis that the current global approach to trade negotiations affecting trade in agricultural products is not functioning well and that important liberalisation is consequently being seriously delayed. This situation holds back economic development and the Doha Round of multilateral trade negotiations, instead of contributing to economic development in poorer countries is actually retarding economic development.

This project aims to identify viable alternatives to the current approach to agricultural trade negotiations in the hope that a way will be found to un-block progress and open the way to future economic development opportunities based on open market access and the reform of damaging subsidy policies.

Methodology

This has been a policy research project. Our methodology employed is summarised below:

- Select high-quality (well-informed, analytically capable, well-connected) inputs that cover relevant considerations in proportion to their significance for the expected output
- Develop and publish hypotheses that are testable using these inputs
- Conduct transparent, peer-reviewed analysis, testing preliminary evaluations of the hypotheses against a 'control' (e.g. baseline or 'business as usual' outlook)
- Publish and defend a thesis based on the tested hypotheses in a public forum
- Revise the thesis as necessary, develop plausible mechanisms for implementation of recommendations and identify means of evaluating the recommendations in practice
- Disseminate results (recommendations and evaluation methods)

Our project proposal implemented this methodology in a straightforward way. Details follow:

High Quality Inputs

- The joint project managers (the investigators) are experienced and highly qualified analysts with practical experience of trade negotiation and the management of WTO.
- Our international collaborators in Brazil, China, India and Indonesia are highly respected institutions with established research reputations on agricultural trade and excellent local and regional contacts. They contributed excellent quality country papers to this project.
- Our program of interviews and invited contributions engaged expert analysts and senior officials in Europe, North and South America, South, North and South East Asia.
- Participants in the Adelaide and Canberra seminars were expert in this field and many have current responsibilities for managing WTO participation.
- We sent participants in the Global Trade Opinion Poll (GTOP) survey (more than 100 top WTO analysts and practitioners around the world) abbreviated summaries of the contributions at stages 3 and 4 of the project. We asked for their opinions and used their responses as inputs for the Adelaide and Canberra conferences.

Testable Hypotheses

The joint project managers developed their hypotheses in an initial journal article within 6 weeks of the project launch. This article was circulated in pre-publication form to interviewees, invited collaborators and to collaborating institutions. The article was published in Global Governance.

Peer Review of the Test of Hypotheses

An ongoing function in the project. Interviewees, invited contributors (who were asked to submit articles for publication in the project monograph) and collaborating institutions were asked to evaluate the hypotheses in specific ways. The responses were collected in papers presented to the Adelaide conference. The conference contributed a major part of the 'peer review'.

Publish and Defend a Thesis

Prior to the Canberra "Conclusions Conference", the joint project managers circulated a summary of our interim conclusions (a pre-publication form of the final conference book) as well as a revised version of our initial hypotheses taking into account the learning from interviews, contributions and conferences. Our position and findings were defended in the conference and account was taken of other participants' commentary on the political viability of the approach we have recommended.

Develop Plausible Recommendations

The joint project managers, as advised by our international collaborators and interviewees and taking account of the results of the Adelaide and Canberra conferences developed recommendations for adoption. Economic modelling simulations were undertaken to demonstrate the plausibility of our recommendations.. This was circulated in advance to participants at the Canberra seminar, to our international collaborators and to participants in the GTOP survey for comment. The purpose of the Canberra seminar was to discuss the recommendations and expected benefits and comment on the political viability of our recommendations.

Dissemination

A monograph prepared on the basis of written contributions from selected international collaborators and our collaborating institutions, with contributions from the joint project managers is ready for publication following the Canberra seminar. Following the Canberra seminar and the submission of this report, the joint project managers plan to prepare a journal article for a high profile international trade journal describing the outcome of the project with details of the results and the recommendations, as revised following the discussion in Canberra.

1. Viability of a Critical Mass Framework for Agricultural Trade Negotiations:

An alternative to the single undertaking approach

Background

The Doha Round of multilateral trade negotiations is more than six years behind schedule and many doubt whether the talks can ever be brough to a successful conclusion. A major part of the problem is participating governments' inability to reach agreement on the technical "modalities that would guide the negotiations on trade in agriculture products. Continuing disagreement in this are is not surprising given that the Doha Round requires the negotiations to be undertaken on the basis of a "single undertaking" where more than 150 governments must be part of all negotiations and all agreements – a rather unreasonable proposition when the differences in these countries levels of development and agricultural economies are taken into account.

Is there any good reason (apart from a commitment to "multilateralism") that countries with a minimal stake in agriculture and/or a very low level of participation in international trade in agriculture must be part of a Doha Round agreement? Surely the system can function well if the most important players are involved in a deal. And why should we worry if a country accounting for an infinitesimal proportion of global trade is not bound by the same obligations as the EU or the United States. These questions become more important if we believe that the decision-making in the Doha Round has been unnecessarily complicated by the insistence on the "sungle undertaking" approach.

In the history of GATT and WTO, there are many examples of successful trade agreements entered into by a subset of the members who have collectively concluded that the level of global trade in their area of interest covered by the agreement is high enough to provide an internally balanced reciprocity. Participation is voluntary and, depending on the circumstances, only a relatively small proportion of all WTO members may need to be involved. Such "critical mass" (or CM) agreements have been concluded in certain services sectors and in a number of industrial sectors, the best example being the Information Technology Agreement. CM agreements have so far not been seen as a vehicle for bringing about liberalisation and reform in agricultural trade.

Our research shows that a CM approach to agriculture is feasible from a technical standpoint and could potentially deliver larger welfare gains than an agreement based on modalities under discussion in the Doha Round. The dynamic gains for participating economies could be much larger than the static gains we project. Also, the non-discriminatory sectoral 'free trade' area covering four-fifths of key global food trades created through the CM agreement would reinvigorate the trading system.

But political economy considerations might lead some of the biggest developing economies to decide against participation in an agriculture CM agreement. Against this "free rider" background, could the approach still work for others if they were convinced of the CM agreement's potential to produce important economic and strategic gains?

What we need to show

In order to test our contention that CM agreements are a 'better way' to negotiate the liberalisation of agricultural markets than the current WTO approach we need to describe at least one feasible construction of a CM agreement on agriculture that would deliver the same benefits as the WTO approach— or greater—and would have the same or better chance of attracting the necessary support among WTO member countries. It must also be simpler to negotiate and more transparent than the complex modalities now proposed for the WTO agreement on agriculture.

In the following pages we use simulations of a feasible CM agreement and the planned Doha Round agreement to show that the CM agreement we describe would deliver at least a similar scale of benefits to the Doha Round and, on a reasonable construction of the proposed CM, would potentially deliver a substantially greater net benefit.

The chief question we address in this paper is whether our suggested CM approach would attract the necessary support among WTO Members; specifically whether the CM approach would still be sufficiently beneficial if some of the largest developing economies (China, India, Indonesia) elected to stand back from the agreement. This question has been posed by the interim results of our project that include advice from our international collaborators in those countries that there is at best weak support for a CM approach to liberalisation (or, in some cases, any approach to multilateral liberalisation) of trade in agriculture.

A feasible CM agreement

As outlined in our earlier papers for this project, we have used the International Trade Centre's "Market Access Map" database to identify the most-traded 30 agricultural products (at the 6-digit level of the Harmonized System) and a group of 38 WTO member countries that account for 80% or more of that trade across all 30 products. In some products an even smaller number of countries account for this level of trade. Details of the countries and products is contained in the annex to the paper addressing our simulation of a CM agreement (attached to this report).

The hypothesis addressed in this report and the economic modelling reported in the attachments is that these countries would find the reciprocal elimination of trade barriers among them sufficiently attractive that they would choose to implement the agreement on an MFN basis in accordance with WTO obligations applying to any goods trade market-access agreement, despite the non-reciprocity of some other countries[1]. We discuss the rights of the non-reciprocal countries further, below.

The actual modalities of the elimination of duties would be a matter for negotiation. The most important question is likely to be the length of the implementation period. A CM agreement, like any liberalisation agreement, faces a 'trade off' between the reduced disruption of a long implementation period and the smaller (discounted) value of the benefits at the end of a long implementation period. A CMA time frame should be short relative to the cycles of the WTO. Considering that the WTO itself is the limiting example of a 'critical mass' agreement to reduce, if not eliminate, protection, any schedule for the elimination of duties longer than a decade would be of comparatively modest value.

Relationship to WTO

A future CM agreement to open agricultural markets and eliminate distorting subsidies would not be part of the WTO's single undertaking; participation by WTO Members would be voluntary. The results of the market access negotiation among CM agreement members would necessarily apply, however, to all WTO members—whether they were members of the CM agreement or not—because the obligations of Part I of GATT require that members 'unconditionally' accord MFN treatment to all

[1] Gallagher, P.W. and Stoler, A.S. "Critical Mass as an Alternative Framework for Multilateral Trade Negotiations", Global Governance, Volume 15 No. 3 , July-September 2009, pp 375-392

other WTO members with respect to goods imports. No MFN obligations apply to any agreement by CM members to eliminate trade-distorting domestic supports and export subsidies. However, from a practical standpoint, eliminating trade-distorting domestic supports automatically impacts all other WTO Members on a MFN basis.

Although there is no question of the provision of the MFN rights of WTO members with respect to market access, the members of a CM agreement have options on the question whether to bind their CM market access agreement in WTO:

- The CM agreement results could be fully assimilated in the CM members' GATT schedules as bound commitments to all WTO members ('**unconditional binding**'), like commitments made by members of the Information Technology Agreement, or

- The CM agreement results could be 'binding' only among the members of the CM agreement—that is, they could be omitted from members WTO schedules—although applied in accordance with the GATT MFN rule to all WTO members on a de facto basis ('**conditional binding**').

CM agreement members will have to decide whether they are willing to bind the results of their negotiations to all other Members of the WTO or whether they would consider that their undertakings are specifically tied to a balance of rights and obligations within the confines of the CM agreement. If the unconditional approach ('bind to all') were selected, then CM agreement participants would simply bind tariff elimination and amber box subsidy elimination in their WTO schedules giving all other WTO Members (not just CM agreement participants) legal rights under these concessions to compensation in the case of a breach of the binding. Adopting this unconditional approach to the CM agreement's implementation would simplify the relationship of the CM agreement to WTO because it is every WTO Member's unilateral right to amend its schedules in a liberalising direction.

But political economy considerations might lead CM agreement participants to conclude that they did not want to create rights to a binding for countries that do not participate in the agreement. For example, a CM agreement could conceivably include a 'safeguard' provision allowing a reversion to higher duty or subsidy levels for a short period of time during the transition to zero-duties or zero trade-distorting domestic supports. If the CM rates of duty were 'bound' in WTO, non-Members would have rights to compensation for breaches of the binding.

An agreement with 'conditional binding' need not be a WTO agreement and need not require the approval of non-members of the CM as long as the CM participants fulfilled their obligation under GATT to concede MFN treatment on duties and formalities affecting imports.

Whether the CM participants decide to bind their agreed rates of duty conditionally or unconditionally they may separately decide on whether to constitute the CM agreement as a **WTO Plurilateral agreement** (in Annex 4 of WTO). One advantage of doing so would be the opportunity to submit disputes among themselves related to obligations under the agreement to the WTO DSB. This would be convenient and might contribute to the further expansion of membership if smaller WTO member countries considered it a safeguard of their interests as members of the CM agreement. The Information Technology Agreement (another CM agreement) submits disputes to the DSB.

The WTO membership would need to approve the agreement before it could become an agreement under the WTO. Article X(9) of the Agreement establishing the WTO concerns the addition of plurilateral agreements to Annex 4 of the WTO. It provides for a proposal from any Member to add an agreement and a simple (consensus) decision of the Ministerial Conference. No qualified majorities are required, but it is also the case that the decision could not be taken if a single WTO Member were to object.

Would it really be *necessary* to contemplate a conditionally-applied plurilateral agreement? Probably not. An unconditional agreement with tariff rates and subsidy commitments bound at zero *among the members of the CM agreement* would be enforceable among CM participants by plurilateral reciprocity and through the DSB that would, to some extent, reduce the asymmetry of power between the larger and smaller economies within the agreement and would avoid the complications associated with gaining approval of a new plurilateral agreement in the system.

The CM would, we assume, have accession provisions that would permit any WTO member that accepted its provisions to join and to receive the benefits of bound obligations under the agreement as of right.

Rights of non-participants

At the December, 2008 Adelaide Conference, some participants argued that the provisions of the CM should be subject to review by WTO members before adoption and that all members should have the right to participate in the negotiations, including those not intending to accept any obligations under the agreement.

We agree that the negotiation of the CM agreement should be open to all members of WTO. Although the proposed ‘modality’ is specifically not dependent on universal membership (and universal membership is unlikely) we consider it would be in the interests of the proponents of a CM to open the negotiation to all in an effort to ensure transparency and broad adherence.

This does not mean, necessarily, that the proposed terms (elimination of duties) should be adapted to meet the requirements of non-participants or of any country whose participation is not considered essential for the ‘critical mass’.

Relationship to the Doha Round

As explained in the attached paper comparing simulations of the Doha Round and CM approaches to opening agricultural markets, we consider the CM approach an alternative to the ‘single undertaking’ modalities employed in the Doha Round negotiations. We do not consider the CM agreement as an alternative to the completion of the Doha Round negotiations on the basis of their current mandate. In our view, the most plausible role for a CM agreement to open agricultural markets would be as an adjunct to whatever is concluded in the Doha negotiations (assuming that governments will conclude the Round), by those governments that consider a more ambitious agreement would be beneficial. This approach was also recommended by Ambassador Perez del Castillo in his contribution to the Adelaide Conference.[2]

> *The benefits of a CM approach are potentially larger than those of the Doha approach and accrue mainly to the members of the CM agreement*
>
> *A CM agreement would offer significant global benefits, potentially greater than the Doha approach even if China, India and Indonesia did not participate.*
>
> *The scale of benefits is more than sufficient to compensate countries whose terms of trade are adversely affected*

CM agreement should focus on market access or on other agricultural trade distortions and some recognition of the unfeasibility of maintaining domestic supports under a zero-barrier regime.

Several participants—including our collaborators from India and Indonesia—said that many developing country governments were more concerned by the developed country use of trade-distorting production and export subsidies, which affected production and prices in net-importing countries, than by market access barriers. The results of opinion surveys conducted by our collaborators revealed similar concerns. In the case of Brazil, the objective of cutting

[2] Perez del Castillo, C “Alternative Frameworks for Agricultural Negotiations” (mimeo, forthcoming)

supports/subsidies in developed economies initially had a 'slightly' higher priority than market access.[3]

Some expert commentators, including Professors Tim Josling, Razeen Sally (with Valentin Zahrnt) and Ambassador Perez del Castillo in papers prepared for the conference suggested that CM agreements might be better adapted to cutting domestic production subsidies and other policy changes bound to 'rules' rather than access-bargaining. For example Ambassador Perez del Castillo argued that although market access reform offered the greatest benefit, there were several frameworks for market access bargains (including multilateral, regional and bilateral), problems such as trade-distorting subsidies could only be addressed in a multilateral context and would be a suitable subject for a CM. Razeen Sally and Valentin Zahrnt argued that there would be serious difficulties of internal coordination for the EU in a CM focused on agricultural market access liberalisation (because of the diverse production profiles of EU members) but that a CM focused on improved rules covering e.g. domestic supports or "geographical indications" had a better chance of attracting solid EU support. Professor Josling considered that it would be easier for the members of a CM to capture the benefits of a rules-based CM since non-users of the instrument would not receive any benefits whereas non-members of an access-CM would receive all of the benefits.

These are powerful arguments for a 'rules-based' CM on agriculture whether as a stand-alone agreement or as part of the market-access agreement that we are examining. Also, for reasons we spell out in greater detail in the paper evaluating a broad-based (30 product) CM to eliminate market access barriers, there is yet another reason for including provisions on the elimination of 'amber box' domestic supports in that CM. Market-based production support measures—as opposed to direct income supports or generally-available 'green box' subsidies—would be unfeasible under open access conditions. It is, for all practical purposes, impossible to maintain them without a 'ring moat' at the border that prevents foreign competitors from taking advantage of the subsidies.[4]

We have therefore structured our simulations of a CM on agriculture for both an 'access only' and an 'access + subsidies' liberalisation agreement. The latter also allows us to make a fairer comparison with the Doha modalities since they, too, follow an 'access + subsidies' format.

[3] The Brazilian position changed when it became clear that it's G-20 partners wanted to create a range of market-access and 'safeguard' exceptions for themselves. See: Saulo Nogueira and André Nassar, "The Brazilian perspective on the critical mass proposal for the WTO negotiations on agriculture ", Institute for International Trade Negotiations (ICONE), Brazil. The Indian government's priority is discussed in Surabhi Mittals' paper for the project, referenced below.

[4] In theory, by ignoring national treatment obligations, a government could restrict the subsidies to national producers. But our assumption, as stated, is that Part I of GATT, including the national treatment obligation for all imported goods, is an inescapable obligation for CM members.

Table 1: Change in net welfare, $US millions (2006): Simulation using the ATPS trade model

	A	B	C	D	E
	CM: Zero Duties	CM: Zero duties + Zero subsidies	CM-35: Zero duties	CM-35: Zero duties + Zero subsidies	"Doha" modalities^
Cent. America & Carib.	-278	-481	-176	-382	-338
Central Asia	28	21	24	17	-8
Central & E Europe	-62	49	-32	70	36
Four Emerging*	-325	-286	-442	-295	-123
CM Members#	10,986	20,706	11,962	21,297	15,746
Developed	9,383	18,014	9,734	18,016	15,108
Developing	652	1,472	852	1,689	24
East Asia Dvg	820	1,786	1,088	2,067	179
Least Developed	-384	-567	-323	-510	-398
North Africa & M East	-158	-552	-196	-589	144
North America	845	1,473	561	1,161	818
Oceania	643	1,277	444	1,075	896
South America	304	467	55	207	230
South Asia	166	193	109	167	-40
Sub-Sharan Africa	-366	-518	-290	-446	-335
Western Europe	2,421	9,531	3,057	9,890	9,246
World	9,651	18,926	10,262	19,201	14,741

CM members comprise 38 countries in columns A & B and 35 countries in columns C & D

* *Four Emerging members are Brazil, China, India and Indonesia*

^ *"Doha" results are not limited to 30 'top' products but include all agricultural products in APTSM database*

Three headline results

If the Doha Round modalities of December 2008 were implemented, we project a static net global welfare gain of almost $15 billion (US dollars, 2006: column E of Table 1). A CM agreement that eliminated duties on about 30 products among 38 countries would achieve about two thirds of the same level of gains (column A of Table 1). If, however, the 38 countries agreed that it would be unfeasible to maintain trade-distorting production subsidies ('amber-box') once borders were open and eliminated both those subsidies and all forms of export subsidy, the gains from a CMA on the 30 products almost double to $19 billion (column B of Table 1).

In other words, the simulations show that, under reasonable assumptions about what would be a feasible coalition of interest in opening world agriculture markets (the "critical mass" coalition), and what the scope of such an agreement would be, a technically simple agreement engaging only one quarter of all WTO members would achieve a significantly bigger global result than the laborious, complex modalities of the global Doha Round.

A CMA to eliminate duties leads to a rise in the world market price for the goods affected by the liberalisation and a fall in the protected domestic-market price of these goods, especially in developed-country markets. The impact of the consumer price fall in the large formerly-protected markets of developed countries is a rise in global demand that spills over in to imports leading to a rise in the exports of the developing countries (many of whom are producers and exporters). The reduction in protection (and support in the zero-duty+zero-subsidy case) leads to a big increase in consumer welfare in developed countries (and a big fall in government expenditure when supports are eliminated). This welfare impact explains the gains of the CM participants that are larger than those of any other 'regional group' in Table 1: the biggest gains from liberalisation are captured by the members of the CM Agreement.

But this summary of the impressive global opportunities (probably an under-estimate)[5] does not reveal the distribution of the gains. The four big emerging economies of Brazil, China, India and Indonesia experience little net gain or loss as a group (fourth row of Table 1). The institutes that have collaborated with us in this project confirm that the political economies in the latter three countries (producer groups, especially) show little interest in the liberalisation of their own agricultural markets in a CM agreement.

Table 2A: Biggest changes in total welfare ($US millions 2006). CM-38, zero-duties + zero subsidies.	
European Union	8,578
Japan	5,705
Korea Rep.	2,978
Australia	906
Canada	811
United States	662
New Zealand	402
Morocco	385
Brazil	291
India	283
Indonesia	-186
Algeria	-277
Mexico	-284
China	-675

Table 2B: Biggest changes in total welfare ($US millions 2006). CMA-35, zero-duties + zero subsidies.	
European Union	8,912
Japan	5,985
Korea Rep.	3,037
Australia	783
Canada	740
Norway	657
United States	420
Morocco	409
New Zealand	317
India	273
Brazil	101
Indonesia	-156
Mexico	-198
Algeria	-261
China	-514

[5] The projections are based on a static, partial-equilibrium, model of world trade and production that ignores the likely much greater impacts due to 'dynamic' factors including scale benefits and the benefits of specialization such as the accumulation of productive factors (learning, human capital).

The second main insight from the simulations is that if China, India and Indonesia were to 'stand back' from participation in the CMA agreements we have simulated, while enjoying access on an MFN basis to the markets of the other 35 participants,[6] the static net global gains would be slightly larger (by about 8%: see column D of Table 1) than under the agreement among 38 countries. On the other hand, China and Indonesia experience smaller net welfare losses from a CMA of 38 countries (in which they participate) than from a CMA of 35 countries (in which they do not participate): see Tables 5A and 5B (below).

A third important observation is that the Least Developed countries and Sub-Saharan African countries see net welfare losses that are small in relation to global gains. In the case of the SSA region the losses are largely attributable to the projected loss of government tariff revenues in Nigeria and to a lesser extent South Africa (both of which figure among the CM participants). But in Least Developed countries the losses reflect the impact of higher prices for imported food commodities, as can be seen by the greater losses incurred when the export subsidies from developed countries are removed (columns B and D in Table 1)[7]. The relative size of the regional welfare losses and the global welfare gains suggests, however, the potential for a compensation mechanism that would leave all WTO members better off as a result of the CM preferences.

Limits of these results

We discuss the technical limits of the ATPSM model used to develop these simulations in the attached paper on the simulation of a 30-product-38-country model. Owing to these limits, the results must be treated as projections not forecasts. Although we cannot make very strong claims about the precision of a particular numerical result, the projections allow a fair comparison of the CM and Doha approaches because they use the same data sets, economic parameters (e.g. elasticities) and expressions in the simulations, allows us to make a direct comparison of the two approaches.

We have simulated the CM agreement by requiring that each participating country set all of its applied duties, including above-quota duties, to zero on an MFN basis. The benefits of doing so are assessed in the ATPSM model by changes in consumer/producer/government surpluses relative to the distribution of surpluses under currently applied MFN duties. The model takes account, too, of the loss of economic rents that producers (or governments) enjoy from current tariff quotas when duties are eliminated.[8]

[6] We assume throughout this paper that a CMA agreement would be reciprocal among the participants but, once it had entered into force, the benefits would be available on an MFN basis to all WTO members.
[7] There would also be losses due to the 'rents' that exporters from these countries currently enjoy in developed country markets on account of their current preferential access to the market. Although the ATPSM model takes exporter rents due to preferential 'current access' quotas into account it does not, in general, account for the loss of GSP or 'Everything-But-Arms-type' preferences.
[8] A small number of these countries have already eliminated duties on agricultural imports from some other countries in the group on a discriminatory basis so that the value of the elimination of duties simulated in the model will seem to be bigger than the actual elimination could deliver. But any such exaggeration will be more than offset by the tendency (already mentioned) of the static model to underestimate the overall gains from trade liberalization.

‘Winners’ and ‘losers’

In theory, it should not matter that there is an uneven distribution of ‘winners’ and ‘losers’ in welfare terms from this trade liberalisation and reform agreement. In theory, too, governments should be just as keen about the net gains from opening agricultural markets as they are about the gains from opening markets for manufactured products or services.

But neither of these theoretical claims stands up in the ‘real world’. The international distribution of gains that our simulations suggest could readily be compensated, will tend to dissuade the ‘losers’ from participation. Also, the gains—especially the small net gains that accrue to the ‘Emerging Four’ in our global and sectoral projections—will probably dissuade some developing countries from participating in the CM agreement.

We judge that China, India and Indonesia are unlikely to participate in a CM agreement on agriculture that includes market access cuts despite the consequences for internal resource balances of ‘standing back’ from liberalization affecting much of the world market.

Static losses are losses

The distribution problem arises because some developing countries (and in different commodities, consumers or producers in all countries) are net welfare losers under each of the four scenarios reported above, despite the large global gains in each of them. Globally—and within many economies—a positive ‘bottom line’ suggests there is an optimisation available if governments were to re-distribute the gains. Some distribution of the net surplus must, in principle, be possible such that each country, and each economic sector within any country (producer, consumer, taxpayer), is no worse off. Many would be better off because, globally at least, there would still be a substantial overall surplus from the liberalisation after redistribution (the size of this net surplus is the ‘bottom line’ in Table 1).

However, these compensating transfers tend not to happen, at least internationally. The institutional structures of world trade and investment that should capture and mobilise the gains are less monolithic and less responsive than the theory assumes. Most governments will not unreasonably take the view that their economy can count only on the results it captures for itself.

It is important to balance this political realism with the observation that the losses are static projections. They take no account of improvements in the competitive environment due to the removal of taxes on doing business across a border. These improvements, we know from theory and experience, are much bigger and more durable than the static results.

Table 3A: Change in trade balance following a CM-*38 Zero+Zero* agreement ($US 2006 m)

	All CM Prods
United States	4,748
Brazil	3,422
India	3,328
Australia	2,234
Russia	1,616
Argentina	1,523
New Zealand	1,336
Indonesia	-341
China	-802
Philippines	-1,032
Mexico	-1,558
Japan	-5,767
European Union	-11,648

Table 3B: Change in trade balance following a CM-35 *Zero+Zero* agreement ($US m)

	All CM Prods
China	6,646
India	3,337
United States	3,082
Brazil	2,478
Australia	1,938
Russia	1,388
Argentina	1,192
New Zealand	1,189
Indonesia	459
Philippines	-1,123
Mexico	-1,713
Japan	-5,801
European Union	-13,611

Not all wins are wins

How governments will interpret the static gains in these projections is also open to question. Although the gains seem large, it is likely that some developing country governments will discount them (the projected gains from the Doha round, too).

The reality is that ‘winners are not all winners’. The standard Ricardo/Stolper-Samuelson model of trade predicts that *in any sector* competition should see the price of capital and labor tend to equilibrate between different countries under free trade (and free movement of factors), more-than-proportionately rewarding the factors specialised in the production of goods in which any country has a comparative advantage. Both developed and developing country governments should be indifferent to the source of the trade gains; whether from agriculture or manufactured products or services because the static gains from liberalised trade in agriculture should reward land and labor dedicated to agricultural production in the identical way that liberalisation of NAMA products or services rewards factors specialised in manufacturing and services.

But even if this theoretical picture of trade held when all its simplifying assumptions (homogenous products, constant returns to scale, etc) are relaxed, governments do not appear to consider the economy-wide gains from liberalising agriculture in the same light as the gains from liberalising the manufacturing and services sectors. On the contrary, experience suggests that both developed and developing country governments tend to discount the net welfare benefits of agricultural liberalisation when they consider the disruption to development (including income distribution) strategies that may be entailed by opening the market.

For a century, governments have observed a declining income-elasticity of demand for agricultural production and exports. This means that returns to agriculture do not grow at the same pace as returns to other activities and, accordingly, the proportion of developing country export income from agriculture has plummeted since the 1960s reflecting the weakness of the terms of trade for agricultural products. So it is perhaps not surprising that developing country governments should be pessimistic that the 'static gains' from access to agricultural markets will reduce either the domestic or international 'income gaps' between the agricultural sector and the manufacturing/services sector. The evolution of their development strategies reflects this pessimism about the contribution of agriculture. Many developing countries that initially taxed agricultural production to support subsidies to the development of manufacturing during the industrialisation phase of their development, subsequently have protected and even subsidised the agricultural sector as their aggregate national incomes rise in order to put a floor under a widening income disparity between the agricultural (rural) and manufacturing (urban) populations.[9]

This phenomenon is especially evident in China, India and Indonesia, as the contributions from our collaborators make clear.

Brazil:[10]

> "The absence of threats from agricultural imports to national farmers in Brazil has meant that the agricultural trade policy has placed greater emphasis on opening foreign markets, rather than protecting the domestic one. Also, the existing land property structure, where most farms are large and often possess capital to ensure better quality of its crops and meats means these are also the exporters of the country. This being the case, there has been little concern of how international trade benefits small and subsistence farming in Brazil, nor much discussion on agricultural or fiscal policies that might ensure a better income distribution from export revenues to all farmers. This is somewhat reflected in the low importance given to the income distribution aspect of trade policies in the multilateral trade negotiations of the WTO. For example, in the G-20, although some of the member countries like India and Indonesia were discussing ways to apply safeguard mechanisms to protect the domestic markets against import surges, Brazilian negotiators were more concerned with lowering trade barriers and agricultural subsidies in developed nations."

China:[11]

> "Huang et al (2008) also demonstrated that although the absolute effects of trade liberalization [in the Doha Round] will not be very large, policy makers should be concerned about the poverty and equity effects... [W]hile the nation as a whole the average poor benefit, not all the poor in each region will gains from Doha Round. The poor from some provinces, particular in Guangxi and Yunan, will lose in agricultural production and income. Finally, in nearly all provinces except Qinhai and Tibet, if there are gains, the richer will gain more than the poor. The main reason for different impacts is the large variation of farming structure among provinces and farmers…
>
> "The political economy of agricultural negotiation is much simpler in China than in other major WTO members. Although our analyses show that the overall impacts of Doha Round are very modest, there are significant implications for poverty and equity. Some will be benefit and other will be hurt. However it is interesting to note that there is almost no lobbying from either gainers or losers...
>
> While the Ministry [of Agriculture] is aware of China's benefiting from trade liberalization on average, the [beneficial] impacts are very modest. On the other hand, there could be much inequity issues resulted from trade liberalization…"

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[9] Prof Kym Anderson's contribution to the Adelaide Conference, drawn from his 'Agricultural Incentives' project for the World Bank, discusses this phenomenon in some depth.
[10] Saulo Nogueira and André Nassar, "The Brazilian perspective on the critical mass proposal for the WTO negotiations on agriculture ", Institute for International Trade Negotiations (ICONE), Brazil
[11] Jikun Huang and Jun Yang, "Viability of Alternative Frameworks for Agricultural Trade Negotiations: Perspectives from China's Case Study"

***India*:**[12]

> "The concerns of policy-makers and agriculture experts are to reverse the decelerating growth trends. The rapid growth of agriculture is essential not only for self-reliance but also for meeting our concerns on food and nutritional security, to bring about equitable distribution of income and wealth in rural areas, and to reduce poverty and improve the quality of life. Despite being an agrarian economy, India has remained a marginal player in world agricultural trade."

Indonesia[13]

> "Indonesia has ... established a defensive strategy towards trading in foods. The country's attention is focused on two areas of special exceptions, namely for the special products and the special safeguard mechanism to be applied exclusively to the developing countries… The fundamental position is that the issue of food trading should not be separated from issues of development such as safeguarding of food security, promotion of rural development and eradication of poverty. Indonesia's stakeholders strongly support the position that agricultural market opening should be done very cautiously. Also, many consider it grossly unfair for domestic products of small farmers to have to compete with the low, subsidized prices of agricultural imports."

Strategic benefits of participation

In the attached paper reporting on the modeled simulation of a CM agreement we note that where net welfare losses are projected for any of the 'Emerging Four' from participation in a CM agreement, the loss is small in relation to the size of the economy. Also, we note that when three of these countries are projected to 'stand back' from a CM agreement, the net gains or losses often sum up very large differences in the sector experience (producers, consumers — see **Table 4** for changes in the components of net welfare in China, India, Indonesia when they *stand back* from a broad CMA). In other words, the gain may be the consequence of big inter-sectoral transfers with potential social consequences, including for income distribution and for the structure and level of assistance to the protected agricultural sector.

Table 4: Change in the components of net welfare, *CM-35 zero+zero* scenario ($US

	Total welfare	Consumer surplus	Producer surplus	Government
China	-514	-11,650	11,114	22
India	273	-4,201	4,473	1
Indonesia	-156	-859	695	8

[12] Surabhi Mittal, "India's role and perspective on agricultural trade negotiations" ICRIER, 2008
[13] M. Husein Sawit and Prabowo, "Alternative Framework for Agriculture Trade Negotiations: a View from Indonesia"

We should also observe that the net welfare losses in China and Indonesia from non-participation in the CM Agreement are *larger* than the net welfare losses from participation in the CM agreement (see the comparison in the first and second columns of Table 5A).

Table 5A: Comparison of net welfare and net trade balance. *CMA-38 and CMA-35 zero+zero scenarios ($US 2006 m)*

	Change in total welfare CMA-38 zero+zero	Change in total welfare CMA-35 zero+zero	Net trade balance CMA-38 zero+zero	Net trade balance CMA-35 zero+zero
China	-226	-514	-802	6,646
India	92	273	3,328	3,337
Indonesia	-61	-156	-341	459

We could argue, accordingly, that the governments of China, India and Indonesia could extract 'strategic' development benefits from participation in a CM agreement on agriculture, even at the cost of small static net welfare losses (in the case of China and Indonesia) or modest welfare gains (India). The argument would take the form of the familiar argument for binding GATT/WTO trade liberalisation. A CM agreement that opens markets, even at the price of a small net welfare loss, would allow the Government to 'lock-in' limits to the rents sought by a sector (agriculture) where assistance has been increasing in recent years, binding themselves into the future by means of at treaty.

Is this likely to be a persuasive argument? There are significant and well-known efficiency costs that Governments impose when they reinstate net assistance flows to the agriculture sector using border protection. Prof. Kym Anderson's paper for the Adelaide Conference of the project shows that several 'advanced' developing countries that formerly taxed agriculture to support an 'industrialising' development strategy, have since restored the inter-sectoral balance of assistance to 'neutral'.[14] It is not yet clear whether the positive support trend for agriculture will continue. No doubt, many will heed the lessons of Japan and Europe that overshot the restoration of support in the 1960s and 1970s with adverse consequences for the structure of growth and employment.

Table 5B: Component *changes* in China's net trade balance under different scenarios *($US 2006 m)*

	30 CM Products	CM Cereals	CM Dairy	CM Meat	CM Poultry	CM Oilseed	CM Sugar
CMA-35 zero + zero	6,646	1,001	66	4,372	630	122	454
CMA-38 zero + zero	-802	2	14	554	-54	-1,019	-298

But arguments about the benefits of reform to the structure of assistance tend to pale, in political economy terms, when the export opportunities appear to be at stake. The producer bias of the political economy protection is likely to be augmented by differences in the projected trade balances between the two scenarios (participation *versus* non-participation) for China, especially (Table 5B). Our projections suggest a $7.5 bn difference in the net exports of China between the two scenarios, due mainly to opportunities for higher cereal and pork exports and lower net imports of oilseeds.

On balance taking into account the information from our collaborators on the perceived disadvantages of liberalisation of their own markets, China, India and Indonesia are unlikely to participate in a CM agreement on agriculture that includes market access cuts, despite the consequences for internal resource balances of 'standing back' from liberalisation affecting much of the world market.[15]

Would a 'balanced package' help?

The agricultural sector has never been negotiated in GATT or WTO on a 'stand alone' basis. In 'single-undertaking' negotiations, there is, by definition, a broader range of contingencies, including agreements on NAMA and Services that, in principle, offer opportunities for trade 'gains' that potentially compensate trade 'losses', in the mercantilist language of the political economy. Such a

[14] Anderson, K., 2008, 'Reforming Agricultural Policies: Post-1980s Progress, Prospects under Doha'.
[15] The Doha case is different from their perspective. The modalities for agriculture promise only modest reductions in bound rates of duty and applied rates for developing countries. Taking account of the breadth of exceptions built-in to the December 2008 modalities and on the (optimistic) assumption that each country applies the average cut 'target' for its group to every tariff line, we expect only 33 developing countries make any cuts in applied duties and, in percentage terms, these are between 10 percent and 50 percent of the size of the cuts made by developed countries. Although it will benefiting from the 'Recently Acceded Member' (RAM) exceptions, China may make one of the largest developing country cuts in applied rates in our simulation of the Doha modalities because it's bound and applied rates are, in many cases, identical. India would make much smaller applied rate cuts in our simulation and Indonesia, none.

'balanced' offer is, clearly, not possible within the terms of a CM focused on agriculture. Although there is no reason in principle why a NAMA-oriented or a Services-oriented CM could not be negotiated in parallel with a CM on agriculture, this would, in effect, re-introduce the complex inter-sector bargaining of the 'single undertaking' that the CM approach seeks to avoid.

The idea that a 'balanced package' of sectoral deals ('something for everyone') would facilitate agreement in agriculture was advocated by several participants at the Adelaide conference of the project and by expert commentators such as Ambassador Perez del Castillo. It would be safe to say that the value of having broad ranging negotiating agenda that encompasses different sectoral interests and promises gains all round is one of the 'sustaining myths' of the WTO[16].

But the evidence that sectoral 'balance' helps to close a deal is weak, especially where agriculture is concerned. Not even the minutely detailed 'balance' of the Doha Round mandate—where not only sector negotiations but 'modalities' of negotiations within each sectors are required to show equal ambition—has produced willing market access concessions from developing countries, especially the emerging giant economies of China, India and Indonesia.

Our simulation of the broad-based CM agreement also raises doubts about whether 'balance' would induce broader participation. The reason is that in the mercantilist language of trade 'balance'[17] the Emerging Four are big 'winners' from a CM of 35 (that is a CM from which China, India and Indonesia 'stand back'). As shown in Table 3B, China and India see the biggest improvement in trade balances of all countries in the ATPSM database if they 'stand back' from a *Zero+Zero* CM agreement and enjoy a 'free ride' on the access commitments of CM members. If these countries believe that the agreement will go ahead even without their participation, then the 'compensation' required to induce them to participate in a *Zero+Zero* CM-38—presumably the compensation would be achieved through gains in other sectors of trade—would be equal to the trade gains forgone by participation. In the case of China and, to a lesser extent, Indonesia, the 'compensation' in other sectors would have to be large. Both see a deterioration in their trade balances on the 30 CM products ($802 m and $341 m respectively) if they participate in a *Zero+Zero* CM-38 agreement (Table 3A). But China, especially, makes a large improvement in its trade balance if it 'stands back' (Table 5B). China could be looking for static compensatory 'gains' of almost $7.5 billion.[18]

Nor does it seem likely that Japan, the EU or other developed members of an agricultural CM agreement—who would make substantial trade balance losses (Tables 3 A and B)[19] whether China, India and Indonesia participate or not—would offer the three emerging giant economies inducements to join the CMA. Competitive agricultural exporters, such as Australia, Brazil, New Zealand and United States all see smaller trade results in the CM-35 scenario owing to slightly lower producer prices and reduced export opportunities.

The choice not to participate in a CM agreement on agriculture that proceeds without them has consequences for the economies of the emerging countries. Although the trade results seem

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[16] The 'evidence' for the benefits of a 'balanced' approach to negotiation of agriculture and other sectors is much less forceful than the assertions sometimes made in its name. The Uruguay Round's 'grand bargain' is most often cited as a demonstration of the benefits of 'balance' : see Sylvia Ostry, "The Uruguay Round North-South Grand Bargain," in The Political Economy of International Trade Law: Essays in Honor of Robert E. Hudec by Daniel L.M. Kennedy and James D. Southwick, eds.(Cambridge: Cambridge University Press, 2002) p. 287. Ambassador Ostry does not, however, make a very strong claim for a negotiated 'balance' between the outcome in agriculture and the outcome in other subjects. She calls the bargain "… essentially an implicit deal". Well she might: as in the Tokyo Round—and despite the influence in the Uruguay Round of 'third forces' such as the Cairns Group of agricultural exporters—the eventual 'deal' on agriculture was the result of a bilateral arrangement between the USA and the EC that referred entirely to their own agricultural trade interests. Their 1992 'Blair House' agreement on subsidies and access was augmented by the implementation of 'modalities' from the so-called Dunkel Text that, so far from being a 'balanced' bargain calibrated to match progress in other sectors were not even formally adopted by the negotiating group.

[17] The 'balance' argument makes sense only in mercantilist terms. There is ample justification in trade theory for cutting import barriers unilaterally without *any* reciprocation.

[18] Projected trade balance changes in the ATPS model are sensitive to the 'baseline' trade characteristics of each country in the ATPSM database. As explained in the attached documents, India is a net exporter of the 30 CM products and China a net importer in the base years (2002-04).

[19] But also big welfare gains: see Tables 2 A and B. Their net welfare gains come principally from eliminating the penalties that they impose on themselves with high duties and subsidies and so are robust to the non-participation of the big emerging economies.

unambiguously positive (Table 3B), especially in China and India, this is not a 'free lunch'. The export gains come at the cost of switching production from the protected domestic market to exports. Domestic consumers must more than match the rise in world-market prices that follows from the CM liberalisation (they must also foot the bill for inefficient increases in production by industries that are already protected). As Table 4 shows, the ATPS model projects mixed net results for total welfare. But the underlying story in each case is a large reallocation of resources from consumers to producers with possibly adverse impacts for income distribution.[20]

A broad mix or commodity by commodity?

Although we have some doubt about the value or feasibility of attempting to achieve inter-sector 'balance', we have no doubt about the value of approaching the CM agreement on the basis of a broad selection of products.

First, a broad commodity base offers bigger results. We have examined projected results for the liberalisation of the Meats, Cereals, Dairy and Sugar markets (separately) on a CM basis[21]. The results reflect the peculiarities of each market but are, broadly, additive. The net global welfare gains in these four commodities sum to $17.6 billion of the $19.2 billion projected for a 30-product Zero+Zero CM-38 agreement (Table 1). This represents a larger gain for the global economy (not only the CM participants) than the projected Doha Round results that cover a larger range of commodities in the ATPS model (e.g. fruits, vegetables, tropical oilseeds, raw sugar).

Second, a broader range of commodities ensures a more 'equitable' result. Almost all of the 'top 30' traded products we have selected from the ITC database are temperate food products (sugar is the main exception). There are no fibers in the top-30 products.

[20] Whether the income redistribution increases or reduces income inequalities or affects the geographical distribution of resources within an economy (e.g. between urban and rural households) is a question that ATPSM is not set up to answer.
[21] Reports on each of the simulations of the sector impact of a CMA are available from http://www.petergallagher.com.au/files/CriticalMass/Index.html

Commodities or processed products?

We have modeled mostly trades in raw or lightly processed commodities. Grains are barely processed, most dairy products are significantly processed. Other products (meats, sugar) lie somewhere between.

There is little evidence of intra-industry trade or import processing in raw or lightly processed foods. That seems to militate against a CM agreement because most trades are likely to be ‘uni-directional’, making it difficult to discover a joint producer interest in bilateral liberalisation. The product groups where CM access agreements have been successful, to date, are those where trade is characterised by intra-industry and import/export processing exchanges: IT products, pharmaceuticals. Every member country finds itself on the import and export side of the market for different products within the group and sometimes for the same product (with different specific characteristics).

Processed foods (including food ingredients and ‘functional’ foods) are by their nature more heterogenous than commodities and therefore more likely to be traded on an ‘intra-industry’ basis but trade in even lightly processed primary products seems to show evidence of increasing intra-industry exchange.[22] Some of these are likely to be captured in the ATPSM database (under the heading of ‘milk powders’ for example, or processed ‘meats’) but we have not been able to find data on which to base an assessment of the contribution that interest in intra-trade would make to a CM covering the broad categories of products that are included in our ATPSM projections.

A less ambitious target?

We have based our examination of the CM approach on the *elimination* of import duties. Would a CM approach be more widely accepted if it were based on another target; cutting import duties by an average of 80%, for example, in place of the limited-application ‘objectives’ of the current Doha modalities (54% average cut in bound rates for developed economies, 36% for non-exempt developing etc)?

We would not rule out such a modality from an economic viewpoint. The biggest benefit of a CM is its simplicity and straight-forward, reciprocal, *self-justifying* deal. The depth of the cut does not seem to be fundamental to achieving a global net welfare benefit. We have not presented a simulation of a smaller cut because, given the nature of the ATPSM model and the dominant trade share of developed economies—whose bound duties are in effect applied duties—the model projects proportionately smaller global benefits from a smaller cut in participants’ bound rates of duty. An 80% cut results in net global welfare impacts about 80% of the full cut.

But, from a political economy perspective, choosing a lower-ambition cut *could be fatal* to the CM project unless a sophisticated ‘modality’ is attached to the CM. A common zero duty ‘levels the playing field’ of market protection. But a smaller proportionate cut will leave some distortions in place. For example, cutting barriers by 80% will still leave very substantial barriers with meaningful commercial impacts on imports of rice and pork in Japan (for example). But an 80% cut in barriers will cut even the highest barriers in the United States (sugar, dairy) to levels where normal market and exchange rate fluctuations will swamp the protective effect. The traditional way around this problem in GATT/WTO is to use sophisticated formulas that achieve a reciprocal balance in the depth of tariff cut rather than in the outcome. There is no reason in principle why this ‘solution’ should not be adopted in a CM agreement. But, as in the case of a ‘multi-sector’ modality, it diminishes the attraction of the CM approach which attempts to discover a joint interest among CM members in abandoning what Prof. Peter Lloyd (in his contribution to the Adelaide conference of the project) called the ‘essentially directionless incrementalism’ of WTO market access negotiations.[23]

[22] In our ‘Work in Progress’ report for the Adelaide conference we referenced work by Marius Brulhart at CEPR (See Table A4 of the Work in Progress paper) that indicates a growing degree of ‘primary product’ inter-trade, especially in cereals and preparations.
[23] P. J. Lloyd “The Variable Geometry Approach to International Economic Negotiations”, University of Melbourne (mimeo)

Of course, both economic theory and experience argue that the U.S.A. should cut its own barriers anyway because it will capture most of the benefits from doing so *whatever* the changes bring in Japan. But that argument has never had much impact on strategies for trade agreements.

Rules negotiations and a CM approach

Several of our expert commentators have argued that WTO members could find a 'rules based' CM agreement more congenial than an 'access based' agreement. Some thought that the difficulty of finding domestic or international consensus on market access would not be much easier in a CM framework than in a 'single undertaking' framework (Sally and Zahrnt, Josling), or because they considered that there are some 'rules' issues that would benefit from a CM approach (Perez del Castillo, Huang and Yang).

We have argued that one subject, at least, of the current rules-based approaches in WTO—the reduction of trade-distorting domestic supports—may have to be included in a CM agreement to eliminate import barriers. But, we also agree with our expert commentators and the suggestions of our collaborators that there are other 'rules' issues that would be appropriate for a CM approach.

Two candidates for a 'rules based' CM discussed at the Adelaide conference by our collaborators deserve closer attention:

- - A CM agreement on Sanitary and Phyto-Sanitary thresholds, processes and protection
- - A CM agreement on Geographical Indications

Briefly, the chief rationale for the CM approach is that multilateral negotiation is not well adapted to developing specific regulatory frameworks for these subjects. Each concerns a regulatory regime that is broadly similar in different economies (hence the feasibility of the existing WTO provisions) but in practice so diverse and with such wide differences in the scale of costs and benefits—and hence widely different political priority—among economies that specific provisions are not likely to achieve multilateral consensus.

Both may, however, be suitable for some plurilateral negotiation. For example, a plurilateral agreement on SPS might add detailed specifications on matters such as the appropriate source and use of chemical residue thresholds or even narrow the scope of the 'appropriate level of protection' which remains undefined in the WTO SPS agreement. A CM agreement on GIs might define the terms and conditions of an 'exclusive' GI grant more precisely than the TRIPS agreement, including particulars of the qualities protected, the relationship to trademarks etc.

Although the idea deserves closer examination, we can see a problem with rules-based CM's in each of these areas. Their provisions are not obviously capable of multilateral application, in accordance with the MFN standard that we have set for the CM approach to market access (and domestic support) agreements and that applies to other CMAs such as the ITA. Unlike the Government Procurement Agreement—a plurilateral agreement that discriminates between members and non-members—they seem likely to differentially affect the rights of non-participants under Part I of GATT (terms of access to a market)[24].

Big economies can afford a bilateral strategy

Apart from the non-discriminatory character of the agreement we are considering, a CM has a lot in common with a regional agreement. It is directly reciprocal, rather than 'loosely reciprocal' like the multilateral Agreement on Agriculture. It (probably) adopts 'free trade' in agricultural products as its

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[24] Government procurement is specifically excluded by Part I of GATT and the GP Agreement, therefore, may discriminate between members and non-members without breaching the MFN principle.

objective. It works by cutting the applied rate of duty rather than the bound rate of duty; a Member's scheduled WTO obligations need not be affected by the proposed agreement and may still be used as 'coin' in a future multilateral negotiation. Very likely, it will be implemented in a short time-frame.

But from the viewpoint of a large economy, a CM agreement like the multilateral framework, lacks the direct 'leverage' that a bilateral deal offers to deal with specific trade impediments. Our collaborators in China indicated that this was an important issue for China.

> However, there are remarkable disagreements on proposed framework of "plurilateral negotiation" between the results of interview and the answers to questionnaires. …[A]bout 69% respondents agree with the proposition that "Critical mass" agreements among countries accounting for a high proportion of trade in a product or sector are a practical possibility for the future liberalization of agricultural markets. Only 5% respondents disagree. Such a result from trade experts' survey indicates that the framework of "plurilateral negotiation" is potential method to improve the current "single undertaking". On the contrary, the views expressed by trade officers and negotiators are very different. They think that the trade experts whom we interviewed are not clear on the actual negotiation situation and actual individual commodity destinations of China's import and export. In China, for each individual commodity, its trade is one way between two countries as shown in Appendix Table 1 [to the Huang and Yang paper]. Therefore, the trade officials have doubted on the new framework of "plurilateral negotiation".

Without the participation of the 'big' economies, a CM agreement has no hope of achieving a high degree of market coverage and, therefore, fails to comprise a 'critical mass'. The relatively small participation of China, India and Indonesia in food trade so far means that a CM agreement can be valuable without their participation (although not as valuable as it could be). Will other large economies take a similar view: that they may be able to meet agricultural trade objectives more effectively on a bilateral basis than through a CM Agreement?

We guess that this will be one aspect of the CM approach that large economies will consider. We do not, however, expect it to determine their attitude (possibly not even in China) any more than it set them against joining the ITA. Even for large economies that dominate a bilateral trade relationship, using trade leverage has (foreign policy) costs that a plurilateral agreement allows them to avoid. A CM agreement aimed at zero duties (and subsidies) that includes a sufficient number of their trading partners may resolve many of the bilateral problems that could be resolved only at greater cost on a bilateral basis.

Major Emerging Economies & Trade Politics

One message that emerges from the contributions of our four collaborating institutions[25]—although more in India and Indonesia than in Brazil and least in China—is that the political economy of agricultural protection is complex: coalitions shift; participants are not all well informed; communication even between agencies or institutions with a formal role in decisions relevant to agricultural trade negotiations may be deficient or not timely; commentators (including academic institutions) and officials may have very different perspectives on the same problem.

The processes that would lead to a Ministerial or Cabinet-level decision to participate in a CM are, no doubt, specific to each economy. But in the emerging economies it appears that there is not likely to be a groundswell of support for any agreement to eliminate market access barriers even if the agreement includes the elimination of the domestic supports.

[25] We were privileged to have the collaboration, in this project of distinguished researchers from four top economic research centers: Saulo Nogueira and André Nassar of The Institute for International Trade Negotiations (ICONE), Brazil; Jikun Huang and Jun Yang of the Center for Chinese Agricultural Policy, Chinese Academy of Sciences, Beijing; Surabhi Mittal, Senior fellow of the Indian Council for Research on International Economic Relations (ICRIER); M. Husein Sawit and Prabowo, Senior Associate and Director of Strategic Asia, Jakarta

Based on their reports for the project we can summarise the potential impact of the political economy on a decision to participate in a CM as follows:

Brazil: Complete the Doha deal before seeking to negotiate market access in a more effective (CM) framework

…[T]he critical mass method in the WTO in the current Doha Round... may disturb the dynamics of the negotiations and force the member-states to re-evaluate what proposals they are willing to put on the table. The balance achieved so far in the agricultural negotiations, even though certain issues have not been agreed to, like the SSM, has cost much time and effort from all WTO members. The proposal of using critical mass… [may], at least initially, reduce the level of ambition of the proposals placed on the table.

…[The 'trade offs' possible in the single undertaking] may have helped ... some developed countries to accept lowering their agricultural subsidies. This goal will be achieved once the Doha Round ends with some better regulations on domestic and export subsidies as part of the final agreement. Having done this, a new stage will be set for future agricultural negotiations that will allow better negotiation arrangement for market access talks, which ought to flow more smoothly in comparison to the current Round.

China: Further liberalisation offers small, questionable gains. A CM won't tackle priority markets, protection

China's import tariff has been cut to quite a low level during its WTO accession. However, China's exports still confront high import tariffs levied by other countries. Under the "3 pillars", the completion of Doha negotiation is expect to provides great potentials to increase the export of China's agricultural commodities. However, [owing to its] concerns on national food security and rural poverty, China shows great interest the special treatments of RAMs and [access to] special product [exceptions]. Moreover, China has increasing concern on the strict SPS standards in many developed countries and rapid rising refusals of China's exporting agricultural commodities.

...While many trade experts consider that critical mass agreement might work for agriculture, [Chinese] trade officials have a different view. China's agricultural exportable and importable commodities are much diversified. Trade of most agricultural commodities is often one-side flow. The officials believe that China's major concerns would be more difficult to resolve under alternative negotiation frameworks than the WTO multilateral framework.

India: Aim for an 'incremental' Doha result in agriculture, not a 'grand bargain' to safeguard rural poor

India's stand on agriculture in the current negotiations are seen as defensive by almost 67 per cent of the respondents [to a poll of Indian officials, commentators and stakeholders by the Indian Council for Research on International Economic Relations (ICRIER)] ... feel that is unlikely any positive outcome can be achieved in the Doha round. Fifty percent of the respondents feel that it is unlikely if India is not defensive in its stand then it would bring gains to agriculture sector in India. About 45 per cent of the respondents believe that India's alternative interest or interests in service are being hindered because of agriculture being part of the negotiations. Thus it is proposed that India should look for incremental gains rather than grand bargain. For India, in the agriculture sector, much is needed to be done at domestic level to reform the agricultural sector to actually realise the gains.

Indonesia: No high expectations from the Single Undertaking but not ready to pursue more ambitious modalities

...[T]here is some support for the CM. In general, this support comes from the private sector in dealing with both agriculture and manufacturing. In general, however, the private sector supports the Indonesian Government's stance and would not be likely to initiate anything contrary to it. The non-governmental organizations (NGOs) generally express very strong support for the single undertaking modality with an even more defensive stance in the negotiation. Indeed, they would most likely be pleased to see the Round stalled because this would give Indonesia more breathing space to strengthen its domestic economy, including that of the agriculture sector.

> Overall it appears that the time is not yet right to seriously consider alternative approaches...resources are already meager for evaluating the WTO process, let alone for considering other alternatives and options.

Is a CM framework for agriculture politically feasible?

We believe that we have demonstrated that a CM approach to agricultural trade liberalisation and subsidy discipline is easily feasible from a technical standpoint. In addition, from a practical standpoint, only a relatively small subset of WTO Members would need to be involved to reach critical mass in an agreement that would produce significant economic benefits on a global scale. The modelling we have done even shows that the welfare benefits likely to flow from our proposed CM agreement would likely exceed those likely to result from the approach now being followed in the Doha Round. Finally, we have shown (see “Relationship to WTO above) that the proposed CM is “constitutionally compatible” with the WTO.

This leaves the key question of the *political feasibility* of the CM proposal, taking account of the information we have on this score from our collaborators (see “Major Emerging Economies”, above). It is much more difficult to obtain objective evidence for “political feasibility”, since this is a judgment call.

Our approach, as in our earlier papers for this project[26] has been to test political questions by means of a large-scale, anonymous opinion survey of trade experts, officials and negotiators (many of whom are currently engaged in the Doha Round negotiations.

[26] Gallagher, P. and Stoler, A. “Frameworks for Agricultural Agreements”, Institute for International Trade, mimeo, September 2008; Gallagher, P. and Stoler, A., “Work in Progress”, Institute for International Trade, mimeo, February 2009.

Table 6 – Doha Round by 2010?

Proposition Surveyed	Very Likely True	Likely True	50-50 Can't Say	Doubt True	False	No View
Concluding the Doha Round on the basis of the progress already made is the only way to reach an agreement before the end of 2010.	34.5	31.0	3.5	17.2	13.8	
Survey Segment	Likely True			Unlikely True		
Total Survey Population (116)	65.5		3.5	31.0		
Non-Geneva Respondents (68)	64.7		Nil	35.3		
Geneva Respondents (48)	66.7		8.3	25.0		

Table 7 – GTOP Doha conclusion on basis of progress already made?

Proposition Surveyed	Very Likely True	Likely True	50-50 Can't Say	Doubt True	False	No View
The G-20 will succeed in guiding the Doha Round negotiations to a conclusion based on "the progress already made, including with regard to modalities".	10.3	17.2	24.1	20.7	27.6	
Survey Segment	Likely True			Unlikely True		
Total Survey Population (116)	27.6		24.1	48.3		
Non-Geneva Respondents (68)	29.4		11.8	58.8		
Geneva Respondents (48)	25.0		41.7	33.3		

It is important to repeat that we do not propose a CM approach as an alternative approach for agriculture in the current Doha Round. Too much has been invested in what is on the table now to allow for such a radical re-think of the procedure at this stage. A strong majority of the participants in the October 2009 Global Trade Opinion Poll appear to agree (Table 6).

However, a plurality of the 116 respondents to the GTOP expressed doubts that even the high-level interventions at the Washington G-20 meetings in September, 2009 would succeed in bringing the negotiations to a conclusion on that basis.

In other words, the people most closely involved in the Doha negotiations believe that the WTO is *stuck* with an approach to agreement **that doesn't work** (and about which, capitals-based officials and analysts are much more negative than their Geneva-based colleagues.

Table 8: GTOP Is CMA a practical framework for agriculture?

Proposition Surveyed	Very Likely True	Likely True	50-50 Can't Say	Doubt True	False	No View
A critical mass agreement (CMA) among a relatively small number of countries accounting for a high proportion of global trade in agriculture and where the benefits would be applied on an MFN basis to all WTO Members (like the ITA) should be seen as a practical framework for future negotiations on agricultural trade.	20.7	37.9	10.3	17.2	10.3	3.5
Survey Segment	Likely True			Unlikely True		
Total Survey Population (116)	58.6		10.3	27.6		
Non-Geneva Respondents (68)	58.8		5.9	35.3		
Geneva Respondents (48)	58.3		16.7	16.7		

Table 9: GTOP Can CMA leave out India and Indonesia?

Proposition Surveyed	Very Likely True	Likely True	50-50 Can't Say	Doubt True	False	No View
Even if they could be convinced of the potential for large welfare gains, major players in international trade in agriculture would be politically unwilling to conclude a CMA in agriculture without the participation in the negotiations of large developing countries like India and Indonesia.	65.5	20.7	nil	6.9	3.5	3.5
Survey Segment	Likely True			Unlikely True		
Total Survey Population (116)	86.2		nil	10.3		
Non-Geneva Respondents (68)	88.2		nil	11.8		
Geneva Respondents (48)	83.3		nil	8.3		

Asked whether a CM agreement – a familiar framework for the GATT/WTO system[27] - should be considered a "practical framework for future negotiations", a strong majority of respondents agreed (Table 8).

It is important to note that GTOP polls usually seek responses to sets of alternative, and even inconsistent, propositions to test the limits and consistency of respondents' views.

In the case of the October 2009 poll, we were left wondering whether participants had yet considered all the implications of a CM approach despite their agreement that it would be a practical framework for future negotiations. The responses suggest to us that not even the experts have yet come to grips with all the challenges of a CM and have, perhaps, not quite lost the habit of thinking in "single undertaking" terms.

[27] We explore the history of the CM idea in GATT and WTO at greater length in Gallagher, P. and Stoler, A. "Critical Mass as an Alternative Framework for Multilateral Trade Negotiations", Global Governance, Vol 15, No. 3, July-Sept. 2009 p.375ff. Please note that the GTOP respondents were invited to download our December 2008 – February 2009 paper "Work in Progress" as an example of the CM we had in mind.

Although a plurality of respondents (45% v. 38%) agreed that many of the most complex provisions of the Doha agricultural texts were devised to accommodate the concerns of countries that are minor participants in world agricultural trade (e.g., India, Indonesia), a strong majority of respondents considered that it would be essential to include even the most *reluctant* major emerging economies (India and Indonesia, for example) in the CM agreement in order to ensure participation by the major agricultural trading economies (Table 9).

The GTOP respondents also agreed (Table 10) with our expert European commentators (above) that the EC would have particular difficulty reaching internal agreement to join a CM on agriculture (despite being one of the biggest "winners" under any CM scenario: see Table 1) because a CM agreement would not be "self-balancing" like a single undertaking agreement.

Table 10: GTOP EU difficulties balancing a CMA internally?

Proposition Surveyed	Very Likely True	Likely True	50-50 Can't Say	Doubt True	False	No View
It would be more difficult in a CMA framework for European Union negotiators to manage the EU's internal dynamics in agriculture because those Member States who saw themselves as "losers" through liberalisation would not be able to see the same degree of shared "pain" on the part of other "losers" as is evident in a single undertaking negotiation.	41.4	27.6	6.9	17.2	3.5	3.5
Survey Segment	Likely True			Unlikely True		
Total Survey Population (116)	69.0		6.9	20.7		
Non-Geneva Respondents (68)	82.4		nil	17.6		
Geneva Respondents (48)	50.0		16.7	25.0		

Table 11: GTOP Does CMA need balance in NAMA and services?

Proposition Surveyed	Very Likely True	Likely True	50-50 Can't Say	Doubt True	False	No View
To be politically viable, a CMA negotiation on agriculture would always need to be balanced by negotiations in non-agricultural sectors (NAMA and services) whether those negotiations were also on the basis of a CMA framework or otherwise	34.5	34.5	13.8	10.3	3.5	3.5
Survey Segment	Likely True			Unlikely True		
Total Survey Population (116)	69.0		13.8	13.8		
Non-Geneva Respondents (68)	70.6		23.5	5.9		
Geneva Respondents (48)	66.7		nil	25.0		

Finally, a majority of GTOP respondents consider that a future CM agreement on agriculture is a politically feasible idea only if the whole range of the WTO Agreements can be advanced (whether by CM means or otherwise) at the same time (Table 11).

Although this is obviously desirable, it is not the answer we expected. If the Doha Round experience demonstrates anything, it is that such a condition on negotiation creates stultifying barriers to ambitious agreement. Indeed, the essential idea of a CM is to find a valuable basis for a reciprocal liberalisation of one domain that is *not* conditional on the concurrent liberalisation of every domain.

Results

We set out to see if an alternative framework for agriculture negotiations could be identified that would be technically feasible, economically attractive and politically viable.

We have demonstrated that a "critical mass" approach is both technically feasible and that it could produce economic results as good as and probably better than the single undertaking approach.

We also found that few people would be prepared to consider adopting such an approach at this stage in the Doha Round, so the "critical mass" approach, if it is to be employed, will be a framework for future negotiations. However, to be most effective as a framework, "critical mass" will need to be seen in a different framework than it is currently viewed, as many policy makers continue to feel that politically important but economically marginal countries like Indonesia and India would need to be part of a "deal" and that liberalisation and reform in agriculture would need to be balanced at the same time by forward progress in non-agricultural sectors.

The Canberra Conclusions Conference

The Canberra "Conclusions Conference" held at the end of this research project on 20 November 2009, was held against the backdrop of a Doha Round negotiation that is now more than six years behind schedule and where the impasse over trade in agriculture continues to act as the central blockage in the process. Government representatives from Australia, Brazil, the European Union and the United States all freely admitted that many mistakes had been made in the course of the Doha Round which contributed to the state of play in Geneva. They also acknowledged that the many loopholes, exceptions and provisions for special treatment found in the current draft modalities were not an ideal approach, but they uniformly defended the idea that the Doha Round could only be concluded if governments continued to press for a result on the basis of what is on the table.

The government representatives at the conference pointed out a number of problems they saw with adopting a critical mass approach for future negotiations on agriculture, including: a mercantislist-motivated need to obtain concessions in other sectors to balance the losses in an agriculture negotiation; an inability to tolerate "free-riders" (like India) should a major developing country elect to stay out of the CM agreement; and the perceived risk that a CM approach to agriculture would contribute to a multi-speed WTO system. They also voiced the view that agriculture cannot be negotiated in the same way as non-agricultural topics like information technologies- in part because comparative advantage in agriculture is not distributed along developed and developing country lines.

Several of the non-government participants in the conference expressed the view that the CM approach for agriculture should be considered as a possible modality in the context of a future multi-sector round of negotiations (where agriculture would be negotiated in parallel with NAMA and services).

What the conference discussion revealed is that governments believe they are stuck with an approach that is not really working, but they are not currently willing to consider seriously moving to another framework such as critical mass. In reality, all of the problems cited above could readily be accommodated in the context of a CM agreement for agriculture. For example, there is no inconsistency between a CM for agriculture and a concurrent negotiation in industrial goods and services that would "balance" the losses in agriculture. In addition, the current modalities, with their plethora of special and differential treatment provisions for developing countries and least developed countries, would – in fact – create a multi-speed WTO and a good number of free-riders. Producers are sure to whine at the loss of exports and protected home markets, but the modelling shows that consumer welfare gains more than make up for the loss in producer surplus. In fact, welfare gains are by far the biggest in the most protected markets, like Japan, Korea and the EU. Of course, one needs to look at the overall national interest to appreciate this fact.

Many participants at the Canberra conference welcomed the “fresh thinking” represented in this research project; however, it is clear that more time and further study – as well as more in-depth discussion – will need to precede the adoption of a critical mass approach to agriculture negotiations even if we can demonstrate, as we have, that such an approach would be both technically feasible and economically attractive as an alternative framework to the current negotiations on agriculture in the Doha Round.

Researchers’ Commentary:

The views expressed by most of the conference participants reflected the conflicted views expressed in the second Global Trade Opinion Poll that we include in this report to RIRDC. Although most speakers from the panel or the floor were attracted by some aspects of the proposal and agreed that some much simpler modality is needed for agriculture, they could not foresee a future framework for negotiations where the mercantilist “balance” was not guaranteed by the obligations of the “single undertaking” and where the “compensation” of countries that would “lose” from the opening of markets was not integrated into the framework itself (as it is in the draft Doha modalities for agriculture through a host of provisions for e.g. “sensitive” and “special” products).

Implications

The current WTO model for reaching agreement on global trade liberalisation is failing. It is impossible to ignore the evidence of the Doha Round's long travail or the weight of opinion among of hundreds of trade analysts, officials and negotiators who have contributed, anonymously, to two Global Trade Opinion Polls over the past two years.

We have shown that a CM approach to agreement on opening markets for agriculture would be feasible and economically valuable. There is no WTO 'constitutional' impediment to a non-discriminatory CM agreement and the economic benefits which we describe for the first time are compelling. We have shown that even if China, India and Indonesia stand-back from the agreement for political economy reasons—as our collaborators consider likely—a CM agreement would deliver substantial net benefits to participants. Some developing countries would experience welfare losses due to the terms-of-trade impacts of higher food import prices. But we show that the global gains from the agreement would easily permit full compensation of any losses, leaving every economy either better-off or no worse off.

The crucial question is whether the OECD countries and other developing countries would participate in a CM agreement that did not include the emerging giants. If Europe, for example, proved unable to coordinate an agreement to open its markets (as one expert commentator suggested) or if the United States or Japan, for example, declined to participate in an agreement that appeared to give China a 'free ride', then the CM approach to negotiated reductions in protection would not 'fly'. We hope, however, that the arguments we offer in favor of the simpler 'modality', quicker negotiations, and more valuable outcome of a CM agreement to open global agricultural markets will convince both the OECD and emerging country governments otherwise.

In the aftermath of a Doha conclusion, for example on a more modest basis than originally proposed, the CM agreement we describe could dramatically extend the economic benefits of agricultural liberalisation on a non-discriminatory basis. In those circumstances, the political opportunity for global reform (including in their own economies) might outweigh concerns about small short-term losses in the calculations of the Chinese, Indian and Indonesian leadership.

The implications of our research for relevant stakeholders are that a change of attitude is required in policy-making circles. We know that the "critical mass" approach has been employed successfully in other WTO negotiations, ranging from the 1997 basic telecommunications and financial services agreements to the Information Technologies Agreement. However, policy-makers are finding it difficult to think outside the "single undertaking" box when it comes to agriculture trade negotiations. If we are to avoid a repeat of the long drawn-out Doha Round, stakeholders are going to need to take a fresh look at alternatives like the one we propose for a critical mass agreement in agriculture.

Recommendations

In our research project, we have only just started the process of trying to get policy-makers to think seriously about alternative frameworks for trade negotiations in agriculture. We are in a position to make the following recommendations:

- “Critical Mass” should be seriously considered as the framework in which the next multilateral negotiations on agriculture trade are conducted.

- In the time before the next negotiations, governments and other experts should study in greater detail than we have what different combinations of countries and product coverage could produce different outcomes from “critical mass” negotiations.

- In order that the ideas in respect of “critical mass” negotiations could be more widely accepted prior to the next agriculture negotiations, the Australian Government might wish to consider proposing and/or supporting a public discussion of alternative frameworks among WTO’s membership.

Attachments: Economic modelling papers

Using the Agricultural Trade Policy Simulation Model (ATPSM) we simulated an agreement among 38 countries (the CMA or 'critical mass agreement' countries) to eliminate tariff and non-tariff market access barriers—that is, to apply zero duties—on an MFN basis to a broad range of commodities that cover the top 30 most traded agricultural products. Extracts from the results of the simulations are included in the body of this paper.

We attach to this paper two reports on our use of the ATPSM model including:

- The simulation of the full CMA covering 30 products and 38 countries and
- The comparison of a CMA and the Doha modalities

Further papers containing the simulation of a CMA by commodity groups (Cereals, Meat, Dairy, Sugar) are available at www.petergallagher.com.au/files/CriticalMass/Index.html[28]

[28] For those who may be interested in exploring the capabilities of the ATPSM model, a video introduction to the use of ATPSM to simulate the complex modalities of the Doha Round "Chairman's Text" for Agriculture, is available at: www.petergallagher.com.au/index.php/site/article/modelling-a-doha-agreement-on-agriculture/

RIRDC Alternative Frameworks Project

ATPS Model Simulation: CM on 30 Commodities

Critical mass ‘zero duties’ agreement on a broad range of commodities

Why use the ATPSM model?

Using the Agricultural Trade Policy Simulation Model (ATPSM) we simulated an agreement among 38 countries (the CMA or ‘critical mass agreement’ countries) to eliminate tariff and non-tariff market access barriers—that is, to apply zero duties—on an MFN basis to a broad range of commodities that cover the top 30 most traded agricultural products.

ATPSM is a deterministic, partial equilibrium, comparative static model. It applies a trade policy ‘shock’ to a set of given facts about the volume and value of agricultural commodity production, consumption and trade barriers in a large number of countries. The model forces its representation of markets to discover a price where excess (too much, too little) supply and demand caused by the shock ‘clear’ resulting in changes in production, consumption and trade flows. It then enables the user to make a comparison between the ‘post-shock’ outcome and the initial state.

The model represents changes in supply and demand using a system of simultaneous equations that are characterised by a number of data and behavioral relationships designed to simulate market behavior. The model results are driven by changes in policy variables (tariffs, export subsidies, domestic support and tariff rate quotas) which determine changes in domestic prices, consumption and production. This in turn leads to a change in imports and exports, which feed into world prices. The model solves by finding a set of world prices that equate global imports and exports. Intersectoral effects are captured through cross-elasticities, but there are no constraints on the use of resources such as capital, labour or water. Nor are changes in stocks taken into account. Imports are assumed to be homogeneous, with consumers and importers indifferent to the source of their products[29]

The results indicate the effects of the policy changes assuming a constant base, 2002-2004. There is no account of exogenous growth over the implementation period. The model is well-documented (Peters and Vanzetti 2004) and is downloadable from the UNCTAD website.[30] A feature of the model is its handling of a two-tier tariff structure whereby imports within a quota level attract a relatively low tariff, and out-of-quota imports face a higher tariff. Rents associated with these quotas are explicitly modeled within ATPSM and have been allocated between exporters and importing country governments on the basis of our best estimates.

Although we have updated the APTSM database to include 2006 commodity prices[31] and the latest available trade and production/consumption data[32], we suggest that the results should be considered only as an indication of the relative magnitude of policy changes on welfare, trade and prices rather than as projections of precise values.

Information about these changes is, however, valuable. It enables us to confirm, for example, that even in the case of apparently ‘radical’ changes such as ‘free trade’ in a large number of commodities

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[29] Armington elasticities are employed on the demand side only: consumers distinguish between domestic and foreign production but are indifferent to the origin of imports.
[30] Peters, R. and Vanzetti, D. 2004, User Manual and Handbook on Agricultural Trade Policy Simulation Model, UNCTAD, Geneva. http://www.untad.org/tab/
[31] Although there were substantial world-market commodity price rises in the 2007-2008 period, we consider 2006 is a sufficiently ‘representative’ year. ITC/COMTRADE data show that the total value of exports and imports in 2006 for products in Chapters 1-24 of the Harmonized System (i.e. the WTO definition of ‘agricultural product) was about one percent higher than the average total value for the years 2004 - 2007.
[32] Production and trade data from FAO and UNCTAD relates to 2002-04

among countries accounting for 80 percent of production, most of the change is internal to the economies of the participating countries. There are certainly substantial changes in the size of world market demand, adding up to a 10% (about $30 billion) increase in the exports of CMA products. But more important changes take place in the markets of participating countries where even small net impacts on total welfare and the net trade balance can be the result of much larger changes in consumption patterns and in the distribution of resources ('welfare') between consumers, producers and government.

We would expect these big internal changes from the liberalisation of border barriers and other market distortions to result in greater economic efficiency (specialisation of production) and increased productivity. But ATPSM is a static model that does not tell us anything about these dynamic effects.

We chose to use the ATPSM model

- Because it is suitable for modelling a policy change affecting the top 30 products that we have discussed elsewhere in this project
- Because the ATPSM model is well-established and available to other researchers who may wish to verify our analysis
- Because the ATPSM model has also been used to model a Doha Round outcome, providing a basis for comparing the outcomes of the CMA

Representing a Critical Mass Agreement (CMA)

The ATPSM model has a defined commodity aggregation of 35 commodity groups. No selection of these is identical to the top 30 traded commodities on which we report elsewhere in this study[33] but for the most part they cover a *broader range* of the same products (see the table and concordance in Appendix A).

Of course, modelling the liberalisation of a broader range of similar products in the ATPSM model is likely to show a bigger result than liberalisation of the top-30 products alone. But in reality might be difficult and even undesirable to focus a CMA on only the top 30 products.

The majority of the top 30 products are one of a range of goods produced in the same agricultural industry. So, for example, the same industry (producers, processors) make all cuts of bovine meat; barley, maize and sorghum grains; raw and refined sugar; cheese and milk powders. Eliminating import protection on only selected products within a range (and not on co-produced products) would introduce distortions into prices and investment incentives in an economy. Partial liberalisation of an industry's output could lead to increased dispersion in a tariff and, in turn, changes in the relative prices of goods that do not reflect market needs or production conditions.

The commodity groups in the ATPSM model allow us to model feasible agreements on a commodity-by-commodity basis (see separate chapters on Cereals and Meat CMAs) or on a broad range of products that covers the top 30 traded products.

[33] We used the 30 top traded products at the HS 6-digit level to show that only a relatively small number of WTO Members would need to reach agreement on a significant CMA.

Scenario: zero duties on imports of a range of agricultural commodities, 38 CMA countries

The 38 countries that we have designated as potential participants in an agricultural CMA account for 80 percent of total world production in the ATPSM model (**Table 1** based on FAO data)[34].

As in most agricultural trade liberalisation scenarios, the overall pattern of changes introduced by the elimination of duties on these product groups in the 38 CMA countries is an increase in developing exports to developed countries where moderate to high applied rates of duty are matched by relatively high levels of market consumption (see the change in the trade balance of developed and developing countries in **Table 5**, second column).

As market barriers fall, import prices fall for domestic consumers leading them to demand more from the world market. Demand on the world market rises pushing world market prices (**Table 2**) up by between 2% (temperate oilseeds—predominantly soybean) and 21% (butter). The projected price increases tend to reflect the level of protection in the largest CMA markets (especially developed country markets).

The entire world market for these extensive product groups grows by almost 30% in value percent in value (**Table 6**)[35], with the biggest increases in exports by Least Developed countries and North Africa and Middle East (both from a small base).

The 38 CMA countries as a group enjoy the biggest improvement in net welfare on the back of a 23 percent increase in the value of exports (**Table 6**). But the net welfare benefits have different origins, and even a different sign, for countries within the group.

The four emerging CMA countries (Brazil, China, India and Indonesia) as a group see an average increase (30%) in the value of exports, but experience a small net welfare loss ($325 million in total, **Table 6**). The explanation can be seen in **Tables 7A** through **7C**. Most of the loss is attributable to a $630 million welfare loss in China. In all four cases, however, the change in net welfare can be attributed to internal transfers between consumers, producers and government revenue as protection falls and both consumers and producers make purchases or sales at world market prices. Brazil and India see an improvement in their net trade balance in these products (**Table 4**) but China sees a deterioration.

Brazil makes substantial net producer gains (**Table 7B**) due to higher export revenues for meat, poultry and sugar especially (**Table 4**). But higher world prices see consumer surpluses for cereals, meat, poultry and sugar plunge by almost the same amount. The results for India are similar.

In Indonesia, there is little net change. The loss of producer surplus in the cereals sector (**Table 7B**) due to the elimination of border barriers (despite the rise in world market rice prices) is entirely captured by an increase in the consumer surplus in the same sector (**Table 7C**).

Cuts in protection in China lead to a deterioration of its trade balance almost ‘across the board’ (**Table 4**). This indicates that consumers are accessing lower world-market prices for purchases, resulting in substantial increases in consumer surplus (**Table 7C**) which are, in turn, reflected in the loss of producer surplus (**Table 7B**).

The higher prices on world markets have a negative impact on least-developed countries, especially on sub-Saharan Africa (**Table 6**). The overall net welfare loss of $366 million in SSA is however only a small fraction of the net global gains of $9.7 billion, which means that there is ample room for compensatory transfers that would leave all regions better off as a result of the changes.

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[34] Note that in this table and throughout the simulation, we represent only 36 of the total of 38 countries we discuss elsewhere in the project. The ATPSM model database does not contain trade data for Singapore or Qatar.

[35] Table 5 shows a negative net trade balance in the CMA products for the world as a whole, suggesting slightly more imports than exports.

The Western European[36] region experiences the largest gains in net welfare ($2.4 billion) and a 34% increase in export sales (**Table 6**). But Europe's net trade balance in the thirty CMA products deteriorates because, with zero duties, imports are higher than exports by $5.4 billion (**Table 5**). Although prices on world market rise with import liberalisation, the impact for European consumers of being able to access world prices directly is a huge saving.

Indeed, the biggest net welfare gains on a country basis (**Table 3**) are found in the highly protected markets of Japan, Republic of Korea and the EU.

Scenario 2: zero duties and zero subsidies on a range of agricultural commodities, 38 CMA countries

Suppose that a CMA agreement, in addition to cutting import barriers to zero were to include an agreement to eliminate export subsidies and trade-distorting domestic supports on the thirty agricultural commodities in our model.

Although this sounds like a radical extension of the CMA idea it is not. If import barriers are eliminated, trade-distorting domestic supports, which take the form of market subsidies—administered prices, for example—would no longer be feasible. Owning to the national-treatment obligation of GATT, any market supports offered in a market open to world trade would 'leak' immediately to imports creating an un-stoppable hole in the support budget. It is very likely, therefore, that a CMA agreement to eliminate border barriers would be complemented by an agreement to eliminate trade-distorting domestic supports. 'Green-box' non-distorting supports could, however, continue. Some forms of 'amber-box' direct farm payments based on production limits might also continue without disruption from import competition, but it is difficult to imagine why a government would continue to pay local farmers to limit their production when there is open import access for foreign producers at world market prices.

Almost all export subsidies are offered by the European Union, which has already planned their elimination as part of it's internal market reforms, so it seems reasonable to project the elimination of subsidies, too, in the context of a CMA.

The main changes in the dual subsidy-elimination scenario (zero domestic supports, zero export subsides, zero duties) are:

- a dramatic rise in total world welfare— which almost doubles from $9.7 billion to $19 billion— and
- a further fall in the total welfare outcome for least developed and sub-Saharan African countries (compare **Table 10** and **Table 6**).

The differences between this scenario and the previous 'zero-duties-only' scenario are *partly* the result of larger world-price increases (**Table 8** compared with **Table 2**). Beef prices increase by a fifth as much again; butter and cheese by an additional thirty and forty percent; most grains by an additional 10 - 20 percent. The changes in total welfare by region are proportionately larger, whether in the positive or negative sense.

But the biggest changes in this scenario are due to the elimination of subsidies. The poorest countries loose in this scenario on account of the loss of export subsidies from Europe that formerly offered some compensation to food importers for impact of higher prices on world markets. Conversely, the welfare *gains* in Western Europe jump from $2.4 billion to $9.5 billion as the EU (and EFTA) stop spending taxpayers' money on the subsidies.

[36] EU-27 plus the the EFTA countries.

The CMA participants—who account for most world production and exports of the 30 products—also see big additional gains from the simultaneous elimination of subsidies and duties. Their gains almost double to $21 billion. The net welfare gains for the world as a whole also double under this scenario to $19 billion, which means that there is ample room to compensate the poorest countries for their loss and still leave all regions much better-off.

Scenario 3: zero duties on a range of agricultural commodities, 35 CMA countries

What difference would it make to the potential gains for CMA members if three of the largest developing economies that have been reluctant participants in market access negotiations during the Doha Round—India, Indonesia and China—were to stand-back from the deal? What would it mean for those countries and for the rest of the world?

The smaller world price rises implied by smaller participation in the CMA liberalisation drive the other changes in this model. Fewer participants open their markets—some of the world's largest developing markets remain protected—resulting in a smaller demand increase on world markets. World market prices rise (see the 'Zero-35' column of **Table 11**) but by only four-fifths as much as the zero-duty scenario for beef, half as much for rice and for pig meat; markets in which India, Indonesia and China play significant roles.

But the net world welfare outcome is *about the same*—even slightly *larger*—as in the full 38-member CMA (**Table 12**) and the remaining CMA members ('CMA-35') enjoy similar net welfare benefits to those in the full agreement.

There are only small *net* welfare impacts on the economies of the three 'stand-outs' (**Table 14**, Brazil, which is not a 'stand-out' in this scenario is included for comparison as one of the 4-Emerging in Table 12) but there are substantial internal resource transfers. As world market prices rise, producers in China, India and Indonesia switch output from the domestic market to export markets, demanding a higher price from domestic consumers. Prices behind the border barriers rise, penalising consumers. Imports remain impeded by barriers (as the small positive government revenue numbers suggest). Exports from India and China increase substantially (**Table 15**) as they take advantage of access to the newly opened markets of those countries participating in the CMA (thanks to the MFN provisions of the agreement). Overall, despite their non-participation, the CMA agreement has a big impact on these countries in the form of a very large redistribution of resources away from consumers and toward producers. Although the net impact on welfare is small, this does not measure the social impacts which would be expected to be adverse for income distribution or the dynamic impacts on the economy of such a 'windfall' transfer to producers at the cost of domestic consumers.

Australia and New Zealand (the Oceania group) experience only a two-thirds of the boost to welfare that we project for the full 38-Member CMA because some of their largest regional markets stand back (**Table 12**). Japan, whose main benefits come from its own liberalisation, enjoy approximately the same net welfare benefits under the CMA-35 as under the standard CMA scenario (compare **Table 13** and **Table 3**). The EU which is also a major exporter (e.g. of pig meat) enjoys a similar but slightly smaller net welfare benefit.

As far as ATPSM can show us, therefore, it does not make a big difference *to the rest of the world* if China, India and Indonesia choose not to participate in a CMA on these thirty products. The overall outcomes of the CMA-35 projection and the CMA projection are similar at global level. But there are undoubtedly big differences for the three countries that 'stand-out': the similar net results mask two contrary distributions of resources in their domestic markets.

PWG July, 2009

Attachment Tables: Scenario 1

Table 1 – Scenario 1: All CMA countries' initial trade and share of world trade

	All CMA Prod	CMA cereals	CMA dairy	CMA meat	CMA poultry	CMA oilseeds	CMA sugar
Imports (tonnes)	320,090,471	202,231,069	4,854,329	10,586,898	5,827,374	62,526,971	27,531,043
Exports (tonnes)	264,302,414	161,221,614	3,334,617	8,116,505	3,622,317	63,508,841	18,146,800
Share of world trade (%)	80	78	79	86	70	94	63

Table 2– Scenario 1: Change in world prices (%)

Bovinemeat	5
Sheepmeat	11
Pigmeat	6
Poultry	8
Milk, conc.	9
Butter	21
Cheese	11
Wheat	10
Rice	6
Barley	3
Maize	3
Sorghum	
Sugar, raw	4
Sugar, refined	9
Oilseeds, temp.	2

Table 3– Scenario 1: Biggest changes in total welfare ($US millions 2006)

Japan	5,311
Korea Rep.	1,737
European Union	1,658
Canada	705
Australia	608
Norway	539
Morocco	414
Switzerland	225
Brazil	221
India	221
Ukraine	158
United States	140
Algeria	-172
China	-630

Table 4 – Scenario 1: Net change in trade balance, selected countries ($ millions)

	All CMA Prod	CMA cereals	CMA dairy	CMA meat	CMA poultry	CMA oilseeds	CMA sugar
United States	3,670	1,465	-487	1,613	978	664	-565
Brazil	2,777	-129	-29	1,275	573	321	765
India	2,667	1,638	-66	406	54	16	620
Australia	1,719	504	307	703	65	14	125
Russia	1,223	675	179	212	-7	29	136
Argentina	1,209	369	158	310	72	242	58
New Zealand	868	-6	472	388	9	-0	4
Philippines	-1,052	-383	-15	-482	-76	-2	-94
Mexico	-1,670	-395	-138	-876	-304	-36	79
China	-1,957	-109	5	-291	-107	-1,047	-407
European Union	-4,555	-3,378	414	-48	-338	104	-1,306
Japan	-5,836	-896	-463	-3,612	-652	-23	-195

Table 4 – Scenario 1: Net change in trade balance, selected countries ($ millions)

Table 5 – Scenario 1: Net change in trade balance, selected regions ($ millions)

	All CMA Prod	CMA cereals	CMA dairy	CMA meat	CMA poultry	CMA oilseeds	CMA sugar
Cent. America & Carib.	-1,383	-430	-146	-791	-259	-36	281
Central Asia	652	300	7	309	3	22	10
Central & E Europe	2,609	1,262	338	645	39	75	251
Four Emerging	3,083	992	-95	1,445	560	-734	916
CMA	-6,591	-2,147	-464	-2,568	-313	-233	-867
Developed	-5,987	-2,310	-336	-1,534	-420	697	-2,085
Developing	4,879	2,005	281	1,018	351	-763	1,992
East Asia Dvg	-3,898	-671	-76	-1,264	-155	-1,374	-357
Least Developed	1,028	299	33	584	35	60	13
North Africa & M East	-997	-596	-107	-45	-55	-128	-65
North America	3,717	1,841	-909	2,011	622	724	-574
Oceania	2,591	493	779	1,092	75	14	137
South America	3,605	30	137	1,274	662	587	916
South Asia	3,935	2,248	56	735	93	44	760
Sub-Sharan Africa	195	-136	-10	198	-13	38	116
Western Europe	-5,425	-3,512	370	-563	-401	47	-1,363
World	-120	-26	-20	50	-37	-6	-79

Table 6 – Scenario 1: Change in exports and welfare

	Change in total welfare $ millions	Change in value of exports %
Cent. America & Carib.	-278	16
Central Asia	28	77
Central & E Europe	-62	52
Four Emerging	-325	30
CMA	10,986	23
Developed	9,383	21
Developing	652	36
East Asia Dvg	820	16
Least Developed	-384	255
North Africa & M East	-158	158
North America	845	18
Oceania	643	18
South America	304	24
South Asia	166	114
Sub-Sharan Africa	-366	82
Western Europe	2,421	34
World	9,651	29

Table 7A – Scenario 1: Change in total welfare ($ millions)

	All CMA Prod	CMA cereals	CMA dairy	CMA meat	CMA poultry	CMA oilseeds	CMA sugar
Brazil	221	-137	-21	40	104	103	132
China	-630	-584	-17	15	-7	-41	4
India	221	136	10	51	2	2	21
Indonesia	-137	-96	-17	-0	1	-9	-15

Table 7B – Scenario 1: Change in producer surplus ($ millions)

	All CMA Prod	CMA cereals	CMA dairy	CMA meat	CMA poultry	CMA oilseeds	CMA sugar
Brazil	2,074	-71	-57	1,023	423	274	484
China	-4,728	-1,984	22	-1,319	-136	-927	-381
India	3,209	2,185	-319	785	74	13	469
Indonesia	-555	-624	2	78	41	-10	-41

Table 7C – Scenario 1: Change in consumer surplus ($ millions)

	All CMA Prod	CMA cereals	CMA dairy	CMA meat	CMA poultry	CMA oilseeds	CMA sugar
Brazil	-1,650	45	95	-963	-320	-157	-353
China	4,801	1,509	-16	1,454	209	1,210	432
India	-2,964	-2,040	333	-734	-72	-10	-440
Indonesia	576	622	-8	-76	-39	20	58

Table 7D – Scenario 1: Change in government revenue ($ millions)

Table 7D – Scenario 1: Change in government revenue ($ millions)

	All CMA Prod	CMA cereals	CMA dairy	CMA meat	CMA poultry	CMA oilseeds	CMA sugar
Brazil	-203	-111	-59	-20	-0	-13	-0
China	-703	-109	-23	-120	-80	-325	-46
India	-24	-9	-5	-0	-0	-2	-9
Indonesia	-158	-94	-11	-3	-0	-20	-31

Tables: Scenario 2

Table 8 – Scenario 2: Change in world prices (%)

Bovinemeat	6
Sheepmeat	11
Pigmeat	7
Poultry	8
Milk, conc.	27
Butter	27
Cheese	16
Wheat	12
Rice	7
Barley	10
Maize	4
Sorghum	1
Oilseeds, temp.	2
Sugar, raw	5
Sugar, refined	13

Table 9 – Scenario 2: Biggest changes in total welfare ($US millions 2006)

European Union	8,578
Japan	5,705
Korea Rep.	2,978
Australia	906
Canada	811
United States	662
New Zealand	402
Morocco	385
Brazil	291
India	283
Indonesia	-186
Algeria	-277
Mexico	-284
China	-675

Table 10 – Scenario 2: Change in exports and welfare	Change in total welfare $ millions	Change in value of exports %
Cent. America & Carib.	-481	25
Central Asia	21	88
Central & E Europe	49	67
Four Emerging	-286	42
CMA	20,706	22
Developed	18,014	13
Developing	1,472	48
East Asia Dvg	1,786	33
Least Developed	-567	298
North Africa & M East	-552	200
North America	1,473	21
Oceania	1,277	24
South America	467	29
South Asia	193	136
Sub-Sharan Africa	-518	99
Western Europe	9,531	-35
World	18,926	29

Tables: Scenario 3

Table 11 – Scenario 3: Change in world prices (%)

	Zero 35	Zero 38	Zero-zero
Bovine meat	4	5	6
Sheepmeat	8	11	11
Pig meat	3	6	7
Poultry	6	8	8
Milk, conc.	8	9	27
Butter	15	21	27
Cheese	11	11	16
Wheat	9	10	11
Rice	3	6	6
Barley	3	3	10
Maize	3	3	4
Sorghum	0	0	1
Sugar, raw	4	4	5
Sugar, refined	7	9	13
Oilseeds, temp.	0	2	2

Table 12 – Scenario 3: Change in exports and welfare

	Change in total welfare $ millions	Change in value of exports %
Cent. America & Carib.	-176	7
Central Asia	24	62
Central & E Europe	-32	42
Four Emerging	-442	56
CMA-35	11,426	23
Developed	9,734	14
Developing	852	42
East Asia Dvg	1,088	76
Least Developed	-323	180
North Africa & M East	-196	124
North America	561	13
Oceania	444	15
South America	55	17
South Asia	109	100
Sub-Sharan Africa	-290	61
Western Europe	3,057	17
World	10,262	27

Table 13 – Scenario 3: Biggest changes in total welfare ($US millions 2006)

Japan	5,635
European Union	2,268
Korea Rep.	1,857
Canada	636
Norway	551
Australia	487
Morocco	438
Switzerland	240
India	175
Brazil	38
United States	-75
Indonesia	-115
Egypt	-123
Algeria	-156
China	-541

Table 14 – Scenario 3: Change in $ m

	Total welfare	Consumer surplus	Producer surplus	Government revenue
Brazil	38	-1,069	1,311	-203
China	-541	-9,754	9,198	16
India	175	-3,446	3,620	1
Indonesia	-115	-704	584	5

Table 15 – Scenario 3: Net change in trade balance, selected countries, CMA-35 scenario ($ millions)

	All CMA Prod	CMA cereals	CMA dairy	CMA meat	CMA poultry	CMA oilseeds	CMA sugar
China	5,453	883	54	3,515	575	92	334
India	2,668	1,264	354	327	49	35	640
United States	2,029	1,318	-576	954	780	184	-632
Brazil	1,846	-170	-38	934	457	70	593
Australia	1,426	444	276	553	52	4	97
Argentina	883	330	147	247	57	58	45
New Zealand	723	-5	417	302	7	-0	3
Indonesia	392	226	-5	75	38	2	57
Philippines	-1,141	-398	-15	-538	-81	-1	-107
Mexico	-1,821	-396	-139	-971	-331	-24	40
Japan	-5,863	-886	-469	-3,633	-666	-7	-207
European Union	-6,587	-3,662	197	-1,235	-441	29	-1,471

Attachment Appendix A:

Table Appendix A – 30 products by HS-6 code

30 Products by HS-6 code	Description	ATPSM commodities HS-6 equivalents
0201.30	Bovine Cuts, boneless, fresh	0201.10
0202.30	Bovine Cuts, boneless, frozen	
0203.12	Hams	0203.00
0203.19	Swine Cuts, fresh or chilled	0203.00
0203.29	Swine Cuts, frozen	0203.00
0204.42	Sheep Cuts, bone in, frozen	0204.21
0207.12	Fowls , whole, frozen	0207.10
0207.14	Fowls	0207.10
0401.20	Milk, Not Concentrated	
0402.10	Milk Powder	0402.10
0402.21	Milk and Cream powder	0402.20
0402.91	Milk and Cream	0402.91
0404.10	Whey	
0405.10	Butter	0405.10
0406.10	Cheese, fresh and curd	0406.00
0406.30	Cheese, Processed	0406.00
0406.90	Cheese, n.e.s.	0406.00
0407.00	Eggs	
1001.10	Durum Wheat	1001.00
1001.90	Wheat	1001.00
1003.00	Barley	1003.00
1005.10	Maize Seed	1005.00
1005.90	Maize Corn	1005.00
1006.30	Rice	1006.10
1201.00	Soybeans	1201.00
1205.10	Low Erucic Acid Rape / Colza	1205.00
1209.91	Seeds, Vegetables	
1701.11	Raw Sugar	1701.11
1701.99	Refined Sugar	1701.99
1704.90	Sugar, confectionary	1704.90

Thirty-Eight Countries Selected

United States	Thailand	Colombia	Korea	Israel	Kuwait
Brazil	India*	Switzerland	Singapore	Indonesia*	Qatar
European Communities (27)	Ukraine	United Arab Emirates	Chile	Peru	Jordan
Australia	China*	Saudi Arabia	Japan	Norway	
Canada	Uruguay	South Africa	Morocco	Venezuala	
Argentina	Mexico	Egypt	Turkey	Taiwan	
New Zealand	Vietnam	Malaysia	Philippines	Nigeria	

- Dropped in 35 CM country scenario

ATPS Model Simulation: CMA vs Doha

How does a CMA agreement compare to the Doha proposals?

We think this is the wrong question, but we understand why people ask it.

We are **not** proposing a CMA approach to agreement on agriculture as an alternative to the completion of the Doha Development Agenda negotiations. Those negotiations were launched with a mandate that is still current and governments have many times repeated their intention to complete them, probably on the basis of the current 'modalities' and in the framework of a single undertaking. We think that this would be desirable from the viewpoint of improved access to markets and the reduction or elimination of trade-distorting subsidies (on production and export).

We question whether the current Doha modalities will result in a high-quality agreement. Elsewhere, we have shown that the single undertaking has unnecessarily complicated the Doha project. In an effort to ameliorate the impact of trade liberalisation on some economies that would not otherwise participate in such an ambitious trade agreement, negotiators have added many more complications detailed in hundreds of pages of impenetrable 'modalities' for trade liberalisation. They take the form of new categories of protection ('sensitive', 'special'), new categories of exception ('small and vulnerable', recently acceded, very recently acceded) and new jargon for convoluted protection metrics ('tiered, deviation-compensated and partially-designated sensitive product tariff cuts'). The history of GATT/WTO—and the opportunism of the political economy—tells us that many of these complications will become part of the machinery of protection and will remain long after the Doha round is completed as barriers to the transparent, uniform governance of open and 'seamless' global markets for agricultural products.

Accordingly, we are examining the CMA approach to agreement on agriculture as an alternative modality for agreement but not as an alternative to the Doha Round. We recognise that governments are unlikely to abandon the current modalities for the agreements, possibly because they are reluctant to realise the 'sunk costs' of eight years of wrangling over them and possibly because some are convinced that the 'final pieces of the Doha puzzle' are almost within grasp.

A CMA approach may be most suitable as a follow-up to a Doha Agreement; a means of completing the liberalisation of markets among governments that can see advantages in doing so and as an 'antidote' to the structural impediments that a Doha agreement based on the current modalities could leave in its wake. All of the residual complexities devised by the Doha modalities would be erased by a CMA agreement in the markets and products it covered.

We indicated the scale and structure of benefits from a CMA agreement in other chapters, but we also understand that after a decade or more of modelling of the potential outcomes of a Doha agreement the relevant metric for many analysts and officials will be the relative benefits of a Doha result and a CMA agreement. The challenge is to make a fair comparison. We have constructed a projection of the Doha outcome based on the same ATPSM data and framework as we used for the CMA experiments.[37] In the CMA experiments we simulated zero duties and, separately, zero- duties and subsidies in 15 of the ATPSM commodity groups that cover 30 of the top-traded agricultural products. We also limited country-coverage to 38 potential members of a CMA. In the Doha experiment we simulate a much more complicated set of modalities set out in the December 2008 'modalities' (TN/AG/W/4/Rev.4) employing some simplifying assumptions that are explained in Appendix 7, when translating these modalities to the ATPSM framework. We ran the Doha simulation using the full ATPSM commodity set (35 aggregated commodity groups) and all 151 economies included in the ATPSM database.

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[37] Our projections for the CMA agreements are based on specific inputs including: 2006 price estimates from FAO; production and trade data from FAO/UNCTAD based on 2001-2004 and aggregated into 35 agricultural product categories (15 of which are included in the CMA simulation); estimates of price elasticities of production/consumption; estimates of quota rents in the current system of Uruguay Round tariff quotas and judgments about the distribution of those rents.

We were able to use the work of David Vanzetti and Ralph Peters—the creators of the ATPSM model—who have previously modeled a Doha outcome using a closely related version of the ATPSM model based on 2002-04 prices as a check on our own projections.[38]

Comparison of outcomes

In our review of potential CMA agreements we examined scenarios with zero applied duty rates and with zero duties and subsidies. We argued that the extension of the CMA to cover the elimination of trade distorting domestic supports and trade export subsidies was not a radical extension of the 'core' CMA scenario because it would be infeasible for any government to continue to offer market-distorting domestic supports once its borders were open. The cost of maintaining measures such as price supports in those circumstances would be unlimited.

Accordingly, the tables in this chapter show a comparison between the simulated results of a 'Doha' agreement among 151 economies on 35 product groups and the results for both the 'zero duties' and the 'zero duties and zero subsidies' CMA simulations for the 15 CMA product groups and 38 CMA participants. The columns containing the results of the CMA simulations are identical to those in the chapter detailing the CMA simulation results. Only the 'Doha modalities' data is new.

Comparable global welfare outcomes

The changes in net welfare are surprisingly comparable between the three simulated scenarios. Although the scales are different, the sign is the same in most cases (increase or decrease in net welfare) indicating that the global impacts are broadly in the same direction. Furthermore, the net global welfare results are significantly positive, ranging between $10 billion and $19 billion (**Table 1**). This means that there is ample room to ensure that 'losers' could be compensated by 'winners' with the world as a whole (and every region) still better off than in the absence of one of these agreements.

We have previously seen and explained the doubling of the CMA welfare impacts when subsidies, as well as duties, are set to zero. It is interesting here that the 'zero + zero' CMA result is also significantly larger than the projected Doha result. There is no mystery about this result: the explanation appears clearly enough from **Table 2**. The largest net welfare losses are similar across all three scenarios: they affect the same group of economies and are all rather small in relation to the scale of the economies concerned. But the largest net gains vary by large amounts across the three results. Again they affect the same group of economies, but they are bigger than the losses by a factor of ten and contribute significantly to the differences among the three scenarios.

The gains vary as much as they do among the scenarios because eliminating expenditure on production and export subsidies in addition to reducing or eliminating tariffs removes two tax-wedges affecting consumers and taxpayers in highly protected markets; the tax component of the tariff and the tax-funding of the subsidies.

One similarity between the three simulations is the predominance of the highly-protected developed country economies among the biggest 'winners', on a net welfare basis, from any deal. This is an unsurprising outcome: the greatest static gains from any trade policy liberalisation are to be found in those countries that make the biggest cuts in doing business across their own borders.

Still more striking than the welfare outcomes are the trade outcomes. The world market (measured by change in the value of exports) grows by almost a third under either of the CMA scenarios but by only a twelfth under the Doha simulation (**Table 3**).

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[38] Vanzetti, D. and Peters, R., "Cold Storage: Why Doha Failed", paper contributed to the 53rd Annual Conference of the Australian Agricultural and Resource Economics Society, Feburary 2009. Sourced from http://ageconsearch.umn.edu/bitstream/47645/2/Vanzetti.pdf on 1 June, 2009.

Developing countries as group see similar differences between the simulations. They achieve 36 or 48 percent growth in exports under a CMA scenario but only 13 percent under the Doha simulation. This difference is reflected, too, in subsets of developing countries: the 'Four emerging' countries (Brazil, China, India and Indonesia), the Sub-Saharan group and, especially, the Least Developed. The latter make no policy changes of their own under any of these simulations; the differences in export opportunity is due only to changes in the (MFN) tariff barriers they face in export markets and to changes in the world market prices of their exports due to the subsidy settings in each of the scenarios.

Of course, part of the explanation for the bigger world market growth in the CMA scenarios is also the generally greater rise in world market prices under the CMA agreement than under the simulated Doha agreement (**Table 4** which shows only price changes for CMA products in order to make a comparison).

PWG, June 2009

Table 1 – Attachment A: Change in net welfare, $US millions (2006)

	CMA Zero	CMA Zero	"Doha"
Cent. America & Carib.	-278	-481	-338
Central Asia	28	21	-8
Central & E Europe	-62	49	36
Four Emerging	-325	-286	-123
CMA	10,986	20,706	15,746
Developed	9,383	18,014	15,108
Developing	652	1,472	24
East Asia Dvg	820	1,786	179
Least Developed	-384	-567	-398
North Africa & M East	-158	-552	144
North America	845	1,473	818
Oceania	643	1,277	896
South America	304	467	230
South Asia	166	193	-40
Sub-Sharan Africa	-366	-518	-335
Western Europe	2,421	9,531	9,246
World	9,651	18,926	14,741

Table 2 – Attachment A: Biggest changes in total welfare ($US millions 2006)

CMA Zero Duties		CMA Zero duties + Zero subsidies		"Doha" modalities	
Japan	5,311	European Union	8,578	European Union	6,630
Korea Rep.	1,737	Japan	5,705	Japan	3,926
European Union	1,658	Korea Rep.	2,978	Switzerland	1,618
Canada	705	Australia	906	Norway	971
Australia	608	Canada	811	Korea Rep.	560
Norway	539	United States	662	Canada	526
Morocco	414	Norway	646	Australia	515
Switzerland	225	New Zealand	402	Morocco	449
Brazil	221	Morocco	385	New Zealand	392
India	221	Brazil	291	United States	292
Ukraine	158	Indonesia	-186	Israel	189
United States	140	Algeria	-277	Algeria	-185
Algeria	-172	Mexico	-284	Mexico	-208
China	-630	China	-675	China	-253

Table 3 – Attachment A: Percent change in value of exports

	CMA Zero	CMA Zero	"Doha"
Cent. America & Carib.	16	25	9
Central Asia	77	88	15
Central & E Europe	52	67	28
Four Emerging	30	42	17
CMA	23	22	6
Developed	21	13	-0
Developing	36	48	13
East Asia Dvg	16	33	11
Least Developed	255	298	26
North Africa & M East	158	200	22
North America	18	21	7
Oceania	18	24	11
South America	24	29	9
South Asia	114	136	44
Sub-Sharan Africa	82	99	13
Western Europe	34	-35	-36
World	29	29	8

Table 4 – Attachment A: Change in world prices (%)

	CMA Zero	CMA Zero	"Doha"
Bovinemeat	5	6	3
Sheepmeat	11	11	4
Pigmeat	6	7	3
Poultry	8	8	3
Milk, conc.	9	27	22
Butter	21	27	15
Cheese	11	16	10
Wheat	10	12	6
Rice	6	7	2
Barley	3	10	8
Maize	3	4	1
Sorghum	0	1	1
Sugar, raw	4	5	4
Sugar, refined	9	13	9
Oilseeds, temp.	2	2	2

Appendices

Appendix 1 – Brazil Country Paper

The Brazilian perspective on the critical mass proposal for the WTO negotiations on agriculture

Saulo Nogueira[*] *& André Nassar*[♣]

Introduction

Proposal and objective of the paper

This research project will seek to identify and analyse approaches to agricultural trade negotiations, different from those currently being pursued in Geneva at the WTO, that may be a better alternative approach push forward in the negotiations.

As one of the international collaborators, we surveyed the Brazilian agri-business sector and government representatives to obtain their opinions and positions with regards to the ongoing agricultural negotiations and discuss alternative approaches to finalising the agreement or to adopt in future negotiations.

The first parts of the paper will present the Brazilian agricultural sector in terms of its international trade, its political representation in the government, and the trade-policy formulation mechanism. The next section will present the negotiating positions adopted by Brazil in the previous and the current WTO Round of negotiations. The last part will analyse the opinion of the government and private sector representatives regarding the current negotiations framework, and the alternative proposals for the agricultural negotiation mechanisms. On the whole, the paper aims to show what the Brazilian trade experts perceive to be the difficulties and the viability of these alternative negotiation mechanisms, especially the use of critical mass.

Part 1: National patterns of international trade in agriculture

Brazil has only recently become a bigger participant in the international trade of agricultural products. Although historically, as a colony, it has always been an important provider of coffee and sugar to Europe, the diversification of crop production and growing world demand led to the growing number of crops and volume exported. Imports of food have been relatively constant over the years, in much smaller volumes.

Major Brazilian Agricultural Imports

The main agricultural product imported in Brazil is wheat, which reached over USD 1.5 billion in 2007, coming mainly from Argentina. Wheat has always been imported in Brazil in significant quantities, having more than doubled from USD 700 million in 1993 to the current value (data from SECEX - Secretariat of Foreign Trade of the Ministry of Industry and Commerce). Next is cotton, which accounted for around USD 500 million of agricultural imports in 2007. Vegetable oils and fruit juices and canned foods were imported at around USD 420 million each. Fruit imports, excluding oranges, reached USD 320 million. Malt, barley and rye, drinks, rice and cocoa were the other items that together accounted for 75% of agricultural imports in 2007. The other items that complete the list

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of 90% of imports are: vegetables, dairy products, other flour products corn, meats and other animal products.

The origin of these imports in 2007 was the Mercosur countries (excluding Venezuela) which together account for over three quarters of all imports (76.6%). The other top 10 suppliers of these imports are: the United States, Indonesia, Portugal, Canada, Ivory Coast, Spain and Chile. At the commodity level, the origins of these imports vary. While Argentina, Paraguay and the US are the main suppliers for several products like wheat, cotton, fruits juices and rice, other countries play more important role in supplying other foods like vegetable oils, cocoa and vegetables (see Annex 5).

Major Brazilian Agricultural Exports

The main Brazilian agricultural export is soybeans, accounting for a quarter of exports in 2007, valued at USD 11.4 billion. Following close behind are meats (bovine, pork and poultry) at USD 11.1 billion, accounting for 24.5%. Sugar exports were valued at USD 5.3 billion in the same year, which accounted for 11.7%. Coffee and oranges were the other items that together accounted for 75%, at USD 3.9 billion and USD 2.3 billion, i.e. 8.6% and 5.2% respectively. Tobacco, corn, alcohol and cotton are the next items that together sum up to 90% of all agricultural exports, representing 5%, 4.3%, 3.3% and 3.1% respectively.

The main destinations of these exports are the Netherlands, China, the Russia Federation, the Unites States, Germany, Belgium, Spain, Italy, Japan, Iran, France and Saudia Arabia, together representing three fourths of all exports. For 90% of all exports, the following countries enter the list: the UK, the United Arab Emirates, Hong Kong, Korea, Egypt, Thailand, Nigeria, Algeria and South Africa. Needless to say, it represents a wide variety of export destinations. There are significant exports to all continents, except the Oceania countries, though the greatest volumes go to Europe and Asia, with around 38% and 32% respectively. Although the developed countries represented the major destination of agricultural exports, this has changed over recent years, with developing countries representing an ever growing share of the destinations.

Importance of agricultural exports to Brazil

(a) Contribution to rural farm income:

Brazilian agricultural exports have grown at a fast rate in recent years, going from around USD 14.4 billion in 1999 to USD 45.3 billion in 2007, i.e. the value grew 315% in 8 years. Needless to say, these exports have contributed to the agricultural income. The exact measure of this contribution varies and specific studies could be conducted to estimate this, yet in general terms, one can calculate the value of exports over the agricultural GDP. Data from CEPEA (*Centro de Estudos Avançados em Economia Aplicada*) is used to estimate the agribusiness GDP in Brazil and is considered a better reference than the government IBGE data because the former uses the actual prices, instead of an annual average, and also because it actually incorporates the various sectors that are part of the agribusiness, instead of just the traditional agricultural activities.

If we take the agricultural GDP, then the agri-exports accounted for 63.4% in 1996 and 63.8% in 2007. However, if we take CEPEA's agribusiness GDP, we find that the agri-exports have a smaller contribution. In 1996, these exports only accounted for 5.2% of agribusiness GDP. This proportion grew steadily over the years, reaching 23.4% in 2007.

According to the national geo-economic database (IBGE, see annex 5), in 2005 the national agricultural production (excluding meat, cotton, alcohol and food sectors) contributed R$ 70.3 billion (around USD 30.5 billion[39]) to the GDP out of a total production of R$ 122.7 billion (around USD 53.3 billion). The exports were R$ 21.1 billion (around USD 9.2 billion) which is 30% of the GDP, a

[39] Using and exchange rate of R$ 2.30 per US dollar.

relatively important contribution. This sector alone employed 13 million people in the same year, yet the whole agribusiness sector offered work to 22.3 billion people. If we take the whole agribusiness sector (using IBGE's definition), then the overall production is around R$ 507 billion (around USD 220 billion) while the GDP was R$ 177 billion (around USD 76.8 billion). The exports of R$ 80.9 billion (around USD 35.2 billion), represents a contribution of 46% to the sector's GDP, i.e. of significant importance.

It should be noted that using IBGE's definitions and classifications, the overall importance of the agribusiness sector appears less significant than it really is. The sector's GDP represents only 10% of the national GDP, while exports only represent a quarter of the country's exports.

(b) Contribution to the national trade balance:

The Brazilian agricultural trade balance has always been positive since 1996, rising from USD 11.2 billion to USD 52.1 billion in 2006. This trade balance contributed significantly to Brazil's overall trade balance because the other sectors, i.e. industry and services, have had a negative balance over the same period. The industrial trade deficit, in aggregate terms, has lowered over recent years, from USD - 23 billion in 1997 to USD - 3 in 2005, yet remains negative.

Agricultural trade balance in 2008: Jan-Jun USD 28.1 billion (Exports at USD 33.7 billion and imports at USD 5.6 billion), which is 23.4% higher than the same period in 2007. Yet, with recent world financial turmoil the prospects for exports in 2009 look dimmer than previously expected.

(c) Importance of agricultural exports in national politics:

In Brazil, agricultural tariffs are already low. While the simple final bound tariff for agricultural products is 35.5%, the simple average MFN applied tariff is 10.2% (while the trade-weighted average is 10.3%) and 10.5% for non-agricultural goods (source: WTO tariff profiles 2006, see Annex 2). The maximum agricultural applied tariff is 55%. Only 0.3% of agricultural tariff lines are tariff quotas.

Nonetheless, there are a few agricultural products that are well protected in Brazil, such as barley, wheat, malt, wine and milk (the latter has an exemption from the Mercosur CET: tariff of 27% applies, instead of 14-16%; powdered milk has an aggregate protection of 41.8% together with the anti-dumping rates[40]). These have higher tariff levels and their representative sectors are constantly reminding the government to keep that level of protection or even raise this further. Also, the Ministry of Rural Development (*Ministério de Desenvolvimento Agrário – MDA*) adopts a position of protecting the small and family farms, whether through support measures or trade protection.

A few export policies were adopted along the 1990's to encourage Brazilian companies to increase their exports. Among these are the financial instruments that act as important incentives due to the high national interest rates, in comparison to the international levels. The two instruments that stand out are the *Adiantamento de Contrato de Câmbio* (ACC) and *Adiantamento de Cambias Entregues* (ACE). In the 1990's, around 70% of all exports used one of these two mechanisms (Banco Central). The former is a loan provided to the exporter prior to exporting the product, which is used as working capital to produce the goods demanded abroad. The latter is provided after the goods are shipped and provides the value of the goods exported to the seller earlier on, this allows them to set more flexible payment dates for the buyer. Most exports of cotton and soybeans took advantage of this instrument to provide more favourable purchasing terms to the foreign buyers, which also helped to secure the buyers' continuous interest in Brazilian suppliers of these commodities.

Another incentive came in the form of fiscal legislation which allowed exporters to receive some of the taxes paid on production back when the goods were shipped abroad. The Lei Kandir came into

[40] CNA: http://www.cna.org.br/site/noticia.php?ag=0&n=7678

effect in 1996 and offered a strong incentive to the exporters by returning the ICMS tax (a type of VAT). Although some problems arose in later years regarding the amount of tax credit collected by these exporters that could be effectively used by the company, it has helped the exporters in an important way by lowering the exported products' price.

In 1994, when the new currency, the Real, was adopted in Brazil, it was pegged to the US dollar, meaning that it was overvalued and remained so throughout most of the decade. Only with the advent of the financial crisis that struck Asia and Latin America in 1998/99 did the government adopt a fluctuating mechanism for the currency and causing it to devaluate, reaching over R$ 3.00 per US dollar. This lowered the price of the Brazilian exports abroad which helped boost agricultural exports. This is an important factor behind the growth in Brazilian agricultural exports since 1999, whereby exports grew from US$ 14.4 billion in 1999 to US$ 45.3 billion in 2007.

Part 2: Participation in agricultural trade negotiations

Historical participation of Brazil in the GATT/ WTO negotiations (Uruguay Round):

As a member of the Cairns group, Brazil has advocated opening markets for agricultural products even before the Uruguay Round. Having a competitive advantage in most agricultural products, Brazil defended liberalising trade for all agricultural commodities, without exceptions.

In the beginning of the Doha Round, the Brazilian government and academia had already analysed the outcomes and difficulties of the Uruguay Round for the Brazilian economy and so had a better sense of how little progress was achieved in agricultural trade. The Brazilian negotiators firmly supported the new proposals of the Doha Round of focusing on the development aspects of the trade negotiations, with special emphasis on agriculture. Throughout the first discussions in the WTO, Brazil negotiated with other developing countries to join forces and put greater pressure on the developed nations to reduce agricultural subsidies, both domestic and export, and open their markets to food imports. This led to the creation of the G-20 in august of 2003, a group of developing countries, including, among others, China, India, Argentina, South Africa, Indonesia and Thailand, most interested in agricultural liberalisation of the developed world. Even though the group had a diverse composition, and there were initial doubts on its survival, the G-20 managed to remain intact throughout the Cancun Ministerial (when it was created) and the Hong Kong Ministerial. According to a representative of the Itamaraty, it is believed that the participation in and creation of the group helped to align the different positions of domestic groups in Brazil, since its external receptivity among distinct developing groups gave it more legitimacy that stood above the squabbles between the aggressive and defensive domestic groups.

This group of countries negotiated well during the Doha Round, proposing new ways to tackle different issues and making sure that agriculture remained at the forefront of the WTO talks. Brazil has had to mitigate its aggressive stance on the two pillars of domestic support and market access during the Round in order to accommodate the interests of the other G-20 members. Even though there has been some conflict of interest among the member countries with regards to new proposals of exceptions for sensitive and special products, Brazil has continued to emphasise the need to reduce the applicability of these instruments in order to effectively reduce market barriers for agricultural products from developed countries. Unfortunately, this has been the issue that was never conciliated within the G-20 and which eventually resulted in a lack of agreement on the last proposal made by the DG of the WTO in the last gathering in Geneva in July of 2008.

The G-20 became a key group of countries in the negotiations, which helped place Brazil and India in the FIP (Five Interested Parties) group that would discuss key points with the DG of the WTO seeking to unlock and bring progress to the talks. It should be noted that Brazil insisted that India participate in these exclusive talks, despite the US's reluctance, in order to bring more legitimacy to whatever was accorded within this group and in the view of the other G-20 members. Brazil also helped formulate the Framework, together with the other FIP countries, by encouraging discussion meetings.

Position taken by Brazilian negotiators in agricultural negotiations:

The Brazilian government has been offensive in all three pillars of the agricultural negotiations (i.e. market access, domestic support, and export competition). Since the three items affect the competitiveness of Brazilian agricultural exports, the negotiation position has been to place emphasis on all areas. According to one of Brazil's trade negotiators, more pressure was placed on domestic subsidies given by the US, the EU and Japan since these affected some key items, like cotton, corn, and soybeans, which Brazil was a large exporter of. A sign of this, beside the various statements made by the President, Luiz Inácio Lula da Silva, or the Minister of Foreign Relations, Celso Amorim, is the decision to challenge the cotton subsidies of the US and sugar export subsidies of the European Union. Also, Brazil's active participation in shaping the G-20 had the objective of challenging the agricultural subsidies of the developed countries.

The Brazilian negotiators took on a tougher stance in the agricultural negotiations during the early stage of the Doha Round. It sought to continue its alliance with the Cairns Group in order to pressure countries to open their markets to agricultural goods. However, the negotiators believed that they needed to tackle the problem from an additional angle. This opportunity appeared in the Cancun Ministerial when some developing countries with similar intentions to lower agricultural subsidies in the developed countries led to the creation of the G-20. While this group offered a great opportunity for uniting forces with developing countries with some important economic weight, which offered more political backing, the different overall negotiating objectives of the members meant that Brazil had to adapt its negotiating strategy somewhat to accommodate these allies.

Economic estimates of gains to Brazilian economy from Uruguay Round:

There are a few econometric studies estimating the economic benefits of the Uruguay Round in the Brazilian economy. Some use the GTAP model to estimate the impact on specific sectors, some of which are academic thesis dissertations. A study by Mauro Lopes (et al. 2003, TCP/RLA/2910) analyses the impact on the market liberalisation on the agricultural sector from the Uruguay negotiations. It indicates some positive results for trade opportunities from the South American countries, in varying degree according to the countries, though figures for Brazil are not provided.

The Brazilian market was well closed up to the late 1980's, when the import substitution policies were still in place. In 1990, the president Fernando Collor, approved a rigorous package of liberalising trade in a sudden move, lowering most industrial and agricultural tariffs. While this action was severely criticised by different social groups, it worked as a shock-therapy for the national industries to adapt to the globalisation that was sweeping the world. Soon after, the Mercosur trade agreement was signed with Argentina, Paraguay and Uruguay in 1992, bringing further changes in tariff levels. One problem here is that, the Uruguay Round agreement was signed a few years afterwards (1995) and so it becomes difficult to measure the impact of this multilateral agreement in the national agricultural sector because of the previous trade liberalisation had already opened up Brazil's border. One way to circumvent this would be to look at the destination of the exports, i.e. look at the export growth to markets other than the Mercosur countries, nonetheless there would be some overlap of the implications for the neighbouring markets.

Also, one wonders whether the absence of market openings prior to 1990 may explain the fact that hardly any studies before or shortly afterwards were made to estimate the impact of these trade policy changes on the national economy, i.e. there wasn't a 'tradition' of carrying out econometric studies to help formulate strategic positions and demands in trade negotiations. It is generally thought in Brazil that the Uruguay Round was generally good, yet not enough to create opportunities because the domestic support in developed countries were not properly regulated or lowered, allowing them to continue distorting international commodity prices.

Contribution of agricultural sector to economy and its role in welfare distribution

While there has been much debate on the contribution of the agricultural sector's growth to the Brazilian economy as a whole, it should be pointed out that the growth of the agricultural and industrial sectors are not mutually exclusive. Several critics have pointed that Brazilian agricultural exports have been mainly in basic commodities with low added-value and that this brings little benefit to the country's economy. While this may be true, due to the presence of trade barriers on higher-value products in other countries, it does not mean that this detracts from any efforts to increase Brazilian industrial exports.

The agricultural sector's growth can contribute to the whole economy in two basic ways: (i) involving small farmers and generating jobs on the field, as well as taxes for the government; or (ii) bringing foreign revenue from larger exports through more efficient crop cultivation and exports of higher value-added products, also bringing higher taxes for the government. In either case, the higher taxes received can be distributed to the more needy families living in the rural areas through social programs. Over the past two decades the predominant thinking by some academic and government entities has been of the latter way of contributing to the whole economy.

It is clear that there are some experts and critics who think otherwise and support other mechanisms for distributing the gains from the sector to the families living in the countryside. The rapid urbanisation in Brazil from the 1960's to the 1980's has been blamed on the ineffective social policies for redistributing land to the landless and offering better opportunities for the small farmers in order for them to stay in the countryside. One clear result of this was the creation of the MST (Landless Workers Movement) in the 1980's who began taking more drastic measures in order to conquer land and distribute them to the needy. Among their speech was the argument that the ownership of the land by only a small number of large farmers (*latifundiários*) brought little benefit to the economy since the mass population gained nothing from it.

The absence of threats from agricultural imports to national farmers in Brazil has meant that the agricultural trade policy has placed greater emphasis on opening foreign markets, rather than protecting the domestic one. Also, the existing land property structure, where most farms are large and often posses capital to ensure better quality of its crops and meats means these are also the exporters of the country. This being the case, there has been little concern of how international trade benefits small and subsistence farming in Brazil, nor much discussion on agricultural or fiscal policies that might ensure a better income distribution from export revenues to all farmers. This is somewhat reflected in the low importance given to the income distribution aspect of trade policies in the multilateral trade negotiations of the WTO. For example, in the G-20, although some of the member countries like India and Indonesia were discussing ways to apply safeguard mechanisms to protect the domestic markets against import surges, Brazilian negotiators were more concerned with lowering trade barriers and agricultural subsidies in developed nations. Indeed, as we witnessed during the negotiations of the mini ministerial in Geneva this year, the Brazilian negotiators deviated from the position of other G-20 members by accepting the idea proposed by the DG to the FIP's group that tariff level of the SSM should not breach the pre-Doha Round level of bound tariffs, which was the key point that resulted in the collapse of the talks.

Part 3: Political economy of agricultural trade negotiations

Main stakeholders of the international trade negotiations:

The large Brazilian farmers and agricultural processing industries are the main stakeholders in the agricultural trade negotiations, yet there are other groups that stand to gain or lose as well. Although the smaller farmers do not participate much directly in international trade, some show concerns of how greater international trade might influence their livelihood. The MDA is the government ministry that represents this concern, often arguing that family farms might lose out from an open market where they need to compete with cheaper imports. NGO's and trade representatives that support this argument are the REBRIP (*Rede Brasileira Pela Integração dos Povos*) and the CONTAG (*Confederação Nacional dos Trabalhadores na Agricultura*). The former is a group of NGO's that defend various concerns in international trade, like workers right's, welfare distribution, environmental protection and the smaller family farms. The latter is the national federation of agricultural labourers that defends rural worker's and subsistence farmers' rights. Evidently, they join forces with the ministry to discuss a negotiation position for the multilateral talks in Geneva, often participating in the ministerials as observers and placing their concerns to the Itamaraty negotiators.

President Lula's government has a strong interest in the negotiations to seek publicity for their efforts in promoting Brazilian agricultural exports, which has contributed greatly to the country's trade balance. The government has placed the expansion of Brazilian exports as one of its milestones that will help add to foreign reserves, increase taxes, create jobs and increase the presence of Brazilian products abroad. All this shows the positive outcomes that are appearing, and should continue to do so, from the government's sturdy efforts to open new markets abroad, as well as to counter the trade deficit of the services and industry sectors.

Brazilian consumers have little at stake in the trade negotiations because the country is not dependent on food imports, with a few exceptions, and so there is little worry of how trade may impact foods prices. One of the exceptions is wheat, imported mainly from Argentina, which raises concern and draws attention in the media only when import prices rise and the bread at the bakeries become more expensive. Nonetheless, there is no serious concern from the consumer defence groups, such as IDEC (*Instituto de Defesa do Consumidor)*, the most organised consumer group in Brazil.

Consultation mechanisms available for private sector, NGO's and other interest groups:

Different consultation mechanisms exist in Brazil, depending on the sector involved. The industrial sector worked with the government to create the CEB – *Coalização Empresarial Brasileira* (Brazilian Business Coalition) in 1996. The Confederation of National Industries (CNI) coordinated this forum where business leaders from the industrial sector could learn more about the international trade negotiations and voice their concerns to the government. Although this forum was supposed to also encompass agriculture and services, these were and continue to be given little priority in the discussions. This consultation mechanism played an important role during the negotiations of the FTAA and Mercosur-European Union (i.e. during 2002-03), yet began to lose presence afterwards as the private sector began to have direct consultation with the government ministries. To make things worse, the consultation mechanism through the CEB was reformulated by the government, whereby meetings are only organised when a topic is raised by the government, which brought on more criticisms from the private sector.

For agriculture, there is the Permanent Forum of Agricultural Negotiations (Fórum Permanente de Negociações Agrícolas Internacionais) coordinated by the CNA (National Confederation of Agriculture), of which the ABAG (Brazilian Agribusiness Association) and the OCB (Organização das Cooperativas Brasileira) participate.

Congress has been consulted by the private sector on specific occasions, and this is seen by some as an indication of this being an alternative means of influencing trade policy making. The *Comissão de Relações Exteriores e de Defesa Nacional* (CREDN) is the commission in Congress that deals with foreign relations and international trade and it has held hearings where representatives of the private sector have presented their worries and demands for the multilateral negotiations. When the trade topic might present some sort of threat to specific national groups, the issue receives more attention and more pressure is placed in Congress to act in favour or against it. A study by Amancio Oliveira (2007) looks at several trade policy topics that were discussed and voted in Congress, with different levels of participation by the private sector. The author shows there has been greater mobilisation by the private sector in Congress in the cases where the policy involved trade liberalisation that could pose some economic threat to domestic producers, such as a measure to lower the tariff for wheat, a memorandum of cooperation with China, and removing fines for importing used automobile tires from other

Mercosur countries. In the case of other pieces of legislation, there were little public hearings, pressure from business groups or media attention, such as legislation aiming at improving bureaucratic trade procedures with other countries that would have little impact on trade.

Although there are a few legislative proposals for giving more trade policy-making powers to Congress, these did not receive too much attention from the media or private sector and are currently waiting on the shelves. These came about with the growing criticisms that the Ministry of Foreign Relations was formulating trade policy based on political strategies and not on economic interests of the nation. The main idea proposed by ex-ambassador Rubens Barbosa, which he defends adamantly, was that trade policy-making in Brazil ought to be changed to something similar to the USTR structure of the US (Barbosa, 2006). The idea also proposed to give more decision-making power to Congress, thereby promoting greater debate between the executive and legislative branches, reinforcing the idea that restructuring the current system was necessary. The proponents also suggested that a fast-track mechanism could be added in case the new trade policies were to become stuck in Congress, preventing new trade agreements to be signed with other countries (Barbosa, 2006). It must be pointed out, however, that most of these initiatives came from business groups of industrial and services sector, less so from the agricultural sector.

One indication of how the private sector does not participate significantly in the discussion on trade negotiations was the recent complaint by certain groups, initiated by the minister of agriculture, Reinhold Stephanes, that the Ministry of Foreign Relations was not defending their positions in Geneva during the WTO mini-ministerial in July 2008. Mr. Stephanes complained that he was not contacted by the Itamaraty nor the President regarding the WTO Doha Round and that the negotiations were useless because the growing world demand for food, together with the rising food prices, would lead to lower trade barriers regardless of the outcome of the negotiations. Although this comment resulted in much debate in the media, several of the ministries involved in the trade topics continued to see the importance of the Doha Round and did not make any statements against Itamaraty.

The Ministry of Foreign Relations hears the sectors concerned through direct meetings in the capital, Brasilia, where the interest groups present their arguments and interests in the Doha Round, though the media does not mention this. In agriculture, as described below, there is the ‘technical working group’, of which ICONE participates, where meetings are held by the Itamaraty staff and negotiators together with key trade association representatives.

According to Veiga (2006), while the MRE formulates trade policy together with other key high-ranking politicians, in the executive branch, the policies of 2nd and 3rd –level priority are discussed and decided upon by CAMEX, the chamber of foreign trade. CAMEX is made up of key ministers of various ministries, with judicial powers to decide upon key trade policies. Yet, it was relocated to the MDIC, which made it lose its political status that it would have if it were located together with the President’s Office. One result of this structure is that policy-making becomes more related to political positions of the executive branch and less on economic reasoning or the positions of the private sector. Indeed this has been a common complaint in recent years of the political orientation behind trade policy-making, where priority is given to other developing countries and avoiding agreements with the US or the EU.

Itamaraty has been criticised by some for taking a political stance to most international trade negotiations. This has been especially the case when the Minister of Foreign Relations has had a career within the ministry before becoming minister. There have only been two ministers of foreign relations who previously built their careers outside of Itamaraty, one was Minister Celso Lafer (1992), who set trade policies that emphasised trade rather than the more political goals often held by the Itamaraty. The other ministers have often adopted negotiating stance in line with the political impetus of the Ministry and the ruling government party. Some see the current minister, Celso Amorim, as one such example, having prioritised the political ambitions of President Lula’s Labor Party (PT), developed with the help of Samuel Pinheiro Guimarães (the second in rank of Itamaraty), of creating a unified

South American trade and economic region, rather than pursuing trade agreements with the developed nations.

One outcome of the failure of the Doha Round negotiations has been that certain business groups have tried to find the culprits of the failure in the national participants of the Doha Round, namely the Itamaraty. They have taken on the criticism that has been placed for some time that the Itamaraty and the current government is placing political importance to the trade negotiations, instead of looking at it from an economical perspective. The Brazilian National Association of Electronics (ABINEE) has recently criticised the current structure where Itamaraty negotiates trade agreements with little participation of the other ministries. Although this was one of the very few public protests, it uncovers some of the discontent with the current trade policy formulation.

The National Confederation of Agriculture (CNA) established in July of 2003 a thematic chamber to deal specifically with the agricultural trade negotiations, composed of government and private sector representatives, in July of 2003 called *Câmara Temática de Negociações Agrícolas Internacionais*. The idea was to have discussions on the main topics being negotiated in the WTO, of which ICONE would participate. However, in the second meeting the members noticed the high-level of technicalities associated with the topics on the table and so these meetings became a forum to exchange information, rather than to discuss and analyze negotiation proposals. The minister of agriculture at the time, Mr. Roberto Rodrigues, suggested moving the technical analysis to another group, and so an informal group was created with representatives of the government and Itamaraty, as well as ICONE, in order to go into more depth on the key topics of the negotiations and issues as they emerged in Geneva. It was called the *Grupo de Trabalho Informal* (GTI – Informal Technical Group) coordinated by the CNA, and they met on an irregular basis upon calling of the Brazilian Mission in Geneva (of the Itamaraty).[41] The GTI would meet on a regular basis, with more frequent gatherings soon before each meeting of the WTO negotiations.

The objective of creating the GTI was to prepare and discuss the technical aspects of the negotiations, i.e. the content and not the methodology of the negotiations. The group, especially ICONE, would compile the trade and economic data, exchange information with different agencies and trade associations, and prepare estimates of impacts of the proposals being discussed by the Brazilian government and the G-20. Many of the econometric calculations and economic analysis of the proposals discussed by the G-20 were prepared by ICONE and other members of the GTI, since it was one of the few research institutions of the G-20 countries qualified for preparing such studies. Also, when the proposals made by the Brazilian negotiators were not accepted by the other G-20 members, the GTI would analyze alternative proposals to give more flexibility to the government's stance, without harming the Brazilian agricultural sector's trade interests.

With time, the GTI went from a technical support group that clarified the WTO negotiation terms and proposals, to a group that reflected the realities of the agricultural private sector, which had to be consulted before the diplomats could take a negotiation stance in Geneva. This was considered a promotion for the group because they became more heavily involved in deciding which negotiation stance to take, rather than just providing the technical support to the Itamaraty's negotiators. The experience of the GTI may also act as a positive experience for the Itamaraty's negotiators to give more attention to the concerns and calculations of the private sector, be it in industry or services sector.

<u>Political parties most involved in international agricultural trade:</u>

There are some political parties with a strong participation of large farmers, although they are distributed among several parties. There is a coalition of congressmen, called the "Frente Parlamentar de Apoio à Agropecuária" (also known as the 'Bancada Ruralista'), composed of politicians from various political parties, who have traditionally had much influence in the Brazilian Congress. These

[41] The members included representatives of the key ministries, i.e. the MAPA, MDA, MDIC, a representative of the CNA and of ICONE.

parties include PMDB, PSDB, PFL, and PTB have the most politicians, followed by PPS, PDT, PP, PL with a smaller number. (União Democrática Ruralista - UDR). They have always defended agricultural policies favourable to larger farmers and financing conditions and loans with favourable interest rates. Although they show more unity when voting against pieces of legislation favouring the agricultural reform, it is expected that these parties support trade policies favouring agricultural exports.

Their level of influence in Congress is hard to estimate due to the avoidance by some politicians to declare their support for this group, preferring to keep it on a low-profile. In the house of Congress (*Câmara dos Deputados*) their number of votes ranges from 120 to 200, out of 513.

There are some parties that also defend the agricultural sector from liberalisation, together with the social institutions that favour the small farmers. These parties include PT (which used to have higher relation to these groups by indirectly defending the Landless Workers Movement - MST), PDT (Partido Democrático Trabalhista), PSOL (Partido Socialismo e Liberdade), PCdoB (Partido Comunista do Brasil), PSB (Partido Socialista Brasileiro), PPS (Partido Popular Socialista) and groups such CUT (Labor Trade Union) and NGO’s like the Brazilian Network for Peoples' Integration (REBRIP - Rede Brasileira pela Integração dos Povos), which gathers 35 NGO’s with the common goal of questioning the free trade agreements. The latter is an interesting organisation in that it groups together NGO’s with different objectives and keeps up with the international negotiations with the intent of reporting the proposals on the table and demanding more consideration for the social aspects of the trade agreement. They defend the small farmers from any trade liberalisation, showing much concern for their livelihood if markets are opened. In fact, these institutions sent representatives to Geneva for the Mini-ministerial in July hoping to block and disrupt the trade negotiations.

<u>Main groups that dispute agricultural trade policies and whether their pressure is justified:</u>

Considering the lack of economic threat from agricultural imports in Brazil’s, the trade liberalisation over the years has not placed any real threat to the agricultural sector. Its trade policy can be said to be aligned with reality because it is not taking a protectionist stance. And so, this question is not relevant in Brazil’s case. Rather, it may be more interesting to look at the industrial sector that is participating in the NAMA negotiations and acts as a counter-weight to the aggressive stance of the Brazilian government in the agricultural negotiations.

Since the agricultural and NAMA negotiations are linked in the Doha Round, whereby some countries, especially the developed ones, have demanded further border liberalisation of industrial sectors in exchange for concessions in the other areas, the degree of willingness to concede in the NAMA talks can determine the ambition of the agricultural talks that depend on the developed nations. Of course this will make more sense in the context of the Single Undertaking, whereby all sector discussions need to be agreed to before a final agreement can be signed.

In the beginning of the Doha Round, the Brazilian industrial sector took on a very protectionist position and was reluctant to agree to the formulas that would result in harsher tariff cuts. As the industrial sector, coordinated by the Confederation of National Industries (CNI) and the Federation of Industries of Sao Paulo (FIESP), became better qualified in analysing the proposals and their impacts on the domestic sector, they began to take a more proactive stance in the talks. The sector on the whole came to set a position that they could justify with better arguments and economic data and calculations. Often they were consulted by the Itamaraty on the limits of concessions that the sector could offer, with the argument that greater numbers would place the Brazilian negotiators in a better position to demand even further agricultural concessions in tariff and subsidy cuts by the US and the European Union.

Part 4: Alternative frameworks for trade negotiations

Government representative's opinions on importance of 'three pillars' negotiation scheme:

The opinion of the government representatives is that the current agricultural negotiations allow for greater coverage of topics, that is, all three pillars. As the Brazilian position is that reducing domestic support is as important as lowering market access for agricultural goods, it becomes intrinsic to the negotiation strategy of needing to move forward on all fronts simultaneously, rather than one at a time. Brazil's aggressive stance was sufficiently satisfied with the initial mandate of the Doha Round, elaborated in November of 2001.

Ever since the Harbinson text, Brazil defended this structure of agricultural negotiation, agreeing that by tackling the three pillars, giving differential treatment to the developing countries, and participating in all topics would be of interest to itself and the other developing countries. Although Brazilian interests placed greater weight on domestic support and export subsidies, due to their systemic features, rather than market access, the Brazilian negotiators agreed that the initial proposals were satisfactory.

Throughout the negotiations of the Doha Round, the Brazilian delegation put effort into ensuring that the proposals were well-balanced among the pillars, without having one left behind in comparison to the others. This implies that the structure itself was not a problem, rather than a given that had to be worked with throughout the talks.

Objectives and positions taken by Brazilian government in the Doha Round, and expectations for closing a deal:

The government has an offensive position in the agricultural trade negotiations with hopes to open markets for Brazilian agricultural exports and to create a more level-playing field in the world market by reducing the existing subsidies of the developed countries. Although export subsidies are included in the overall objectives, it was given lower priority during the talks as the countries agreed to remove them in the WTO Ministerial in Hong Kong in 2005.

Brazil played an important role in building the G-20 group before the Cancun Ministerial and in keeping the informal arrangement together throughout the Doha Round. The initial motivation for the Brazilian negotiators to join this group was to work with other developing countries in questioning the agricultural subsidies given to farmers in the developed countries. Although the G-20 faced difficulties right from the start when some developed countries tried to break it apart, they managed to hold together and coordinate a negotiating agenda, even with distinct interests from specific members. The group had an important role in resisting the efforts of other countries of lowering the ambition of the agricultural talks. The G-20 served as a good experience for the Brazilian negotiators in terms of gaining experience of coordinating a group of different countries and developing the expertise to prepare studies to help establish negotiating positions. Further, it allowed the government to gain experience in consulting the private sector and society in general with regards to formulating a difficult negotiating strategy that took into account national interests as well as the economic situations of the other group members.

The negotiating position of the Brazilian Ministry of Foreign Relations has been relatively steady throughout the Doha Round, yet changed slightly according to the internal negotiations and discussions of the G-20. Knowing that the G-20 represented an important mechanism for Brazil in terms of placing more pressure in the negotiations with the developed countries and other members of the WTO, besides the political importance of leading a group of developing countries, it became harder for Brazil to disagree completely with or detach itself completely from it. Since Brazil's position was initially very offensive in lowering domestic subsidies and export subsidies, with market access taking a slightly lower importance, it was not completely attuned to those of the other G-20 countries. This meant that a reformulation of the demands it had expected to put on the negotiating table. The main area where disagreement appeared was in market access, especially the Special Products (SP), Sensitive Products and Special Safeguard Mechanism (SSM). While Brazil did not see any of these favourably, it had to accept some level for these mechanisms due to the request of the more protected countries like India, Indonesia and China. The problem with the first two is that they could be used by developed countries to protect the main commodities that Brazil is most competitive in exporting, like soybeans, corn, cotton and meats. While for the latter, the fear was that the developing countries, that are increasingly becoming the export destinations of agricultural exports, could impose tariffs when imports grow.

Therefore, the Brazilian government was firm in avoiding the inclusion of such mechanisms in the Doha Round. However, it quickly had to accept these instruments because the other G-20 members were adamant about their need. Although with time the level for the SP and sensitive products were agreed to within the group, the SSM continues to be an area of disagreement. Even though the mechanism would only be applied in case of import surge in these countries, one wonders whether these mechanisms may be applied randomly and act as a tool for blocking food imports.

The result of the Brazilian government's stance in the negotiations has been a slight detachment from the G-20's position during the WTO's mini-ministerial in 2008 whereby Brazil accepted the proposal put forward by the Director-General, with which the US, the EU and other countries agreed, but China and India refused to accept. The staunch position of the latter two countries resulted in the failure of the negotiations in Geneva. An unfriendly atmosphere ensued between Brazil and China and India because the latter interpreted Brazil's decision as an abandonment of the G-20's goals. The Brazilian government's interpretation is that it followed its interest in the negotiations, of liberalising agricultural markets, and that the G-20's position regarding this special safeguard mechanism had never been clear.

Table – Appendix 1: Matrix of Industries' Interests in the DDR

Industry[1]	Issue of Interest and Defensive Country	Are the Draft Modalities Attending the Interests? [2]
Soybean	Product-specific disciplines (U.S.).	Yes, if compared to past subsidies. No, if compared to forecasts.
	Tariff Escalation (EU, U.S. and China).	Partially. The general rule is it is undermined by exceptions to developing countries and for sensitive products.
	Differential Export Taxes (Argentina, Indonesia and Malaysia).	No. DET is part of the 2004 July Framework but the issue had been neglected on the Draft Modalities.
	Tariff reduction (45 percent soybean oil on India).	No. Special products will undermine any result of tariff reduction on developing countries.
Sugar	Sensitive products (U.S. and EU).	No. Over-quota tariffs reduction will not eliminate water.
	TRQ expansion (U.S. and EU).	No. TRQ expansion will be very low compared to Brazilian exports.
	SSG (EU).	Yes, if it is eliminated.
	Export subsidies (EU).	Yes.
	Imports regime based on "mark-ups" or gate prices (Japan).	No, although some countries are pushing to include in future versions of the draft modalities.
Ethanol	Tariff reduction (U.S. and EU).	Yes, if it is not selected as sensitive and if U.S. reduces the temporary tariff.
	Sensitive product (U.S. and EU).	Yes, depending on the treatment that will be settled for sensitive products not subjected to current TRQs.
	Sectoral initiative on environmental goods	No.
Chicken	Sensitive products, TRQ expansion, TRQ administration and in-quota tariffs (EU).	Yes for TRQ expansion. No for administration and in-quota tariff.
	SSG (EU).	Yes, only if it is eliminated.
	Export subsidies (EU).	Yes.
Beef	Sensitive products, TRQ expansion, TRQ administration and in-quota tariffs (EU).	Yes for TRQ expansion. No for administration and in-quota tariff.
	Export subsidies (EU).	Yes.
	TRQ creation (Japan).	Yes, depending how new quotas will be treated.
Coffee	Tariff escalation (focus on roasted and instant coffee).	Yes.
	Tropical products.	Yes.
Frozen orange juice	Tariff reduction (U.S.).	Yes.

Industry[1]	Issue of Interest and Defensive Country	Are the Draft Modalities Attending the Interests? [2]
Corn	Product-specific disciplines (U.S.).	Yes.
Pork	Sensitive products, TRQ expansion, TRQ administration and in-quota tariffs (EU).	Yes for TRQ expansion. No for administration and in-quota tariff.
	Export subsidies (EU).	Yes.
	TRQ creation (Japan).	Yes, depending how the new quotas will be treated.
Cotton	Product-specific disciplines (U.S.).	Yes.
Powder milk	TRQ expansion (U.S. and EU).	Yes.
Fruits	Sensitive products (EU).	Yes, depending if TRQs will be created.

Source: Authors personal contacts with industries representatives.
Notes:
1. Tobacco has not been included because ICONE has no experience with the industry.
2. This column reflects Authors' opinions, which are based on the contacts and studies developed by ICONE for the industry's trade associations.

As for the expectations for closing a deal, they differ among the trade experts. On the whole, most seem to be understanding with regards to the pace of the negotiations, saying that the increasing number of topics and member-states at the WTO makes it harder to advance in the negotiations. Some showed more certainty with regards to the member-states reaching an agreement on the SSM, which was the main impediment to the talks in the last meeting. They showed more uncertainty on whether other items of the agreement could prove problematic to closing a deal.

<u>Responses from trade experts, and our analysis, on the proposal of using critical mass for the agricultural negotiations</u>:

Government representative's perceptions on the current negotiations framework

As presented above, the Brazilian government has always defended the initial structure and the modalities draft of the Doha Round. It was seen to be intrinsically linked to the overall objectives of the Round of liberalising agricultural trade to foster development to the developing countries.

With regards to domestic support, the challenge remained in placing pressure on the two largest subsidisers of agriculture, i.e. the E.U. and the US, to reduce their Overall-Trade Distorting Support (OTDS) levels. The view of the Brazilian government is that there are not any alternatives in this respect because of the political weight that the two countries have traditionally had, and continue to have, in the WTO negotiations.

In market access, however, the difficulties became increasingly related to the level of ambition the developing countries were willing to agree to for their own commitments and the instruments to be applied for special and sensitive products and the Special Safeguard Mechanism (SSM). The negotiators perceived the growing importance of the developing countries markets in future agricultural trade, due to the growing populations and income, together with the restrictions of natural resources for expanding food production. And so, it became clear that these protection mechanisms for being discussed in Geneva would become problematic for Brazilian exports in the coming years. While this is not directly related to the negotiation structure, the emerging difficulties in agreeing to the numbers for these mechanisms made it harder for the Brazilian negotiators to reach their objectives of substantial market access.

The negotiators of Itamaraty noticed the complications that some of their former allies of the G-20, together with the more defensive members of the G-33, were creating in the negotiations. All their effort placed in the Doha Round with regards to market access was facing an obstacle that now seems almost unsurmountable in the existing negotiation structure. If these mechanisms could be put aside somehow, or at least detached from the overall agreement, it would certainly make it easier for the member-states to agree to a final text in the agricultural negotiations.

Based on the responses of the trade experts interviewed, the single undertaking is believed to be a 'necessary evil' of the WTO trade negotiations. In order to get most countries onboard to the two main sectors of the negotiations, i.e. agriculture and industry, the agreements must be sealed in an overall package where all WTO members agree to the terms of all negotiations made. The reason is that some countries are only interested in liberalising trade in sectors they are more competitive in, and so, if negotiations were made independent of each other, it would be difficult to get these members to agree to the areas they are more resistant to sign into. This way, there ought to be more concession made by the largest number of countries.

In our view, it seems that the single undertaking method places unnecessary pressure on developing countries that have to abide by all agreements that they might not be ready for, as was the case with the Uruguay Round. In the current Round, special and differential treatment was added to the agreement since the developing countries discovered they were not ready to implement all the closed agreements. Therefore, a critical mass way of negotiating may allow some developing countries, which are less engaged in international trade, with fewer obligations of altering their trade barriers and policies, thereby leading to higher acceptability on their part.

Opinions on making the negotiations less complex

A few of the trade experts were of the opinion that the single undertaking was part of the negotiation structure that would allow for greater concessions between the countries. The main exchanges would take place between industrial and agricultural market access, whereby one would guarantee gains from having participated in the other sector's negotiation. And so, if one country were to see benefits of participating in the agricultural negotiations more proactively only if it perceived that the NAMA negotiations would result in greater market access, which is of interest to their national industries. This is the case for many developed countries and even some developing countries, like China and South Korea.

Indeed, during the Doha Round, there were times when representatives of some developed countries, like the European Union, complained that the level of ambition being discussed and demanded in the agricultural negotiations were not being reflected in the NAMA negotiations. Such comments reflect not only attempts to discourage and complicate the agricultural negotiations, but also their perceptions of how the two sectors' negotiations should be more equally balanced in terms of importance and progress in trade liberalisation.

In line with the arguments made with regards to the single undertaking of the discussions, most respondents believe it is difficult to simplify the negotiations. The topics on the table are considered numerous by some, yet are seen as necessary in order to advance on the complicated, yet important, issue of regulating and limiting the domestic support given to farmers in developed and developing countries. It becomes difficult to simplify the framework for the current Doha Round, yet ideas could be proposed for future Rounds. The fact that the politically most sensitive matter of domestic subsidies will have been resolved before the next Round, creates a new playing field whereby the different areas of the negotiations may not need to be interlinked through a single undertaking for a deal to be reached.

One respondent observed that one way to help resolve these negotiations would be with better communication and discussions between the negotiating ministries and the private and social groups in each country. Continuous internal communication and position making would avoid undesired surprises of certain countries bringing old queries or backing down on their former proposals during the negotiations at the Ministerials. In other words, clearer procedures of deciding what will be negotiated in each stage and that proposals initially made cannot be revoked through changes in positions or concepts by any member state afterwards, would improve the flow of the negotiations.

One respondent suggested having a two-tier system of negotiations, similar to the Free Trade Area of the Americas (FTAA) method proposed, whereby countries would choose the level of ambition they wanted to be part of by choosing whether they want to sign specific additional packages that go beyond the base-line agreement.

None of the respondents had any real proposal of how to simplify the negotiation procedures or structure, yet some believed this would be important. One respondent proposed having less topics on the table in order to simplify things, or at least make them close the deal faster. For instance, leaving certain topics like trade facilitation, TRQ application rules or other items for the next Round, and out of the single undertaking, would allow the main topics to be tackled sooner.

Applicability of critical mass in the current and future negotiations

Some respondents mentioned that the current negotiation framework was already in a way using critical mass group of countries to advance in the talks. They referred to the fact that it was the main developed countries together with some key developing countries that participated in the 'green room' talks or the Five-Interested Parties's (FIP) meetings with the Director-General of the WTO, Pascal Lamy. Yet, after understanding the idea of critical mass for agricultural negotiations and perhaps by commodity group, their responses became more analytical and could be divided in two groups: in favour and those against this idea.

Responses supporting the proposal

Some respondents saw the use of critical mass negotiations by commodity group as interesting in that it allowed a better concentration of countries engaged in the products international trade while leaving out those who may pose unnecessary barriers to an agreement.

One observed that the use of critical mass (CM) should be helpful in that, by lowering the number of countries involved in each negotiation, it becomes easier to place pressure on the countries that are most defensive in the agricultural negotiations. This is especially useful for those countries that have little reason to maintain the current tariffs and other forms of protection, that is, the most unnecessarily protective member-states. It becomes harder for these countries to complicate the talks by raising irrelevant issues or joining up with numerous countries, often the smaller developing countries, to create a larger group of countries opposing the negotiations. Also, by negotiating by commodity, instead of across-the-board agricultural goods, it becomes harder for the defensive countries to use general and rhetorical arguments. The member-state will be expected to explain specifically why they do not want to facilitate trade for each commodity concerned.

Even though a CM negotiation for a specific commodity may still include the more resistant countries, a smaller group of countries would be easier to resolve the issues posed by them and may allow for a better communication and clarification of the real concerns and problems of individual countries (which is currently almost impossible with all 152 member-states of the WTO).

One expert stated that he believed this alternative form of negotiation would only be effective for commodities whose average tariffs were already low, not so for those with highly protectionist tariff levels. A respondent who participated in the WTO negotiations of the Uruguay Round and afterwards, said that, based on the case of the ITA agreement signed at the Singapore Ministerial, he believes the terms of the agreement were drawn shortly prior to the meeting and it was detailed at a fast pace. This, in his opinion, shows how such agreements can accelerate the negotiation stage.

Responses critical of the proposal

Some Brazilian trade experts, when considering the use of critical mass, question whether this form of negotiation will motivate the countries that are currently adopting a more defensive stance to put more effort or make further concessions in the agricultural talks. This opinion is valid for the negotiations of commodities where the more resistant countries belong to the 'critical mass', or where the commodity is considered politically sensitive due to the protectionist context of their growers.

One expert drew a comparison with the sectoral negotiations taking place in the NAMA talks. There, the negotiations have been slow and several countries are hesitant to agree to the sectoral liberalisations proposed, even those that would very likely stand to gain from such an agreement. Even though this type of negotiation uses a voluntary scheme of participation, whereby a critical mass of countries is needed to close an agreement, it has met some resistance from different countries. Further, the fact that there is a large amount of intra-firm trade in the multinational corporations there ought to be greater willingness for the firms to want to agree with the sectoral negotiations, yet even this has not helped the process. In the case of the agricultural negotiations, the more separate structure of the exporters and importers of agricultural products ought to make these less likely to be signed.

The Itamaraty's perspectives on international politics and stance of defending the interests of national but also developing nations' interests means that it will support the use of a single undertaking. This has been the ministry's stance since the beginning of the Doha Round, and so it is unlikely that they may accept a negotiation structure that deviates from the single undertaking. Even though some diplomats may personally feel that the use of alternative methods would be useful, their official stance is against this in the current Doha Round. For the next WTO Round, this may be an option to be analysed.

In our judgement, the use of critical mass negotiations in the current Round is very unlikely to be accepted by other G-20 countries or any of the other WTO members mainly due to the fact that much effort has been placed in the talks so far, and a change in negotiation structure may threaten to turn all of it obsolete. Nonetheless, considering the Brazil's special interest in the agricultural negotiations, the use of CM is worth analysing and applying to the next round of negotiations of the WTO. It should be applied to both market access and domestic subsidy negotiations, even if the dynamics of the negotiations may differ in each.

Conclusions

One issue that may pose a problem in using the critical mass method in the WTO in the current Doha Round is that it may disturb the dynamics of the negotiations and force the member-states to re-evaluate what proposals they are willing to put on the table. The balance achieved so far in the agricultural negotiations, even though certain issues have not been agreed to, like the SSM, has cost much time and effort from all WTO members. The proposal of using critical mass needs to consider the cost of disturbing the balance of the status-quo, and whether this may lead some countries to, at least initially, reduce the level of ambition of the proposals placed on the table.

Assuming that the "single undertaking" will continue to be valid for the current negotiations, this will not be a problem, as has been a matter of concern by some trade experts who believe it has been a necessary structure that allowed for progress in all areas of the negotiations in parallel.

While there may be some resistance from certain member-states or critics, it must be remembered that critical mass has been used in the past in the GATT/WTO. Further, the fact that the countries not participating in the critical mass agreement are not obliged to implement the decisions of the group makes it offers little reason for criticism or resistance from those member-states outside the critical mass. It also makes it more resistant to any strong criticisms from smaller countries or NGO's that may believe it would result in deteriorating participation or subordinate the voice of these member-states.

Considering that agricultural topics are only now truly a part of the GATT/WTO negotiations, it needs to be remembered that it is a new area which may require special efforts and handling in order to bring progress to the talks. The method used for industrial goods in the NAMA negotiations may not be suitable for the agricultural area because the former already passed this stage of rule-setting for domestic and export subsidies. From this perspective, the introduction of alternative methods of negotiation for agriculture may have a bigger chance of succeeding in future Rounds of the WTO.

We believe the single undertaking was used in the Doha Round with a valid goal in mind, and indeed it may have helped get trade-offs in the negotiations in order to get some developed countries to accept lowering their agricultural subsidies. This goal will be achieved once the Doha Round ends with some better regulations on domestic and export subsidies as part of the final agreement. Having done this, a new stage will be set for future agricultural negotiations that will allow better negotiation arrangement for market access talks, which ought to flow more smoothly in comparison to the current Round.

Annex 1: Agricultural tariffs in Brazil

Description	Applied tariff					Bound tariff
	No. of lines	Average (%)	Minimum (%)	Maximum (%)	Coefficient of variation	Average (%)
Total	**9,730**	**10.4**	**0.0**	**55.0**	**0.7**	**30.2**
HS 01-24	1,044	10.4	0.0	55.0	0.5	35.8
HS 25-97	8,686	10.4	0.0	36.0	0.7	29.5
By WTO category						
WTO Agriculture	**959**	**10.2**	**0.0**	**55.0**	**0.6**	**35.3**
- Animals and products thereof	112	8.2	0.0	16.0	0.5	36.9
- Dairy products	34	18.8	12.0	27.0	0.3	50.5
- Coffee and tea, cocoa, sugar etc.	171	13.8	0.0	20.0	0.3	36.3
- Cut flowers, plants	54	5.5	0.0	14.0	0.6	33.8
- Fruit and vegetables	195	10.6	0.0	55.0	0.6	34.4
- Grains	35	6.6	0.0	18.0	0.8	49.6
- Oilseeds, fats and oils and their products	111	7.9	0.0	12.0	0.4	34.7
- Beverages and spirits	42	17.7	12.0	27.0	0.2	37.7
- Tobacco	18	15.3	10.0	20.0	0.2	38.9
- Other agricultural products n.e.s.	187	7.4	0.0	36.0	0.7	28.8

Source: WTO Secretariat estimates based on data from TPR of Brazil 2006.

Annex 2: Trade policy-making in Brazil

Government departments involved in international trade policy-making and negotiations:

Ministry of Agriculture (MAPA):

Secretaria de Relações Internacionais do Agronegócio – Departamento de Assuntos Comerciais.

Ministry of Industry, Commerce and Development (MDIC):

Secretaria de Comércio Exterior (SECEX) **-** Departamento de Negociações Internacionais (DEINT);

CGAC (Coordenação-Geral das Negociações de Acordos Comerciais) – DINAC (Divisão de Controle e Acompanhamento dos Acordos Comerciais).

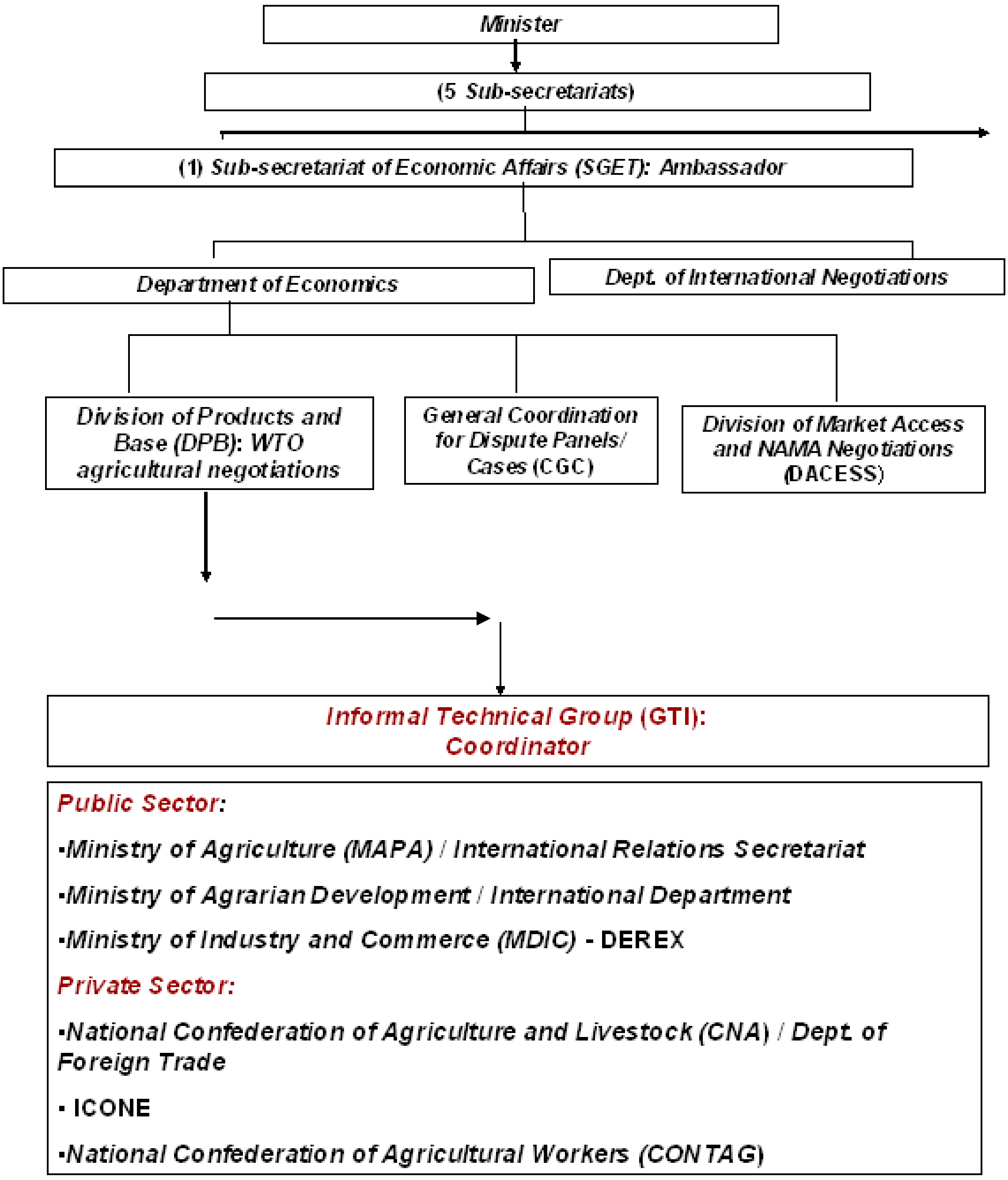
Congress:

Câmara dos Deputados e Senado

Permanent commissions:

- Comissão de Relações Exteriores e de Defesa Nacional (CREDN)
- Comissão de Agricultura, Pecuária, Abastecimento e Desenvolvimento Rural (CAPADR)

Ministry of Foreign Relations (*Itamaraty*)



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Annex 4

Annex 4: Data on agricultural products representing 75% and 90% of imports and exports, their origins and destinations

Brazilian Exports (2007) R E

Ranking		
Product / Sub-product	**thousand USD**	**%**
Soybeans	**11,386,108**	**25.14%**
Meats	**11,086,353**	**24.48%**
Sugar	**5,284,290**	**11.67%**
Coffee	**3,887,294**	**8.58%**
Oranges	**2,341,340**	**5.17%**
Tobacco	**2,262,374**	**5.00%**
Maize	**1,943,353**	**4.29%**
Ethanol	**1,485,399**	**3.28%**
Cotton	**1,399,113**	**3.09%**
Fruits (exc oranges)	645,891	1.43%
Juices and preserved foods	596,624	1.32%
Cocoa and products	364,947	0.81%
Other animal products	320,314	0.71%
Live animals	284,914	0.63%
Milk and dairy	273,287	0.60%
Cereal preparations	236,857	0.52%
Other wheat products	232,492	0.51%
Cashew nuts	225,198	0.50%
Protein powder	208,710	0.46%
Teas	179,485	0.40%

75% of all exports

90% of all exports

Source: Secex
Elaboration: ICONE; Conab/Digem/Suinf/Geint

Total Aggregate Exports by destination in 2007

Country	Value (USD)	%
Netherlands	3,533,364,465	12.3%
CHINA	3,196,852,963	11.2%
Russian Federation	3,080,963,781	10.8%
United States	2,038,502,683	7.1%
Germany	1,468,376,196	5.1%
Belgium	1,400,945,638	4.9%
Spain	1,384,311,568	4.8%
Italy	1,231,235,117	4.3%
Japan	1,184,053,954	4.1%
Iran, Republic of	1,170,122,752	4.1%
France	979,139,174	3.4%
Saudia Arabia	774,603,180	2.7%
United Kingdom	665,152,063	2.3%
United Arab Emirates	599,212,593	2.1%
Hong Kong	588,698,086	2.1%
Korea, Republic of	565,628,429	2.0%
Egypt	513,127,668	1.8%
Thailand	509,401,364	1.8%
Nigeria	340,259,859	1.2%
Algeria	338,559,253	1.2%
South Africa	321,092,529	1.1%

75% of all exports

90% of all exports

Brazilian Imports (2007) R E

Ranking		
Product / Sub-product	**thousand USD**	**%**
Wheat	**1,567,812**	**27.0%**
Cotton	**499,228**	**8.6%**
Natural Rubber	**483,716**	**8.3%**
Other vegetable oils	**420,497**	**7.2%**
Juices and concentrates	**414,813**	**7.1%**
Fruits (ex. oranges)	**332,680**	**5.7%**
Wheat, barley and oats	**326,674**	**5.6%**
Drinks	**297,512**	**5.1%**
Rice	**236,667**	**4.1%**
Cocoa and preparations	**212,337**	**3.7%**
Vegetable products	**203,563**	**3.5%**
Dairy products	**150,834**	**2.6%**
Other wheat and flour	**145,124**	**2.5%**
Maize	**133,184**	**2.3%**
Meats	**119,788**	**2.1%**
Other animal products	**112,870**	**1.9%**
Soybeans	**93,826**	**1.6%**
Protein and enzymes	81,099	1.4%
Cereal preparations	79,243	1.4%
Essential oils and extracts	52,511	0.9%
Beans	52,265	0.9%
Juice extracts	44,278	0.8%
Tobacco	42,456	0.7%
Sugar	40,488	0.7%
Wool	39,234	0.7%
Jatropha	28,696	0.5%
Teas	28,016	0.5%
Extr Corantes e Tanantes	22,637	0.4%
Sunflower	20,889	0.4%
Other vegetable products	19,049	0.3%
Sorghum	17,292	0.3%
Alcohol	14,534	0.3%
Silk	12,926	0.2%
Live animals	10,717	0.2%
Cortiça e Suas Obras	7,961	0.1%
Manioc	3,174	0.1%
Oranges	2,846	0.0%
Coffee	2,693	0.0%
Peanuts	1,048	0.0%

75% of all exports

90% of all exports

Source: Secex

Elaboration: ICONE; Conab/Digem/Suinf/Geint

Total Aggregate Imports by origin in 2007

Country	Value (USD)	%
Argentina	2,134,018,400	58.1%
Paraguay	361,342,345	9.8%
Uruguay	316,737,324	8.6%
United States	168,946,840	4.6%
Indonesia	130,965,010	3.6%
Portugal	92,944,300	2.5%
Canada	88,206,727	2.4%

75% of all exports

90% of all exports

Appendix 2 – India Country Paper

India's role and perspective on agricultural trade negotiations

Surabhi Mittal[42]

Introduction

In most countries the agricultural sector is highly sensitive and, therefore, faces significant government interventions. In India too, several regulations have been implemented from time to time to protect the interest of the farmers and the consumers. Indian economy liberalisation was initiated in 1990's, but opening up of the agricultural sector started in 1994. Reforms such as abolition of minimum export prices on basmati rice, removal of import controls on sugar and cotton, removal of export controls on common rice, reforms in edible oil sector among others led this agricultural liberalisation[43]. India adopted a gradual approach to liberalisation, without abandoning selective and proactive policy intervention[44].

Section A

A1. India in Uruguay round

India was one of the founding members of GATT in 1947 and also of the WTO in 1995 and India gained the most favoured nation treatment and national treatment from all the WTO members. India always participated in the rule based multilateral trading system. According to FAO[45], The Uruguay Round was a turning point in the evolution of agricultural policy as for the first time. A large number of developed and developing countries agreed a set of principles and disciplines to reduce the trade distortions caused by agricultural policies. Policies in the Indian agriculture sector had been guided by domestic supply and self-sufficiency considerations. Thus, the sector was protected by high tariffs, NTBs, state trading corporations, export restrictions and, import restrictions. Recognising the important linkages between trade and economic growth, the government simplified the tariff, eliminated quantity restrictions on imports, and reduced export restrictions.

However, the level of protection through the tariff remains relatively high and the anti-export bias inherent in imports and other constraints remains. Indian agricultural sector has become more open and liberal at the external front but progress on the internal front is gradual and modest across commodities. The overall progress is partial due to continuation of the trade restrictions, non-compliance of the internal trade and farm policies with external trade reforms[46]. India in its pre 1990's era had the most restrictive import-tariff structure among the developing countries. In India's tariff schedule at the Uruguay round, all subheadings under the 1992 version of the Harmonised system that fell within the purview of AoA was subject to tariff commitments[47]. In making its tariff commitments, India availed itself on the flexibility provided to developing countries in the modalities to bind the

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India Habitat Centre, Lodi Road, New Delhi-110 003. surabhi@icrier.res.in. An excellent research assistance is provided in this paper by Ms. Deepti Sethi. Author is thankful to all the survey respondents for their valuable time.

43 Gulati, Ashok and Tim Kelly (1999). Trade Liberalization and Indian Agriculture - Cropping Pattern Changes and Efficiency Gains in Semi-Arid Tropics. Oxford University Press. New Delhi.

44 Trade, Growth And Industrialization: Issues, Experience And Policy Challenges. Yilmaz Akyüz, January 2005, Geneva.

45 http://www.fao.org/trade/docs/TradeBrief_en.htm

46 Batla, Seema. 'Trade Policy Reforms and Openness of Indian Agriculture: Analysis at the Commodity level'. South Asia Economic Journal. Vol 7 (1). January – June 2006. 19–53 .

47 Hoda, Anwarul and Ashok Gulati WTO Negotiations on Agriculture and Developing Countries
Oxford University Press, New Delhi, 2008. Pg 43

agriculture tariff ceilings at ceiling levels with respect to all tariff lines on which the tariffs were not bound in earlier negotiations. Consequently India's Uruguay Round tariff structure did not have any tariff rate quotas

India signed the Uruguay Round Agreement at Marrakesh in 1995. Uruguay Round Agreement provided option to member countries to convert Quantitative Restrictions (QRs) to equivalent tariffs and provided a mechanism to declare maximum level of tariff for the base period for each commodity. In late 1990's more policy measures were introduced which removed the QRs on agricultural imports, the role of canalising for imports was reduced but licensing for many agricultural exports continued, Non-tariff Barriers (NTBs) were converted into tariff barriers. Under the policy of trade liberalisation and complying the WTO rules, by 2001 all QRs to imports of agricultural produce was reduced in India.[48] The QRs on agricultural commodities were reduced from a base of 100 to 60 between the periods 1989-99, and were later phased out as per the commitment under WTO. Tariffs were also reduced for number of commodities like edible oil, pulses and cotton. There was also a large-scale withdrawal of export incentive schemes[49]. In the liberalised era, due to devaluation of rupee in 1991, the terms of trade moved in favor of agriculture, giving a boost to agricultural exports. The 1990's movement was in contrast to 1980's when the terms of trade were not in favor of agriculture and still crop production was higher than the 1990's crop production. The agricultural trade surplus was expected to see the upliftment of the agricultural sector with a positive impact on the economic conditions of the farmers dependent on this sector. But this could not come through the way it was anticipated, because the price situation changed after implementation of Uruguay Round Agreement in 1986-1994 and formation of World Trade Organization (WTO) in 1995[50]. The international prices declined and domestic prices became higher than international prices in post-WTO period. The export competitiveness of India eroded and the country became an important market for imports of agricultural commodities. With changing terms of trade the relative prices of important crops – rice and wheat - increased as compared to decreasing trend in pre-WTO period[51] (Mishra, 2004).

Due to various controls, subsidies, domestic price policies and week integration with the world economy, full benefits could not be availed by the agriculture sector in India. This created barrier to India's pursuing comparative advantage in the global economy. Since the initiation of economic liberalisation various policy changes have taken place, but further, there is a need for a paradigm shift in agricultural policy to achieve growth in the sector. With food security and self sufficiency still high in the agenda, to balance the domestic and international policies, seems like a daunting job.

India had been of the view that the issue of implementation of the existing WTO agreements signed during the Uruguay Round of Multilateral Trade Negotiations should be resolved upfront before the launch of any new round in 2001. Since the efforts of WTO so far for the resolution of implementation issues had been disappointing, thus it would be unfair to impose fresh burdens without implementing the existing commitments. India had the stand that it is committed to the ongoing mandated negotiations in agriculture and services. During the Uruguay round for most part India followed autarkic economic policy and was concerned only about the implications of the new rules and specific commitments for its own domestic policies and external trade regime52.

[48] During the Uruguay round, India was allowed to maintain the QRs on the plea of Balance of Payment (BoP) situation.
[49] Bhattacharya, B. 'Trade Liberalization and Agricultural Price Policy in India since Reforms'. Indian Journal of Agricultural Economics, Vol 58 (3). July- September. 2003.

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[51] Mishra, V. N. Terms of Trade, State of Indian Farmers – A Millennium Study.Academic Foundation. Vol 15. 2004. 35–36.

[52] Hoda, Anwarul and Ashok Gulati WTO Negotiations on Agriculture and Developing Countries
Oxford University Press, New Delhi, 2008. Pg 64

A2. India in the Doha Negotiations

On the contrary to the Uruguay round, in the Doha round, India became one of the leading members of the G-20 and G-4 group in the DDA negotiations. The DDA was commenced in November, 2001 and the round began with a ministerial-level meeting in Doha, in 2001, with the objective to lower trade barriers around the world to allow the countries to participate in global trading. The new trade agenda of the DDA had the intention of this round was to make trade rules fairer for the developing countries. But the Cancun 2003 talks failed and was suspended in remaining 2003 due to several issues but the differences between developed and developing countries across virtually all the topics was a major obstacle. The U.S.-EU agricultural proposal and that of the Group of 20, showed striking different approaches to the issue of special and differential treatment. The North-South divide was most prominent on issues of agriculture. Developed countries' farm subsidies became a major sticking point. The developing countries were seen as finally having the confidence to reject a deal that they viewed as unfavorable. The new trade block of developing and industrialised nations was created called G20 which had fluctuating membership, but was headed by the G4 (China, India, Brazil, and South Africa).

In early 2004 in Geneva, US pushed for the resumption of negotiations by offering a proposal focused on market access, including an elimination of agricultural export subsidies. In susequent months EU accepted the elimination of agricultural export subsidies "by date certain." India played an active role by negotiating directly with the developed countries on agriculture and by July 2004, WTO members reached a Framework Agreement (July Package). Although in Paris, 2005 talks were held up over the issue of farm subsidies and U.S., Australia, EU, Brazil and India failed to agree some technical issues, creating a fear that agreement on large politically risky issues will be substantially harder. The Sixth WTO Ministerial Conference took place in Hong Kong in December, 2005 with a high level of ambition that a comprehensive agreement on modalities would be made. Although the trade ministers representing most of the world's governments reached a deal that sets a deadline for eliminating subsidies of agricultural exports by 2013, but nothing concrete was finally achieved. The multilateral trade talks were suspended in July 2006, primarily due to agriculture as the major trading partners - the EU and the US - failed to narrow down their differences on the issue of ensuring fair trading practices by reducing the protection to their farm sector and opening up of their markets. The developed nations refused to reduce their trade-distorting farm subsidies and high-tariff barriers. Also the major differences are between the developed countries and the major developing countries led and represented mainly by India, Brazil, China and South Africa. Since then, G-4 (US, European Union, Brazil and India) had been meeting at different places to resolve the issue. The main disagreement was over opening up agricultural and industrial markets in various countries and also how to cut rich nation farm subsidies. On July 21, 2008, negotiations started again in Geneva and US announced that it would cap its farm subsidies at $15 billion a year, from $18.2 billion in 2006, but on the condition that countries such as Brazil and India drop their objections to various aspects of the round. However, there were disagreements on issues including special protection for Chinese and Indian farmers. India and China's hard stance regarding tariffs and subsidies was criticised by US and in return India viewed that we can't take any risk when the livelihood of millions of Indian farmers is concerned. The negotiations collapsed over issues of agricultural trade between the United States, India, and China over the refusal to compromise over the special safeguard mechanism- they could not agree on the threshold that would allow the Special safeguard mechanism to be used, with the United States arguing that the threshold had been set too low. Several countries blamed each other for the breakdown of the negotiations. India which claimed to be supported by over 100 developing and LDC's for its stand was blamed by US and EU for the deadlock in Doha Round, although Brazil and India had differences in the stand.

The Doha Development Round which was launched with the commitment of developed countries to pay special attention to the needs and interests of developing countries, is at a indecisive junction. In the various rounds of negotiations, India along with other developing countries have been stressing to adopt a cautious approach with regard to agricultural trade liberalisation, so that the liberalisation they undertake does not adversely impact the population depending on agriculture. Major negotiations are not expected to resume until 2009 with agriculture being the most important and controversial issue in the Doha round. The chairperson of the WTO agriculture negotiations told a brief informal meeting[53] of all members on 1 October 2008 that he would hold consultations with groups of them over the next two weeks or so. The plans include private consultations - "walks in the woods" to signify that they take place away from the WTO- followed by a meeting of about 36 representative delegations in the WTO and another of the full membership, which controls the negotiations. On December 6, 2008 a revised draft modalities paper was circulated by the Agriculture Negotiating Group Chair Crawford Falconer and at the same time the NAMA text was also circulated. The WTO Director General Lamy and the chair of both the Agriculture and NAMA negotiation groups believed that these revised papers could become the formulas for cutting tariffs and trade-distorting agricultural subsidies in a final deal as the papers try to capture agreement reached tentatively on some subjects when a group of ministers came to Geneva in July 2008 and also tried but failed to reach agreement on these issues[54]. The chairperson has started consulting various coalitions and individual delegations in mid February, 2009 to find out what issues members want to discuss?

A3. Defensive or Offensive Strategies of the government?

As developing countries join global trade negotiations, they want to liberalise sectors in which they are competitive but still have a defensive concern often involving the agricultural sector that employs large shares of the population but are not competitive in global markets, or even in domestic markets in the absence of tariffs. The different priorities of developed and developing countries in this sector makes it inevitable that the past and future bargaining rounds will be difficult to reach a consensus[55] (Polaski, 2006). In agriculture it remains critical for the developing countries that the trade distorting subsidies and protection provided by developed countries are eliminated to establish a level playing field. This is more important because agriculture supports and provide livelihood to the bulk of the farming community in these countries. Tariffs are the instrument of protection and for the safeguard mechanism for food security and livelihood security of the most vulnerable population of the society. Thus for India satisfaction on appropriate number of Special products and Special Safeguard Mechanism with price and volume triggers are essential. India had been arguing that to set aside a certain percentage of the products insulated from tariff cuts is a stand-alone provision and can't be traded off against less than full reciprocity in tariff reductions formula. The emergence of G-20 with India as the founder member and the lead role played by India in the agriculture negotiations is triggered by these concerns. India is willing to work with other countries to take the negotiations further and reach a deal.

Among the agricultural policies followed by developed countries, the one that has the most adverse impact on developing countries and less developed countries is domestic subsidies provided by developed countries. The level of support to farmers in developed countries as a whole has not changed since 2000. Despite some major policy initiatives in 2002, there were no notable changes in the main policy instruments in most of these countries. There has been little change in the level of producer support since the late 1990s for the group of OECD countries as a whole. Common Agriculture Policy (CAP)[56] Reforms[57], 2003 of European Union focused on changing the way in which support is being provided, away from the most production and trade distorting measures like import tariffs, export subsidy and domestic support, towards payments based on areas farmed and historical entitlements. While this shift may well continue over the coming years, production-linked

[53] http://www.wto.org/english/news_e/archive_e/agng_arc_e.htm
[54] http://www.wto.org/english/news_e/news08_e/ag_nama_dec08_e.htm
[55] Polaski, Sandra. *Winners and Losers: Impact of the Doha Round on Developing Countries*. Washington, DC. Carnegie Endowment for International Peace. 2006.

[56] The CAP is the EU's agricultural policy. Its objectives were set forth in Article 39 of the Treaty of Rome (1957).
[57] The EU Commission published a Communication on the Mid-Term Review on the Common Agricultural Policy in July 2002. In January 2003 the Commission adopted a formal proposal. A formal decision on the "Cap reform - a long-term perspective for sustainable agriculture was taken by the EU farm ministers. The reform includes far reaching amendments of current policies, including further reductions in support prices, partly offset by direct payments, and a further decoupling of most direct payments from current production.

measures still dominate producer support in most countries, encouraging output, distorting trade and contributing to lower world prices of agricultural commodities[58].

From an international trade perspective, these subsidies artificially create a competitive advantage to exporters or import competing products and sectors. The magnitude and nature of the trade effects of subsidies depends in part, upon whether or not the subsidising country is large enough to affect the world prices. If this is not the case then quantities in the market will change but not the price. Production subsidies result in contraction of world trade volumes as imports are displaced by domestic production, while export subsidies expand world trade as more domestic production is exported. Provision of production and export subsidies by developed countries lead to decline in world prices. The bulk of these subsidies are provided by three members- EU, US and Japan and bulk of product specific support is concentrated in meat and livestock, milk and dairy products, fruits and vegetables, cereals, sugar, cotton, vegetable oils and oilseeds.

According to India[59], the July Framework is categorical when it agrees that "agriculture is of critical importance to the economic development of developing country members and they must be able to pursue agricultural policies that are supportive of their development goals, poverty reduction strategies, food security and livelihood concerns". The demand for "real" market access undermine the need of policy space for developing countries putting a huge burden on the on developing countries. Tariff reduction is not only the pre-condition for market access but for "real" market access to accrue, it is necessary that the developed countries eliminate the export subsidies, domestic support and non-tariff barriers be eliminated. India is willing to undertake substantial commitments in market access based on bound tariffs, but which do not risk the livelihood of its large vulnerable and poor rural communities.

In October 2005 G-20 finalised its proposals on market access and domestic support. India believed that the proposals represents the middle ground between the extremes of the US proposals on the one hand, and the European Union (EU) and G-10 proposals on the other. The defensive market access interests of India are fully reflected in the proposals. On market access G20 recognised the need to safeguard developing countries' farmers against imports from developed countries benefiting from trade-distorting domestic subsidies. On domestic support G-20 highlighted the fact that in order to deliver the Doha mandate of "substantial reductions in trade distorting domestic support", it is necessary to complement to count it with a combination of cuts, disciplines and monitoring. India rejected the two tariff reduction formulae - one proposed by the US-Australia- “progressively within a band” and the other proposed by the EU (European Union) for “a pivot within each band” to protect the countries agriculture Concerns. Also because the G-20 had already agreed to the banded formula in the Framework.

Under the pressure of G20 for elimination of trade distorting domestic support given by developed countries, US offered to reduction of farm subsidies conditional on greater market access, to which, India made it clear that whatever be the domestic support cuts by developed countries, India would not compromise on its vital interests as far as market access was concerned. India had also taken a stand that there would be no agricultural market access package without full satisfaction on the issue of SPs and SSM. On Export Competition the India suggested a five year period for elimination of direct export subsidies should be maintained, fundamental changes necessary for food aid, there should be no monopoly power to the State Trading Enterprises.

In March, 2007 The G-33, which usually takes a defensive position in agriculture by way of proposing designation of Special Products for lower tariff cuts and special safeguard mechanism, has this time become equally aggressive in demanding market access in the developed world. It has called for

[58] Mittal, Surabhi. ‘OECD Agricultural Trade Reforms Impact on India’s Prices And Producers Welfare’. Working Paper No 195. New Delhi. Indian Council for Research on International Economic Relations (ICRIER). July, 2007.

[59] http://commerce.nic.in/oct-nov05/main.htm

drastic reduction in farm subsidies and high tariff barriers in the developed countries. In a report by the South Asian Yearbook of Trade and Development recently released by the Delhi-based Centre for Trade & Development and Wiley India Pvt Ltd. It was noted that reduction in tariff protection in South Asian agriculture has been the primary cause of import surge, leading to fall in employment in farm activities, lowering of returns to farmers and increased levels of poverty in rural areas. G-33 has proposed that 20 per cent of the tariff lines should be protected under SPs, while several civil society organisations have said that all farm produces should be designated as SPs. In India, the agriculture ministry has identified about 80 tariff lines—as SPs. Although a case study by CENTAD show that 57per cent of tariff lines need greater flexibility as SPs. With regard to the SSM, price-triggers are found to be more appropriate than volume triggers

The group of least developed and developing countries, G-33, is very serious about getting benefits of SPs and the SSM. India is also associated with this group of countries and also with the G-20 combination. India's role is, therefore, vital in discussions on SPs and the SSM. G-33 emphasised that SSM should be available to all agricultural products and that the import price and import volume triggers applied separately should alone determine which product needs invocation of the SSM at any given time.

The WTO Hong Kong ministerial in 2005 had endorsed that the developing countries' right to designate SPs and apply SSM to protect livelihood and food security. Indian commerce minister, reaffirmed India would not agree to any bad deal that would affect the food and livelihood security.

US through its 2007 Farm Bill proposals had begun the process of shifting its subsidies under Amber and Blue boxes to Green box. Although the Bill proposes an overall reduction of $10 billion in government expenditure, it has actually increased direct payment to farmers by 10per cent to $5.5 billion. The US proposal came under sharp criticism by G-20 group and also the Unctad India report[60] showed that that Green Box subsidies are equally trade-distorting. On the WTO farm proposal for agricultural subsidies, India had a guarded response. The proposed new formula, asked the US to cut its farm subsidies to $13 billion-$16.4 billion. As a quid pro quo, developing countries like India, Brazil and China were to make increased cuts in industrial tariffs to help complete the Doha Round talks. India has urged for addressing the gaps in the WTO farm draft released by the chair of agriculture committee, Crawford Falconer on July 17, 2007. Since India is a multi-crop producing country and farmers' livelihood is involved in cultivation of many of these crops, the appropriate indicators for SPs need to be worked out in detail, that would allow protection through maintaining reasonable level of bound tariffs which would not come under reduction commitments. India believes that the right to designate SPs by developing countries should not be negotiated on the basis of quid pro quo with the developed countries for designation of their Sensitive Products. Both are two different aspects. The G-20 group of countries, including India has demanded that the US farm subsidies should be capped at $ 12 billion. The draft has also proposed that the European Union cap its "trade-distorting support" in the range of Euro 16.5-27.6 billion. The most important is the issue of selection of the base period for effecting the subsidy cut formula. In the years when the global prices rule high, the level of subsidy in the developed world, particularly in US comes down. India feels that though the draft has called for elimination of export subsidies by 2013, the ambition on volume commitments remains to be addressed.

Another issue which India is likely to insist upon is that the developed world switch over from ad valorem duty structure on certain farm products to a specific duty structure, before making commitments on duty cuts. India will also urge for greater flexibilities for developing countries in matters of tariff reduction with a view to check the influx of cheap subsidised imports from the developed world.

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[60] UNCTAD India's paper— 'Green Box Subsidies: A Theoretical and Empirical Assessment', prepared in collaboration with UK-based DFID,

The new draft issued by the chair of the farm negotiating committee in May 2008 contains revised formulae for cutting tariffs and trade distorting subsidies but it *d*oes little to address Third World problems and show very little areas of convergence. It has ignored the aspect of food and livelihood security of the Third World. Though it has recognised the developing countries right to self-designate their special products based on food and livelihood security and rural development, it has proposed the minimum limit of 8 per cent of the tariff lines and maximum limit of 20 per cent of the tariff lines. The crucial issue is the maximum extent of self-designation of special products by developing countries which is in square bracket, implying the need for further negotiations. The draft has also disappointed India and 45 other developing nations by limiting the number of items in SSM to 3 to 8 in number.

India overall had a more proactive strategy rather than defensive. India continues to believe in fair and strengthened multilateral trade rules of the WTO. Livelihood security for the bulk of the resource poor farmers in the developing countries demands an early end to the destructive effects of subsidies and protection by the developed countries. We cannot foresee the elimination of distortions in agriculture through any other option, including through any other rigorous pursuit of regionalism. Full liberalisation through the WTO secures the economic and commercial gains necessary in the goods and services sectors and modes of supply of interest to developing countries. For India, it is important that the Doha Round negotiations are brought to a successful conclusion. Such a conclusion can only be possible if we are faithful to the mandate and the outcome reflects a clear balance between market opening and the development needs of the majority of the membership. India will obviously show flexibility to achieve such an outcome but the onus for movement is clearly with the large developed countries.

A4. Some Quantitative Estimates from Literature

There is an ongoing debate on whether the policy of liberalisation added to the woes of farmers dependent on agriculture for livelihood. The trends in agricultural trade reveal that there has been no surge in imports, which was feared after the liberalisation of agricultural trade and lifting the QRs, with the exception of edible oils and pulses. The seemingly net food export position of India is not a reflection of agricultural transition or country's comparative advantage. Rather it has been underpinned by highly interventionist agricultural development policy regimes - domestic price support, insulation from world markets, stringent trade restrictions and subsidisation of inputs[61]. If we look into the applied tariff rates for major groups of agricultural commodities, it is seen that for commodities such as cereals, pulses and sugar which are important for our food security, the tariffs rates have increased over pre and post-WTO period. The tariff rates overall are still very high. After 1997 almost for all the commodity groups the applied tariff rates have increased tremendously. The main aim of WTO agreement on agriculture was to encourage fair trade in agriculture by removing the trade distorting measures. It was envisaged that implementation of the agreement on agriculture would raise international prices of agricultural commodities and would improve the exports prospects of the country like India. However, contrary to this the world prices declined sharply became even lower than the domestic prices, creating a more favourable imports rather than exports. There is a wide call from developing countries to reduce the level of agricultural support in developed world, phasing out of trade distorting subsidies and elimination of export subsidies. Taking a long term view, there are grounds for optimism that distortions in agricultural markets will eventually be eliminated.

There are different views on how liberalisation impact agriculture? One belief is that liberalisation had its worst impact on the farmers' community[62] and more specifically the poorer ones. The National Agricultural Policy (2001) also had a similar view. The other belief views that liberalisation would accelerate trade, economic growth, leading to reducing poverty, and will further have a positive impact on livelihood security of rural poor. But this remains a testable hypothesis. It is also argued that if

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[61] Athukorala. 'Agricultural Trade Policy Reforms in India'. South Asia Economic Journal, 2005. 6, 23-36.

[62] Impact on farmers in terms of making the world price depressed and thus impacting the domestic prices.

subsistence farming falls under non-traded sector[63], then they might not get affected by the changing price scenarios in the world and domestic market. Literature has also shown that with trade liberalisation, an increase in price of products, which a household is producing, would lead to an increase in its income and poor households gain from increased wages and profits[64]. This would be true for a household which would have enough marketable surpluses. Thus, if exports increase and small farmers can become a part of this chain of exports, it would help in positive welfare gain to them. There are empirical evidences to show that lack of domestic trade reforms issues and poor integration of the domestic economy with world market, has resulting in inability to pass the benefits of trade liberalisation to the farmers in India[65]. The next section of this paper discusses the unfinished trade reforms that need to be addressed for the development of the agriculture sector in India.

It was expected that the implementation of the agreement on agriculture would result in reduction of domestic support in OECD countries, which would in turn raise international prices of agricultural commodities and would improve export prospects for India and other countries. However, contrary to predictions, international agricultural prices in the post-WTO period have declined sharply, and agricultural exports from developing countries such as India have declined. It is generally believed that tariff cuts in agriculture would result in higher gains than the elimination of export subsidies.

Trying to understand why reduction in agricultural subsidies is so important for India and other developing and less developed countries- It is well believed that the removal of domestic support would lead to rise in world prices making way for the competitive countries to export their produce in the world market (Leetmaa, 2001[66]; Hoekman et.al., 2004[67]). Hertel and Winters, 2005[68] found that a 40 percent reduction in agricultural tariffs, export and production subsidies results in global welfare gains of around $70 billion per year. It is expected that the rise in the world prices of agricultural commodities would improve export prospects for India and other countries (Chand and Mathew, 2001[69]). Gulati and Narayanan[70] (2003) believes that will removal of trade distortions in rice, their could be rice flows from poorer to richer countries. Thus, it can be expected that poorer countries such as Vietnam, Thailand, and India would be important net exporters while the richer countries such as Japan, Korea, and the EU would be net importers.

But his does not seem to be working this way in case of India[71]. A study based on partial equilibrium approach shows that even if the trade distorting product specific subsidies are reduced or eliminated, it will be difficult to transmit the impact of price change directly to the Indian farmers in an efficient manner. This is due to poor price transmission from border to farm gate. The simulation exercise carried out in the study show that 10 per cent rise in world prices, leads to only 0.5 per cent, 2.0 per

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[63] Subsistence farming falls under non-tradable sector because farmers produce for their own consumption.
[64] Singh, I, L. Squire and J Struass. Agricultural Household Models, Extensions, Applications and Policy. The World Bank and The John Hopkins University Press. 1986.

[65] Mittal, Surabhi. 'OECD Agricultural Trade Reforms Impact on India's Prices And Producers Welfare'. Working Paper No 195. New Delhi. Indian Council for Research on International Economic Relations (ICRIER). July, 2007.

[66] Leetmaa, Susan (2001), "Effects of eliminating EU export subsidies" Chapter 5, Agricultural policy reforms in WTO, The Road Ahead, May 2001, Economic Research Services, United States Department of Agriculture (USDA).

[67] Hoekman, Bernard; Francis Ng and Marcelo Olarreaga (2004). Agricultural Tariffs or Subsidies: Which Are More Important for Developing Economies?. The World Bank Economic Review. Vol 18. No.2. The World Bank. Washington DC.

[68] Hertel, Thomas W and Alan Winters (2005). Putting Development Back into the Doha Agenda: Poverty Impacts of a WTO Agreement. The World Bank, Washington D.C.

[69] Chand, Ramesh and Linu Mathew (2001). Subsidies and Support in Agriculture: Is WTO providing Level Playing Field?. Economic and Political Weekly. page 3014-3016. August 11.
[70] Gulati, Ashok and Sudha Narayanan (2002). Rice Trade Liberalization and Poverty. MSSD Discussion paper No. 51. International Food Policy Research Institute. Washington DC.

71 Mittal, Surabhi. ICRIER Working paper No. 195.

cent, 7.3 per cent and 8.7 per cent rise in rice, wheat, cotton and sugar domestic prices. Due to elimination of subsidies in OECD countries the world prices are expected to rise in the range of 1.1-4.9 per cent for rice, 2.6-7.4 per cent for wheat, 6.5-20.8 per cent for cotton and 7.5-26.4 per cent for sugar, depending on the elasticity of supply and demand curves. In response to this the Indian domestic prices would only increase by 0.1-0.3 per cent for rice, 0.5-1.5 per cent for wheat, although for cotton (4.8-15.2 per cent) and sugar (7.9-28.1 per cent) the change is in tune with change in world price. It is evident that Indian wholesale prices are found to closely follow world reference prices in the case of both cotton and sugar but not in case of rice and wheat. This can be explained by the numerous layers of interventionist policies that we have in our agricultural sector making it difficult for the agricultural produce to move as per the market supply and demand forces. Government maintains an elaborate system of Minimum Support Prices (MSPs) for rice, wheat, cotton, sugar, and other crops that shield producers from adverse price swings (Elobeid and Beghin, 2005[72]; Landes et al., 2005[73]).

On the production front, with reduction in subsidies and rising of the world price, the study[74] shows that the production in OECD countries would decline. OECD production is expected to decline on an average by 36 per cent for rice, 3 per cent for wheat, 51 per cent for cotton and 25 per cent for sugar. This will create supply slack in the world market which in short run would be met by an increased exports by other countries. But in the long run it is the production capability and export potential of India that will make us benefit from removal of farm and export subsidies. The results of the study show that even if the change in world price and production scenario creates an opportunity for other competitive countries to produce and export in the world market, it is not very clear if this would have a discernable effect on India's production. As per the statistics India's production as share of world total production is 21.5 per cent for rice, 11.6 per cent for wheat, 0.15 per cent for cotton and 8.4 per cent for sugar. In response to the rise in world price, using the supply response techniques it is found that this change would have almost negligible impact on India's production for rice and wheat. Cotton and Sugar farmers in short term might increase the production on an average by 7-13 per cent for cotton and 5-18 per cent for sugar. But, since these two crops being commercial crops, thus in practice the farmers ability to respond to price changes would be inhibited by lack of access to inputs such as credits, infrastructure, markets and export oriented policies for expanding their operations. The supply side is constraint with problems of low productivity, proper irrigation facilities, land constraint along with crop diversification in response to increasing demand of high value commodities, etc. On the production front it is also unclear, if a decline in OECD domestic support would have any noticeable effect on Indian farmers in the present situations.

The July package[75] and later the Hong Kong ministerial declaration[76] reiterated the availability of two flexibilities- Special Products and the Special Safeguard Mechanism to developing countries. Regarding how to treat the SPs, an intense debate has ensued between the developed and developing countries as well as developing countries themselves. A study by Philips and Tripathi (2006)[77] provides an account of SPs for India based on nine indicators, i.e. self-sufficiency, price instability, composition of food commodity value in the household basket, work dependence, tariff convergence,

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[72] Elobeid, A., Beghin, J., 2005. Multilateral Trade and Agricultural Policy Reforms in Sugar Markets. Working Paper 04-WP 356, Iowa State University, Ames.

[73] Landes, M., MacDonald, S., Singh, S., Vollrath, T., 2005. Growth Prospects for India's Cotton and Textile Industries. Report CWS-05d-01, U.S. Department of Agriculture, Washington D.C.

[74] Mittal, Surabhi. ICRIER Working paper No. 195.

[75] 'Doha Work Program: Decision Adopted by the General Council on August 1, 2004', WTO Document Number WT/L/579, August 2, 2004.

[76] 'Doha Work Programme: Ministerial Declaration Adopted on December 18, 2005', WTO Document number WT/MIN(05)/DEC, December 22, 2005.

[77] Philip, Linu Mathew, and A. K. Tripathi. 'Ensuring Adequate Flexibility through Special Product: A Case Study of India'. New Delhi. Centre for Trade and Development. Working Paper No 06. 2006.

and contribution of small and marginal farmers among other factors. By classifying SP tariff line based on objective score, the study found that 57 per cent of tariff lines need greater flexibility to protect India's agrarian development interest. The product groups that are qualifying to be designated as special products are live trees, edible oil, vegetables, cereals, fruits and nuts, some oilseeds, preparation of some vegetables and animal oils. Therefore, India needs to be cautious of its commitments.

An UNCTAD report analyzing the US farm bill shows that If Green Box subsidies were removed, it is estimated that farm production would fall in developed countries, and agriculture exports would decrease in countries like the US (39 per cent), EU (45 per cent), Canada (46 per cent), Japan (66 per cent) and Switzerland (78 per cent), while many developing countries would increase their farm exports. While India's farm export would increase 22 per cent, Brazil's South Africa's agri export would rise 21 per cent and 25 per cent, respectably. Removal of Green Box subsidies will result in a fall in farm output in the EU by $ 53.8 billion, US' by $ 20.9 billion and Canada's by $ 8.1 billion, while developing countries will increase their farm output by $41.9 billion.

Table 1 – Appendix 2: India's exports of agricultural goods, ranked from largest trade volume downward.

Accounting for 75 per cent	Rice parboiled (21.65 per cent); Onions fresh or chilled (10.46 per cent); Basmati rice (7.94 per cent); Othr uncookd notstfd/othrwse prpd psta (7.61 per cent); Othr refnd sugar includng centrifugal sugr (5.35 per cent); Other maize (corn) (4.49 per cent); Rice excptg parboiled (excl basmati rice) (4.13 per cent); Sugr refind contng flvrng or clrng matter (3.27 per cent); Othr cane sugar (2.87 per cent); Broken rice (2.06 per cent); Mango pulp (1.19 per cent); Shelled groundnuts kernel H.P.S. (1.16 per cent); Castor oil & its fractions of edible grade (1.15 per cent); Cucmbrs & ghrkns prpd/prsvd by acetic acid (1.1 per cent); Sesamum seed w/n broken of seed qlty (1.06 per cent)
Accounting for 90 per cent	Rice parboiled (21.65 per cent); Onions fresh or chilled (10.46 per cent); Basmati rice (7.94 per cent); Othr uncookd notstfd/othrwse prpd psta (7.61 per cent); Othr refnd sugar includng centrifugal sugr (5.35 per cent); Other maize (corn) (4.49 per cent); Rice excptg parboiled (excl basmati rice) (4.13 per cent); Sugr refind contng flvrng or clrng matter (3.27 per cent); Othr cane sugar (2.87 per cent); Broken rice (2.06 per cent); Mango pulp (1.19 per cent); Shelled groundnuts kernel H.P.S. (1.16 per cent); Castor oil & its fractions of edible grade (1.15 per cent); Cucmbrs & ghrkns prpd/prsvd by acetic acid (1.1 per cent); Sesamum seed w/n broken of seed qlty (1.06 per cent); Chilly (0.95 per cent); Lentils (mosur),dried & shld (0.92 per cent); Castor oil & its fractions other than edible grade (0.91 per cent); Cashew karnel, whole (0.85 per cent); Tea black, leaf in bulk (0.73 per cent); Other sesamum seeds w/n broken (0.71 per cent); Potatoes fresh or chilled other than seeds (0.68 per cent); Cucumbers & gherkins provisionally presvd (0.68 per cent); Grapes fresh (0.65 per cent); Mangoes fresh (0.6 per cent); Sugar cubes (0.51 per cent); Chickpeas (garbanzos) dried & shld (0.47 per cent); Raw cane jaggery (0.46 per cent); Mixed vegetables (0.39 per cent); Other jawar (0.36 per cent); Coffee rob cherry AB (0.35 per cent); Maize seed (0.35 per cent); Shelled groundnuts kernel n.e.s (0.29 per cent); Wheat or meslin flour (0.29 per cent); Coffee rob cherry other grade (0.28 per cent); Chilly powder (0.27 per cent); Other dried & shld luguminous vegtbls,othrthan split. (0.27 per cent); Wheat (not seed) for human consumption (0.26 per cent); Glucose liquid (0.25 per cent); Tomatoes fresh or chilled (0.25 per cent); Other groundnuts in shell, not roasted/cooked (0.24 per cent); Niger seed w/n broken (0.23 per cent); Oranges fresh or dried (0.23 per cent); Apples frsh (0.2 per cent); Other H.P.S. groundnuts in shell, not roasted/cooked (0.2 per cent); Sweet biscuits (0.2 per cent); Mushrooms Prepd/preserved (0.19 per cent); Onions dried (0.18 per cent); Tur (0.17 per cent)

Note: Figures in the parenthesis represent the individual commodities share. These figures are for the year 2007. The HS code for these commodities are presented in Appendix 1.

Source: India trades Data

Section B- National patterns of international trade in agriculture

B1. India's Exports

The agricultural commodities, ranked from largest trade volume downward and taken together accounting for 75 percent and 90 percent of the country's exports of agricultural goods are presented in Table 1. Rice Parboiled, Onion, Basmati rice, sugar and maize

together contribute more than 50 per cent of the total India's agricultural exports. Table 2 and table 3 show the direction of India's exports in last few years. On the exports side, the overall exports performance of the agricultural sector has not been that good except for some traditional products, such as cashews and oilcakes, and few non-traditional items such as fish products[78], meat products, fruits and vegetables.

Table 2 – Appendix 2: Major Indian Agricultural Exports (2003-2007) (By Volume in Kgs)

Commodities	2003	2004	2005	2006	2007
Onions fresh or chilled	588711745	859938755	870216848	960507319	1378373172
Lentils (mosur),dried & shld	86395013	83052657	145185438	281276353	121009934
Other durum wheat	-	768864042	178872116	30580817	9932628
Wheat seed	49599901	867870707	264555800	35908200	702130
Wheat (not seed) for human consumption	3613267364	2198834940	1464822775	669383980	34485686
Maize seed	9387870	126936873	354689014	20635309	46114096
Other maize (corn)	68790384	416334005	727567364	399312467	591297230
Rice parboiled	1337858846	1633520074	2358943860	1951826677	2853256182
Basmati rice	710292206	771475368	1162989156	1166563594	1045714947
Rice excptg parboiled (excl basmati rice)	2920661652	966822227	1124011735	705987643	544625584
Broken rice	75826422	11223218	124611882	189871278	271084523
Wheat or meslin flour	495203571	536437042	127882553	36763914	37675605
Shelled groundnuts kernel H.P.S.	40213950	95161862	78876457	113735930	152560097
Raw cane jaggery	85717859	46412701	12915740	37365836	60713350
Othr cane sugar	103738539	242740642	16998736	59197252	377941793
Sugr refind contng flvrng or clrng matter	21626332	227858987	5233143	25475211	431242430
Sugar cubes	39093995	361373283	50243734	47664665	67379619
Othr refnd sugar includng centrifugal sugr	72127692	293542742	21555282	142290635	704601337

[78] In the WTO, fish and fish products are not a part of agriculture products.

Table 3 – Appendix 2: Year-On-Year growth rates and annual growth rates in exports of major agricultural commodities from India. (Percent Increase)

Commodities	2003	2004	2005	2006	2007	2001-2007	2003-2007
Onions fresh or chilled	33.24	46.07	1.20	10.38	43.50	24.40	19.87
Lentils (mosur),dried & shld	-18.58	-3.87	74.81	93.74	-56.98	4.00	20.85
Other durum wheat	-	-	-76.74	-82.90	-67.52	-	-77.27
Wheat seed	-29.81	1649.74	-69.52	-86.43	-98.04	-32.19	-68.96
Wheat (not seed) for human consumption	49.99	-39.15	-33.38	-54.30	-94.85	-36.58	-64.98
Maize seed	-41.26	1252.14	179.42	-94.18	123.47	56.25	14.65
Other maize (corn)	-29.46	505.22	74.76	-45.12	48.08	65.82	53.12
Rice parboiled	84.86	22.10	44.41	-17.26	46.18	35.88	18.45
Basmati rice	6.48	8.61	50.75	0.31	-10.36	8.28	12.60
Rice excptg parboiled (excl basmati rice)	288.79	-66.90	16.26	-37.19	-22.86	2.81	-30.74
Broken rice	216.58	-85.20	1010.30	52.37	42.77	102.91	71.19
Wheat or meslin flour	55.08	8.33	-76.16	-71.25	2.48	-34.54	-54.31
Shelled groundnuts kernel H.P.S.	-34.87	136.64	-17.11	44.20	34.14	11.19	32.91
Raw cane jaggery	-53.42	-45.85	-72.17	189.30	62.48	-22.74	-8.67
Othr cane sugar	-42.37	133.99	-93.00	248.25	538.44	1.73	12.46
Sugar refind contng flvrng or clrng matter	135.46	953.62	-97.70	386.81	1592.79	122.96	46.15
Sugar cubes	189.62	824.37	-86.10	-5.13	41.36	44.10	-8.94
Othr refnd sugar including centrifugal sugr	-57.78	306.98	-92.66	560.12	395.18	35.55	46.73
Molasses (excluding cane) edible	20.11	-78.03	-77.13	6.16	-54.21	-54.48	-58.69
Other uncooked notstfd/othrwse prpd psta	154.39	47.35	-36.27	48.67	49653.10	145.78	268.13

Fluctuating rice and wheat exports and recent imports of wheat has created an uncertainty in the agricultural trade position of India. On fresh and processed fruits and vegetables there are high tariffs, thus protecting the domestic sector from imports. Also the fall in the world agricultural prices further made some of India's agricultural exports non-competitive[79].

B2. India's imports

Table 4 presents the list of agricultural products, ranked from largest trade volume downward and taken together account for 75 percent and 90 percent of the India's imports of agricultural goods. In the year 2007 Wheat contributed to almost 41.51 percent of the total agricultural imports in India. In years before this the major agricultural imports that India's has is of crude palm oil, peas and soybean oil. With liberalisation, edible oils and pulses, accounts for bulk of the agricultural imports in India. In both of these commodities, India has unilaterally reduced its tariffs below the bound rates to permit imports and this was followed by huge imports in early 2000. But the reason for these imports was mainly not the reduction in tariffs but increased domestic demand and stagnating production of these two commodities. For example, in 1995, GoI had cut tariffs of edible oils from 65 per cent to 30 per cent and then to 15 per cent in 1998, non-tariff restrictions were also lifted; imports soared and India went full circle from self-sufficiency to the world's largest importer of edible oil in five years. On the demand side, annual availability of edible oil (including vanaspati) was around 6.5 kg per person in the early 1990s, it has risen to almost 10 kg in recent years. Real prices of edible oils during the post-WTO period first breached the lowest level recorded since 1980–81, and then plummeted to almost half the price level recorded during 1991–92[80].

Table 4 – Appendix 2: India's imports of agricultural goods, ranked from largest trade volume downward

Accounting for 75 per cent	Wheat (not seed) for human consumption (41.51 per cent); Crude palm oil & its fractions (18.26 per cent); Peas (pisum sativum) dried & shld (9.98 per cent); Soya bean crude oil w/n degummed (8.61 per cent);
Accounting for 90 per cent	Wheat (not seed) for human consumption (41.51 per cent); Crude palm oil & its fractions (18.26 per cent); Peas (pisum sativum) dried & shld (9.98 per cent); Soya bean crude oil w/n degummed (8.61 per cent); Beans of the spp vigna mungo,hepper or vigna radiata,wilczek dried & shld (2.39 per cent); Tur (1.77 per cent); Others (1.58 per cent); Other durum wheat (1.43 per cent); Dry dates soft (khayzur or wet dates) (1.37 per cent); Other refined palm oil (1.01 per cent); Chickpeas (garbanzos) dried & shld (0.91 per cent); Crude palm kernel oil (0.91 per cent); Other veg fats & oils & their fractions of edible grade (0.8 per cent)

Note: Figures in the parenthesis represent the individual commodities share. These figures are for the year 2007. The HS code for these commodities are presented in Appendix 1.

Source: India trades Data

The major countries that export the agricultural commodities to India are presented in table 5. The share of imports from those countries are presented in the table. For palm oil Malaysia is the major exporter to India. Argentina for Soybean and Canada for Peas. India imported almost 90 percent of its tur imports from Myanmar.

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[79] Mittal, Surabhi. 'Can Horticulture be a Success Story for India'. Working Paper No 197.

[80] Chand, Ramesh, Dayantha Jha, and Surabhi Mittal. 'WTO and Oilseeds Sector: Challenges of Trade Liberalization'. Economic and Political Weekly. February, 2004.

B3. Agriculture Sector and Indian Economy

India's Eleventh Five Year Plan (2007–2012) aims to achieve a sustainable growth at a rate of approximately 10 per cent by the end of the Plan period. One of the major challenges in realising this, is the poor performance of the agriculture sector. In the Tenth Five Year Plan period, the sector grew at less than 3 per cent. The sector needs to grow at the minimum rate of 4 per cent to sustain the overall high growth rate of 9-10 per cent. The concerns of policymakers and agriculture experts are to reverse the decelerating growth trends. The rapid growth of agriculture is essential not only for self-reliance but also for meeting our concerns on food and nutritional security, to bring about equitable distribution of income and wealth in rural areas, and to reduce poverty and improve the quality of life[81]. Despite being an agrarian economy, India has remained a marginal player in world agricultural trade.

At the policy level, various working groups and commissions have been formed by the Central government to identify the key concerns of the agricultural sector. The National Policy for Farmers, 2007, pointed out that we need a *new deal* which will rebuild hope about farming. The National Food Security Mission has been launched to increase the production of rice, wheat and pulses above the benchmark level by end of the 11th Plan. The Rashtriya Krishi Vikas Yojana aims at achieving the desired 4 per cent growth rate in this Plan period (Economic Survey, 2007-08). Experts believe that improving the growth rate in agriculture would also improve rural employment conditions by raising real wages and reducing underemployment. Besides basic food grain production, activities like livestock, fisheries, horticulture, organic farming, commercial crops, agro-processing are the new avenues within agriculture which will lead us to the next phase of agricultural development. The prevailing policy instruments need to be re-looked, re-defined, re-written and efficiently implemented to take care of the existing loopholes. One important step would be to link the domestic and international markets through an efficient supply chain. The greatest need today is a public private partnership, not only in investment but also in research, extension and policy implementation.

Turning agriculture into an organised business with the farmer as the entrepreneur should be the key to the much desired 'evergreen revolution' in India. Farming should be taken up with the motive of profit making rather than just for subsistence living. With huge diversity in the number and variety of crops that we produce, variations in agro-climatic conditions, soil types, prevailing inequalities in the state growth levels, it is of utmost importance to implement the plans through micro level initiatives and proper coordination between all the stakeholders. The 11th Five Year Plan Approach Paper laid out the targets of doubling the rate of growth of irrigated area, improving rain water harvesting and watershed development, bridging the knowledge gap through effective extension, diversifying to high value output along with ensured food security, access to affordable credit, improving the incentive structure and the functioning of markets and refocus on the land reform issues and promote animal husbandry and fisheries, for raising agricultural output.

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[81] http://commerce.nic.in/

Table 5 – Appendix 2: Share of countries to the agricultural commodities imported by India, 2007 (Percent)

India Imports	Soyabean (1507100)	Peas (7131000)	Wheat (10019020)	Tur (7139010)	Chickpea (7132000)	Crude palm oil (15111000)	Other refined palm oil (15119090)	Deodarised palmolein (15119020)	Othr cane sugar (17011190)
Argentina	88.20		2.63						
Australia		7.69	17.16		58.81				
Bangladesh							0.81	1.10	
Bhutan							13.94		
Brazil	10.58								
Bulgaria			3.45						
Canada		62.11	22.62		6.27				
China					0.43	0.04			
Czech Rep.			1.22						
Ethiopia					1.29				
France		7.70	4.59						
Hungary			4.46						
Indonesia	0.15					80.25	65.33	95.75	
Kazakhstan			0.52						
Malawi		0.20		3.25					
Malaysia				0.08		17.61	19.44	3.13	
Mozambique		0.17		1.44					
Myanmar		0.02		90.77	20.19				
Netherlands									12.84
Romania			3.17						
Russia		1.51	35.19		0.70				
Tanzania		0.83		4.46	7.98				
Thailand						1.73			
Turkey					2.33				
UK									73.39
Ukraine		8.72	4.99		0.06				
Unknown									13.76
USA		9.86			1.39				

Source- India trades database.

Notes: Figures in Bold represent the rank 1 country; Countries with less than 1 per cent share and are importing country for only one product are not included in this table.

Indian agriculture is facing supply-side constraints such as declining productivity, poor irrigation and water management, declining agricultural research and extension activities, distorting markets due to government intervention, declining public and private investment, unorganised agricultural credit and insurance, poor infrastructure development, inefficient supply chain and marketing strategies, slow development of agro-processing units. At the same time, the increase in demand of cereals from the livestock sector (for feed) and for bio-fuel generation has further diversified the use of grains. This demand-supply gap is likely to increase in the future if quick actions are not taken.

Agriculture was initially kept out of the purview of WTO under the General Agreement on Trade and Tariff (GATT). Later in 1995, agriculture trade was included as one of the areas in the WTO. But there was still a considerable hesitance in accepting common set of rules for agriculture from both developed or developing countries. India, because of its own domestic policies had been a reasonably conservative player for long. In the period after independence, it was felt that exposure to the world agriculture-markets would affect the prices of agricultural products (most important being food grains) in a way, that might have an adverse effect on the food security situation of poor and farmers who are net consumers of these produces. The Doha Development Agenda is one of the most ambitious attempts at ensuring that the issue of development is firmly at the core of the multilateral trading system. Developing countries need help to integrate into the world trading system and to take advantage of the opportunities opened up through multilateral trade liberalisation.

The main objectives of agriculture trade policy have been import substitution and self-sufficiency. Imports and exports were strictly regulated to safeguard domestic producers and consumers. In most of the commodities, level of exports and imports was determined based on fluctuations in domestic supply and exports were residuals[82]. Similarly imports were allowed in the wake of fall in domestic production to fill the gap between domestic demand and supply. There was little emphasis on export-oriented production and production pattern was strictly guided by requirement of domestic consumers and self-sufficiency in all major commodities. Allocation of resources based on comparative advantage in trade hardly got any emphasis. However, since mid 90's the reluctance to trade in agricultural commodities has declined, and India saw the opportunities in liberalising agricultural trade, because of the comparative advantage in some agricultural products.

Agriculture is of enormous significance to the Indian economy but its contribution to economic growth, has been diminished. The share of agriculture in India's gross domestic Product (GDP) has declined from 48.7 per cent in 1950 to 24.4 per cent in 1996-97 and further to 18.7 per cent in 2007. But this sector still employs nearly 60 per cent of our labour force. Only 40 per cent of the land is under irrigation and investment in the sector is stagnating. Trade in agriculture and food is relatively small share of the total Indian trade (Table 6). Over the years this share is declining and the growth rates are negative.

In 1990's the share of agricultural exports in total exports were constant in the range of 16-20 per cent which later started declining from 1999 onwards and the share became as low as 11 per cent in 2005-06. In terms of contribution of agriculture trade in agriculture Gross Domestic Product (GDP), Table 6 show that the share of agriculture export in agriculture GDP has increased from 4.4 per cent in 1990-91 to 9.2 per cent in 2005-06, with some fluctuations during the complete period. The trade intensity ratio, which shows the percentage share of agriculture trade in agriculture GDP, has increased in last one and half decade[83]. Even though agricultural trade has expanded and increased in volume but given the size of agriculture in Indian economy the share of trade of agricultural commodities to total trade is quite small.

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[82] Traditional exports which originate in agriculture sector, both plantation crops such as tea or coffee and cash crops such as tobacco or spices, have always been an important source of foreign exchange earnings for the economy, constitute the exception to the rule. For these commodities, the open trade regime has continued from the colonial era.

[83] Food for Policy – Reforming Agriculture (2008) edited by Surabhi Mittal and Arpita Mukherjee . Printed by Cambridge University Press (India)

Table 6 – Appendix 2: Contribution of agriculture exports to the economy

Year	Agricultural Exports (in Rupees Crore)	Total Exports (in Rupees Crore)	Percentage of Agricultural Exports in total	Agril. export as per cent of Agril. GDP
Pre-WTO period				
1990-91	6012.76	32527.28	18.49	4.36
1991-92	7838.04	44041.81	17.80	4.83
1992-93	9040.30	53688.26	16.84	4.97
1993-94	12586.55	69748.85	18.05	5.67
1994-95	13222.76	82673.40	15.99	5.18
Post-WTO period				
1995-96	20397.74	106353.35	19.18	7.34
1996-97	24161.29	118817.32	20.33	7.23
1997-98	24832.45	130100.64	19.09	7.02
1998-99	25510.64	139751.77	18.25	6.28
1999-00	25313.66	159095.20	15.91	6.18
During Doha round				
2000-01	28657.37	201356.45	14.23	7.00
2001-02	29728.61	209017.97	14.22	6.71
2002-03	34653.94	255137.28	13.58	8.13
2003-04	37266.52	293366.75	12.70	7.69
2004-05	41602.65	375339.53	11.08	8.58
2005-06	49216.96	456417.86	10.78	9.18
2006-07 (P)	61194.22	571641.88	10.70	-
Rate of growth (in per cent)				
Pre-WTO period	22.75	26.18	-2.72	5.20
Post-WTO period	5.48	12.55	-6.29	-2.32
During Doha round	14.61	22.22	-6.23	7.03
1990-91 – 2006-07	13.41	17.54	-3.51	4.15

Table Source: Food for Policy: Reforming Agriculture Ch3 Surabhi Mittal et.al (2008)
Data Source: DGCI&S, Ministry of Commerce, Kolkata. (*Outsourced* from Agricultural Statistics at a Glance 2007)

Section C: Political economy of agricultural trade negotiations

Stakeholders consultations[84] - From the central Government the Ministry of Commerce and Industry (MOCI), the Ministry of Agriculture (MOA) and the Ministry of External Affairs (MEA) are the major stake holders. MOC through its Trade Policy Division (TPD) is responsible for the all WTO-related issues work relating to the WTO. MOA is the nodal agency for agriculture issues. There is an ambiguity in the way the agriculture trade negotiations are handled by these two ministries. the consultative process between the two ministries is not institutionalised and there is no clear cut mechanism of providing feedbacks also that are received in separate consultations. The role of the MEA as a stakeholder, in the agriculture negotiations, is less clear and is usually not involved in the consultative process to any significant extent. But Inter-ministerial consultations do happen although there might be differences on the stand that finally MOC takes at the in the WTO forum. Agriculture is a state subject in India, but for the WTO negotiations initially the department of agriculture of the state

[84] http://www.wto.org/english/res_e/booksp_e/casestudies_e/case15_e.htm

governments were not involved. a number of state governments have significant sensitivities regarding agriculture and over subsequent years these consultations have been initiated. In India the Confederation of Indian Industry (CII) and Federation of Indian Chambers of Commerce and Industry (FICCI), ASSOCHAM are the main industry associations in India. These chambers have been playing an active role in organising consultations with other domestic stake holders, creating brainstorming opinions and then putting forth the views and concerns to the government.

They also play an important role in creating awareness on key WTO issues. They facilitate consultations with representatives of business, academia, policy-makers and foreign experts. Role of academic institutions and think tanks in the consultative process has also evolved very rapidly over time. Some of these are the Indian Council for Research on International Economic Relations (ICRIER), National Council for Applied Economic Research (NCAER), the Indian Institute of Foreign Trade (IIFT), and the Research and Information System for the Non-Aligned and other Developing Countries (RIS). Through research papers and at various dissemination forums, these inputs are provided to the MoC. The role of civil society in India, is well recognised in defending or opposing any point of view and for contributing to the overall debate. On WTO agriculture negotiations CENCTAD, and CUTS are the two main non-governmental organisation (NGO) that raise their opinion through self organised or jointly organised consultation forums. Many of these consultations are also funded or supported by some locally based offices of international organisations.

All Political parties are equally concerned about the agriculture issues. The Left part provides valuable input in WTO Negotiations which are very well taken by the government. The government shares many of the concerns expressed by the Left parties and other political parties and those concerns are being met. Since the Government's position in the WTO negotiations is primarily based on national self-interest and the interests of Indian agriculture and India's farmers would not be compromised at any cost. The government has on a continuing basis held extensive consultations with domestic stakeholders with a view to forging a national consensus in various sectors, along with dialogue and consultation with political parties.

Farmers organisations are very active body and have their strong voice reached to the government through various forums. Farmers representatives believe that the present WTO agenda being biased in favour of temperate zone, mechanised large-scale agri-business driven trade-oriented intensive farming. Civil societies and a number of farmers' organisations suggest that Indian government to harden its stand and should insist on the right to impose quantitative restrictions on imports of agricultural products and also demand exclusion of forestry, fishery and mining from non-agricultural market access category in view of the livelihood implications for the vulnerable sections . The new paradigm shift should be for ensuring peasant-centric, food sovereignty and livelihood security farming. In September, 2007, the International civil society organisations have urged G-20 trade ministers to reflect upon the negative impact of the WTO regime and help develop an alternative global trading system, which can ensure development, social equity and environmental protection.

Farmers’ organisations have advocated the idea of using special products (SPs) and special safeguard mechanism (SSM) in the global trade and have called for a proper balance between development issues and trade ambition level in WTO negotiations. Krishan Bir Chaudhary, executive chairman of Bharat Krishak Samaj, believes that every agriculture product in the developing world is a concern of livelihood security and therefore, qualifies as special products and thus have urged the government to be more aggressive in the negotiations. The BKS says that Indian agriculture has been dragged into the ambit of the WTO and has given market access for some agro produces while the developed counties continue with the strategy of huge support to their farmers and distorted global prices. In this situation Indian farmers cannot compete with the farmers in the developed world. Both EU and US have protected their markets through high tariff barriers and non-tariff barriers. The US through its recent Farm Bill 2007 has increased direct payments to farmers by 10 per cent over the previous years. It has increased direct payments by $ 5.5 billion. It has extended its support to horticulture crops also and kept its support to dairy sector intact. As the developed countries have not fulfilled their commitments in the agreement on agriculture for reducing their subsidies and support to the farm sector, India should not open up its markets. They say that “We do not want a bad deal at any cost,” because opening up of Indian imports market may prove fatal for farmers and food security. The may draft of the WTO is not supposed to be in favour of Indian farmers and the farmers of third world. The revised WTO text on agriculture has completely ignored the food security and livelihood concerns of the farmers in the developing countries. It has proposed a weak defence against the possible influx of cheap and subsidised imports by suggesting a complicated system for implementation of Special Safeguard Mechanism (SSM) by the developing countries. In contrast the Special Safeguard (SSG) implemented by the developed countries is simple and effective. If the WTO is not willing to give us this right along with an effective SSM then it should allow countries to impose Quantitative Restrictions (QR) to check any possible surge in imports. The level of awareness and of the mechanism of consolations are at very preliminary level and is evolving. Largely all stake holders are in consensus (may not fully) with MOC stand. Consumers also are a part of these consultations. Consumer forum – CUTS International play a very active role in these consultations.

Multilateralism vs. Regionalism: In the situation, if the Doha negotiations end in total failure, then it would lead to increased protectionist action in developed countries and a drift towards bilateralism. On the bilateral front many countries have already started negotiating various Free Trade Agreements (FTAs) but specific to agriculture very little has been undertaken in these FTA’s. India has preferential trade agreement with Mercosur since 2005. It is also apart of SAFTA with effect from Jan 2006 with the objective of reducing tariffs for regional trade and it is also currently negotiating with EU and ASEAN. India-Gulf Cooperation Council (GCC) FTA identified issues to facilitate and expedited projects in the field of agriculture and food processing which would give significant opportunity for trade and investment. This was announced during the third India –GCC business conference, 2007 adopting the Mumbai declaration to enhance economic activities between the two nations. So far India has kept agriculture out of bilateral negotiations and focus has been more on collaborations. One of the important collaborative effort is the US–India Agricultural Knowledge Initiative (AKI) which was launched in 2005. As a part of the US–India AKI, The Indian Council of Agricultural Research (ICAR) and the USDA have been collaborating extensively to design and implement programmes which can effectively target key aspects for strengthening the sector and stimulating investment into agribusiness. International partnerships and collaboration like this can have an impact on the way Indian agriculture evolves and change over a period of time. In this regard US-India AKI can bring benefits to the sector by catalyzing the development of market institutions, systems for food grading, inspection, grades and standards, Sanitary and Phytosanitary (SPS) measures for scientific analysis of risk, futures trading, warehouse negotiable receipts etc.

However, CUTS International has suggested that India should make efforts to revive and conclude the Doha negotiations as the country would gain from multilateral trade regime. It has said the cost of the suspension may have repercussions in terms of economic loss, negative impact on geo-politics, setback to economic reforms and increase in trade disputes. It added that with multilateral negotiations under suspension, countries are entering into preferential trading arrangements, which are not a substitute to multilateral trade regime. CENTAD is of the view that firms gained more than farmers under WTO norms, The present asymmetric rules of the multilateral trading system coupled with the lack of appropriate policies of the national governments has benefited select global agribusiness firms, rather than the farmers as per there study. According to the Centad empirically global agricultural trade is highly asymmetric with large number of producers linked to very few traders who in turn sell to large number of buyers. Therefore there are few leaders to decide the price and choice of consumption.

Section D- Alternative frameworks for trade negotiations.

This results presented in this section is based on an anonymous survey[85] been conducted in India through email and also through interactions with some of the economists working on agriculture and WTO issues. The responses were received from different domestic stakeholders like farmers, policy makers, NGOs, consumer forums, think tanks, and trade associations.

Identifiable problems: The survey respondents have given their views on the identifiable problems with the current framework of WTO agricultural trade negotiations. Emergence of strong group of developing countries, with increased domestic awareness of WTO, and unresolved issues on subsidies have made the agricultural negotiations more complex in the Doha round. Since the policy makers believe that "No deal is better than a bad deal" and are trying to achieve a balance in the deal is making the negotiations stuck. The background had been that the implementation of Uruguay round - the box-shifting in domestic subsidies- had destroyed the faith of developing countries on developed countries completely. The Uruguay Round rules in many cases were inequitable and therefore the benefits of implementation of Agreement on agriculture was much less than expected for developing countries.

The other identified problem is that under the Doha development round partial agreement is not possible because of single undertaking clause[86]. 67 per cent of the respondent to the survey proposition that - Is the "single undertaking" as it applies to agriculture seen as part of problem- have responded to it saying that it is likely to be the main problem. On the other hand the negotiations are too complicated with too many exceptions and special cases allowed for. Almost 78 per cent of the respondents feel that the framework and the modalities for agricultural trade framework negotiations in WTO are complex and this is also acting as a constraint .

The third main problem with the current negotiations is high level of ambition. 44 per cent of the respondents feel that the deal on the table at the end of July in Geneva embodied a "comparably high level of ambition" in agricultural and NAMA market access, and this is likely to be one of the problems with the current agriculture negotiations. The Doha round began with raised expectations on the development agenda and later it turned into a market access round. Almost half of the respondents also believe that it is unlikely that in a future negotiation, greater parity between developed and developing countries' liberalisation commitments would be facilitated if agricultural and industrial tariffs and other market access issues were subject to a single 'modality' that cut high industrial country agricultural protection in step with cuts to high developing country protection of NAMA products

61 per cent respondents feel that it is likely that if the negotiations had not broken down as a result of the special safeguard mechanism, there were many other open issues that were so difficult that they would surely have led to a breakdown in the talks. Unbalanced ambitions and a rigid stand of both the developed and developing countries on subsidies, cuts from bound rates, special safeguard mechanism and list of special products are seen as the issues of contention. The negotiations suffer from the inability to recognise the fundamental constraints of multilateral institutions in addressing national concerns. In developing countries where agricultural sector development agenda is important from the point of rural livelihoods and food security there is no fundamental discussion from this view point in the negotiations. 61 per cent of the respondents feel that the agriculture negotiations on subsidies and market access are likely to have a medium or long term impact on India's food security issue. Since the developing countries suffer with the fears of imports surges and its impact on livelihoods, Thus it become important that the negotiations should ensure food security for all members.

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[85] The Results of the Survey questionnaire is presented in tabular form in Appendix 2.
[86] Single undertaking means Virtually every item of the negotiation is part of a whole and indivisible package and cannot be agreed separately. "Nothing is agreed until everything is agreed".

How to end the deadlock?: 78 per cent of the survey respondents see it likely that the deadlock in the Doha negotiations would continue. Thus to end this deadlock some of the proposed suggestions are that, things need to be started from scratch, may be in a new round of negotiations. Since the present negotiations have reached complex stage and is stuck. Doha negotiations should also be revisited taking into account the current state of global agriculture situation of crisis and financial crisis. The developing economies should be granted the needed flexibility as it is crucial to them for the sustaining their agriculture sector.

India's stand on agriculture in the current negotiations are seen as defensive by almost 67 per cent of the respondents and they feel that is unlikely any positive outcome can be achieved in the Doha round. 50 percent of the respondents feel that it is unlikely if India is not defensive in its stand then it would bring gains to agriculture sector in India. About 45 per cent of the respondents believe that India's alternative interest or interests in service are being hindered because of agriculture being part of the negotiations. Thus it is proposed that India should look for incremental gains rather than grand bargain. For India, in the agriculture sector, much is needed to be done at domestic level to reform the agricultural sector to actually realise the gains.

It is proposed that to end the deadlock, USA, must agree to real reduction of agriculture subsidies from current levels or from the roads at the end of the Uruguay Round. But 67 per cent of the respondents believe that it is unlikely that the US Congress will make the necessary cuts in the farm supports adopted in the 2008 Farm Bill in order to ratify an eventual agreement. The developed countries should assume greater responsibility and deliver on the Doha Development Agenda as this round is meant for addressing the inequity in the world trading system. Honest tabling of expectations and offers is required to move the negotiations forward. WTO and its Member countries should look for a low ambition round to get over the deadlock.

The complex nature of negotiations is seen as an hindrance, but it is difficult to simplify the producers. Thus to end the deadlock, it is important to deal with the issues under agriculture separately. As it looks like that stand-off is mainly between two issues domestic farm subsidies and SPs & SSM. Some suggestions are to reduce the tariff cuts in the tiered formula and, in return, remove all the exceptions to the formula. A similar approach could apply to domestic support. Reduce the number of areas/sectors included in a single undertaking (i.e. negotiate 2-3 single undertakings, rather than one huge one). Thus this means that by breaking down the issues and tackling them one at a time can show some way forward. Concentrate on key areas that are actually affecting the countries, may be with fewer products so that countries can tackle them politically at home with less confrontation. Letting countries to iron out their differences in an informal manner and getting the agreements on table as attempted by Amb. Groser in an early phase. Adopt phased approach to reducing subsidies / tariffs/ NTBs in agriculture. Take steps simultaneously to ensure towards security for all countries.

Alternative framework: 89 per cent of the survey respondents believe that multilateral agreements are more important when bilateral / regional agreements are already prevailing/ expanding. There can be no alternative to multilateral negotiations and the current framework where the three pillars are integrated in the sense that balance between rights and obligations across them among various members is persevered, while ensuring the need for special and differential responsibilities. In this content the current framework is fine but only if a consensus can be reached and deadlock can be broken. But if not then, for the economies to move forward with trade negotiations an alternative framework is to be devised. Given the changed world scenario of increased economic and financial vulnerability, it will be counterproductive to attempt for a high ambition deal. A comprehensive approach, encompassing the whole gamut of food-security related issues, needs to be adopted. For instance, evolving global/regional food reserve systems (physical or virtual) , designing import financing facilities for food-importing countries should precede negotiations on trade-related issues to allay some of the legitimate concerns of the food-deficit countries. The other suggestions are to have a plurilateral agreements between groups of countries such as it exist between OECD members. A bilateral agreement between two or three trade giants with other countries joining it can be seen as a chained trading arrangement leading to a near equal multilateral solution. Countries do see regional trade agreements as the way forward as WTO has lost its efficacy. The new evolving frameworks should give more stress on parity rather than be based on existing levels of support/subsidies. The other option is to build on whatever little progress has taken place in agricultural negotiations by way of flexibilities granted equitably to all countries and not an unfair. It should include building capacity of the countries to take comprehensively on all issues rather as piecemeal basis. Multilateralism should at this stage focus on issues that are deliverables so that its progress is not stalled.

In the times where multilateral trade system is facing immense challenges because of the deadlock in the Doha Round, it is important to think of different feasible ways out to move forward within the framework of multilateralism. In the present times when RTA's are looked up as the way forward to reach a deal, a new approach in multilateral framework is required. Since, single undertaking is seen as one of the major constrain to reach a deal, the critical mass approach is being proposed by a number of people to reach a deal in the negotiations. A generally proposed criterion for WTO compatibility of critical mass agreement is that 80 percent of trade in a sector plus one-third of WTO Members, MFN applicability of results and participation voluntary. This has its side effects as in this case lot of development al agenda and least developing economies would get marginalised. Critical mass is likely to be problematic for market access in agriculture because a tiff between the developed country and developing country would find it difficult to even reach a consensus to do a critical mass agreement. In a situation where the CMA's would be more or less extension of RTA's where same interest economies would trade and negotiate between themselves. Also there might be a case where developing countries might use this platform for forming consensus on what's good for the group. This is going to be another problem and thus its better to first finish the Doha Round and then experiments can be done on sector specific negotiations through critical mass agreements.

To conclude

On an optimistic note, it is most likely that by July 2009, the final Doha negotiations would restart on a much more serious note as the new US trade representative would be in action and also India's new government would be in place. It is believed that in the present situation of financial crisis, although every country is moving into a more protectionist fashion , but still everyone realises that trade is to continue and thus everyone might move forward to reach a deal in agriculture and NAMA maximum by end of the year. The world might agree on a low ambition deal "DOHA-LITE" and move forward.

Table 7 – Appendix 2- HS Code used in the paper

HS	Commodities
7019000	Potatoes fresh or chilled other than seeds
7020000	Tomatoes fresh or chilled
7031010	Onions fresh or chilled
7032000	Garlic fresh or chilled
7099050	Mixed vegetables
7099090	Other vegetables fresh or chilled n.e.s.
7109000	Mixture of vegetables frzn
7114000	Cucumbers & gherkins provisionally presvd
7122000	Onions dried
7132000	Chickpeas (garbanzos) dried & shld
7134000	Lentils (mosur),dried & shld
7134000	Lentils (mosur),dried & shld
7139010	Tur
7139099	Other dried & shld luguminous vegtbls,othrthan split.
8013220	Cashew karnel, whole
8045020	Mangoes fresh
8045040	Mango pulp
8051000	Oranges fresh or dried
8061000	Grapes fresh
8081000	Apples frsh
8109010	Pomegranates fresh
9011111	Coffee arabica plantation'A'
9011129	Coffee arabica cherry other grade
9011141	Coffee rob cherry AB
9011149	Coffee rob cherry other grade
9023020	Tea black, leaf in bulk
9024020	Tea black, leaf in bulk
9024030	Tea black, dust in bulk
9041130	Black pepper garbled
9042010	Chilly
9042020	Chilly powder
9103010	Turmeric fresh
9103020	Turmeric dry
9103030	Turmeric powder
9109919	Other spices n.e.s.
10011010	Durum wheat of seed qlty
10011090	Other durum wheat
10019010	Wheat seed
10019020	Wheat (not seed) for human consumption
10051000	Maize seed
10059000	Other maize (corn)
10061010	Rice in husk of seed qlty

HS	Commodities
10061090	Othr rice in husk
10063010	Rice parboiled
10063020	Basmati rice
10063090	Rice excptg parboiled (excl basmati rice)
10064000	Broken rice
10070090	Other grain sorghum
10082019	Other jawar
10082021	Bajra of seed qlty
11010000	Wheat or meslin flour
11031120	Meal of wheat
12010010	Soya beans w/n broken of seed quality
12010090	Other soya beans w/n broken
12021011	H.P.S. ground-nuts in shell, not roasted/cooked of seed quality
12021019	Other H.P.S. ground-nuts in shell, not roasted/cooked
12021099	Other groundnuts in shell, not roasted/cooked
12022010	Shelled groundnuts kernel H.P.S.
12022090	Shelled groundnuts kernel n.e.s
12051000	Low ervucacid rape or colza seeds
12074010	Sesamum seed w/n broken of seed qlty
12074090	Other sesamum seeds w/n broken
12079930	Niger seed w/n broken
12081000	Psyllium husk (isobgul husk)
12119032	Psyllium husk (isobgul husk)
15081000	Ground nut oil crude
15153010	Castor oil & its fractions of edible grade
15153090	Castor oil & its fractions other than edible grade
15162039	Other hydrogenated castor oil (opal wax)
17011110	Raw cane jaggery
17011190	Othr cane sugar
17019100	Sugr refind contng flvrng or clrng matter
17019910	Sugar cubes
17019990	Othr refnd sugar includng centrifugal sugr
17023010	Glucose liquid
17039010	Molasses (excluding cane) edible
19021900	Othr uncookd notstfd/othrwse prpd psta
19053100	Sweet biscuits
20011000	Cucmbrs & ghrkns prpd/prsvd by acetic acid
20011000	Cucmbrs & ghrkns prpd/prsvd by acetic acid
20031000	Mushrooms Prepd/preserved
20079910	Jams Jellies marmalades etc. of mangoe
20081100	Ground Nuts , Prpd/preserved
21011110	Instant coffee flavoured
O_17019901	Cane Sugar Candy (OLD 17019901)
O_17019902	Cane Sugar Refind (OLD 17019902)

HS	Commodities
O_15162003	Hydrogenated Castor Oil(Opal Wax) (OLD 15162003)
O_08129002	Mango Pulp (OLD 08129002)
O_110321	Pellets of Wheat (OLD 110321)
O_08013101	Cashew nuts, raw (OLD 08013101)
O_07139003	Moong (OLD 07139003)
O_08013109	Other (OLD 08013109)
O_15180009	Other Vegetable Oils & Fats (OLD 15180009)
O_15121901	Sunflower Seed Oil (OLD 15121901)
7131000	Peas (pisum sativum) dried & shld
7133100	Beans of the spp vigna mungo,hepper or vigna radiata,wilczek dried & shld
7133990	Others
8021100	Almonds frsh or driedin shell
8029011	Betel nut, whole
8041010	Dates fresh (excluding wet dates)
8041020	Dry dates soft (khayzur or wet dates)
8041030	Dry dates hard (chhohara or kharek)
11031300	Groats & meal of maize (corn)
15071000	Soya bean crude oil w/n degummed
15079010	Soya bean oil of edible grade
15111000	Crude palm oil & its fractions
15119010	Refined bleached deodarised palm oil
15119020	Refined bleached deodarised palmolein
15119090	Other refined palm oil
15121110	Sunflower seed oil crude
15132110	Crude palm kernel oil
15141920	Refined rapeseed oil of edible grade
15162029	Groundnut oil other than edible grade
15162091	Other veg fats & oils & their fractions of edible grade
15162099	Other veg fats & oils & their fractions
17039090	Othr mulses othr thn edible
21042000	Homogenised Composite Food Preparations

Appendix 2: Results of the Survey.

(1= Most likely; 2= Likely; 3= Somewhat likely; 4= Less likely, 5= Very unlikely)

Proposition Surveyed	1	2	3	4	5
Is the "single undertaking" as it applies to agriculture seen as part of problems?	5.6	61.1	5.6	11.1	16.7
	Likely		=	Unlikely	
	67 %			28 %	

Proposition Surveyed	1	2	3	4	5
Do you think that the deadlock in negotiations might continue?	55.6	22.2	11.1	11.1	0.0
	Likely		=	Unlikely	
	78 %			11 %	

Proposition Surveyed	1	2	3	4	5
Do you think that India's stand on agriculture in current Doha Negotiation is Defensive?	33.3	33.3	16.7	11.1	5.6
	Likely		=	Unlikely	
	67 %			17 %	

Proposition Surveyed	1	2	3	4	5
Do you think, Indian government will be able to achieve any positive outcome in the Doha Round?	5.6	33.3	27.8	22.2	11.1
	Likely		=	Unlikely	
	39 %			33 %	

Proposition Surveyed	1	2	3	4	5
Do you think If India is not defensive in its stand then it would bring gains to agriculture sector in India?	11.1	33.3	5.6	16.7	33.3
	Likely		=	Unlikely	
	44 %			50 %	

Proposition Surveyed	1	2	3	4	5
Whether India's alternative interest or interests in service are being hindered because of agriculture being part of the negotiations?	27.8	16.7	27.8	16.7	11.1
	Likely		=	Unlikely	
	45 %			28 %	

Proposition Surveyed	1	2	3	4	5
If the negotiations had not broken down as a result of the special safeguard mechanism, there were many other open issues that were so difficult that they would surely have led to a breakdown in the talks?	38.9	22.2	16.7	22.2	0.0
	Likely		=	Unlikely	
	61 %			22 %	

Proposition Surveyed	1	2	3	4	5
Although further compromises will be needed to bridge the differences revealed at the end of July, the US Congress will make the necessary cuts in the farm supports adopted in the 2008 Farm Bill in order to ratify an eventual agreement?	5.6	5.6	22.2	27.8	38.9
	Likely		=	Unlikely	
	11 %			67 %	

Proposition Surveyed	1	2	3	4	5
The deal on the table at the end of July in Geneva embodied a "comparably high level of ambition" in agricultural and NAMA market access.	22.2	22.2	38.9	5.6	11.1
	Likely		=	Unlikely	
	44 %			17 %	

Proposition Surveyed	1	2	3	4	5
In a future negotiation, greater parity between developed and developing countries' liberalisation commitments would be facilitated if agricultural and industrial tariffs and other market access issues were subject to a single 'modality' that cut high industrial country agricultural protection in step with cuts to high developing country protection of NAMA products	22.2	16.7	11.1	11.1	38.9
	Likely		=	Unlikely	
	39 %			50 %	

Proposition Surveyed	1	2	3	4	5
Do you think the framework and modalities for agriculture trade negotiations in WTO are complex	66.7	11.1	5.6	0.0	16.7
	Likely		=	Unlikely	
	78 %			17 %	

Proposition Surveyed	1	2	3	4	5
Do you think the current system or framework of negotiations reflect India's food security concerns	22.2	16.7	22.2	22.2	16.7
	Likely		=	Unlikely	
	39 %			39 %	

Proposition Surveyed	1	2	3	4	5
Do you think that negotiations on agriculture subsidies and market access are a part of medium and long-term solutions to food security?	27.8	33.3	11.1	16.7	11.1
	Likely		=	Unlikely	
	61 %			28 %	

Proposition Surveyed	1	2	3	4	5
Do you think multilateral agreements are more important when bilateral / regional agreements are already prevailing/ expanding	72.2	16.7	0.0	5.6	5.6
	Likely		=	Unlikely	
	89 %			11 %	

Appendix 3 – China Country Paper

Viability of Alternative Frameworks for Agricultural Trade Negotiations:

Perspectives from China's Case Study

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1. Introduction

Recently, the Doha negotiation failed again in reaching its final agreement. On 29 July 2008, Pascal Lamy, Director-General of WTO, announced that the trade talks collapsed. While Lamy's announcement did shock the world for a while, it should not be a very surprise to the major players who have been engaged in this round of WTO negotiation. However, the breakdown of talks undoubtedly represents a missed opportunity for both developed and developing countries to stimulate the economic growth through trade.

Unfortunately, there are no many reasons to be optimistic about the future of multilateral trade rounds. The differences are so large among members, not only between developed and developing countries, but also among developed countries and among developing countries. While the disagreement over SSM issue was often cited in media as a major reason for the failure of recent Doha negotiation, anyone of many other outstanding issues such as the US refusal to comply with the ruling the cotton case, domestic supports in developed countries, many issues related to NAMA, could also easily lead to breakdown of the talk. Moreover, recent rising global food price has raised the food security concerns by many developing countries in favour of pursuing national food self-sufficient policies. The current financial crisis will also make anti-globalisation worse not only in US and EU, but also in many other countries.

The breakdown of recent Doha talks has also raised concerns on the current negotiation approach. Several questions are raised. How should the negotiations have been handled differently? Does a "single undertaking" approach (where nothing is agreed until everything is agreed and where all participants are required to buy into all negotiated results) still work? If not, what are alternative frameworks for agricultural trade negotiation? What are perspectives of major WTO members on these alternative frameworks?

The objective of this paper is to attempt to provide some perspectives of alternative frameworks for agricultural trade negotiations with specific focus in China. This is a case study under a large project led by Institute for Institute of Trade in the University of Adelaide. The going in assumption in the overall project is that "the single undertaking approach to multilateral trade negotiations in the WTO has failed to deliver timely liberalisation or rules reform in both agricultural trade and in the many other areas encompassed by the Doha Round mandate. The delay in reaching an outcome is, in itself, damaging to the interests of farmers, agricultural exporters and consumers in developed and developing countries. Perhaps even worse, an outcome dictated by the single undertaking approach could well produce a seriously flawed result that also contributes to unsuccessful outcomes in other areas of the Doha Round negotiation. Rather than being the "development round", the results of Doha could actually produce negative impacts on developing country interests.

This paper identifies and tests approaches in China to agricultural trade negotiations different from that currently being pursued in Geneva at the WTO. In order to achieve the goal of this study, this paper specifically addresses the following elements from the national perspective of China: 1) national patterns of international trade in agriculture; 2) the nation's participation in agricultural trade negotiations; 3) political economy of agricultural trade negotiations; and 4) perspectives of alternative frameworks for trade negotiations. In order to address the above issues, we have conducted a series of desk researches and extensive interviews with policy-makers and traders. A trade experts' survey was also conducted to deal with major issues mentioned above. In the rest of this paper, after a background section on China's agriculture is discussed, the above 4 sets of issues are examined in 4 subsequent sections. The last section concludes this study.

2. An Overview of China's Agriculture

Agricultural Production

While the growth in agricultural sector has been much lower than that in the rest of the economy, its expansion has, in fact, been remarkable in China since the late 1970s. After 1978, decollectivisation, price increases and the relaxation of trade restrictions on most agricultural products have been shown to have driven at least part of the growth of the food economy (Rosen et al, 2004). Between 1978 and 1984, grain production increased by 4.7 percent per year and horticultural area grew at about 5 percent annually (Table 1). The highest annual growth rates came in the cotton, oilseed, livestock and aquatic product sectors.

After the early 1980s, most of the subsectors of agriculture continued to grow. For example, while grain and cotton production slowed (but continued to grow), the rest of the agricultural sector continued its rapid, sometimes accelerating growth. Annual growth rates of fruit output reached more than 10 percent. The livestock, aquaculture and vegetable sub-sectors also grew at rates of about 5 to 10 percents annually since the middle 1980s (Table 1).

With this pattern of growth, the composition of agriculture changed rapidly from an economy that was crop-based, to one which is more animal production oriented (Table 2). The shares of the value of output of livestock and fishery, which only accounted for 16 percent (14+2) in 1970, rose to 45 percent by 2005. Within the cropping sector, the importance of horticulture also has been rising, frequently at the expense of a decline in the relative importance of the grain sector. In sum, China's agriculture has been undergoing significant structural change, a process that is seeing it shift from an economy that was more land intensive agriculture to one that is more labor intensive. More and more China's producers are moving into the production of goods where China's comparative advantage is strongest, which certainly have implications for China's current Doha negotiation and trade in the future.

In an economy which has a growing agricultural sector, there are good reasons to expect that progress also will be made in poverty reduction. In fact, there is evidence of strong linkages between agricultural growth and poverty reduction in China. Huang et al. (2007) and Ravallion and Chen (2007) show that during periods of time when there is higher growth rate in agriculture there is more likely to be more progress in the areas of poverty reduction. This is due to the fact that poor farmers are much more reliant on revenues from agriculture for their incomes (Huang et al., 2007). The national food security and rural poverty have been two of major concerns in both China's WTO accession negotiation and recent Doha Round talks.

Agricultural Production by Regions

China is a big country with large diversified production across regions, which implies that there are diversified "stakeholders" that differ among regions. Table 3 shows the great diversity across provinces in the nature of cropping patterns. There are provinces (e.g., Heilongjiang, Jilin, Shanxi and Hebei) in which farmers are producing wheat, maize, soybeans and cotton. These relatively land intensive commodities are ones which it is possible in the future that there will be much higher imports. In contrast, there also are provinces, such as, Shandong, Zhejiang and Guangdong that have relatively large shares of their areas in horticultural production, commodities that are relatively more labor intensive (in which China is more competitive).

There also is great diversity in the production of livestock across provinces (Table 4). In some provinces (e.g., Sichuan, Fujian, Hainan), producers are raising large numbers and volumes of hogs, poultry and fish, types of livestock products that China is producing competitively (Huang et al, 2004). In other provinces (e.g., Inner Mongolia, Henan and Hebei), however, livestock households are producing relatively large shares of the nation's milk, beef, mutton and other commodities in which China may have less of a comparative advantage.

The main point of Tables 3 and 4 is that there are great differences in provinces in the types of crops and livestock activities that their farmers are specialising in. If future trade agreements liberalise trade and allows imports of commodities in which China is relatively less competitive (e.g., maize, sugar, cotton and milk) the producers in the provinces that are producing these commodities should be expected to be hurt relatively more. Likewise, those farmers in provinces that are producing relatively competitive products stand to gain more if trade agreements allow added exports. Differences in agricultural production across China and among farmers are important elements for better understanding of China's position on both its WTO accession and Doha Round Negotiation. For economic growth and efficiency point, China should promote its and global trade liberalisation as China has made in the past 3 decades. However, from equity, poverty and income distribution point, there is rising concern (see impacts assessments of trade liberalisation in the next section).

3. National Patterns of International Trade in Agriculture

Overall patterns of trade

The structure of China's trade, in general, and agricultural trade, in particular, has changed dramatically over the past two decades, as is evident from Table 5 and Figure 1. Table 5 makes clear that all components of trade grew rapidly over the twenty years from 1985 to 2005. While the seven-fold increase in exports of food products during the period would be regarded as extraordinary in almost any other economy, it pales into insignificance relative to the 34-fold increase in non-agricultural exports (the first part of Table 5). However, within agriculture, there were some important export growth success stories, with exports of fish products growing by a factor of 49, and exports of fruits and vegetables by a factor of 17.

On the import side, total imports grew much less rapidly than exports, growing by a factor of 16, as against 30-fold for exports over the twenty years from 1985 to 2005, consistent with the turnaround and substantial expansion in China's export surplus over the period (the second part of Table 5). Agricultural imports grew by a factor of 11. Imports of oilseeds grew by a factor of 96; fruits and vegetables by a factor of 84; and fish by a factor of 70, all from very low levels. By contrast, imports of grains grew by a factor of two, far below the growth rate of exports. Imports of agricultural fibres, mainly cotton, grew by a factor of six, below the growth rate of overall agricultural exports, although these imports grew from a substantial initial base in 1985.

Despite the relative rise in exports relative to imports in percentage terms, net agricultural trade changed from surplus to deficit over the past decade. Specifically, while there was a surplus of $1.615 billion (1.746-0.131, column 2 in the last part of Table 5) in 1985, the position shifted to a deficit of $2.995 billion (2.635-5.668) in 2005. However, when put on percentage terms, it is clear that China is not a country that is great deficit. In 1985 the agricultural trade surplus corresponded to over 6 percent of the total value of exports. By 2005 agricultural net trade, although in deficit, was only 0.4 percent of total exports.

Regardless of China's net trade position, since accession to the WTO, China's agricultural trade regime has become extremely open (Huang et al., 2008). Figure 2 shows that the average rate of assistance to agriculture raised from strongly negative in the early 1980s to essential zero after 1994. From the viewpoint of economic efficiency, the dispersion of agricultural protection matters as much as the average rate, and the overall reduction in dispersion through the period to 2001 was also important. While the average rate of protection to import competing sectors fell in the lead up to accession, it has trended upwards since that time.

Table 6 presents estimates of the tariffs levied by China on a range of products, particularly agricultural products, world average tariffs for those products, and the tariff rates applied against China's exports. The tariffs imposed on imports are in some cases above world average tariff rates, and in many others below them. The tariffs listed for China on key products such as wheat and rice are in-quota rates, and higher tariffs can be levied if imports exceed quota levels. Perhaps the most striking tendency evident in the table, however, is for the tariffs on exports from China to be above both world average rates and the rates imposed on China. These estimates are based on GTAP data from 2001 and subsequent re-examination of some of these rates (Tang and Martin 2007) suggests that the estimated tariff on exports of coarse grains may be overstated. However, the pattern of tariffs being higher on exports from China than on world exports is widespread. This pattern of distortions is most undesirable for China, and the only means by which it is likely to be effectively addressed is through negotiations under the WTO.

Trade of Major Agricultural Commodities

China's agricultural imports are concentrated on a few major commodities. As shown in Table 7, the largest importing agricultural commodity is soybean, which accounted for almost one fourth (23.2%) of total agricultural import in 2006. Although the imported soybean is used for crushing soybean oil, China still imports large quantity of soybean oil, palm oil and other oil to meat its rising demand on edible oils. For example, in 2006, China's imports of soybean oil and palm oil accounted for 2.5% and 7.0% of total agricultural imports. After China's WTO accession, the imports of cotton, raw hides and wool rise rapidly to meet the demands from the booming textile and appeal industries. The import shares of cotton, raw hides and wool in total agricultural import accounted for 15.1%, 3.9% and 3.7%, respectively, in 2006 (column 3, Table 7). If we aggregate the imports of these into two groups of commodities (one group of commodities used for edible oil, the second used for textile and apparel), their imports contributed to 55.4%, more than half of China's total agricultural import in 2006. Meanwhile, China also imports large frozen fishes, accounted for 7.5% of total agricultural import in 2006, for domestic consumption and intermediate inputs of many processed food industries. As to other commodities listed in table 7, their import is quite small and individual import shares are less than 2%.

Moreover, the sources of China's agricultural import are also concentrated on several major countries. As shown in Table 8, for all commodities except the molluscs and aquatic invertebrates (HS0307), the number of countries where China imported more than 75% is no more than 4. Furthermore, many commodities are only supplied by two or three countries. For example, the import sources of soybean are dominated by three countries: Brazil, USA and Argentina. They accounted for 98% of China's soybean import in 2006. The imports of palm oil from Malaysia and Indonesia took up 99%. Even for the aggregated groups (last row in table 8), which accounts for 15% of China's agricultural import, its import sources are dominated by 7 countries/regions (EU, Thailand, Indonesia, New Zealand, Australia, Canada and Malaysia).

On the contrary, China's agricultural exports of commodities are much diversified. As shown in Table 9, there are 37 commodity groups (in HS 4-digit groups), which aggregated export accounts for 75% of total agricultural export. The number of commodities is much larger than the corresponding number of 14 of import. Moreover, it needs 66 commodities to cover 90% total agricultural export, rather than 39 in import. Meanwhile, it also shows the interesting nature of China's agricultural export in Table 9. China's agricultural exports are dominated by labour-intensive commodities. For example, fish products (HS1605, HS0304, HS1604), other processed food products (HS1602, HS0504, HS1902, HS2106, HS2003, HS0713, HS2003 etc.), fresh and processed vegetables (HS2008, HS0703, HS0712 and HS0710 etc.), fresh and processed fruits (HS0808 and HS2009), and other horticultural products (HS0902). As the characteristics of these commodities (e.g., long chains of production, high-valued and labour-intensive), China's agricultural exports are easily restricted by sanitary and phytosanitary standards in other countries. We will further demonstrate this issue in the following section.

Meanwhile, China's export destinations are also relatively more diversified than its import. As shown in Table 10, the export destinations of many commodities, ranked by relative importance and accounted for 74.5% in 2006, are more than 4. Moreover, our study also indicates that the high-income markets (i.e., Japan, EU, Korea and USA) are important destinations of China's agricultural export. Taking the largest export category (HS1605) from China, the imports of Japan, USA, EU and Korean from China in 2006 accounted for 31.9%, 22.9%, 12.7% and 7.0% respectively, and totally take up 75% (row 1, Table 10). As to the second largest (HS0304), the imports of EU, USA and Japan from China took 28.8%, 28.2% and 19.5%, and totally accounted for 86.5% (row 2, Table 10). If we aggregate all agricultural exports from China to Japan, EU25, USA and Korea, they accounted for 26.4%, 14.0%, 12.3% and 9.3% respectively in 2006. The four countries/regions account for 62.0% of China's total agricultural export in 2006.

Further analyses show that there are very small overlaps of China's agricultural export and import with respect to its trade partners. In order clearly shown the match of China's import and export with different countries on different commodities, we generate import and export match matrix in 2006 (Appendix Table 1). The results show that there is a big difference on China's export destinations and sources of its import. The overlaps of China's importing and exporting countries are very rare, which means that China's agricultural trade relationship with its partner is dominated by only one status: or big exporter, or big importer with less possibility of both big exporter and importer. As showed in Appendix Table 1, among the top 10 trade partners, China mainly exports agricultural commodities to USA, Japan, EU, Korea and Russia, and imports from USA, Brazil, Australia, Argentina, India and Canada. Except the USA, China's trade positions with other trade partners are either the big exporters or the big importers. As to expanding its agricultural export, China would be more interested in negotiated with its main exporting countries such as USA, Japan, EU, Korea and Russia, and less with its importing countries as Brazil, Australia, Argentina and Canada.

The patterns of China's import and export in terms of both commodities and countries have important implications for China's position on trade negotiation and the perspectives of China's views on the alternative frameworks for agriculture negotiations. In the rest of this paper, we will discuss China's participation in agricultural trade negotiation and the political economy of agricultural trade negotiations.

4. Participation in Agricultural Trade Negotiations

China's WTO Accession

After fifteen years of negotiations, China acceded to the WTO at the end of 2001. During those negotiations, China was continually opening up and reforming its economy. In fact, China's agriculture was highly distorted in the late 1980s and early 1990s. However, the simple average level of agricultural import tariffs fell from 42.2 percent in 1992 to 23.6 percent in 1998. Between 1998 and 2001, the year of accession, the average tariff rate fell another 2 to 3 percentage points.

Driven by its interesting in the global trade liberalisation and its growth through "open economy" policy, China took the other large step to liberalise its economy in its WTO accession. The import market access commitments that China has made to WTO members look substantial on paper (WTO, 2001). China has agreed to no agricultural export subsidies and to limit its domestic support to farmers. Together with a number of other market-access commitments made China's WTO accession unique among all other developing countries that have been admitted to the WTO's new environment.

For example, except for products of national strategic importance, other agricultural products (horticulture, livestock, fisheries, wine, tobacco, soybean barley, and others, which accounted for about five-sixth of China's agricultural GDP) have become part of a tariff-only regime (Table 11). For most commodities in this group, effective protection fell by varying amounts by January 2002; most tariffs fell even further by 2005. To the extent that tariffs had been binding for some of these commodities prior to China's WTO accession, the reductions in tariff rates were expected to stimulate new imports. This would have meant, of course, that the price inside China of these types of commodities would have fallen.

Unlike the commodities under the tariff-only regime, there are other commodities which were categorised as “national strategic products.” Under the accession agreement, tariff rate quotas (TRQ) have been retained on wheat, rice, maize, edible oils, sugar, cotton and wool, domestic production of which in aggregate comprises only about one-sixth of China’s agricultural GDP. These commodities are covered under a special set of institutions. As shown in Table 12, except for sugar (15 percent) and edible oils (9 percent), the in-quota tariff is only 1 percent for rice, wheat, maize and cotton (and wool). Tariff rates for above-quota range from 40 to 65, which are also much lower than those of WTO members from developing countries. The quota volumes have been required to grow over the initial years at annual rates ranging from 5 to 19 per cent. A further commitment by China is that monopolies previously held by state trading enterprises have to be weakened (Table 12). State trading enterprises have to compete with private firms in the importing and exporting of farm products even within the tariff-rate-quotas.

In its commitments to WTO accession, China also agreed to a number of other items, some of which are special to the case of China. First, China must phase out all export subsidies and not to introduce any new subsidies on agricultural products in the future. Moreover, despite clearly being a developing country, China’s de minimis exemption for product-specific support is equivalent to only 8.5 percent of the total value of production of a basic agricultural product (compared with 10 percent for other developing countries). Some measures, such as investment subsidies for all farmers and input subsidies for the poor and other resource-scarce farmers, that are generally available for policy makers to use in developing countries, are not allowed in China (i.e., China must include any such support as part of its aggregate measure of support which should be less than 8.5 percent of agricultural output values).

In summary, it is clear that China’s WTO accession agreement was historic. There were concessions from China in agricultural sectors because of the importance of trade liberalisation in China’s overall economic reform and of overall trade (both agriculture and non-agriculture) in China’s economy. The concessions are the costs which China pays for its WTO membership. As such, there almost certainly should be impacts on the levels of imports and exports of agricultural commodities into and out of China’s domestic market. And, as such, there should have been effects on prices of agricultural commodities and ultimately effects on food supply, demand and trade as well as poverty.

Impacts of China’s WTO Accession

Debates on the impacts of China’s WTO accession have been continued. Some argue that the impact of WTO accession on China’s agriculture is substantial, adversely affecting hundreds of millions of farmers (Carter and Estrin 2001; Li et al., 1999; CATP, 2008). Others believe that, although some impacts will be negative and even severe in specific areas, the overall effect of accession on agriculture are modest (Anderson et al., 2004; Martin, 2002; Huang et al., 2003). In part, the confusion about the ultimate impact of WTO accession on agriculture can be traced to a general lack of understanding of the policy changes that accession engenders (Rose et al., 2004) and China’s competitive of different commodities in the world market (Huang and Rozelle, 2003).

The trends of agricultural export and import do provide a negative evidence of impacts of China’s WTO accession. For example, import has been rising rapidly after 2001, increased from US$ 14.1 billion in 2001 to US$ 40.3 billion (Figure 1). On the other hand, agricultural export also grew faster after China’s WTO accession, but its growth fell below its import growth. Simply based on trade changes before and after 2001, one would argue that China’s agriculture could have been negatively affected by its WTO accession (e.g., CATP, 2008). However, to what extent of the rise has been due to China’s WTO accession and how China’s WTO accession has affected China’s trade and domestic economy are issues that need careful analysis.

Most existing studies based on the general equilibrium models, however, show that overall impacts of China’s WTO accession on agriculture are positive and modest (Anderson et al., 2004; Ianchovichina and Martin, 2004; van Tongeren and Huang, 2004). These studies show that China's WTO accession could raise about 2 percent to 5 percent of value added in agricultural sector. The overall positive impact is due a relative large positive impact of exportable commodities (e.g., vegetable, fruits, aquatic products, and processed foods as discussed in the previous sections) than the negative impacts of importable commodities (e.g., edible oil crops, grain, sugar crops, etc).

An issue was raised on the conflict between positive impacts generated from the general equilibrium models and the rising agricultural trade deficit (Figure 1) after China's WTO accession. There are two possible explanations, one is the gains from the changes in agricultural production composition due to trade liberalisation, and the other is the increasing trade barriers of SPS and other NBTs faced by China after China's WTO accession, the later has never been investigated or considered in any impacts assessments under the general equilibrium models.

The first explanation was provided by a study by Huang and Rozelle (2004). They argue that the net positive impacts are mainly from the changes in agricultural production pattern. Among all gains from trade liberalisation, only about 20-30 of the benefit is due to the rise in prices and the other 70-80 is due to the growth in real output through changes in production patterns – moved from less comparative advantage agricultural products to more comparative advantage ones (Huang and Rozelle, 2004).

However, the concerns on the sanitary and phytosanitary are kept rising in China. Chinese farmers and exporters had anticipated a large, positive impact on export of agricultural products with accession to the WTO, especially for labour-intensive agricultural products such as vegetables, fruits, animal products, and aquatic products. In fact, these products have been hardest hit by the need to meet significant SPS standards, and this has prevented substantial growth in these agricultural exports (Chen and Findlay, 2007). According to an investigation by China's Ministry of Commerce (MOFCOM), about 90% of China's exporters of foodstuffs, native produce, and animal by-products were affected by foreign technical trade barriers and suffered losses totalling US$9 billion in 2002 (*China Daily*, 2003). Higher food safety standards imposed by importing countries have a negative and statistically significant effect on China's exports of agricultural products. Furthermore, the trade effect of the same relative change in food safety standards has been much larger than that of a change in the import tariff after China's WTO accession (Chen et al., 2008).

The existing empirical work has also showed that while the overall impact of China's WTO accession is modest, the impacts differ largely between regions and among households within the same region (Huang et al., 2003 and 2004; Chen and Ravallion, 2004; Hertel et al., 2004; Anderson et al., 2004). These results are not surprising given China's much diversified agriculture both in terms of commodities and regions (see previous section). A recent study by Huang et al. (2007) further demonstrate that while China should continue to push global and its own trade liberalisation, policy makers should be also concerned about the poverty and equity effects for several reasons. First, although on average farmers at the national level will benefit from trade liberalisation, it does not hold for all provinces. Farmers on average in many less developed provinces in the west and north will not gain from trade liberalisation. The main reason is that farmers in the east and south produce more products, in which China has comparative advantage. The net impacts on agricultural production of average farmers in several west and north provinces indeed are negative. Second, while for the nation as a whole the poor could benefit if their products could be exported, not all of the poor in each region will gain from trade liberalisation. They find that the poor in many provinces in the west and north will lose in agricultural production and income. Third, in nearly all provinces where there are gains, the richer will gain more than the poor. The main reason for the advantage of rich farmers in the same province is that the rich farmers produce higher yields for the same commodity and more output (e.g., more horticulture, meats and fish).

Doha Round Negotiations and Likely Impacts

Despite the heavy burden imposed on countries like China by other countries' barriers as mentioned early, the WTO negotiations under the Doha agenda will not reduce agricultural protection to zero. Rather, what is envisaged is reduction in tariff rates using a so-called tiered-formula that makes larger cuts in higher tariffs. The specific approach to be used has been the subject of great disagreement, with a wide range of proposals advanced as the negotiations have continued. One relatively early point of agreement was to use four "tiers". For the industrial countries, some of the key proposals have included those offered for the industrial countries by the USA, the EU and the G-20 around the time of the Hong Kong Ministerial. Building on the G-20 proposal, Falconer (2007) has subsequently suggested a range of possibilities for cuts in each tier.

However, whatever the final agreement might be, from discussions on China's WTO accession and its impacts, it is clear that it is China's interesting in pushing global trade liberalisation, but it is also clear that there are some concerns on China's future trade liberalisation. Because China's WTO accession agreement was historic, as such, there is almost no "water" at all but actual "meat" to cut in trade policies, which has led the leaders in the Ministry of Agriculture feeling that: 1) there is going to have effect on agriculture and poverty; 2) there is little room for policy to play in controlling agricultural trade flow when China would face a large shock from international market, and 3) any "cut" in the Doha Round Negotiation will be a real "cut" in China's remaining tariff and other trade measures. With these backgrounds, it is not difficult to understand why China has been so hesitate to make further commitments in its market access in Doha Round Negotiation, and why China has paid much attention to special products, new member issues and some others. In this sub-section, we further elaborate these points in the context of the likely impacts of China's Doha Round Negotiation.

To have better understanding the implications of the Doha Round negotiation on China's agriculture and poverty, quantitative trade policy simulations were conducted by Huang et al. (2008). This study shows that China's economy will benefit from a potential Doha Round though overall impacts are minor. Because Doha Round is mainly focused in agricultural sector, in percentage changes, the gains in agriculture would still be greater than gains in the rest of economy. They also found that, if there would be no increase in SPS and other NTBs, a more liberalised trade reform proposal will bring more gains to China though the impacts do not differ significantly among three proposals examined (the EU, the G20 and the US proposals).

In analyzing the impacts of a Doha Round on China's agriculture and poverty, Huang et al. (2008) conclude that the positive impacts are more than negative although most of impacts will be small in terms of its share in domestic production. Again, these results are under assumptions that there would be no serious problems associated with SPS and other NTBs in China's export. Although other effects on the rural economy from other subsectors may be equally large or even larger, this study showed that there will be an impact and the net impacts are positive for average farmers in China (Huang et al., 2008). This implies that China may need to take more active roles in pushing Doha Round negotiation, reducing high tariffs imposed on China's products in the rest of world.

The results of this study also show that the impacts of a Doha Round will differ significantly from the impacts of China's WTO accession (Huang et al., 2008). The Doha Round is a multilateral trade liberalisation, while China's WTO accession was unilateral liberalisation. Benefit sector (or commodity) may not be exactly equal to the competitive sector. Whether or not farmers' engaged in an agricultural production are gainers or losers due to the Doha Round will highly depend on the relative changes in China vs the changes of trade policies in China's major trade partners. For example, for rice, vegetable and fruits, which are competitive commodities and their exports will continue to rise even without trade liberalisation under the baseline, because reduction in tariff and other trade related protections in China will be less than the reduction of import tariff and other protection levied on China's commodities under Doha Round, farmers in China will further gain from these crop production. On the other hand, China is competitive in pork and poultry production and their export will also rise overtime under baseline, because tariff reductions on these product imports in China will be more than the projected reduction in the rest of world, Doha Round will have a slight negative impact on these commodities. Similar, although maize, wheat and milk are less competitive commodities in China, Doha Round will result in less import of these commodities because reduction of trade protection on these commodities in the rest of world will be much more than those in China.

These findings should have important implications not only to China's position in Doha negotiation, but also to its domestic grain security and agricultural investment policies. It is type of commodities and relative protection between China and the rest of world matter in the negotiations. Recent domestic concern on grain security and further trade liberalisation is not fully evidenced in the Doha Round. Only a few commodities such as sugar and cotton, these commodities will be negatively affected by the Doha Round.

Huang et al (2008) also demonstrate that although the absolute effects of trade liberalisation will not be very large, policy makers should be concerned about the poverty and equity effects. They show this through several findings. First, according to the analysis, while most of farmers will gains from Doha Round, the degree of gains differ largely among farmers with different incomes and among farmers in different locations (e.g., plane and mountain areas). Second, although on average farmers at national level will benefit from Doha Round, it does not hold for all provinces. Average farmers in some provinces such as Guangxi and Yunan will not gain from Doha Round because of large negative effects on sugar crop from Doha trade liberalisation. While in other provinces, average farmers gain from the benefit agricultural products more than their losses in the non-benefit products. Third, while the nation as a whole the average poor benefit, not all the poor in each region will gains from Doha Round. The poor from some provinces, particular in Guangxi and Yunan, will lose in agricultural production and income. Finally, in nearly all provinces except Qinhai and Tibet, if there are gains, the richer will gain more than the poor. The main reason for different impacts is the large variation of farming structure among provinces and farmers.

5. Political Economy of Agricultural Trade Negotiations

Political economy of agricultural negotiation is much simple in China than any major WTO members. Although our analyses show that the overall impacts of Doha Round are very modest, there are significant implications for poverty and equity. Some will be benefit and other will be hurt. However it is interesting to note that there is nearly no any lobby from either gainers or losers. Under the general guidance from the State Council, the Ministry of Agriculture and the Ministry of Commerce are two principal domestic stakeholders for any agricultural trade negotiation. While the Ministry of Commerce is in charge of overall negotiation, the Ministry of Agriculture solely focuses on agriculture. Under this framework, in principle, the Ministry of Agriculture is supposed to negotiate on behalf of the interests of national agriculture (e.g., overall agricultural development, food security, poverty and equity), both gainers and losers of farmers, consumers, and agribusiness.

The discussions on the trend of China's agricultural trade and likely impacts of the Doha Round on China's Agriculture may help us to understand the position of the Ministry of Agriculture on agricultural trade negotiation. First, in the initial stage of Doha Round negotiation, China was not very active in negotiation. While the Ministry is aware of China's benefiting from trade liberalisation on average, the impacts are very modest. On the other hand, there could be much inequity issues resulted from trade liberalisation. Through much of the Doha negotiations, reaching an agreement might not be substantial gains for China -- growth in trade was happening on its own.

Second, as negotiations went on, China's position in the Doha Round agricultural talk has been mixture. China knows that its duties on imports are generally lower than the duties its exports face overseas, which stimulate China to engage more in the negotiation. However, China has also felt that, for OECD countries, the sensitive products provisions may lead to a situation that most of the tariff cuts they had to undertake would only be cutting water. On the other hand, in China there is no water to cut. And cut will be a real cut. When China acceded to the WTO in 2001, average agricultural tariffs were reduced from 42 percent to 14 percent, and the proposed Doha agreement would force them to undertake further cuts in applied tariffs to less than 10. Moreover, there is growing concern about food security, poverty and equity in the event of an import disruption. The high food prices have made food security a greater priority-so much so that it is the number one policy concern for China in the WTO negotiations. These may help to explain why China has been extremely interesting in Special Products and WTO new member issues. In this aspect, the weight in negotiation to producers (or farmers) seems large than that to consumers.

Third, China is also concerned about SPS and TBT issues. Specifically, after China's WTO accession, tariffs in other countries on China's export have often been replaced by SPS barriers. China is a large exporter and needs to know that markets for its agricultural products will remain open. The country's agricultural imports are growing at a much faster rate than its exports. In this regard, China is interesting in close the Doha Round negotiation so that the SPS and TBT issues could be brought to negotiation in the early stage.

Given importance of trade in China's economy in general and slow process of Doha Round negotiation, China has actively participated in regional trading arrangement. By the end of 2008, China had reached free trade agreements with Hongkong and Macao of China, the Association of Southeast Asia Nations (ASEAN), Chile, Pakistan, Singapore and New Zealand. Negotiations with Australia, the Gulf Cooperation Council, and southern countries of Africa are in progress, and other four free trade areas with India, Korea, Norway and Costarica are also carried out at the feasibility study stage.

However, even in the negotiation of FTA, China still shows great concerns and manages to maintain the protective method to its sensitive commodities. In the FTA between China and ASEAN, China still keeps 58 agricultural commodities in the HS 8-digital level, accounting for 0.8% of total tariff lines, exempted from tariff reduction. All the agricultural commodities under TRQ managements are included in the exempted list. As to the new signed FTA between China and News Zealand, the regulation is even stricter. All agricultural commodities under TRQ, except the wool, are exempted from any type of tariff reduction. The so-called "zero-tariff" quota and "specific country" quota are adopted on the import of wool from New Zealand. The initial quantities of these two quotas are 25 and 0.45 thousand ton respectively, and will increase by 5% in 10 years. Meanwhile, a gradual reducing procedure is generally used in the tariff reduction. For example, the import tariff of diary products will be reduced to zero in 10 years; for others, the import tariff will decrease to zero in 5 years. Therefore, it clearly indicates that the trade agreements on agricultural commodities among the top priorities of China, no matter in multilateral trade negotiation and FTA negotiation. It is also one of the main reasons that the China-Australia FTA are still under negotiations after 5 years, much longer than the expected two years, because of the disagreements on agricultural trade.

6. Alternative Frameworks for Trade Negotiations

Chinese government currently pay much more attention to the agreements on Recently-acceded members (RAMs), SPS and special products, besides the "3 pillar" context of WTO agreement on agriculture. As it has made great concession on tariff-reduction during its WTO accession, China's government wants other WTO member to consider the special situation of RAMs, which means that the extent of tariff cut should be relatively smaller than other members. Meanwhile, the rising conflicts of SPS and TBT issues of China's agricultural export have attracted many attentions domestically. During the interviews with the MOA's officials, while we argued that the solutions for SPS and TBT problems might much better suited to bilateral or plurilateral agreements, they think that this will not be the case and strong believe it is best o be solved under the WTO multilateral trade framework. One of the reasons is that the most of countries (e.g., EU, USA, Japan and Korea) with SPS and TBT issues on China's exports are not interested in having FTA with China. Only country which China has been negotiating with in FTA and has big SPS issues is Australia. But reaching China-Australia FTA has been facing great challenges largely also due to SPS issues. China also resorts to the treatments of special products to further reduce the pressures of the possible negative shock to domestic agricultural production (CATP, 2008).

China's government also make clear objectives for Doha negotiations in agricultural liberalisation (CATP, 2008). The CAPT (2008) summarised the targets in two parts. First of all, China's government should contribute to set up a fair, transparent and market-orientated world trade system, and create more exporting opportunity for China's agricultural commodities with comparative advantages. As to this aspect, it is required the developed countries to substantially reduce the domestic support, improve the market accession and completely eliminate the exporting subsidies. Second, it should lower the negative shocks to domestic agricultural production as possible. Therefore, the treatments of special products, the special treatment for developing countries and RAMs are important for China's government to achieve these targets of creating more space for improving the national food-security, the sustainability of poor farmers and rural development.

There are great challenges to realise the objectives in Doha trade negotiations. It is the first time for China to join the multilateral trade negotiation as a WTO member and struggle for its rights. Therefore, China's government has made great efforts to prepare and involve in this round trade negotiations. However, according to our interviews with several agricultural trade negotiators, their opinions strongly show that China's special agricultural situation has not been considered enough. Their consensus answers, at least, show that there is big gap between the expectations of China's government to achieve and real situations of trade negotiation.

Because the complexity of framework and modality of agricultural trade negotiation is unavoidable as considering the complicated contents of agricultural trade, this study has made effort to investigate whether it is necessary to make innovative reform on the current framework of "single undertaking". According to our trade experts' survey, first of all, as to the question whether the "single undertaking" as it applies to agriculture seen as part of the problem, our survey results show that it is very difficult to reach an agreements under the framework of "single undertaking". As to the question whether the framework and modalities for agricultural trade negotiations in WTO should be made less complex, the majority of interviewees support the proposition that the complex modality is unavoidable as the complicated contents of agricultural trade. As shown in row 6 (F) of Table 13[87], among 26 persons interviewed, there are 6 respondents completely agreeing with the proposition[88], 8 respondents answered with relative accepting, 6 neutral, 4 relative opposing, and 2 completely opposing. If the respondents with answers of completely and relative accepting are grouped as support, and the respondents with answers of the relative and completely disagreement are put together as opposition, the result indicates that 54% of respondents agree with the proposition, but only 23% of respondents oppose it (Table 13).

However, there are remarkable disagreements on proposed framework of "plurilateral negotiation" between the results of interview and the answers to questionnaires. According to the question[89] J in Table 13, if we still adopt the same classification, it shows that about 69% respondents agree with the proposition that "Critical mass" agreements among countries accounting for a high proportion of trade in a product or sector are a practical possibility for the future liberalisation of agricultural markets. Only 5% respondents disagree. Such a result from trade experts' survey indicates that the framework of "plurilateral negotiation" is potential method to improve the current "single undertaking". On the contrary, the views expressed by trade officers and negotiators are very different. They think that the trade experts whom we interviewed are not clear on the actual negotiation situation and actual individual commodity destinations of China's import and export. In China, for each individual commodity, its trade is one way between two countries as showed in Appendix Table 1. Therefore, the trade officials have doubted on the new framework of "plurilateral negotiation".

[87] The questions is "A complex modalities agreement such as the 100+ pages on the table in July, and the difficult implementation task it implies, is unavoidable to achieve agricultural trade reforms".
[88] For each proposition, 1 means that the proposition is most likely correct, 5 indicates very unlikely. 2 to 4 moderates the reaction by degree. If "NO" indicates no opinion on the proposition.
[89] Question J is: 'Critical mass' agreements among countries accounting for a high proportion of trade in a product or sector—similar to the International Technology Agreement—are a practical possibility for the future liberalization of agricultural markets

At least, from the point of view of China, it is still confront big challenges to get a consensus agreement even with major trade partners under the framework of “plurilateral negotiation”. Comparing to the “single undertaking”, the advantage of “plurilateral negotiation” makes the negotiating member smaller. However, whether it is easier to get a consensus agreement under smaller group heavily depends on the gap among the interests of these members. Taking China and its top 10 trade partners (i.e., USA, Japan, EU25, Brazil, Korea, Australia, Argentina, Russia, India and Canada) for example, even in such a small group, the interests among individuals vary remarkably. As the much weak competitive position of agriculture, Japan, Korea and EU will still maintain their protective status, and there is no optimistic reason to expect them more easily to adopt free trade proposal on agricultural commodities under “plurilateral negotiation”. However, as to countries of USA, Brazil, Argentina and Australia, they are on the opposite and tend to support more aggressive proposals on trade liberalisation. Such a situation is quite similar to that confronted by the current Doha negotiations. Under the big gap of trade interests, small members don’t make any difference.

With considering the characteristics of China’s agricultural trade, China would still adopt the same trade strategy even under the framework of “plurilateral negotiation”. China import large quantity of land-intensive agricultural commodities from USA, Brazil, Argentina and Australia. Meanwhile, China also exports many labour-intensive agricultural commodities to USA, Japan, EU25 and Korea. Therefore, it is quite natural for China struggle for providing more protection on import and creating more opportunities for export. As to China, there is no significant change of its trade situation with trade all WTO members or just its top 10 trade partners. Therefore, from the point of view of China, the officials claim that there is no optimistic expectation that it is more easily for China to adopt any trade agreements under the framework of “plurilateral negotiation”.

The officials also believe that some trade issues of China’s concerns could be only or better solved with participants of all WTO members. For example, the SPS and TBT issues have been becoming worldwide and badly hurt the agricultural trade of the developing countries. Furthermore, many SPS standards are not transparent and science-based. Therefore, it needs all the WTO members to be involved to find an effective way to increase the mutual understanding and recognition. Only under the participation and cooperation of all WTO members, it is possible to set up the global standard, to avoid the abuse of SPS and TBT as trade barriers, to enhance the capacity of developing countries to improve their food standards, and enjoy more opportunities of global market to realise the Millennium development goals.

6. Concluding Remarks

Agricultural trade liberalisation has plays important role in China’s agricultural structural adjustment, rural development and poverty alleviation. After nearly 30 years of economic reform, China’s agriculture has grown very rapidly and has been gradually liberalised and become one of the most liberalised economies in the world. The growth in agricultural output has contributed strongly to rural poverty reduction. China’s experience also demonstrates the importance of trade liberalisation in agricultural development and in facilitating its agricultural structure’s change toward more competitive sectors. As the close linkage to the trade liberalisation and agricultural development, the Doha trade liberalisation is expected to have overall positive impacts on China’s agriculture though there are also other concerns on national food security, poverty, regional development and equity impacts.

China may take more active roles in the Doha Round negotiation and is interested in several outstanding issues. China’s import tariff has been cut into quite low level during its WTO accession. However, China’s export still confronts with high import tariffs levied by other countries. Under the “3 pillars”, the completion of Doha negotiation is expect to provides great potentials to increase the export of China’s agricultural commodities. However, as the concerns on the national food security and rural poverty, China shows great interests in the special treatments of RAMs and special products. Moreover, China is increasing concern on the strict SPS standards in many developed countries and rapid rising refusals of China’s exporting agricultural commodities.

Given nature of China’s agricultural import and export structure in terms of both commodities and major trader partners, China’s position on alternative frameworks for trade negotiation is mixture. While many trade exports consider that critical mass agreement might work for agriculture, the trade officials have different argument. China’s agricultural exportable and importable commodities are much diversified. Trade of most agricultural commodities is often one-side flow. The officials believe that China’s major concerns are more difficult to be solved under alternative negotiation frameworks than the WTO multilateral framework. However, further consideration the improvements and innovations on current framework are necessary. Otherwise, reaching a consensus agreement under the current framework of “single undertaking” is challenging

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Figures and Tables

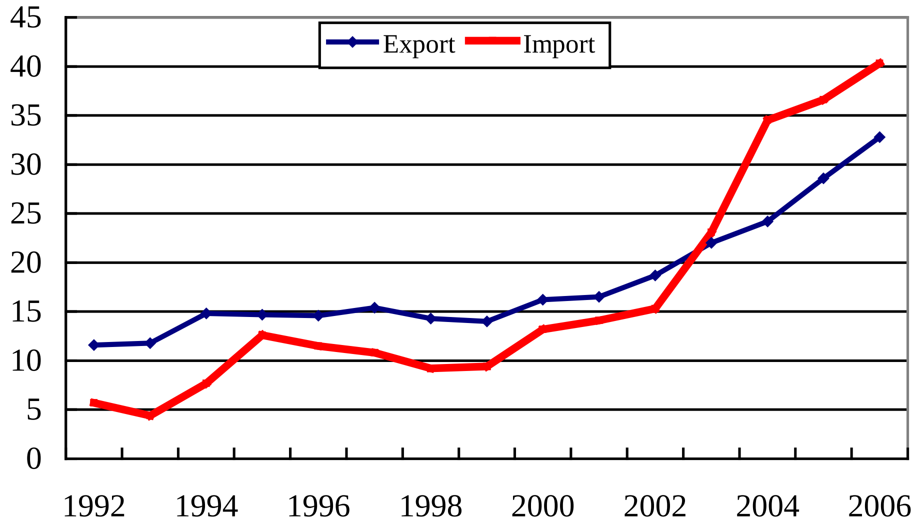

Figure 1 – Appendix 3. China's Agricultural export and import (billion US$) in 1992-2006.

Source: NSBC.

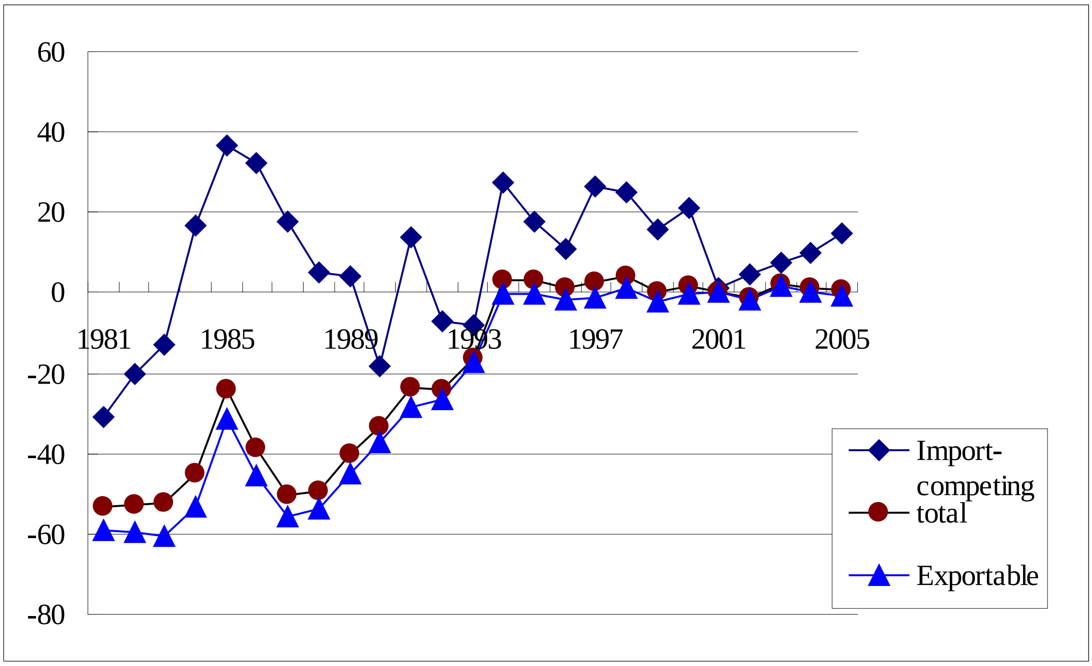

Figure 2 – Appendix 3. Rates of Assistance (including subsidy/taxes on inputs) for farmers that Produce Importable Commodities, Exportable Commodities and for All of Agriculture (11 commodities) in China, 1981-2005

Source: Huang, Liu, Martin and Rozelle (2007) using methodology from Anderson et al. (2006). Note: Negative DRAs mean that agriculture is being disprotected or taxed; positive DRAs mean agriculture is being protected.

Table 1 – Appendix 3. The annual growth rates (%) of China's economy, 1970-2005.

	Pre-reform	Reform period			
	1970-78	1979-84	1985-95	1996-00	2001-05
Gross domestic product	4.9	8.8	9.7	8.2	9.6
Agriculture	2.7	7.1	4.0	3.4	3.9
Industry	6.8	8.2	12.8	9.6	10.7
Service	Na	11.6	9.7	8.3	10.2
Population	1.80	1.40	1.37	0.91	0.63
Per capita GDP	3.1	7.4	8.3	7.2	9.0
Grain production	2.8	4.7	1.7	-0.7	1.1
Rice:					
Production	2.5	4.5	0.6	0.4	-0.8
Area	0.7	-0.6	-0.6	-0.5	-0.8
Yield	1.8	5.1	1.2	0.8	0.0
Wheat:					
Production	7.0	8.3	1.9	-0.6	-0.4
Area	1.7	-0.0	0.1	-1.6	-3.1
Yield	5.2	8.3	1.8	1.0	2.7
Maize:					
Production	7.4	3.7	4.7	-1.3	5.6
Area	3.1	-1.6	1.7	0.8	2.7
Yield	4.2	5.4	2.9	-0.9	2.9
Other production					
Cotton	-0.4	19.3	-0.3	-1.9	5.3
Soybean	-2.3	5.2	2.8	2.6	1.4
Oil crops	2.1	14.9	4.4	5.6	0.8
Fruits	6.6	7.2	12.7	10.2	21.0
Meats (pork/beef/poultry)	4.4	9.1	8.8	6.5	4.9
Fishery	5.0	7.9	13.7	10.2	3.6
Planted area:					
Vegetables	2.4	5.4	6.8	9.8	3.1
Orchards (fruits)	8.1	4.5	10.4	2.0	2.4

Note: Figure for GDP (in real term) in 1970-78 is the growth rate of national income in real term. Growth rates are computed using regression method. Growth rates of individual and groups of commodities are based on production data.
Sources: NSBC, 1985-2006 and MOA, 1985-2006.

Table 2 – Appendix 3. Changes in structure (%) of China's agricultural economy, 1970-2005.

	1970	1980	1985	1990	1995	2000	2005
Share in agricultural output							
Crop	82	80	76	65	58	56	51
Livestock	14	18	22	26	30	30	35
Fishery	2	2	3	5	8	11	10
Forestry	2	4	5	4	3	4	4

Source: NBSC, Chinas' Statistical Yearbook, various issues and China Rural Statistical Yearbook, various issues.

Table 3 – Appendix 3. The shares (%) of sown areas by crop and province in China in 2006.

	Rice	Wheat	Corn	Soybean	Tuber	Oilseed	Cotton	Sugar	Vegetable	Orchard	Others	Total
Beijing	0.2	16.7	36.0	3.5	1.1	1.9	0.6	0.0	21.6	18.5	0.0	100
Tianjin	3.2	20.3	27.0	4.2	0.2	0.9	14.8	0.0	22.7	6.8	0.0	100
Hebei	1.0	26.3	28.9	3.3	3.3	5.8	6.8	0.2	12.2	11.9	0.3	100
Shanxi	0.1	20.9	34.8	10.2	9.7	6.4	3.1	0.1	6.9	7.7	0.2	100
Mongolia	1.8	8.0	36.2	21.3	11.7	12.9	0.0	1.0	4.9	1.0	1.2	100
Liaoning	16.6	0.4	50.3	6.9	3.4	4.2	0.0	0.0	9.5	8.3	0.3	100
Jilin	13.8	0.2	58.2	12.3	3.1	6.0	0.0	0.1	4.5	1.3	0.6	100
Heilongjiang	19.4	2.5	24.8	38.7	3.3	4.3	0.0	1.1	3.3	0.4	2.0	100
Shanghai	32.1	9.1	1.1	2.8	0.3	6.9	0.3	0.4	39.5	7.0	0.4	100
Jiangsu	30.5	23.7	5.2	4.6	1.2	11.1	4.8	0.0	15.8	2.6	0.4	100
Zhejiang	35.5	2.4	2.3	7.3	3.8	8.1	0.6	0.5	23.1	10.4	6.0	100
Anhui	24.4	23.8	7.8	11.9	3.8	13.0	4.4	0.1	7.9	1.2	1.7	100
Fujian	30.8	0.2	1.3	3.8	11.0	4.1	0.0	0.5	21.6	18.4	8.3	100
Jiangxi	62.9	0.2	0.3	3.1	2.3	11.4	1.3	0.3	10.8	5.9	1.5	100
Shandong	1.1	30.4	25.0	2.1	2.6	7.9	8.4	0.0	15.8	6.3	0.4	100
Henan	4.3	36.1	18.6	4.2	3.0	11.2	5.8	0.0	12.5	3.0	1.4	100
Hubei	28.6	10.9	6.0	3.8	5.6	18.5	5.5	0.1	13.9	3.9	3.3	100
Hunan	49.5	0.8	3.5	3.6	5.0	12.0	2.2	0.3	13.7	5.9	3.4	100
Guangdong	37.2	0.1	2.4	1.9	6.9	5.6	0.0	2.9	20.9	17.9	4.2	100
Guangxi	31.0	0.2	7.0	3.6	3.3	4.2	0.0	11.4	15.3	11.8	12.3	100
Hainan	32.5	0.0	1.5	1.1	10.2	4.4	0.0	6.8	19.3	17.3	6.9	100
Chongqing	21.9	7.7	13.3	6.9	22.0	7.6	0.0	0.1	12.3	5.6	2.6	100
Sichuan	21.9	13.4	12.6	5.0	14.6	11.3	0.3	0.3	12.4	5.0	3.3	100
Guizhou	15.9	9.0	16.4	7.2	18.7	12.5	0.0	0.4	11.0	2.6	6.1	100
Yunnan	17.0	8.4	19.2	7.6	11.8	3.7	0.0	4.7	8.5	3.9	15.3	100
Tibet	1.0	41.9	3.4	8.1	0.6	24.4	0.0	0.0	19.2	1.2	0.1	100
Shaanxi	3.0	24.8	23.1	7.9	6.8	5.5	1.7	0.0	7.4	17.7	2.0	100
Gansu	0.2	29.1	14.4	6.6	16.6	9.5	2.2	0.1	9.3	10.9	0.9	100
Qinghai	0.0	23.6	0.2	11.0	19.2	38.2	0.0	0.0	6.6	1.0	0.1	100
Ningxia	8.8	24.6	18.8	5.9	20.2	8.9	0.0	0.0	6.6	6.0	0.1	100
Xinjiang	1.7	19.4	13.9	2.6	0.6	4.0	33.8	2.5	5.0	13.4	3.1	100

Source: National Bureau of Statistics of China, China's Statistical Yearbook, various years.

Table 4 – Appendix 3. The shares (%) of animal production across provinces in China in 2006

	Pork	Beef	Mutton	Poultry	egg	Milk	Fish
Beijing	0.6	0.5	0.6	2.1	0.5	1.9	0.1
Tianjin	0.7	0.8	0.6	0.9	0.8	2.1	0.7
Hebei	6.8	12.0	7.5	6.8	15.8	12.6	2.1
Shanxi	1.0	1.0	1.6	0.3	1.8	2.5	0.1
Mongolia	1.8	5.1	17.2	1.9	1.7	26.6	0.2
Liaoning	3.8	5.9	1.6	7.1	8.1	2.9	8.4
Jilin	2.2	7.1	0.9	6.5	3.4	1.1	0.2
Heilongjiang	2.0	4.3	2.5	2.1	3.7	14.1	0.9
Shanghai	0.3	0.0	0.1	0.4	0.2	0.7	0.7
Jiangsu	4.2	0.7	3.8	7.3	6.3	1.8	7.7
Zhejiang	2.5	0.2	0.8	2.1	1.4	0.8	9.2
Anhui	4.4	4.6	3.7	5.4	4.2	0.4	3.5
Fujian	2.6	0.4	0.5	1.7	1.5	0.5	11.4
Jiangxi	3.6	1.4	0.4	3.3	1.5	0.4	3.4
Shandong	7.3	10.8	7.8	16.5	14.6	7.2	14.2
Henan	9.0	14.6	10.9	5.9	13.6	4.7	1.2
Hubei	4.9	2.1	1.4	3.4	4.2	0.4	6.3
Hunan	8.7	2.5	2.8	4.4	3.2	0.2	3.5
Guangdong	5.0	1.0	0.2	8.1	1.2	0.4	13.8
Guangxi	3.8	2.5	0.9	2.1	0.6	0.2	5.6
Hainan	0.8	0.4	0.3	1.1	0.1	0.0	3.2
Chongqing	2.7	0.8	0.9	1.5	1.3	0.3	0.4
Sichuan	10.4	3.9	4.5	4.8	5.8	1.9	2.1
Guizhou	2.7	1.8	1.3	0.8	0.4	0.1	0.2
Yunnan	5.0	3.2	2.4	1.4	0.7	1.2	0.6
Tibet	0.0	1.8	1.7	0.0	0.0	0.8	0.0
Shaanxi	1.3	1.7	2.2	0.7	1.7	4.8	0.2
Gansu	1.0	1.9	3.1	0.3	0.5	1.1	0.0
Qinghai	0.2	1.0	2.0	0.0	0.0	0.8	0.0
Ningxia	0.2	0.8	1.5	0.2	0.2	2.0	0.1
Xinjiang	0.6	5.1	14.3	1.0	0.9	5.7	0.2
Total	100	100	100	100	100	100	100

Source: China statistical yearbook and China animal statistical year book

Table 5 – Appendix 3. China's food, feed, fiber and non-agriculture trade in 1985-2005 (million US$).

	SITC	1985	1990	1995	2000	2005
Exports						
Food and feed		3183	7515	10900	12804	23420
Live animals and meat	00-01	429	1221	1822	1619	2234
Dairy products	02	34	79	75	104	180
Fish	03	154	1370	2875	3661	7527
Grains	04	917	614	281	1812	1836
Fruit and vegetable	05	433	1760	3401	3362	7431
Sugar	06	65	318	321	257	502
Coffee and tea	07	312	534	512	545	1061
Animal feeds	08	225	758	351	303	497
Other foods	09	62	82	286	608	1182
Oilseeds and vegetable oils	22, 04	552	780	975	533	971
Fiber	26	892	1096	753	1085	1186
Non-agriculture		21557	53481	137126	235314	737347
Imports						
Food and feed		1437	4460	8825	8648	20747
Live animals and meat	00-01	24	68	115	667	691
Dairy products	02	29	81	63	217	461
Fish	03	41	102	609	1217	2904
Grains	04	829	2353	3631	662	1640
Fruit and vegetable	05	16	83	185	516	1349
Sugar	06	262	389	935	177	451
Coffee and tea	07	18	30	73	94	222
Animal feeds	08	79	305	423	909	1307
Other foods	09	21	46	88	283	354
Oilseeds and vegetable oils	22, 04	118	1003	2702	3906	11368
Fiber	26	1023	1975	4108	2846	6854
Non-agriculture		37335	46911	119150	213599	632352
Net export						
Food and feed		1746	3055	2075	4156	2673
Live animals and meat	00-01	405	1153	1707	952	1543
Dairy products	02	5	-2	12	-113	-281
Fish	03	113	1268	2266	2444	4623
Grains	04	88	-1739	-3350	1150	196
Fruit and vegetable	05	417	1677	3216	2846	6082
Sugar	06	-197	-71	-614	80	51
Coffee and tea	07	294	504	439	451	839
Animal feeds	08	146	453	-72	-606	-810
Other foods	09	41	36	198	325	828
Oilseeds and vegetable oils	22, 04	434	-223	-1727	-3373	-10397
Fiber	26	-131	-879	-3355	-1761	-5668
Non-agriculture		-15778	6570	17976	21714	104996

Source: UNCOMTRADE.

Table 6 – Appendix 3. Comparisons between China's import tariff and external tariffs in 2006 (%)

	China's import Tariff	World average tariff	Import tariff levied on China's commodities
Rice	1	8.7	131.09
Wheat	1	4.3	3.89
Coarse grain	2.94	8.2	190.85
Vegetable & fruit	6.54	3.0	22.55
Oilseeds	2.88	3.4	50.28
Sugar	12.74	9.3	36.21
Plant fiber	1(5)	0.8	6.44
Other crop	3.34	2.3	8.31
Cattle &mutton	9.65	3.6	4.25
Pork & poultry	7.72	3.7	9.35
Milk	8.66	3.3	3.23
Fish	7.48	1.0	6.11
Processed food	8.77	3.1	10.03
Natural resources	0.27	0.7	1.98
Textile & apparel	8.96	3.4	11.23
Resources industries	5.88	1.6	3.33
Metal & machinery	5.41	1.5	2.82
Transport equipments	8.09	1.6	3.63
Electronic products	2.31	0.8	1.14
Manufactures	14.46	1.8	2.68

Source: estimation based on China's WTO commitment, GTAP tariff database, China and ASEAN free trade agreement, EU enlargement etc.

Table 7 – Appendix 3. Agricultural products ranked from largest trade value downward and taken together accounted for 75% and 90% of the China's agricultural imports, 2006.

HS code (4-digit)	Products	Trade value (million US)	Individual share	Accumulated share
1201	Soybeans	7489	23.2	23.2
5201	Cotton, not carded or combed	4867	15.1	38.3
0303	Fish, frozen (excl. those of 03.04)	2414	7.5	45.8
1511	Palm oil and its fractions	2274	7.0	52.8
5101	Wool, not carded or combed	1260	3.9	56.7
4101	Raw hides and skins of bovine	1204	3.7	60.5
2301	Flours, etc, of meat, fish	969	3.0	63.5
1507	Soya-bean oil and its fractions	800	2.5	65.9
0714	Roots and tubers with high starch	621	1.9	67.9
1701	Cane or beet sugar	549	1.7	69.6
0207	Meat and edible offal of poultry	462	1.4	71.0
2401	Unmanufactured tobacco	409	1.3	72.3
1003	Barley	406	1.3	73.5
2208	Undenatured ethyl alcohol	380	1.2	74.7
0307	Molluscs and aquatic invertebrates	336	1.0	75.7
Next 15% [a]		4633	14.4	90.1

Source: calculated by authors based on UNCOMTRADE data.
Note: [a] the commodities in the groups include 24 HS 4-digital commodities, which are HS0306, HS0402, HS1006, HS1901, HS1513, HS1519, HS5301, HS1207, HS1108, HS1205, HS2106, HS0404, HS4102, HS0810, HS4301, HS1516, HS2304, HS0206, HS1502, HS2204, HS2309, HS0803, HS3505, HS1001.

Table 8 – Appendix 3, The sources of China's imports by commodities (ranked by import value) in 2006.

HS code (4-digit)	Import resources (%)	Aggregated share of countries in column3 (%)
1201	Brazil (40.3), United States (36.3), Argentina (21.6)	98
5201	United States (47.0), India (15.7), Uzbekistan (10.2), Australia (6.5)	79
0303	Russia (47.4), United States (14.0), Japan (8.5), EU25 (7.7)	77
1511	Malaysia (67.3), Indonesia (31.3)	99
5101	Australia (79.1), New Zealand (8.9), Uruguay (3.1)	91
4101	United States (65.8), Australia (11.3), EU25(10.8), Canada (6.7)	95
2301	Peru (56.2), Chile (17.6), United States (9.4)	83
1507	Argentina (81.3), Brazil (16.9)	98
0714	Thailand (77.4), Vietnam (19.4), Indonesia (3.2)	100
1701	Cuba (35.6), Brazil (23.2), Thailand (13.5), Korea, rep. (11.1)	84
0207	United States (66.9), Brazil (25.8), Argentina (5.4)	98
2401	Brazil (56.6), Zimbabwe (23.3), United States (13.6)	98
1003	Australia (76.6), Canada (22.7)	99
2208	EU25 (93.7)	94
0307	Peru (16.2), United States (14.5), Korea, Dem. (11.4), Korea, Rep. (9.5), Argentina (6.9), Russia (6.3), New Zealand (3.9), Canada (3.6), Taiwan, China (3.4)	76
Next 15%	EU25 (19.1), Thailand (12.0), Indonesia (8.9), New Zealand (8.5), Australia (8.3), Canada (8.1), Malaysia (3.7)	76

Source: calculated by authors based on UNCOMTRADE data.

Table 9 – Appendix 3. Agricultural products ranked from largest trade value downward and taken together accounted for 75% and 90% of the China's agricultural exports in 2006.

HS code (4-digit)	Product Name	Trade value (million US)	Individual share	Accumulated share
1605	Crustaceans and other aquatic	2401	7.74	8
0304	Fish fillets and other fish meat	2286	7.37	15
1604	Prepared or preserved fish; caviar	1815	5.85	21
1602	Other prepared or preserved meat	1172	3.78	25
2008	Fruit, nuts and other parts of plan	1128	3.63	28
0703	Onions, shallots, garlic and leeks	996	3.21	32
0712	Dried vegetables, whole, cut, slice	846	2.73	34
2005	Other vegetables preserved	776	2.50	37
0303	Fish, frozen (excl. those of 0304)	679	2.19	39
2009	Fruit juices	671	2.16	41
0307	Molluscs & aquatic invertebrates	651	2.10	43
0710	Vegetables, frozen	564	1.82	45
0504	Guts, bladders and stomachs of animal	548	1.76	47
0902	Tea, whether or not flavoured	547	1.76	49
0808	Apples, pears and quinces, fresh	520	1.68	50
1902	Pasta, such as spaghetti, macaroni	492	1.59	52
2106	Food preparations	459	1.48	53
2207	Ethyl alcohol, undenatured of >=80	454	1.46	55
2003	Mushrooms and truffles	423	1.36	56
1005	Maize (corn)	412	1.33	58
1006	Rice	409	1.32	59
0713	Dried leguminous vegetables	406	1.31	60
0203	Meat of swine, fresh or chilled	401	1.29	61
0306	Crustaceans,fresh,chilled or frozen	398	1.28	63
2002	Tomatoes prepared or preserved	366	1.18	64
0301	Live fish	363	1.17	65
1212	Seaweeds, algae, sugar beet and can	341	1.10	66
1211	Plants and parts of plants	326	1.05	67
0505	Skins and other parts of birds	311	1.00	68
2103	Sauces and sauce preparations	289	0.93	69
2401	Unmanufactured tobacco; tobacco ref	288	0.93	70
2309	Preparations of a kind used in animal	282	0.91	71
1704	Sugar confectionery	267	0.86	72
2201	Waters, (incl. mineral waters)	258	0.83	73
0802	Other nuts, fresh or dried	245	0.79	73
2402	Cigars, cigarillos, cigarettes, etc	244	0.79	74
1202	Ground-nuts, not roasted	244	0.79	75
Next 15% [a]		4,518	15	90

Note: [a] the commodities in the groups include 29 HS 4-digital commodities, which are HS0709, HS1905, HS0103, HS0305, HS5002, HS0910, HS2004, HS3504, HS0711, HS0706, HS0207, HS0904, HS0805, HS1001, HS1302, HS1201, HS2006, HS0302, HS0811, HS2208, HS1702, HS1515, HS2202, HS3301, HS0409, HS2304, HS1101, HS1904, HS1601.

Table 10 – Appendix 3. The destinations of China’s exports by commodities in 2006 (ranked by value).

HS code (4-digit)	Major export destinations	Total share of countries in column 2
1605	Japan (31.9), USA (22.9), EU25 (12.7), Korea Rep. (7.0), Mexico (4.6)	79.1
0304	EU25 (38.8), USA (28.2), Japan (19.5)	86.5
1604	Japan (56.2), USA (17.0), EU25 (4.8)	78.0
1602	Japan (78.6), USA (7.9), Korea Rep. (5.1)	91.5
2008	Japan (28.8), USA (18.1), EU25 (16.2), Korea, Rep (6.5), Malaysia (2.5), Canada (2.3), Russia (2.3)	76.7
0703	Indonesia (19.1), Japan (15.4), Malaysia (7.6), USA (7.1), EU25 (6.5), Brazil (4.3), Philippines (4.3), Korea, Rep.(4.2), Pakistan (3.5), Russia (3.1)	75.2
0712	Japan (28.0), USA (18.1), Korea Rep. (17.8), Hong Kong (9.6), Korea, Rep.(5.9)	79.6
2005	Japan (48.5), EU25 (24.9), Korea Rep. (5.1), USA (5.2)	90.1
0303	Korea Rep. (47.6), Japan (17.0), USA (7.2), EU25 (6.1)	78.0
2009	USA (32.5), EU25 (23.9), Russia (12.2), Japan (11.7), Canada(4.2)	84.5
0307	Japan (31.9), Korea Rep. (26.6), USA (17.1), EU25 (6.1), Australia (3.9)	85.7
0710	Japan (43.7), EU25(18.9), Korea Rep. (14.2), USA (12.6)	89.4
0504	EU25 (61.1), USA(14.5), Japan(13.0)	88.6
0902	Morocco (20.1), Japan (12.0), EU25(8.2), Hong Kong (8.0), USA (6.4), Russia(4.9), Ghana(4.8), Algeria(4.2), Mauritania (3.9), Senegal (3.1)	75.7
0808	Indonesia(14.1), Russia(13.3), Thailand(9.5), Malaysia(8.4), Philippines(8.1), EU25(7.3), Vietnam(5.6), Singapore(4.5), Kyrgyz Rep.(4.4)	75.4
1902	Japan(35.6), Hong Kong(14.9), EU25(11.3), USA(10.1), Korea Rep. (8.5)	80.5
2106	Japan(25.6), USA(15.6), Hong Kong(14.3), EU25(4.7), Singapore(4.6), Indonesia(3.8), Korea Rep. (3.6), Russia(3.4)	75.6
2207	Korea Rep. (18.2), USA(17.7), Salvador(13.1), Japan(11.1), Jamaica(6.2), Singapore(5.6), Inida(4.3)	76.5
2003	EU25(18.4), Russia(13.4), Japan(13.3), USA(10.1), Hong Kong(7.0), Malaysia(6.4), Thailand(5.7), Canada(3.5)	77.7
1005	Korea Rep.(63.3), Japan(14.8), Malaysia(12.1)	90.2
1006	Japan(13.8), Korea Rep.(13.0), Russia(12.7), Cote d’Ivoire (12.7), Liberia(8.8), USA(8.6), Papua New Guinea (3.3 Nigeria(3.1)	75.9
0713	EU25(17.2), Japan(14.7), Cuba(8.9), Inida(8.5), Venezuela(6.4), South Africa(5.8), Pakistan(4.0), USA(3.7), Korea Rep.(3.4), Vietnam(2.7)	75.4
0203	Hong Kong (39.5), Korea Dem.(27), Vietnam(9.1)	75.6
0306	Korea Rep.(30.0), Japan(29.8), USA(13.8), Hong Kong(10.1)	83.8
2002	EU25(17.2), Russia(11.6), Ghana(7.6), Japan(7.3), United Arab Emirates(5.6), Algeria(3.0), Yemen(2.9), USA(2.1), Korea, Rep.(2.0), Benin(2.0), Togo(2.0), Angola(1.9), Ukraine(1.9), Kazakhstan(1.9), Nigeria(1.6)	75.1
0301	Japan(44.9), Korea Rep.(34.4), Hong Kong (17.7)	97
1212	Japan(24.2), EU25(21.5), Taiwan (9.2), USA(7.7), United Arab Emirates(7.2), Syrian Arab Rep. (4.4)	75.0
1211	Hong Kong (29.9), Japan(22.1), Korea Rep.(15.6), Vietnam(7.1), EU25(6.3)	80.9
0505	USA(37.7), Japan(22.8), Taiwan (12.0), Korea Rep. (11.9), EU25(10.0)	94.5
2103	Hong Kong (24.2), Korea Rep.(20.4), Japan(12.7), Myanmar(8.8), USA(7.6), EU25(6.5)	80.4
2401	EU25(33.7), Indonesia(15.1), Philippines(10.7), Hong Kong(10.6), Egypt(6.1)	76.2
2309	USA(32.2), Japan(28.2), Korea(5.8), EU(5.2), Vietnam(3.9)	75.3
1704	USA(24.3), EU25(13.6), Hong Kong(9.6), Indonesia(5.2), United Arab Emirates(5.1), Canada(4.7), Australia(4.5), Malaysia(3.2), Philippines(3.0), Ghana(2.7)	75.8
2201	Hong Kong(95.2), Macao(4.5)	99.7
0802	EU25(31.6), Japan(20.0), Taiwan(4.8), Korea Rep.(4.0)	77.5
2402	Hong Kong(31.3), United Arab Emirates(8.0), Malaysia(6.1), Japan(5.6), Australia(5.2), EU25(5.2), Singapore(4.8), Canada(4.0), Panama(3.6), Philippines(3.6)	75.5
1202	EU25(24.9), Japan(12.5), Russian(8.8), Algeria(6.6), Philippines(6.1), United Arab Emirates(5.4), Mexico(4.8), Ukraine(3.8), Canada(2.6), Vietnam(2.5)	78.1
Rest 15%	Japan(27.3), Hong Kong(16.4), Korea, Rep.(9.4), EU25(9.4), USA(6.2), Malaysia(3.9), Philippines(2.8), Russian(2.6), India(2.4)	80.3

Source: calculated by authors based on UNCOMTRADE data.

Table 11 – Appendix 3. Import tariff rates on major agricultural products subject to tariff-only protection in China.

	Actual tariff rates in 2001	Effective as of 1 January	
		2002	2005
Barley	114 (3)[a]	3	3
Soybean	3[b]	3	3
Citrus	40	20	12
Other fruit	30-40	13-20	10-13
Vegetables	30-50	13-29	10-15
Beef	45	23.2	12
Pork	20	18.4	12
Poultry meat	20	18.4	10
Dairy products	50	20-37	10-12
Wine	65	45	14
Tobacco	34	28	10

a: Barley was subjected to licence and import quota, the tariff rate was 3 for import within the quota and no above-quota barley with 114 tariff was imported in 2001.
b: Tariff rate was as high as 114 before 2000 and lowered to 3 in after the early of 2000.

Table 12 – Appendix 3. Tariff Rate Quotas (TRQs) of agricultural products in China, 2001 to 2005

	TRQ (million tons)		Tariff in 2005 (%)		Quota for non-state own enterprises (%)
	2002	2005	In-quota	Above-quota	2000-2005
Wheat	7.3	9.6	1	65	10
Maize	4.5	7.2	1	65	25-40
Rice	2.6	5.3	1	65	50
Cotton	0.743	0.894	1	40	67
Edible oil	1.7	3.2	9	74	50-90
Sugar	1.76	1.95	15	50	20

Source: Calculated based on China's WTO commitment.

Table 13 – Appendix 3. The results from trade propositions' survey in China.

Question	Answers: Completely agree	Relative agree	Neutral	Relative oppose	Complete oppose	Summary: Positive	Negative
	(1)	(2)	(3)	(4)	(5)	(1)+(2)	(4)+(5)
A	11	9	5	1	0	20	1
B	7	11	2	3	3	18	6
C	1	14	9	2	0	15	2
D	0	4	13	8	1	4	9
E	2	8	10	6	0	10	6
F	6	8	6	4	2	14	6
G	10	13	0	3	0	23	3
H	0	7	8	8	3	7	11
I	0	8	10	6	2	8	8
J	4	14	7	1	0	18	1
K	8	13	2	3	0	21	3
L	0	2	13	7	4	2	11
M	1	13	6	5	1	14	6
N	0	11	7	6	2	11	8

Note: Total samples are 26. The survey propositions from A to N are:
(A) If the negotiations had not broken down as a result of the special safeguard mechanism, there were many other open issues that were so difficult that they would surely have led to a breakdown in the talks.
(B) Although further compromises will be needed to bridge the differences revealed at the end of July, the US Congress will make the necessary cuts in the farm supports adopted in the 2008 Farm Bill in order to ratify an eventual agreement.
(C) The deal on the table at the end of July in Geneva embodied a "comparably high level of ambition" in agricultural and NAMA market access.
(D) The goal of a "comparably high level of ambition" across goods sectors is a standard that helps to ensure consensus in WTO negotiations.
(E) Although we don't have all the details, EC and US offers to expand TRQ access under the 'sensitive' product provisions deliver on the Doha Round's promise of "substantial improvement in market access"
(F) A complex modalities agreement such as the 100+ pages on the table in July, and the difficult implementation task it implies, is unavoidable to achieve agricultural trade reforms.
(G) There is little risk that the 'status' exceptions for classes of WTO Members, the 'special' and 'sensitive' product exceptions, the Special Safeguard Mechanism or the Special Agricultural Safeguard will continue beyond the implementation period of a Doha agreement.
(H) Apart from Brazil and Argentina, the developing leadership of WTO has little interest in the 'substantial improvement' of market access in agriculture given their rate of macro-economic growth and political economy problems that agricultural liberalization implies for them.
(I) The US's offer to cut recent growth in its domestic supports and the EC's offer to lock in the CAP reform decisions it took in 2003 should have been attractive enough for the developing country leadership to agree to more substantial cuts in their own agricultural barriers.
(J) 'Critical mass' agreements among countries accounting for a high proportion of trade in a product or sector—similar to the International Technology Agreement—are a practical possibility for the future liberalization of agricultural markets.
(K) Large-scale, reciprocal 'free trade' agreements such as NAFTA-EC, combined with duty-free/quota-free arrangements for least-developed countries, are a potential way forward for ambitious trade reform.
(L) Although the protection of agricultural markets accounts for almost two thirds of welfare losses from the protection of goods markets, agriculture represents only 8% of goods trade and production. WTO Members should leave their longstanding differences in the sector to diminish as their economies grow and turn their attention, instead, to bigger 'prizes' in trade facilitation and the liberalization of labour and investment markets.
(M) The value of 'core' WTO services, for example, its role as a forum for Trade Policy Reviews; as an enforceable framework of basic trade principles, and; to coordinate technical assistance such as 'Aid for Trade', will not be compromised whatever happens to the Doha Round negotiations.
(N) In a future negotiation, greater parity between developed and developing countries' liberalization commitments would be facilitated if agricultural and industrial tariffs and other market access issues were subject to a single 'modality' that cut high industrial country agricultural protection in step with cuts to high developing country protection of NAMA products.

Appendix 4 – Indonesia Country Paper

Alternative Frameworks for Agriculture Trade Negotiations: Indonesia's View[90]

By M. Husein Sawit and Prabowo[91]

1. Introduction

This paper discusses the response of Indonesia's stakeholders to a proposal for an alternative framework for the WTO agriculture negotiations. With the Doha Round already seven years old and the recent dramatic failure of the informal Ministerial Meeting in Geneva in July 2008 to arrive at an agreement on a special safeguard mechanism (SSM) for developing countries, there is mounting concern that the negotiations will not conclude any time soon, if, for that matter, any time at all. Central to the problem of the Round, according to many analysts, is the modality of a single undertaking, which stipulates that nothing can be agreed to until agreement is reached across all sectors and issues[92] as well as among the three pillars of the negotiations, namely market access, domestic support and export competition.

Serious concerns have been raised over the factors that could lead to the falling apart of the negotiations. Gallagher and Stoler (2008), among others, argue that WTO's single undertaking modality is the main culprit. They point out that because the single undertaking principle is complicated and ambitious, it would be difficult to reach overall agreement in trade liberalisation. They have, for that reason, come up with alternative options to make the agriculture negotiations simpler and more pragmatic.

The principal design is to substitute the single undertaking modality with the minimum approach or also called the critical mass approach (CM). Because fewer parties would be involved in the negotiations and agreed results would be applied on a multi favoured nation (MFN) basis, the approach could be expected to bring about better results within a much shorter time frame. The proposal at the same time raises the question of whether the agriculture negotiations could be simplified, for instance by using means other than those of the existing three pillars. Within this context, the need arises to identify the Government of Indonesia's offensive or defensive objectives in the Round.

The response to the proposal will be presented at the end of this paper. It will be preceded by a discussion on the background of Indonesia's position. The following sections will accordingly discuss growth, equity and the agricultural sector; agricultural trade negotiations; patterns of trade in agriculture; political economy in agricultural trade negotiations; and finally the response to the proposal.

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[90] This research is sposored by the Institue for International Trade (IIT), University of Adelaide, Australia.

[91] Respectively, Senior Associate and Director at the Strategic Asia, Jakarta. Preliminary draft, not for citation. Any comments can be sent to mhs@indo.net.id or prabowo@strategic-asia.com. The authors would like to thank all those who generously consulted from academia/think tanks, government officials, business association, and NGO. However, all opinions and remaining errors are the responsibility of the authors alone.

[92] This principle necessitates that all members of WTO sign all agreements: (i) related to goods and services, (ii) present automatically any disputes mechanism and facilitate non-compliance cases, (iii) apply tariffs and bind tariffs for agricultural products, (iv) comply with all formula in agriculture and non agriculture market access (NAMA), and (v) accept special and differential treatment (S&D) in thresholds terminology and the time frame for the status of exception.

2. Growth, equity and agriculture

2.1 An overview of growth and equity

As is well known, economic growth was reasonably high in the early years of the Suharto administration. These years also saw a marked increase in employment and a significant reduction in the number of people living in poverty (Figure 1 and 2). Aside from managing the macro-economy well, the administration also undertook a series of liberalisation and deregulation measures. All this was made possible by a series of happy coincidences. First, there were the oil boom revenues which supported the development of infrastructure, including those of the agriculture sector. They also financed various subsidy schemes such as cheap credit, energy as well as food prices, and agricultural inputs. Huge investments were made in manufacturing through provision of subsidised credits to the private sector and state owned companies. The government also used the revenues to finance massive agricultural extension services and rural development schemes.

Figure 1 – Appendix 4: Growth and poverty

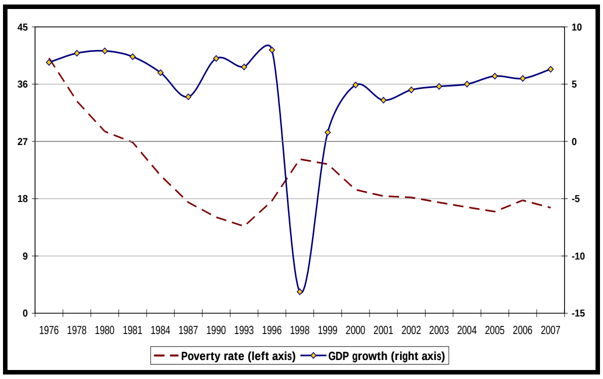
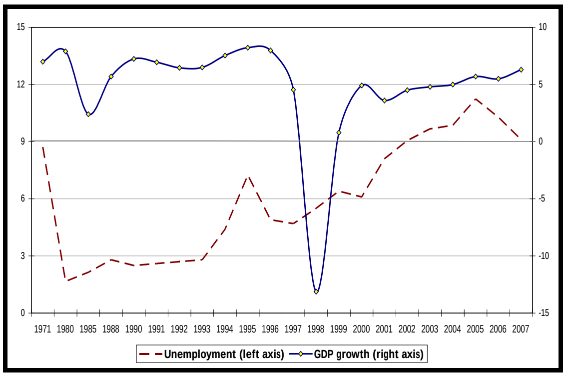


Figure 2 – Appendix 4 -Growth and unemployment



Source: CBS. Statistical yearbook of Indonesia, various editions.

Second was the large and generous amounts of official development assistance (ODA) extended to Indonesia that were mainly spent on capital expenditure and technical assistance. Third was the green revolution which raised rice production productivity. Fourth was the coincidence between the massive reallocation of investment from Japan and Korea to Southeast Asia driven by the appreciation of the yen and won and the liberalisation and deregulation efforts undertaken by Indonesia in the mid-1980s. There were as a result a tremendous leap in foreign direct investment and a sharp rise in earnings from non-oil manufacturing and exports. The role of oil in the economy at the same time declined substantially. Fifth, Indonesia in the 1980s was not faced with strong competition from other developing countries both as a receiver of foreign investment as well as an exporter of labour intensive goods. China, Vietnam, Cambodia and other countries were, back then, yet to emerge as formidable competitors.

Matters began to change since the 1990s. With the sudden emergence of the new competitors mentioned above and the failure of Indonesia to climb up the technological ladder, the growth of labour intensive manufacturing exports began to decline. The latter factor reflects Indonesia's failure to exercise an effective industrial policy to increase industrial competitiveness and deepening.[93] The 1997 crises exacerbated the situation. Growth of manufacturing until today has been sluggish, far

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93 For further discussion, see Kim (2003). He argues that for protection to be effective it needs to be complemented by concerted policies among others to promote inter-industry linkages, technology development, manpower policy and SMEs development. The case with Indonesia is that there were no clear link between these policies and thereby the synergy is not created and the protection is wasted.

below the growth of GDP. This is in stark contrast with the pre-crisis years when growth of manufacturing was around fifty per cent higher than that of overall growth.

At the same time, growth of agricultural productivity stagnated and, due to rapid industrialisation and urbanisation, land availability for food crops declined. Output growth in food production was achieved since the 1990s through crop intensification. This approach, however, has its limits and the rate of growth in food production inevitably declined. As with the case of manufacturing, this reflects serious failures in policy. The agricultural sector has been chronically burdened by price disincentives, lack of R&D, poor infrastructure and maintenance, poor post-harvest technology and other development supports. It also suffers from weak linkages to rural development and the agro based manufacturing industry (Sawit and Prabowo, 2004).

Prior to the onset of the crisis, overall growth in the 1990s remained constantly high. Problems of inequity, however, had begun to arise. Employment creation was not aligned to growth and as a result unemployment began to increase in the early 1990. The negative effects of the decoupling of growth and employment are evident until very recently as can also be seen from the trends of poverty (Figure 1 and 2) The advance of the crisis further exacerbated the equity situation.

2.2 The policy regime affecting agriculture

As is typical of the strategies of many developing countries, Indonesia's approach to development is influenced by a strong urban bias. Aside from subscribing to the development fashion, the urban bias is also firmly rooted in the political economy of decision making, particularly in the relatively strong policy constituents of the urban areas. The bureaucracy and intellectuals were in strong support of the rapid modernisation of the economy. The strongholds of political parties as well as civil society organisations were also mainly situated in the cities. Lastly, political upheavals, often driven by high food prices, have also broken out in urban areas.

These factors led to the protection of the manufacturing sector. The rate of protection was high and essentially supported by cross subsidies from other sectors, particularly that of agriculture. Fane and Phillips (1991) estimate that the nominal protection rate for the manufacturing sector reached 11.5 per cent. Their estimate of the effective protection rate was even higher at 18.5 per cent.

The agriculture sector, on the other hand, was in general faced with an effective negative protection rate. This dampened incentives for exports, particularly exports of estate crops and fishery products. The situation was further exacerbated by the imposition of export taxes, which were at times arbitrarily imposed at very high levels for some agricultural products such as for crude palm oil (CPO). This policy reflects the narrow orientation of the agricultural policy as well as a misunderstanding of the role of agriculture in economic development (Bautista and Valdes, 1993).

2.3 The role of agriculture

The massive economic transformation induced by rapid growth reduced the role of the agriculture sector in the economy. Its share of GDP went down from 40 per cent in 1970 to 17 per cent in 1990 and dropped further to around 15 per cent in the 2000s. The structural transformation is also partially accelerated by the urban-biased development policy mentioned above.

Notwithstanding the policy bias towards agriculture, as starkly manifested during the Asian crisis years, the sector still serves as "the employer of the last resort". The sector's impact on equity is likely to remain important for a considerable period of time. Agriculture is omnipresent. Its existence covers practically the entire country. Moreover, it has close linkages with the non-tradable sector in rural areas. Any increase in small farmers' income would be directly transmitted to an increase in demand for rural non-tradables. This is in contrast with the manufacturing sector which is locationally concentrated in only a few areas such as around Jakarta and Surabaya as well as in Batam with limited linkages to other sectors.

Evidence is rife that agriculture plays a pivotal role in equitable development. Firstly, agricultural growth reduces poverty in a very significant way, not only in Indonesia but in many parts of the world as well (Mellor 2004, Ravallion 1995, Timmer 1997). In the case of Indonesia, despite the relatively low growth rate of the agricultural sector during the period 1984 through1996 at not more than 4 per cent per annum yet when compared to the manufacturing sector which grew at the rate of around 11 per cent, its impact on poverty reduction was remarkable. During that period, overall agricultural growth helped reduce poverty by 66 per cent—by 74 and 55 per cent in rural and urban areas, respectively (Agus *et al*, 2003). The growth of other sectors, particularly that of the manufacturing sector, was less effective in reducing poverty.

Secondly, the role of agriculture remains important despite its relative share in the economy which has declined dramatically. Banerjee and Siregar (2002), using input-output data, estimate that the multiplier coefficient of the agricultural sector was 1.014. This was slightly higher than that of the industrial sector, excluding agro-industry, which was 1.007. This means that the potential of agriculture to increase GDP is higher than that of other sectors. Similarly, the backward linkages coefficient of the agricultural sector was 1.260, which was also higher than that of the industrial sector at 1.233. In sum, the impact effects of agricultural growth in generating growth in the economy is superior to those of the industrial sector.

Thirdly, the multiplier coefficient and the backward linkage of agro-industries also show a relatively higher coefficeint than those of other sectors, respectively, at 1.062 and 1.840 (Banerjee and Siregar 2002). This indicates that the agriculture based sector as a whole is essentially the leading sector in development including in the process of industrialisation.

Fourthly, as earlier mentioned, the importance of agriculture goes beyond simple multiplier and backward linkage effects. The sector is deeply rooted in the rural economy and it has close linkages with rural SMEs which produce non-tradables that are consumed by farmers and agricultural workers (Mellor, 2004). Moreover, it is also often the case that the marginal propensity to consume of populations in the rural areas is relatively higher than that of the urban population. People who live in these areas also have a strong preference for simple and cheap domestic non-tradables.

Lastly, agriculture also plays an important role in improving the environment by maintaining the quantity and quality of water. It also strengthens food security. These roles are yet to be properly appreciated and taken seriously into account in devising strategies for sustainable development (Agus *et al*, 2003).

2.4 Recent trends and challenges in agricultural development

As earlier discussed, between the mid 1980's and the onset of the crises, growth of the agricultural sector contributed significantly towards providing jobs and, ultimately, towards increasing household incomes in rural areas.

However, things are now not the same. Over time, the dramatic drop in the share of agriculture of total output generated by long term structural changes in the economy caused major imbalances in the sector. Agriculture's share of total employment remained high because it did decline relatively fast enough. The share of agriculture of total output decreased dramatically during the period from 1970 to 1990, as noted, and its share of employment of the national total went down only from 66 per cent to 49 per cent, respectively. In the early 2000s, the declining trend flattens both for its share of output and employment with the imbalances continuing to persist (Table 1).

Table 1 – Appendix 4. The Composition of Agriculture, GDP, Employment and Un-Employment, and Rural Poverty: 2002-2006

Agricultural Sector	2002	2003	2004	2005	2006	Yearly Av.
Share of Agr. GDP (%)	15.39	15.24	14.92	14.49	14.15	14.84
Growth of Agr. GDP (%)	3.45	3.79	2.82	2.66	2.98	3.14
1. Share of Food crops (%)	49.64	49.57	49.61	49.58	49.45	49.57
Its'GDP Growth (%)	2.13	3.64	2.89	2.60	2.71	2.79
2. Share of Estate Crops (%)	16.01	16.10	15.72	15.69	15.72	15.85
Its'GDP Growth (%)	5.83	4.37	0.40	2.48	3.19	3.25
3. Share of Livestock (%)	12.71	12.75	12.81	12.75	12.75	12.75
Its'GDP Growth (%)	6.52	4.13	3.35	2.13	2.98	3.82
4. Share of Fishery (%)	14.25	14.42	14.81	15.21	15.66	14.87
Its'GDP Growth (%)	3.42	5.05	5.56	5.45	6.01	5.10
5. Share of Forestry (%)	7.39	7.16	7.05	6.77	6.42	6.96
Its'GDP Growth (%)	2.31	0.52	1.28	-1.47	-2.29	0.07
6. Agric. Employment (%)	43.54	45.37	42.54	43.42	*42.05*	43.38
Growth of Agr. Empl. (%)	2.03	3.30	-2.93	2.52	*-3.16*	0.35
7. Rural Poverty (Millions)	25.1	25.1	24.8	22.7	24.8	24.5
Rural Poverty (%)	21.10	20.23	20.11	19.98	21.81	20.65
8. Unemployed (Millions)	9.1	9.8	10.3	11.9	11.1	10.4
Unemployment rate (%)	9.1	9.6	9.9	11.20	10.40	10.02

Source: Calculated from Statistical Year Book of Indonesia 2002-2007

The remaining high employment in agriculture has, as a consequence, created problems for the sector's growth and productivity. The average farm size has also gradually become smaller. Within this context, introduction of labour saving technology is made difficult by the low economies of scale. The problem is further exacerbated by the trend of wages which are inclined to rise and the tendency of total area of agricultural land to rapidly decrease, particularly in Java. Altogether, this has caused low growth of food crops, which was only around 2.7 per cent in the 2000's (Table 1).

In the meantime, poverty continues to prevail in the rural areas. The total number of the poor in Indonesia was 36.1 million or 16.7 per cent of the population in 2006 with approximately 70 per cent of them living in rural areas. Rural poverty is also higher than that of the national average. In the early 2000s, rural poverty was approximately 25 per cent or around 20 million people in number.

Indonesia's main challenge is to bring agriculture and rural development back to the centre stage of its national development strategy. A policy to revitalise agriculture and rural development has been put in place. It is, however, not well integrated and its priority is not clear. Moreover, its implementation is fraught with obstacles including the government's limited political will, poor coordination and weak institutional capacity.

As noted earlier, policies need to be directed towards removing price distortions, facilitating land consolidation in food agriculture, especially in Java, as well as managing transformation from peasant agriculture to farming. Policies also need to promote crop diversification in line with the trend of increasing land prices, increase government sponsored R&D, develop and properly maintain infrastructure and promote better post harvest technology. They also need to advance the establishment of linkages between agriculture and rural development as well as agro-based industries and SMEs.

3. Participation in Agricultural Trade Negotiations

Indonesia has been a member of the GATT since 1951. However, being largely an exporter of primary commodities the country did not place as much importance on tariffs as it did on commodity price stability. Indonesia was thus generally a passive participant of the GATT. Its rising success in industrialisation and its growing export of manufactures, however, turned Indonesia into an active participant of the Uruguay Round. In the current Doha Round, the country's has stepped up its participation even higher. This section discusses the history of the positions taken by Indonesia since the country joined the GATT in the early 1950s. Indonesia has been particularly and actively involved in the trade negotiations of the Uruguay Round and recently in those of the Doha Round. As in the case of other countries, Indonesia's positions are linked to the stages of its development as well as to the problems that it faces.

3.1 The Uruguay Round

During the Uruguay Round of the mid 1980s, Indonesia's economy was undergoing rapid transition to one of a newly industrialising country. It was during this period that massive liberalisation and deregulation measures were undertaken. As noted earlier, these measures were highly successful, partly because they coincided with the reallocation of investments from Japan and Korea to Southeast Asia.

As the volume of Indonesia's exports of manufactured goods grew, the country began to adopt an offensive position, particularly with regard to access to markets of developed countries. This position was especially defended in the trade of textiles and apparels which was at the time regulated under the restrictive multi-fibre agreement (MFA).[94]

Because exports of agricultural products are affected by market access, market openness in agricultural commodities is also an important issue. As in the case of textiles, Indonesia has also taken up an offensive strategy for tropical products.

Conversely, in food-related negotiations, Indonesia adopts a largely defensive strategy. This is because Indonesia is highly dependent upon food imports. The risks faced by the country in accessing food in international markets are high and uncertain due to problems related to food availability, price instability and foreign exchange reserves. Yet, Indonesia's food self-sufficiency strategy is aimed at strengthening food security with the domestic price stability as an important element within it. This is the reason why Indonesia applied both defensive and offensive strategies in the Uruguay Round.

Following the Marakesh Agreement in 1994, Indonesia committed to lowering the bound tariffs. Around 90 per cent of agricultural products amounting to 1,300 tariff lines have bound tariff levels of lower than 40 per cent. The remaining 10 per cent consisting of foodstuffs such as rice, milk, sugar and others are included in relatively higher bound tariffs that are more than 40 per cent. This is because subsidies and protection measures are still needed to encourage small farmers to increase their production and productivity in this category.

Indonesia, as do other developing countries, does not regard as important the other pillars, particularly those of domestic support (DS) and export subsidy (ES) implemented by developed countries,

[94] In fact, the Uruguay Round committee on textile was chaired by the Indonesia's chief negotiator, Mr. H.S. Kartadjoemena.

particularly the US and EU[95]. It maintains the same attitude towards sanitary and photo-sanitary (SPS) which is one of the pillars in the Agreement on Agriculture.

The Uruguay Round negotiations mainly focused on market access. Domestic supports and export subsidies received little interest from the developing countries. They were only discussed by two major players, namely USA and the European Union. USA in that Round did not agree to the Draft of the Final Act. At the end of November 1992 bilateral talks were held between the two parties, the outcome of which became known as the 'Blair House Agreement'.

3.2 Liberalisation and agricultural exports

Although optimistic scenarios emerged at the completion of the Uruguay Round,[96] yet Indonesia did not reap much benefit. Wheat imports had increased to up to 5 million tons per year and the country remained a net food importing country. This is partly made possible by the declining tendency in international food prices 1990s until very recently; induced by huge subsidies provided to US and EU farmers and the export promotion activities carried out for their products overlooked by the developing countries as well as the misuse of the Green, Amber and Blue boxes.

Meanwhile, Indonesia's exports of tropical products did not grow as well. Aside from supply side problems, prices of tropical products are very low because they are essentially primary products or those with minimum amount of processing. While incentives to export processed products were minimal; tariff escalations applied by the advanced industrialised countries to these products has been penalising.

3.3 The Doha Round

Indonesia's above experience has led the country to become an active participant in the negotiations on the two neglected pillars of export subsidy and domestic support. The single undertaking modality in the Doha Round also enables Indonesia to take up negotiations on non agricultural market access (NAMA) which has so far been a major stumbling block in exporting processed products due to the steep tariff escalations applied by the developed countries.

The Doha Round initiated at the end of 2001 was meant to strike a balance between the three pillars within agriculture as well as between agriculture negotiation and NAMA, and other implementation issues.

The role of the developing countries in the Round became larger and stronger after they united in groups such as G20, G33, and G90[97].

Indonesia became a member of G20 to strengthen its offensive strategy. This is particularly because the central issue to be negotiated by the group is reduction of tariff barriers, particularly quota related

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[95] Indonesia is very poor in understanding the scope and magnitude of subsidies applied by developed countries and their impacts on developing countries including Indonesia. This is because the number of negotiators from Indonesia is very limited. In the Ministry of Agriculture, for example, there are only 2-3 negotiators. Research in this field is also neglected. Since research institutes are weak and the availability of human resources is also limited, then the role of research institution is weak in strengthening decision making for negotiations.

Research in this field is usually carried out international institutions, particularly the World Bank. They are very influential in the process of decision making including decision making related to agricultural negotiations. Every year, the World Bank publishes the results of the research carried out by consultants who works for the World Bank. The results of the research become the references for policy makers in taking public decisions without consultations with communities in large and the Parliament. The reports are just isolated for related technical ministries and the World Bank and are not exposed for open public hearing and discussions.

[96] Studies done by the OECD and the World Bank (1993), for instance, point to an optimistic picture for Indonesia. In the post Uruguay Round they estimated that Indonesia as a net food-importing country will suffer from increasing food price in the world market as the consequence of applying agriculture agreement in the WTO, reducing tariff rates and subsidies, and eliminating non-tariff barriers (NTB). However, it is expected that Indonesia will become a net food-exporting country because the price of rice in the world market will go up and, therefore, farmers will be encouraged to increase production. Consequently, wheat import can be reduced. For tropical products in particular, Indonesia will gain from the agricultural agreements because they would have larger market access in line with tariff reduction in importing countries.

[97] They are also supported by a number of *think tank* institutions at international level.

tariffs (TRQs), their peak and escalation. It is also for reduction of developed country agriculture subsidies, both domestic support and export subsidy.

Indonesia has however also established a defensive strategy towards trading in foods. The country's attention is focussed on two areas of special exceptions, namely for the special products and the special safeguard mechanism to be applied exclusively to the developing countries. These flexibility provisions are being sought by the G-33 of the developing countries of which Indonesia is now the leader.

The fundamental position is that the issue of food trading should not be separated from issues of development such as safeguarding of food security, promotion of rural development and eradication of poverty. Indonesia's stakeholders strongly support the position that agricultural market opening should be done very cautiously. Also, many consider it grossly unfair for domestic products of small farmers to have to compete with the low, subsidised prices of agricultural imports.[98]

The defensive negotiation stance is a reflection of the changing agricultural sector's predicament in the post Uruguay Round as well as in the post crisis years. With the surges of food imports due to trade liberalisation and the consequent rise in nationalist sentiment, the Government has become preoccupied with short term issues affecting the domestic supply condition. This inward orientation agricultural policy has been further emphasised by the President who in 2006 declared that Indonesia aims to achieve self sufficiency in rice, sugar, maize and beef by 2010 and for soybean by 2015.[99]

4. Trade Balance and Pattern of Agricultural Products

4.1 General trade pattern

In contrast to the 1950s and 1960as, trade in agriculture has now become relatively unimportant.[100] While the share of agriculture exports[101] against Indonesia's total exports was around 13 per cent in 2006, the share of agriculture imports against Indonesia's total imports was only eight per cent (Table 2). Indonesia's exports are more dependent on non-agricultural products such as fossil fuel and gas, mining as well as forest/timber products and manufacturing.

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[98] A study carried out by Polaski (2006) from Carnagie Endowment for International Peace proved that the benefit of agricultural trade liberalization flow overwhelmingly to rich countries, while developing countries suffer slight losses as a group. They are great differences in the impact on developing countries. A few countries gain, namely Brazil, Argentina, and Thailand, but more suffer small losses from agricultural liberalization. The losers include many of poor countries, including Bangladesh and countries of East Africa and the rest of Sub-Sahara Africa, Middle Eastern and North African countries, Vietnam, Mexico, Indonesia, India, and China also experience losses, particularly labor-intensive agriculture. The reasons developing countries do not gain broadly from agricultural liberalization because many developing countries are net food importers. They face with low productivity and small scale farming. The products of subsistence farmers are generally not competitive on global market.

[99] While this is an important agricultural policy statement, however, there has been no further elaboration on how these targets are to be achieved and at what costs, and how in effect the overall agricultural strategy would be re-formulated. See Kartadjoemena (2006: p. 18).

[100] In the early 1960s, about two third of exports and one half of government revenues were generated by only two agricultural commodities (rubber and coffee) and tins.

[101] Fishery and Forest products are not included in this section.

4.2 Main agricultural commodities exported

Most of the agricultural exports (94 per cent) were from the estate crops (Table 3). The total share of the other sub-sectors was only six per cent. Further decomposition shows that the shares of food crops, livestock and horticulture are each about two per cent. Indonesia's agricultural imports comprising the food crop, estate and livestock sub-sectors are 46, 23 and 6 per cent respectively.

Table 2 – Appendix 4. Trade Balance and Debt for 2006

	USD Mn.	Share agriculture products
Total Export (FOB)	100,690	12.98%
Total Import (CIF)	61,078	8.21%
Trade Balance	39,612	
Debt Service as % of Total Export	19.3%	
External Debt as % of GNI	50.6%[a)]	

Note: a) Figure for 2005
Source: Calculated from Statistical of Indonesia 2007, CBS

Table 3 – Appendix 4. Agriculture Product Trade Balance: 2006

Product Group	*USD milions*	*Percent*
• Food products	259	2
• Horticulture products	235	2
• Estate Crop products	12,279	94
• Livestock products	298	2
Total Export	13,071	100
• Food products	2,290	46
• Horticulture products	529	11
• Estate Crop products	1,174	23
• Livestock products	1,024	20
Total Import	5,016	100
Trade Balance	8,055	

Source: Calculated from Statistical Export and Import of Indonesia 2007, CBS

Details of the agricultural export pattern are discussed below. Approximately 90 per cent of agricultural exports are from 12 products (Table 4). The products include those from high-volume products such as palm oil and its fraction (HS 151190), CPO (HS 151110), natural rubber (HS 400122) to low-volume products such as smoked sheet rubber (HS 400121), palm kernel (HS 151329), and pineapple (HS 200820).

Four products make up 75 per cent of agricultural exports: (HS 151190), (HS 151110), (HS 400122), and (HS 151321). The share of palm oil and its fraction (HS 151190) against total agricultural exports was 34.5 per cent.

Table 4 – Appendix 4. The 75% and 90% Most Important Agriculture Exports (in volume): 2006

HS CODES	Product Descriptions	Export Volume (Tons)	Share to Total Export	Cumulative
1511.90	Other Palm oil and its fractions	6,901,634	34.51%	34.51%
1511.10	Crude Palm oil	5,199,287	26.00%	60.51%
4001.22	Technically Specified Natural Rubber (TSNR)	1,952,268	9.76%	70.27%
1513.21	Crude oil of Palm kernel or babassu	1,032,181	5.16%	75.43%
1703.10	Cane molasses	524,896	2.62%	78.05%
1801.00	Cocoa beans. whole or broken. raw or roasted	490,778	2.45%	80.51%
2302.30	Bran. sharps and other residues of Wheat	424,790	2.12%	82.63%
0901.11	Coffee. not roasted. not decaffeinated	411,509	2.06%	84.69%
1513.11	Crude oil of Coconut (copra). palm kernel or babassu	383,809	1.92%	86.61%
4001.21	Smoked sheets	325,393	1.63%	88.24%
1513.29	Other Palm kernel or babassu oil and fraction	241,858	1.21%	89.45%
2008.20	Pineapples. whether or not containing added sugar or other sweetening... or spirit	186,682	0.93%	90.38%

Source: Calculated from Statistical Export and Import of Indonesia 2007

The destinations of these exports are various countries in different continents. The most important countries of destination are in Asia, particularly China (7.2 per cent), Pakistan (3 per cent), India (2.9 per cent), and Egypt (2.4 per cent). Exports to the other countries are relatively small or less than 1 per cent (Table A.1).

Export of Indonesia's CPO (HS 151110) was 26 per cent of total agricultural exports. The most important countries of destination for CPO are India (9.5 per cent), followed by the Netherlands (4.2 per cent), Singapore (2.5 per cent), and Malaysia (2.4 per cent). CPO exports to other countries were less than 1 per cent (Table A.1).

Indonesia's exports of natural rubber (HS 400122) reached close to 10 per cent of total agricultural exports. The countries of destination for these products were USA (2.8 per cent), China (1.4 per cent), and Japan (1.4 per cent). Exports to other destinations were less than 1 per cent. Descriptions for other products are summarised in Table A.1.

On the basis of export values, the share of the agricultural sector against total export value was only about 13 per cent. The top ten agricultural products in terms of export values that contributed 87 per cent to the total agricultural export value are natural rubber (HS 400122), palm oil and its fraction (HS 151190), CPO (HS 151110), cocoa beans (HS 180100), rubber smoked sheets (HS 400121), coffee (HS 090111), CPO kernel (HS 151321), copra kernel (HS 151311), cocoa butter (HS 180400) and other palm kernel (HS 151329). All these products are from the estate crop sub-sector (Table 5).

Table 5 – Appendix 4. Ten Most Important of Agriculture Export (in Value): 2006

HS CODES	Product Descriptions	USD Mn.
4001.22	Technically Specified Natural Rubber (TSNR)	3,698.8
1511.90	Other Palm oil and its fractions	2,824.0
1511.10	Crude Palm oil	1,993.7
1801.00	Cocoa beans. whole or broken. raw or roasted	619.0
4001.21	Smoked sheets	609.0
0901.11	Coffee. not roasted. not decaffeinated	583.2
1513.21	Crude oil of Palm kernel or babassu	506.0
1513.11	Crude oil of Coconut (copra). palm kernel or babassu	196.9
1804.00	Cocoa butter. fat and oil	179.1
1513.29	Other Palm kernel or babassu oil and fraction	110.5

Source: Calculated from Statistical Export and Import of Indonesia 2007, CBS

4.3 Main agricultural commodities imported

Indonesia' imports for agricultural products are presented in Table 6. At most, 75 per cent are for 6 food products: other wheat and meslin (HS 1001.90), oil cake soybean (HS 2340.00), other maize (HS 1005.90), cane sugar (HS 1701.11), and wheat flour (HS 1101.00). If the list is extended up to 90 per cent, there are 18 types of products (Table 6). It comprises the 6 products as mentioned before plus 12 products: cotton (HS 5201.00), meat bone meal (HS 2309.90), garlic (HS 0703.20), cassava (HS 1108.14), and so on such as rice, refine sugar, ground-nuts, onions and shallot, other live bovine animal.

Table 6 – Appendix 4. The 75% and 90% Most Important Agriculture Imports (in Volume): 2006

No.	HS	Product Description	Volume (Tons)	Share to Total Import	Cumulative
1	1001.90	Other Wheat and Meslin	4,216,141	30.77	30.77
2	2304.00	Oil-cake and other solid residues of soyabean	2,017,422	14.72	45.49
3	1005.90	Other Maize (corn)	1,556,543	11.36	56.85
4	1201.00	Soya beans, whether or not broken	1,078,421	7.87	64.72
5	1701.11	Cane Sugar	748,434	5.46	70.19
6	1101.00	Wheat or meslin flour	497,379	3.63	73.82
7	5201.00	Cotton, not carded or combed	424,241	3.10	76.91
8	2309.90	Meat bone meal and hydrolised feather meal	322,847	2.36	79.27
9	0703.20	Garlic, fresh or chilled	277,158	2.02	81.29
10	1108.14	Manioc (cassava) starch	269,488	1.97	83.26
11	1006.30	Semi-milled or wholly milled rice	212,478	1.55	84.81
12	2301.10	Flours, meals and pellets	124,091	0.91	85.71
13	1701.99	Refined Sugar	116,552	0.85	86.57
14	1006.40	Broken rice	115,409	0.84	87.41
15	0808.10	Apples, fresh	114,883	0.84	88.25
16	1202.10	Ground-nuts, in shell	98,585	0.72	88.97
17	0703.10	Onions and shallots, fresh or chilled	97,934	0.71	89.68
18	0102.90	Other Live bovine animals	87,375	0.64	90.32

Source: Calculated from Statistical Export and Import of Indonesia 2007, CBS

The majority of import by volume (31 per cent) is the imports of wheat and meslin (HS 1001.90), as shown in table 7. Most originated from Australia (19.9 per cent), Canada (7.2 per cent), USA (1.4 per cent), while the others (less than 1 per cent) are from Russia, Bulgaria, Japan, Vietnam, China and Italy (Table A.2).

The second largest import by volume (14.7 per cent) was the oil-cake of soybean (HS 234.00). These products originated from Argentina (6.7 per cent), India (4.5 per cent), Brazil (2.8 per cent) and less than 1 per cent originated from USA, Arab Emirate, Singapore, and Malaysia. Import of maize (HS 1005.90) originated from USA (6.7 per cent) and Argentina (3.6 per cent), Table A.2. Similarly, in Table 6 is summarised all of the 18 products that accounted for 90 per cent of the total products imported.

In values term, there are 10 products whose total import approaches 63 per cent of the total imports of agricultural products in 2006 (Table 7). The highest is other wheat and meslin (HS 1001.90), cotton (HS 5201.00), soybean (HS 2304.00 and HS 1201.00) and cane sugar (HS 1701.11).

Table 7 – Appendix 4. The Ten Most Important of Agriculture Import (in Value): 2006

No.	HS Code	Product Descriptions	USD Mn.	Percent
1	1001.90	Other Wheat and Meslin	759	15.13
2	5201.00	Cotton. not carded or combed	568	11.32
3	2304.00	Oil-cake and other solid residues of soyabean	470	9.36
4	1201.00	Soya beans. whether or not broken	285	5.68
5	1701.11	Cane Sugar	276	5.51
6	1005.90	Other Maize (corn)	236	4.70
7	0402.10	Milk and Cream In powder, granules or other solid forms	175	3.50
8	2309.90	Meat bone meal and hydrolised feather meal	152	3.03
9	1101.00	Wheat or meslin flour	132	2.63
10	0402.29	Other Milk and Cream	131	2.60
		Total Agriculture Import (in USD Mn)	5,016.5	100

Source: Calculated from Statistical Export and Import of Indonesia 2007, CBS

4.3 Agricultural exports and farmer's income

As noted above, the significant majority Indonesia's agricultural exports by value are dominated by palm oil and rubber related products. These commodities as elsewhere are largely produced by plantation estates. There exists however a large pool of smallholders, but their share in total output and value added is very small. Also, the smallholders, being insignificant producers and remote, mostly residing outside Java, are not politically organised either to support or to counter trade liberalisation measures in agriculture.

It would be interesting to know of the relationship between the recent commodities price swings and the smallholders' welfare, but studies are scanty and mostly unreliable. Most studies on agriculture smallholders are dedicated to rice and other foods agriculture.

5. Political economy of agricultural trade negotiations

5.1 The changing context

The past ten years have seen a dramatic change in Indonesia's public governance. The process of democratisation and devolution with the expansion of the public policy domain and the proliferation of policy constituents have made decision making processes more complicated. With this a problem in itself, matters are made even more complex by the fact that the transition to a democratic and decentralised state is hardly consolidated. Things are still in flux.

Firstly, the Government is now much weaker. This is in part because the polity is based on a multi-party system with a directly elected president. The currently elected president commands a majority of the direct votes but his party, at the same time, won only around 10 per cent the parliamentary seats. Support from parliament, which is critical in the legislation process as well as other government decision-making, is indispensable. A "rainbow" coalition of government has thus been formed. What is even worse is that the coalition is weak and not based on the common policy platform. Criticisms from parliament are on many occasions serious including, ironically, those from the members of the coalition. Some government proposals are thus inclined to get blocked in the parliament. The process of consensus building has, to say the least, become unnecessarily lengthy and many compromises have to be made. Altogether, this results in a slow and unclear process, and *ad hoc* policy decisions.

Secondly, public governance has become weaker. It is especially so in managing cross-cutting issues which have become more important with the intensification of liberalisation, globalisation and regionalisation processes. With the unreformed bureaucracy still vertically organised in silos and the weak political will of the government, the implementation of policies tends to be slow and ineffective. There is much evidence that the government machinery is in a serious gridlock. Furthermore, the techno-bureaucracy also lacks the capacity to produce well grounded policy advice and options. While these weaknesses were in the past compensated by an army of foreign advisers, it is no longer the case after the crisis. Technical assistance is now limited to areas such as organisational reform, capacity building, governance, and accounting standards. At the same time, there is as yet no effective government sponsored think-tank to do policy research. Hence, there are close to no policy research papers available to substantiate policy options, including those in area of trade policy and trade negotiation. To make matters worse, the absence of a clear and focussed national strategy makes national interests unclear. The negotiation stance is thus often *ad hoc* and negotiation processes haphazard.

Thirdly, the techno-bureaucratic elements of the state have lost their monopoly over the decision making process. The rise of the power of parliaments, free media, civil society organisations and other stakeholders necessitates a new and different policy process. The process would have to move to a more consultative process where stakeholders are not only informed about the decision but participate fully in the debates to arrive at consensus. Government efforts towards establishing consultative policy processes have, however, barely begun. With specific regard to the WTO, a WTO Forum has been recently established. Its membership comprises representatives of ministries, academics, the chamber of commerce and industry, and civil society organisations. However, as with other consultative fora, deliberations at the WTO forum still lack depth, are unstructured and their convention infrequent. The Forum is starved of resources and is so far unable to generate well researched policy and position papers around which a structured discussion needs to take place.

Fourthly, the previous point is especially crucial in the conduct of international negotiations, particularly on those that involve more technical economic dealings. Very often, the negotiators are left to conduct their dealings without the support of a clear government policy. Policy consensus among relevant ministries if at all reached is usually made in an *ad hoc* and haphazard manner. Typically, the negotiators find it difficult to adopt a clear stance and relevant ministries in turn find it difficult to implement many international agreements because they lack understanding of the agreements and do not have the political will to implement them. Poor institutional capacity also contributes to poor implementation.

Fifthly, rapid and radical decentralisation have also wreaked havoc on public governance, especially in policy implementation. Poor capacity is one problem but so is lack of political will. This results in among other things neglect of agricultural development, particularly maintenance of irrigation and sustainability of extension services.

Sixthly, for various reasons, Indonesia since the crisis has been suffering from chronic insularity in the policy arena, especially in economic areas. This is not to say that Indonesia is a closed economy. Indeed, as discussed earlier, its economy is very open. Nonetheless, all policy documents of ministries, political parties, the business community, civil society organisations, and farmer associations are generally inward looking. They generally deal with important national issues without clear reference to international ones. There is neither a coherent political view nor a clear policy stance and strategy on globalisation and regionalism. No discussion is presented on their impact on competition and competitiveness, let alone on WTO related issues. Insofar as responses to WTO issues go, they are generally reactive and *ad hoc*.

One important implication of the above points is that Indonesia, with unclear guidance on the broad areas of its national strategy, trade and industrial policy, tends to rely more than ever on cooperation among the developing countries. This tendency also coincides with the enhanced role of the developing countries in the Doha Round. In addition to Indonesia's lack of confidence such cooperation is seen to be beneficial as it enables the sharing of experience in trade issues and in implementing WTO commitments. It is believed that this would lead to a better understanding of the issues as well as support a negotiation stance that is more firm. This is essentially the reason why Indonesia has become an active member of the G20 and has takes a lead in the G33.

5.2 Stakeholders in agricultural negotiations

The democratisation process requires all political parties to organise votes from the rural areas. Almost all major political parties identify themselves with agricultural development and the welfare of small farmers as well as landless labourers. This is especially so because the impact of the IMF conditionalities, especially those on agricultural liberalisation measures are still bitterly felt in the rural areas. The measures are more extensive and carry penalties that are heavier than the requirements of WTO. They also carry the imperative that the conditionalities are to be implemented immediately.

There are no significant differences among political parties in their political stance on agricultural development. All parties pronounce their conviction of the importance of agriculture and rural development and propose to advance their commitment through increased protection and subsidy of inputs for the small farmers the majority of whom are in rice agriculture. They also offer to provide better social safety-nets for the rural poor. This position is subscribed to by the ruling party Golkar, PKS (the Justice and Welfare Party) and PD (the Democrat Party) as well as to the major opposition party the PDI-P (the Democratic Struggle Party). As mentioned earlier, the president himself has declared the need to achieve self sufficiency in basic foodstuffs such as rice, sugar, maize, beef and soybeans. The PDIP recently proclaimed as priorities provision of cheap foodstuffs, increase in domestic production and limits on imports, and increase of subsidies to small farmers in the form of credits and price of fertilisers. The party also included as urgent development of rural infrastructure and SMEs. It however remains unclear as to how these objectives are to be met, what sorts of policies need to be put in place and above all how much budget need to be allocated to support the activities.[102]

Consistent with their inward looking attitude, most stakeholders strongly support a defensive position towards agricultural trade in foods which includes the SP and SSM modalities. This is the reason why there is wide support for the Government's position in leading the G33. Indeed, political openness and democratisation has led to rising demands for the protection of the livelihoods of the rural people. The defensive policy stance towards food import is also triggered by the negative experience brought about by the sudden liberalisation of the rice economy as a consequence of the IMF's adjustment package in the late 1990s.

This attitude, however, does not manifest itself in Indonesia's support for raising tariffs above those previously committed to under the WTO. Although most of the bound tariffs are still above the applied tariffs yet Indonesia's tariffs are already very low at an average rate of 5-6 per cent.

Most NGOs tend to be inward looking and hold a sceptical attitude towards globalisation, including towards the WTO.[103] The popular view is that Indonesia is not ready for open trade and needs more time to manage the country's agricultural transformation, particularly to strengthen the sector's footing

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[102] As mentioned repeatedly in this paper, typical of the current policy making in the Government and political parties, this policy did not seem to have been thoroughly examined. There is as yet no published policy papers written on the subject to justify the policy, its options and trade-offs. As well, the public is rarely engaged in the debate.

[103] This includes important organizations such as the Global Justice, Bina Swadaya (a prominent NGO in rural development), Himpunan Kerukunan Tani Indonesia(HKTI-Indonesian Farmers Association)

in competing internationally. The prolonged WTO negotiation and also perhaps its eventual crash are actually blessings in disguise providing Indonesia with the breathing space it needs to solve the country's domestic problems.

On the export side, as already mentioned, virtually all important agricultural exporters are represented by plantation estates. There are of course smallholders, but they are not well organised and their export share is low. They do not appear to have as yet rallied the political clout they need to be able to exercise their interest in the international arena. In any case, the fact that they enjoy a natural monopoly with large world market shares, shows that they do not seem to have major problems in market access in both developed and developing countries. They are able to enjoy this despite the barricades in the form of non-trade barriers placed by developed and developing countries.

5.3 Involvement in Bilateral Trade Agreements and Free Trade Areas (FTA)

Indonesia is involved in free trade areas (FTA) and is party to Bilateral Trade Agreements such as AFTA (ASEAN FTA), ASEAN-China FTA and the Indonesia-China FTA. The country and its Southeast Asian neighbours have been members of AFTA (Asean Free Trade Area) for 15 years. AFTA reduced tariffs for all products since 2002.

AFTA also applies a tariff reduction mechanism called Common Effective Preferential Tariffs (CEPT). Products that are included in the free trade arrangement are classified into: (i) fast track, (ii) normal track, and (iii) exclusion list.

The average tariff level in the AFTA inclusive list reached 2.5 per cent in 2004. Indonesia has placed more than 7,000 products (including primary agricultural products) on the list. The year 2008 is the last year for the schedule of tariff reduction for ASEAN countries. Tariff levels of all products, including products which were previously included in the exclusion list, are to be reduced to 0-5 per cent.

Since some agricultural products are exempted from tariff cuts, the time needed for trade liberalisation has become longer up to 2010. There are only 4 tariff posts (rice and sugar products) that are included on the sensitive list for Indonesia. This position is consistent with Indonesia's stance on the SP in the Doha Round.

With regard to the ACFTA, Indonesia has ratified the early harvest programme (EHP) with China. Since 2006, import tariffs for products from China became 0% for coffee (HS 0901), coconut oil, etc (HS 1513), fat and oil (HS 1516), margarine and similar products (HS 1517), chocolate (HS 1806), soap (3401), rubber (HS 4016), glasses (HS 7011), chairs (HS 9401), and furniture (HS 9403). Again, foods are involved in the ACFTA which is consistent with the AFTA scheme and Indonesia's position in the Round.

These regional cooperations have yet to produce significant impacts on Indonesia's economy, or indeed on the economies of its other member countries as well. For one thing, economic complementarity among ASEAN member countries are quite limited. In fact, among the largest ASEAN economies (Indonesia, Malaysia, Thailand and Singapore) only about 30 per cent of their trade is on average intra ASEAN. Most of their exports are destined to and their imports originate from countries outside ASEAN. For another, the AFTA scheme is quite limited. There are many restrictions that stand in the way and numerous bureaucratic hurdles to be overcome in the use of the CEPT scheme. This makes it unattractive to the business community. Moreover, as these countries have also liberalised their domestic market on MFN basis, the benefits of using CEPT based tariffs, if any, become marginal. It is not surprising that only around 10 per cent of ASEAN intra trade is based on the CEPT.

As regards ACFTA, the scheme has just started and its benefits for Indonesia has so far been relatively limited. Essentially, this is because Indonesia's involvement in trade in parts and components, which is the most dynamic and rapidly growing trade between China and South East Asia, is still limited. Most of Indonesia's exports to China are comprise raw materials such as coal, palm oil and wood.

6. Response to the alternative frameworks

The changes in Indonesia's political economy setting described above shape the country's present general policy stance in international economic policy. Obviously, it also includes Indonesia's trade policy. A more defensive stance towards economic openings is more apparent now than it was during the Uruguay Round when Indonesia's stance was more offensive. This is related to a plethora of domestic problems that emerged in coping with economic restructuring consequent to the 1990s crisis, rapid democratisation and devolution processes which together generated an inward looking orientation of development policy.

This notwithstanding, expectations are still high among the Indonesian stakeholders for the Round to be successful.[104] Regardless of the Round's prolonged negotiation process, which is often exasperating, it is still considered highly important for the developing countries as it aims to integrate trade liberalisation with development. The Round is widely expected to generate a balanced trade agreement encompassing commitments among the three pillars within agriculture as well as with the NAMA and other trade issues.

There is broad recognition that the agreement needs to be market oriented but at the same time capable of providing some allowance for the developing countries to carry out the requisite adjustments. Indeed, transition to market based agriculture in developing countries not only takes time but is also fraught with dilemmas. Provisions for subsidies and other government supports to the sector as formulated in the Green, Amber and Blue boxes of the Agreement on Agriculture mean virtually nothing for the developing countries as their government budget is dwarfed when compared to those of the advanced industrialised countries.

Sudden removals of trade and price control coupled with the elimination of subsidies in agriculture has shown to have impacted heavily on rural agriculture as was the case with the IMF structural adjustment package during the crisis years.[105] The drama lingers on and some control on the importation of food has been reinstituted recently. It is also this experience that inspired Indonesia to take a defensive stance and to take up leadership of the G33.

On the single undertaking modality, there is a strong belief that this scheme is an absolute necessity if a balanced and fair trade agreement is to be established. This principle is needed to ensure balance across different sectors and issues in the Doha Round. Moreover, the modality is not entirely new and has proven to be quite successful. In fact, although not referred to as such, the negotiation in the Uruguay Round was essentially based on the single undertaking principle.[106]

A similar view is also taken of the three pillars of agriculture agreement. Although Indonesia's main interest is presently concentrated on issues of market access, those related to domestic support and export subsidies are also regarded important. This is particularly because of their impact on international commodities prices. The negotiation therefore cannot be separated.

There is however some recognition that the scope of the single undertaking in the current Round may be too extensive and overambitious. From a pragmatic point of view, there is some room for limiting the scope and concluding the Round on what has been agreed leaving the remaining issues for discussion at subsequent trade negotiation.

With respect to the CM, there is serious concern that this modality would not be able to help address rural and agricultural development problems. Also, there are some suspicions that the CM based negotiation in agriculture would eventually be decoupled from the NAMA and other issues where the developing countries have a strong interest.

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[104] In addition to the published materials, we also conducted a series consultation on this issue. For the list of persons consulted, see Appendix B.

[105] The IMF conditionality related to trade liberalization is more pervasive and immiment than that of the WTO.

[106] See Kartadjoemena (2005).

While there is some merit in using CM as a negotiation modality, such as fewer parties in the negotiation, some have raised concern over its effect on the country sovereignty principle of the WTO. If, as is likely the case, each country would have to agree on every one of the commitments and no voting has ever been done in the WTO, then the practicality of the CM is questionable.

Moreover, the CM based negotiation may in fact be more complicated than the current modality. There exist many technical issues related to each agricultural commodity, such as at what HS level would the negotiation be conducted, which could possibly end up in an explosion in the negotiation fora.

That said, however, there is some support for the CM. In general, this support comes from the private sector in dealing with both agriculture and manufacturing. In general, however, the private sector supports the Indonesian Government's stance and would not be likely to initiate anything contrary to it. The NGOs generally express very strong support for the single undertaking modality with an even more defensive stance in the negotiation. Indeed, they would most likely be pleased to see the Round stalled because this would give Indonesia more breathing space to strengthen its domestic economy, including that of the agriculture sector.

From the viewpoint of the political economy, there is the concern that dropping this modality would weaken the meaning of development in the final agreement. Also, the solidarity among developing countries as shown in G20 and G33 and in which case the WTO is the only forum where the voice of developing countries carry significant weight, would likely disappear.[107] Many argue that the developing countries, especially Brazil, India and China, as a whole, would not be willing to abandon easily their hard fought political clout. In this respect, Indonesia would likely to follow the general consensus among the developing countries.

There is also a domestic political dimension to the stance. When the developing countries grouping becomes less pronounced, this would create serious problem for Indonesia considering that its policy stance and negotiation position would be much weaker among others due to poor governance and decision making process at home.

Overall it appears that the time is not yet right to seriously consider alternative approaches to agricultural negotiations. The feeling is that many if not most stakeholders would not be ready for this. There is also an idea that limiting the scope of the single undertaking seems to be better and more practical than the CM. In any case, it may take some time and more deadlocks before alternative approaches and options would be seriously looked at and evaluated. As mentioned before, although Indonesia's policy constituents for trade negotiations have become wider yet they still suffer from lack of substance. At the moment, resources are already meager for evaluating the WTO process, let alone for considering other alternatives and options.

[107] Compared to other international fora such as the UN, IMF, World Bank, the impact of the developing countries in the decision making in the WTO looks much stronger.

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APPENDIX A

Table A.1 – Appendix A Agriculture Export Pattern (in Volume): 2006

HS CODES	Product Descriptions	Total Export (%)	Destinations
1511.90	Other Palm oil and its fractions	34.51%	China (7.24%); Pakistan (2.99%); India (2.94%); Egypt (2.38%); Bangladesh (1.91%); Netherlands (1.89%); Turkey(1.35%); Ukraine (1.18%); Jordan (1.15%); Malaysia (0.96%); Germany. Fed. Rep. Of (0.96%); Myanmar (Form. Burma) (0.89%); Sri Lanka (0.78%); Singapore (0.71%); Russia Federation (0.69%); Saudi Arabia (0.65%); Iran (Islamic Republic Of) (0.58%); Tanzania. United Republic Of (0.57%); South Africa (0.51%); Algeria (0.45%); Italy (0.35%); Philippines (0.32%); United States (0.31%); Spain (0.29%); Brazil (0.25%); Yemen (0.23%); Viet Nam (0.21%); Ecuador (0.20%); United Arab Emirates (0.17%); Greece (0.10%); Ghana (0.09%); Syria Arab Republic (0.09%); Sudan (0.08%); United Kingdom (0.08%); Angola (0.08%); Portugal (0.07%); Mozambique (0.06%); Japan (0.05%); Hong Kong (0.05%); Korea. Republic Of (0.05%); Belgium (0.04%); Cameroon (0.04%); Australia (0.04%); Macau (0.04%); Oman (0.04%); New Zealand (0.04%); Taiwan (0.03%); Senegal (0.03%); Tunisia (0.03%); Cote D'ivoire (0.03%); Bulgaria (0.02%); Congo (0.02%); Gabon (0.02%); Togo (0.02%); Benin (0.01%); Iraq (0.01%); Mexico (0.01%); Djibouti (0.01%); Mauritania (0.01%); Mauritius (0.01%); Gambia (0.01%); Equatorial Guinea (0.01%); Papua New Guinea (0.01%); Czechoslovakia (0.01%); France (0.01%); Maldives (0.01%); East Timor (0.01%)
1511.10	Crude Palm oil	26.00%	India (9.47%); Netherlands (4.17%); Singapore (2.45%); Malaysia; (2.35%); China (1.56%); Sri Lanka (1.45%); Pakistan (1.18%); Germany. Fed. Rep. Of (0.87%); Spain (0.48%); Italy (0.44%); Bangladesh (0.42%); Viet Nam (0.26%); Tanzania. United Republic Of (0.21%); United Kingdom (0.19%); Ukraine (0.14%); Denmark (0.07%); Turkey (0.07%); Brazil (0.04%); Morocco (0.03%); Czechoslovakia (0.03%); Ghana (0.03%); Cote D'ivoire (0.02%); Costa Rica (0.01%); Japan (0.01%); Canada (0.01%); United States (0.01%); Nepal (0.01%); Algeria (0.01%); Venezuela (0.01%)
4001.22	Technically Specified Natural Rubber (TSNR)	9.76%	United States (2.79%); China (1.42%); Japan (1.39%); Singapore (0.62%); Korea. Republic Of (0.41%); Germany. Fed. Rep. Of (0.36%). Canada (0.27%); Brazil (0.22%); France (0.20%); Spain (0.18%); India (0.14%); Turkey (0.13%); Viet Nam (0.13%); Mexico (0.12%); Argentina (0.12%); Italy (0.11%); South Africa (0.11%); Iran (Islamic Republic Of) (0.10%); Colombia (0.09%); Netherlands (0.09%); Poland (0.08%); Belgium (0.07%); Taiwan (0.07%); Slovenia (0.07%); Australia (0.06%); United Kingdom (0.06%); Romania (0.05%; Venezuela (0.05%); Chile (0.04%); Ecuador (0.03%); Pakistan (0.02%); Luxembourg (0.02%); Malaysia (0.02%); Russia Federation (0.02%); New Zealand (0.01%); Peru (0.01%); Tunisia (0.01%); Canada (0.01%); Greece (0.01%); Sweden (0.01%); Hungary (0.01%)
1513.21	Crude oil of Palm kernel or babassu	5.16%	Netherlands (2.00%); China (1.01%); Malaysia (0.80%); India (0.65%); Turkey (0.18%); Germany. Fed. Rep. Of (0.09%); Italy (0.07%); Spain (0.07%); Mexico (0.07%); Jordan (0.05%); Singapore (0.03%); Pakistan (0.03%); Ukraine (0.03%); Algeria (0.02%); Bangladesh (0.02%); Philippines (0.02%); Egypt (0.01%); Myanmar (Form. Burma) (0.01%); Tanzania. United Republic Of (0.01%)
1703.10	Cane molasses	2.62%	Korea. Republic Of (1.11%); Viet Nam (0.82%); Taiwan (0.42%); Spain (0.14%); Japan (0.09%); United Kingdom (0.04%)

HS CODES	Product Descriptions	Total Export (%)	Destinations
1801.00	Cocoa beans. whole or broken. raw or roasted	2.45%	Malaysia (0.95%); United States (0.66%); Brazil (0.32%); Singapore (0.22%); China (0.09%); Canada (0.06%); Germany. Fed. Rep. Of (0.05%); Thailand (0.04%); Colombia (0.03%); Belgium (0.02%); Netherlands (0.01%)
2302.30	Bran. sharps and other residues of Wheat	2.12%	Korea. Republic Of (1.18%); Viet Nam (0.62%); Japan (0.18%); Philippines (0.12%); Taiwan (0.02%); Malaysia (0.01%)
0901.11	Coffee. not roasted. not decaffeinated	2.06%	United States (0.43%); Japan (0.34%); Germany. Fed. Rep. Of (0.30%); Italy (0.14%); Singapore (0.07%); Algeria (0.07%); United Kingdom (0.06%); Egypt (0.06%); India (0.06%); Georgia (0.05%); Romania (0.04%); Malaysia (0.04%); Morocco (0.04%); South Africa (0.04%); Poland (0.03%); Bulgaria (0.03%); Philippines (0.03%); Spain (0.03%); Belgium (0.02%); Ecuador (0.02%); Taiwan (0.02%); Korea. Republic Of (0.01%); Australia (0.01%); Iran (Islamic Republic Of) (0.01%); Canada (0.01%); France (0.01%); Netherlands (0.01%); Greece (0.01%); Switzerland (0.01%); Portugal (0.01%); Estonia (0.01%); China(0.01%)
1513.11	Crude oil of Coconut (copra). palm kernel or babassu	1.92%	China (0.53%); Netherlands (0.50%); Malaysia (0.43%); United States (0.12%); Turkey (0.06%); Sweden (0.05%); Singapore (0.05%); India (0.04%); Italy (0.03%); Ukraine (0.03%); Spain (0.02%); United Kingdom (0.01%); Tanzania. United Republic Of (0.01%); Egypt (0.01%); Mexico (0.01%)
4001.21	Smoked sheets	1.63%	Japan (0.39%); China (0.26%); United States (0.15%); Belgium (0.12%); Canada (0.06%); United Kingdom (0.06%); Singapore (0.05%); Poland (0.05%); Germany. Fed. Rep. Of (0.05%); Netherlands (0.04%); South Africa (0.04%); Korea. Republic Of (0.04%); Taiwan (0.04%); Spain (0.03%); Venezuela (0.02%); Russia Federation (0.02%); Philippines (0.02%); Brazil (0.02%); India (0.02%); Mexico (0.02%); Iran (Islamic Republic Of) (0.01%); Egypt (0.01%); Ukraine (0.01%); Australia (0.01%); France (0.01%); Italy (0.01%); Viet Nam (0.01%); Malaysia (0.01%); Turkey (0.01%); Belarus (0.01%); Slovenia (0.01%)
1513.29	Other Palm kernel or babassu oil and fraction	1.21%	Brazil ((0.43%); United States (0.16%); China (0.12%); Turkey (0.09%); Malaysia (0.06%); Ukraine (0.05%); South Africa (0.05%); Netherlands (0.03%); Singapore (0.03%); Greece (0.03%); Jordan (0.03%); Saudi Arabia (0.03%); Germany. Fed. Rep. Of (0.02%); Pakistan (0.01%); Syria Arab Republic (0.01%); Sri Lanka (0.01%); Egypt (0.01%); Russia Federation (0.01%); Italy (0.01%); Iran (Islamic Republic Of) (0.01%)
2008.20	Pineapples. whether or not containing added sugar or other sweetening matter or spirit	0.93%	United States (0.22%); Germany. Fed. Rep. Of (0.13%); Singapore (0.12%); Spain (0.10%); Netherlands (0.09%); Japan (0.04%); Argentina (0.03%); Russia Federation (0.02%); Finland (0.02%); France (0.02%); Chile (0.02%); Italy (0.02%); United Kingdom (0.01%); Belgium (0.01%); Austria (0.01%);Australia (0.01%); Sweden (0.01%); Norway (0.01%); Romania (0.01%)
0802.90	Other nuts. fresh or dried. whether or not shelled or peeled	0.76%	India (0.41%); Pakistan (0.27%); Nepal (0.03%); Singapore (0.02%); Bangladesh (0.01%); Malaysia (0.01%); China (0.01%)

Source: Calculated from Statistical Export and Import of Indonesia 2007

Table A.2 - Appendix A: Agriculture Product Import Pattern (in Volume): 2006

HS Code	Product Description	Percent	Country Origins
1001.90	Other Wheat and Meslin	30.77	Australia (19.87%); Canada (7.21%); United States (1.38%); Ukraine (0.99%); Russia Federation (0.55%); Bulgaria (0.37%); Japan (0.26%); Viet Nam (0.12%); China (0.10%); Italy (0.04%)
2304.00	Oil-cake and other solid residues of soyabean	14.72	Argentina (6.69%); India (4.54%); Brazil (2.83%); United States (0.33%); United Arab Emirates (0.27%); Singapore (0.04%); Malaysia (0.01%);
1005.90	Other Maize (corn)	11.36	United States (6.70%); Argentina (3.62%); Thailand (0.66%); China (0.16%); India (0.13%); Myanmar (0.07%); Malaysia (0.01%);
1201.00	Soya beans, whether or not broken	7.87	United States (7.34%); Argentina (0.47%); Malaysia (0.04%); Myanmar (Form. Burma) (0.01%)
1701.11	Cane Sugar	5.46	Australia (3.05%); Brazil (0.94%); Thailand (0.65%); South Africa (0.43%); El Salvador (0.26%); Guatemala (0.09%); Andorra (0.06%)
1101.00	Wheat or meslin flour	3.63	Australia (1.21%); Sri Lanka (1.01%); Turkey (0.38%); Belgium (0.37%); United Arab Emirates (0.27%); China (0.24%); Japan (0.04%); Malaysia (0.03%); Singapore (0.03%); Oman (0.02%); Hong Kong (0.02%); Taiwan (0.01%)
5201.00	Cotton, not carded or combed	3.10	United States (1,10%); Australia (0.60%); India (0.28%); Brazil (0.24%); South Africa (0.10%); Burkina Faso (0.06%); Tanzania, United Republic Of (0.05%); Uzbekistan (0.05%); Mali (0.05%); Cote D'ivoire (0.04%); Mozambique (0.04%); Pakistan (0.04%); Syria Arab Republic (0.04%); Central African Republic (0.04%); Cameroon (0.03%); Mexico (0.03%); Zimbabwe (0.03%); Uganda (0.03%);Malawi (0.02%); Togo (0.02%); Ethiopia (0.02%); Zambia (0.02%); Benin (0.02%); Indonesia (0.01%); Nigeria (0.01%); Ghana (0.01%); Switzerland (0.01%); Greece (0.01%); Turkey (0.01%); Senegal (0.01%); Chad (0.01%)
2309.90	Meat bone meal and hydrolised feather meal	2.36	New Zealand (0.71%); United States (0.51%); Australia (0.49%); Spain (0.26%); Singapore (0.12%);Italy (0.09%); Belgium (0.03%); Germany, Fed. Rep. Of (0.02%); Malaysia (0.02%);Netherlands (0.01%); India (0.01%); China (0.01%); Taiwan (0.01%); France (0.01%); Korea, Republic Of (0.01%); Colombia (0.01%); Japan (0.01%)

HS Code	Product Description	Percent	Country Origins
0703.20	Garlic, fresh or chilled	2.02	China(1.99%); Malaysia (0.02%); Thailand(0.01%)
1108.14	Manioc (cassava) starch	1.97	Thailand (1.94%); Cambodia (0.01%); Japan (0.01%)
1006.30	Semi-milled or wholly milled rice, whether or not polished or glazed	1.55	Viet Nam (1.18%);Thailand (0.35%); Singapore (0.01%); United States (0.01%); Australia (0.01%)
2301.10	Flours, meals and pellets, of meat or meat greaves	0.91	Spain (0.42%); United States (0.27%); Italy (0.19%); New Zealand (0.01%); Peru (0.01%);Australia (0.01%)
1701.99	Refined Sugar	0.85	Thailand (0.33%); India (0.25%); China (0.12%); United Kingdom (0.05%); South Africa (0.04%); Belgium (0.03%); Hong Kong (0.02%); Indonesia (0.01%)
1006.40	Broken rice	0.84	Thailand (0.66%); Viet Nam (0.18%)
0808.10	Apples, fresh	0.84	China (0.56%); United States (0.23%); New Zealand (0.01%); South Africa (0.01%); Singapore (0.01%); France (0.01%); Australia (0.01%); Chile (0.01%)
1202.10	Ground-nuts, in shell	0.72	India (0.69%); China (0.02%)
0703.10	Onions and shallots, fresh or chilled	0.71	Thailand (0.30%); Philippines (0.12%); Viet Nam (0.09%); Netherlands (0.07%); New Zealand (0.04%); Malaysia (0.04%); India (0.04%); China (0.01%); Myanmar (Form. Burma) (0.01%); Australia (0.01%)
0102.90	Other Live bovine animals	0.64	Australia (0.64%)

Source: Calculated from Statistical Export and Import of Indonesia 2007, CBS

Appendix B

Table 1 – Appendix B: List of persons consulted

No	Name	Institution	Position
1	Arief Daryanto	Faculty of Economics and Management, Bogor Agriculture Institute (IPB)	Faculty member and Director of Business Management
2	Asianto Sinambela	Ministry of Foreign Affairs	Director, Trade, Industry and Intellectual Property Rights (MOFA); negotiator for NAMA and Services
3	Bonnie Setiawan	Institute Global Justice (NGO)	Director
4	Delima Azhari Dermawan	Ministry of Agriculture	Negotiator for Agriculture; former Director General for Processing and Marketing Agriculture Products
5	Dudi S. Hendrawan	Faculty of Economics and Management, Bogor Agriculture Institute (IPB)	Faculty member
6	Erna Maria Lokollo	Ministry of Agriculture, Indonesian Center for Agriculture Socio Economic and Policy Studies (ICASEPS)	Technical team for agriculture negotiation, Ministry of Agriculture
7	Halida Miljani	Ministry of Trade (MOT)	Trade Advisor for MOT, Chair of the Anti Dumping Committee; former Indonesian Ambassador to WTO, Geneva
8	Handewi P. Saliem	Ministry of Agriculture, Indonesian Center for Agriculture Socio Economic and Policy Studies (ICASEPS)	Head of Research Program and Evaluation
9	Hassan S. Kartadjoemena	Ministry of Trade (MOT)	Former Indonesian Ambassador to WTO, Chief Negotiator in the Uruguay Round, Geneva
10	Noes Soediono	Indonesian Chamber of Commerce and Industry (KADIN)	Deputy Chairperson of KADIN, Chair Food and Agribusiness Committee
11	Nunung Nuryantono	Faculty of Economics and Management, Bogor Agriculture Institute (IPB)	Faculty member
12	Nur Azzam Achsani	Faculty of Economics and Management, Bogor Agriculture Institute (IPB)	Faculty member
13	Rina Oktaviani	Faculty of Economics and Management, Bogor Agriculture Institute (IPB)	Faculty member and Head of Economic Department, IPB
14	Suharyo Husen	Indonesian Chamber of Commerce and Industry (KADIN)	Member, Food and Agribusiness Committee
15	Tika Wihanasari	Ministry of Foreign Affairs	Senior Officer, Director for Trade, Industry and Intellectual Property Rights, in charge with the WTO agriculture negotiation

Appendix 5 – Expert Opinion Papers

This appendix contains the expert opinion papers commissioned by us from the following experts and presented at the Adelaide mid-point conference in December 2008:

- Professor Kym Anderson, University of Adelaide
- Ambassador Carlos Perez del Castillo, Former Chairman, WTO General Council
- Professor Simon Evenett, University of St. Gallen
- Sallie James, Cato Institute
- Professor Tim Josling, Stanford University
- Patrick Low, WTO Secretariat
- Professor Peter Lloyd, University of Melbourne
- Razeen Sally & Valentin Zahrnt, European Centre for International Political Economy
- Alan Winters, University of Sussex

Reforming Agricultural Policies: Post-1980s Progress, Prospects under Doha

Kym Anderson

It is easy to understand the despair many in the trade policy community feel over agricultural policies. Regardless of whether the policy setting is unilateral, bilateral, regional, plurilateral or multilateral, reforming agricultural policies is so often one of the most difficult issues to settle. In the first seven rounds of multilateral trade negotiations under GATT, agriculture was so contentious that it was either not included or subsequently taken off the agenda. Even after a decade of GATT activity the Haberler Report warned Contracting Parties that agricultural protection growth was a threat to liberalising global trade (Haberler 1958). In the case of the eighth GATT round (the Uruguay Round), agricultural negotiations prolonged the conclusion by several years, and even then the agreed cuts to tariffs and subsidies turned out to be in many cases illusionary because binding commitments were set well above applied rates of intervention. In the current Doha round of the World Trade Organization (WTO), as of late 2008 members had not even been able to reach agreement on modalities for the agricultural negotiations, despite seven years of effort.

Dire though the situation is from the trade policy community's perspective (not to mention the perspectives of the development, poverty, sustainability, etc. communities), some hope can be gleaned from an empirical assessment of the past half century. Such a review reveals that while things got worse in the first half of that period, much progress in agricultural price and trade policy reform has in fact been made in the past two decades. It is also helpful in putting in perspective those aspects that still need to be addressed.

This paper summarises some new empirical findings from a World Bank research project. That evidence shows the extent to which the disarray in world agricultural markets worsened from the 1950s to the 1980s as well as the gradual progress in reform since then. It also includes some economy-wide modelling results that show how far that reform had progressed by 2004 compared with what was still needed before agricultural markets would be free of distortions. It then concludes with an assessment of how WTO could help complete that reform process.

The worsening disarray to the 1980s, and subsequent reforms

Huge progress has been made in reducing manufacturing protection rates in high-income countries since the late 1940s when the GATT came into being. Commitments were made by GATT Contracting Parties to lower tariffs and phase out non-tariff barriers progressively following each GATT round of negotiations, such that by the new millennium the average rate of manufacturing protection was less than 2 percent in OECD countries. By contrast, manufacturing protection was introduced by many newly independent developing countries from around 1960, encouraged by Prebish and Singer in what became known as import-substituting industrialisation; and it was accompanied by multiple exchange rates that led to currencies being highly overvalued. Both measures were trade-reducing, and both indirectly harmed the agricultural sectors of developing countries. Farmers in many developing countries were also harmed directly by agricultural export taxes either explicitly or implicitly through state-owned processing/trading enterprises that paid farmers low prices for their primary products.

To measure the impact of those interventions and subsequent policy developments on farmer incentives, a recent World Bank research project (see www.worldbank.org/agdistortions) developed a series of indicators. Before presenting the results, those indicators need to be described briefly.

Indicators of distortions to agricultural incentives

The most basic measure, the nominal rate of assistance (NRA), is the percentage by which government policies have raised gross returns to farmers above what they would be without the government's intervention (or lowered them, if the NRA is negative). Similarly, a consumer tax equivalent (CTE) is calculated, as the percentage by which policies have raised prices paid by consumers of agricultural outputs (with a negative value implying a subsidy to consumers). The NRA and CTE will be identical if the sole source of government intervention is a trade measure and the two are measured at the same point in the value chain. These two measures are similar to the OECD (2008) producer and consumer support estimates (PSE and CSE), but an important difference is that the NRA and CTE are expressed as a percentage of the undistorted (e.g., border) rather than the distorted price.

Each farm industry is classified either as import-competing, or a producer of exportables, or as producing a nontradable (with its status sometimes changing over the years), so that it is possible to generate for each year the weighted average NRAs for the two different groups of tradables. Those NRAs are used to generate a trade bias index, TBI, defined as:

(1) $$TBI = (1+NRAag_x/100)/(1+NRAag_m/100) - 1$$

where $NRAag_m$ and $NRAag_x$ are the average percentage NRAs for the import-competing and exportables parts of the agricultural sector. The TBI indicates in a single number the extent to which the typically anti-trade bias (negative TBI) in agricultural policies changes over time.

Farmers are affected not just by prices of their own outputs but also (albeit indirectly via changes to factor market prices and the exchange rate) by the incentives non-agricultural producers face. That is, it is *relative* prices and hence *relative* rates of government assistance that affect producer incentives. By generating estimates also of the average NRA for non-agricultural tradables, it is possible to calculate a Relative Rate of Assistance, RRA, defined in percentage terms as:

(2) $$RRA = 100[(1+NRAag^t/100)/(1+NRAnonag^t/100) - 1]$$

where $NRAag^t$ and $NRAnonag^t$ are the weighted average percentage NRAs for the tradable parts of the agricultural and non-agricultural sectors, respectively. Since the NRA cannot be less than -100 percent if producers are to earn anything, neither can the RRA (assuming $NRAnonag^t$ is positive). And if both of those sectors are equally assisted, the RRA is zero. This measure is useful in that if it is below (above) zero, it provides an internationally comparable indication of the extent to which a country's policy regime has an anti- (pro-) agricultural bias.

Exchange rate distortions generated by dual or multiple exchange-rate regimes also are considered when calculating NRAs and CTEs, following the methodology outlined in Anderson et al. (2008). These have been important in many developing countries, particularly during the 1970s and 1980s, making the absolute magnitude of their estimated (typically) positive NRAs for importables and (typically) negative NRAs for exportables larger than they otherwise would have been.

To provide single indicators of distortions imposed by each country's border and domestic agricultural policies on its economic welfare and its trade volume, Lloyd, Croser and Anderson (2008) define a

Welfare Reduction Index (WRI) and a Trade Reduction Index (TRI) and estimate them for the 75 countries in the World Bank study, taking into account that the NRA differs from the CTE for some products (while ignoring indirect effects of sectoral and trade policy measures directed at non-agricultural sectors). The WRI measure reflects the true welfare cost of agricultural price-distorting policies better than the NRA and CTE because it takes into account the dispersion in distortions. That is, it captures the disproportionately higher welfare costs of peak levels of assistance or taxation.

Estimates of distortions since the 1950s

The study launched by the World Bank in 2006 involved 75 countries (including 20 high-income countries) that together account for 92 percent of agricultural GDP. The global summary of those new results is provided in Figure 1. It reveals that the nominal rate of assistance to farmers in high-income countries rose steadily over the post-World War II period through to the end of the 1980s, apart from a small dip when international food prices spiked around 1973-74. After peaking at more than 50 percent in the mid-1980s, that average NRA for high-income countries has fallen a little, depending on the extent to which one believes some new farm programs are 'decoupled' in the sense of no longer influencing production decisions. For developing countries, too, the average NRA for agriculture has been rising, but from a level of around -25 percent during the period from the mid-1950s to the early 1980s to a level of nearly 10 percent in the first half of the present decade. Thus the global gross subsidy equivalent of those rates of assistance have risen very substantially in constant (2000) US dollar terms, from close to zero up to the mid-1970s to more than $200 billion per year at the farm-gate since the mid-1990s (Figure 2).

When expressed on a per farmer basis, the gross subsidy equivalent (GSE) varies enormously as between high-income and developing countries. In 1980-84 the GSE in high-income countries was already around $8,000 and by 2000-04 it had risen to $10,000 on average (and $25,000 in Norway, Switzerland and Japan), or $13,500 when 'decoupled' payments are included. By contrast, the GSE in developing economies was -$140 per farmer in the first half of the 1980s, which is a non-trivial tax when one recalls that at that time the majority of these people's households were surviving on less than $1 a day per capita. By 2000-04 they received on average around $50 per farmer (Anderson 2009, Ch. 1). While this represents a major improvement, it is less than one percent of the support received by the average farmer in high-income countries.

The developing country average NRA conceals the fact that the exporting and import-competing sub-sectors of agriculture have very different NRAs. Figure 3 reveals that while the average NRA for exporters has been negative throughout (going from -20 percent to -30 percent before coming back up to almost zero in 2000-04), the NRA for import-competing farmers in developing countries has fluctuated between 20 and 30 percent (and even reached 40 percent in the low-priced years in the mid-1980s). Having increased in the 1960s and 1970s, the anti-trade bias within agriculture for developing countries has diminished considerably since the mid-1980s, but the NRA gap between the two sub-sectors still averages around 20 percentage points.
Figure 3 also reveals that the NRA for import-competing farmers has increased at virtually the same pace as in high-income countries. This suggests that agricultural protection growth is something that tends to begin at low levels of per capita income rather than being just a high-income phenomenon.

The improvement in farmers' incentives in developing countries is understated by the above NRAag estimates, because those countries have also reduced their assistance to producers of non-agricultural tradable goods, most notably manufactures. The decline in the weighted average NRA for the latter, depicted in Figure 4, was clearly much greater than the increase in the average NRA for tradable agricultural sectors for the period to the mid-1980s, consistent with the finding two decades ago of Krueger, Schiff and Valdés (1988, 1991). For the period since the mid-1980s, changes in both sectors' NRAs have contributed almost equally to the improvement in farmer incentives. The Relative Rate of Assistance, captured in equation (2) above, provides a useful indicator of relative price change: the RRA for developing countries as a group went from -46 percent in the second half of the 1970s to 1 percent in the first half of the present decade. This increase (from a coefficient of 0.54 to 1.01) is equivalent to an almost doubling in the relative price of farm products, which is a huge change in the fortunes of developing country farmers in just a generation. This is mostly because of the changes in Asia, but even for Latin America that relative price hike is one-half, while for Africa that indicator improves by only one-eighth. As for high-income countries, assistance to manufacturing was on average much smaller than assistance to farmers even in the 1950s, and its decline since then has had only a minor impact on that group's average RRA (Figure 4).[108]

While the RRA captures the extent of anti- or pro-agricultural bias in policies across sectors, the trade bias index (TBI) defined in equation (1) above is able to capture the extent to which the exporting and import-competing sub-sectors of agriculture have very different NRAs. Figure 5 shows agriculture's TBI on the horizontal axis and the RRA on the vertical axis. An economy with no anti- or pro-agricultural bias (RRA = 0) and no anti- or pro-trade bias within the farm sector (TBI = 0) would be located at the intersection of the two axes in Figure 5. Africa, Asia and Latin America (shown there as LAC) were all well to the southwest of that neutral point as of 1980-84, but by 2000-04 all had moved to become much closer to the vertical axis (meaning they had reduced their anti-trade bias in agriculture), and all but Africa had become closer to the horizontal axis. Asia is now above rather than below that axis, which means those developing countries are assisting farmers relative to producers of other tradable products. While that can lead to just as much waste of resources as the earlier anti-agricultural policy bias, it is only in Korea and Taiwan that the 2000-04 RRA is well above zero (being just 1 percent for China and 4 percent for Southeast Asia).

The RRA changes are perhaps most extreme in the populous economies of China and India (Figure 6). But similar changes, if less dramatic, occurred in the other two large developing economies of Brazil and Indonesia (Figure 7).

Turning to the single indicators of the impact of agricultural distortions on national economic welfare and trade volume, Lloyd, Croser and Anderson (2008) estimate their Welfare Reduction Index (WRI) and Trade Reduction Index (TRI) for the 75 countries in the above-mentioned World Bank study.

The WRI results in Figure 8 indicate a steadily rising tendency from the 1960s to the 1980s for agricultural policies to reduce welfare, but some decline in the 1990s. This reflects the fact that NRAs for high-income and developing countries diverged (in opposite ways) away from zero in the first half of the period under study and then converged toward zero in the most recent quarter-century. That meant their weighted average NRA traces out a fairly flat trend whereas the WRI traces out a hill-shaped path and thus provides a less misleading indicator of resource misallocation in world agricultural markets. The TRI indicates that the trade restrictiveness of agricultural policy for developing countries as a group was roughly constant until the early 1990s and thereafter it declined, especially for Asia and Latin America, while for high-income countries the TRI decline began a few years later. The TRI for developing countries is driven by the exportables sub-sector which was being taxed until recently and the import-competing sub-sector which was and is increasingly being protected (albeit by less than in high-income countries). For high-income countries, policies have supported both exporting and import-competing agricultural products and, even though they favor the latter much more heavily, the assistance to exporters has offset somewhat the anti-trade bias from the protection of import-competing producers. The net result, shown in Figure 9, is that the global TRI rises from around 20 percent in the 1960s to around 30 percent in the latter 1980s before falling to a little above 10 percent by the latter 1990s.

Economy-wide effects of past reforms and of remaining policies

It is clear from the above that there has been a great deal of reform over the past quarter of a century in policy distortions to agricultural incentives throughout the world: the anti-agricultural and anti-trade biases of policies of many developing countries have been reduced, export subsidies of high-income countries have been cut, and some re-instrumentation toward less inefficient and less trade-distorting

[108] Australia and New Zealand were clear exceptions, where manufacturing protection had been very high and its decline was several decades later than in other high-income countries (Anderson, Lloyd and MacLaren 2007).

forms of support, particularly in Western Europe, has begun. However, protection from agricultural import competition has continued to be on an upward trend in both rich and poor countries, notwithstanding the Uruguay Round Agreement on Agriculture that aimed to bind and reduce farm tariffs.

What have been the net economic effects of agricultural price and trade policy changes around the world since the early 1980s? And how do those effects on global markets, farm incomes and economic welfare compare with the effects of policy distortions still in place as of 2004? Valenzuela, van der Mensbrugghe and Anderson (2009) use a global economy-wide model known as Linkage (van der Mensbrugghe 2005) to provide a combined retrospective and prospective analysis that seeks to assess how far the world has come, and how far it still has to go, in removing the disarray in world agriculture. It quantifies the impacts both of past reforms and current policies by comparing the effects of the recent World Bank project's distortion estimates for the period 1980-84 with those of 2004.

Several key findings from that economy-wide modelling study are worth emphasising. First, the policy reforms from the early 1980s to the mid-2000s improved global economic welfare by $233 billion per year, and removing the distortions remaining as of 2004 would add another $168 billion per year (in 2004 US dollars). This suggests that in a global welfare sense the world had moved three-fifths of the way towards global free trade in goods over that quarter century.

Second, developing economies benefited proportionately more than high-income economies (1.0 percent compared with 0.7 percent of national income) from those past policy reforms, and would gain nearly twice as much as high-income countries if all countries were to complete that reform process (an average increase of 0.9 percent compared with 0.5 percent for high-income countries). Of those prospective welfare gains from global liberalisation, 60 percent would come from agriculture and food policy reform. This is a striking result given that the shares of agriculture and food in global GDP and global merchandise trade are only 3 and 6 percent, respectively. The contribution of farm and food policy reform to the prospective welfare gain for just developing countries is even greater, at 83 percent.

Third, the share of global farm production exported (excluding intra-EU trade) in 2004 was slightly smaller as a result of those reforms since 1980-84, because of less farm export subsidies. Agriculture's 8 percent share in 2004 contrasts with the 31 percent share for other primary products and the 25 percent for all other goods – a 'thinness' that is an important contributor to the volatility of international prices for weather-dependent farm products. If the policies distorting goods trade in 2004 were removed, the share of global production of farm products that is exported would rise from 8 to 13 percent, thereby reducing instability of prices and quantities of those products traded.

Fourth, the developing countries' share of the world's primary agricultural exports rose from 43 to 55 percent, and its farm output share from 58 to 62 percent, because of the reforms since the early 1980s, with rises in nearly all agricultural industries except rice and sugar. Removing remaining goods market distortions would boost their export and output shares even further, to 64 and 65 percent, respectively.

Fifth, the average real price in international markets for agricultural and food products would have been 13 percent lower had policies not changed over the past quarter century. Evidently the impact of the RRA fall in high-income countries (including the cuts in farm export subsidies) in raising international food prices more than offset the opposite impact of the RRA rise (including the cuts in agricultural export taxes) in developing countries over that period. By contrast, removing remaining distortions as of 2004 is projected to raise the international price of agricultural and food products by less than 1 percent on average. This is contrary to earlier modelling results based on the GTAP protection database. (For example, Anderson, Martin and van der Mensbrugghe (2006) estimated they would rise by 3.1 percent or, for just primary agriculture, by 5.5 percent). The lesser impact in these new results is because export taxes in developing countries based on the above NRA estimates for 2004 are included in the new database (most notably for Argentina) and their removal would offset the international price-raising effect of eliminating import protection and farm subsidies elsewhere.

Sixth, for developing countries as a group, net farm income (value added in agriculture) is estimated to be 4.9 percent higher than it would have been without the reforms of the past quarter century, which is more than ten times the proportional gain for non-agriculture. If policies remaining in 2004 were removed, net farm incomes in developing countries would rise a further 5.6 percent, compared with just 1.9 percent for non-agricultural value added. As well, unskilled workers in developing countries – the majority of whom work on farms – would see their returns rise more than returns to other productive factors from that liberalisation. Together, these findings suggest both inequality and poverty could be alleviated by such reform, given that three-quarters of the world's poor are farmers in developing countries (Chen and Ravallion 2008).

Prospects for further reductions in distortions

Why have some countries reformed their price-distorting agricultural and trade policies more than others in recent decades? Some have reformed unilaterally, apparently having become convinced that it is in their own national interest to do so. China is the most dramatic and significant example of the past three decades among developing countries, and Australia and New Zealand among the high-income countries (Huang et al. 2009, Anderson, Lloyd and MacLaren 2007). Other developing countries may have done so partly to secure bigger and better loans from international financial institutions and then, having taken that first step, they have continued the process, even if somewhat intermittently. India is one example, but there are numerous examples also in Africa and Latin America. Few have gone backwards in terms of increasing their anti-agricultural bias, but Zimbabwe and perhaps Argentina qualify during the present decade – and numerous others joined them in 2008, at least temporarily, in response to the sudden upward spike in international food prices. And some have reduced their agricultural subsidies and import barriers at least partly in response to the GATT's multilateral Uruguay Round Agreement on Agriculture, the European Union (EU) being the most important example (helped by its desire also for otherwise-costly preferential trade agreements, including its expansions eastwards in 2004 and 2007).

The EU reforms suggest agricultural protection growth can be slowed and even reversed if accompanied by re-instrumentation away from price supports to decoupled measures or more direct forms of farm income support (Josling 2009). The starker examples of Australia and New Zealand show that one-off buyouts can bring faster and even complete reform.[109] But in the developing countries where rates of agricultural protection are generally below high-income rates, there are fewer signs of a slowdown of the upward trend in agricultural protection from import competition over the past half-century.

> Indeed, there are numerous signs that developing country governments want to keep open their options to raise agricultural NRAs in the future, particularly via import restrictions. One indicator is the high tariff bindings developing countries committed themselves to following the Uruguay Round: as of 2001, actual applied tariffs on agricultural products averaged less than half the corresponding bound tariffs for developing countries of 48 percent, and less than one-sixth in the case of least-developed countries (Anderson and Martin 2006, Table 1.2).
>
> Another indicator of agricultural trade reform reluctance is the unwillingness of many developing countries to agree to major cuts in bound agricultural tariffs in the WTO's on-going Doha round of multilateral trade negotiations. Some of them believe high-income countries should commit to reducing their remaining farm tariffs and subsidies before developing countries should offer further reform commitments of their own. Yet modelling results reported in Anderson, van der Mensbrugghe and Valenzuela (2009) suggest that if high-income countries alone were to liberalise their agricultural markets, such a sub-global reform would provide less than two-thirds of the potential gains to developing countries that could come from global agricultural policy reform.

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[109] Anderson, Lloyd and MacLaren (2007). For a detailed analysis of the buyout option versus the slower and less complete cashout option (moving to direct payments), as well as the uncompensated gradual squeeze-out or sudden cutout options, see Orden and Diaz-Bonilla (2006).

More than that, the current negotiations have brought to prominence a new proposal for agricultural protectionism in developing countries. This is based on the notion that agricultural protection is helpful and needed for food security, livelihood security and rural development. This view has succeeded in bringing “Special Products” and a “Special Safeguard Mechanism” into the multilateral trading system’s agricultural negotiations, despite the fact that such policies, which would raise domestic food prices in developing countries, may worsen poverty and the food security of the poor, and would exacerbate instability in international markets for farm products.

> To wait for high-income country reform before liberalising the farm trade of developing countries is unwise as a poverty alleviating strategy, not least because the past history revealed in the NRAs summarised above suggests such reform will be at best slow in coming. In the US, for example, the most recent two five-year farm bills were steps backwards from the previous regime which at least had begun to re-instrument protection towards less trade-distorting measures (Gardner 2009). Nor have the world’s large number of new regional integration agreements of recent years been very successful in reducing farm protection. Furthermore, for developing countries to postpone their own reform would be to forego a major opportunity to boost theirs and (given the size and growth in South-South trade of late) their neighbors’ economies. As Anderson and Winters (2009) argue, it would be doubly wasteful if, by being unwilling to commit to reform in that way, they would be unable to convince high-income countries to reciprocate by signing on to a more-ambitious Doha agreement, the potential global benefits from which are very considerable.

Developing economies that continue to free up domestic markets and practice good macroeconomic governance will keep growing. Typically the growth will be more rapid in manufacturing and service activities than in agriculture, especially in the more densely populated countries where agricultural comparative advantage is likely to decline. Whether such economies become more dependent on imports of farm products depends, however, on what happens to their relative Rates of Assistance (RRA). The first wave of Asian industrialisers (Japan, and then Korea and Taiwan) chose to slow the growth of food import dependence by raising their NRA for agriculture even as they were bringing down their NRA for non-farm tradables, such that their RRA became increasingly above the neutral zero level. A key question is: will later industrialisers copy advanced economies, given the past close association of RRAs with rising per capita income and falling agricultural comparative advantage? Figures 3 and 4 suggest developing countries’ RRA trends of the past three decades have been on the same upward trajectory as the high-income countries prior to the 1990s. So unless new forces affect their polities, the governments of later industrialising economies may well follow suit.

One new force is disciplines on farm subsidies and protection policies of WTO member countries following the Uruguay Round. Earlier industrialisers were not bound under GATT to keep down their agricultural protection. Had there been strict disciplines on farm trade measures at the time Japan and Korea joined GATT in 1955 and 1967, respectively, their NRAs may have been halted at less than 20 percent (Anderson 2009, Figure 1.12). At the time of China’s accession to WTO in December 2001, its NRA was less than 5 percent according to Huang et al. (2009), or 7.3 percent for just import-competing agriculture. Its average bound import tariff commitment was about twice that (16 percent in 2005), but what matters most is China’s out-of-quota bindings on the items whose imports are restricted by tariff rate quotas. The latter tariff bindings as of 2005 were 65 percent for grains, 50 percent for sugar and 40 percent for cotton (Anderson, Martin and Valenzuela 2009). Clearly the legal commitments even China made on acceding to WTO are a long way from current levels of support for its farmers, and so are unlikely to constrain the government very much in the next decade or so. And the legal constraints on developing countries that joined the WTO earlier are even less constraining. For India, Pakistan and Bangladesh, for example, their estimated NRAs for agricultural importables in 2000-04 are 34, 4 and 6 percent, respectively, whereas the average bound tariffs on their agricultural imports are 114, 96 and 189 percent, respectively (WTO, ITC and UNCTAD 2007).

Also, like other developing countries, they have high bindings on product-specific domestic supports of 10 percent and another 10 percent for non-product specific assistance, a total of 20 more percentage points of NRA (17 percent in China's case) that legally could come from domestic support measures – compared with currently 10 percent in India and less than 3 percent in the rest of South Asia.

Hopefully developing countries will choose not to make use of the legal wiggle room they have allowed themselves in their WTO bindings to follow Japan, Korea and Taiwan into high agricultural protection. A much more efficient and equitable strategy would be to instead treat agriculture in the same way they have been treating non-farm tradable sectors. That would involve opening the sector to international competition, and relying on more-efficient domestic policy measures for raising government revenue (e.g., income and consumption or value-added taxes in lieu of trade taxes)[110] and for assisting farm families (e.g., public investment in rural education and health, rural infrastructure, and agricultural research and development). Investments in public agricultural R&D in developing countries as a group is currently equivalent to less than 1 percent of the gross value of farm production (about half the intensity of high-income countries). Given the extremely high rates of return at the margin to such investments (see, e.g., Fan 2008), expenditure on that would be far wiser than providing border or domestic farm price supports as emerging economies develop.

> The above distortion estimates show that all high-income countries have lowered the price supports for their farmers since the 1980s, in some countries partly replacing it with assistance that is at least somewhat decoupled from production. If that trend continued at the pace of the past quarter century, and if there was a reversal in the growth of agricultural protection in developing countries, then before the middle of this century most of the disarray in world food markets would have gone. However, if the WTO's Doha Development Agenda collapses, and high-income country governments thereby find it more difficult to ward off agricultural protection lobbies, it is all the more likely that developing countries will follow the same agricultural protection path this century as that taken last century by high-income countries. With the current downturn in the global economy, now is an especially crucial time for governments to do what is necessary to bring the Doha round to a successful conclusion. If that requires giving up on the goal of a single undertaking and having only a plurilateral 'critical mass' agreement for agriculture (as suggested by Gallagher and Stoler 2009), that may not be as bad for the rules-based trading system as an agricultural agreement with many exceptions for sensitive and special products and a special safeguard mechanism that would perpetuate the instability in international markets for farm products – although, as Josling (2008) notes, it could raise a number of practical difficulties within the WTO.

[110] Developing countries are becoming less and less reliant on trade taxes as a source of government revenue, with even very poor countries realizing that a tax imposed at the border, if called a consumption tax rather than a tariff, does not induce protected domestic production and yet can raise the same revenue at the same collection cost as a tariff.

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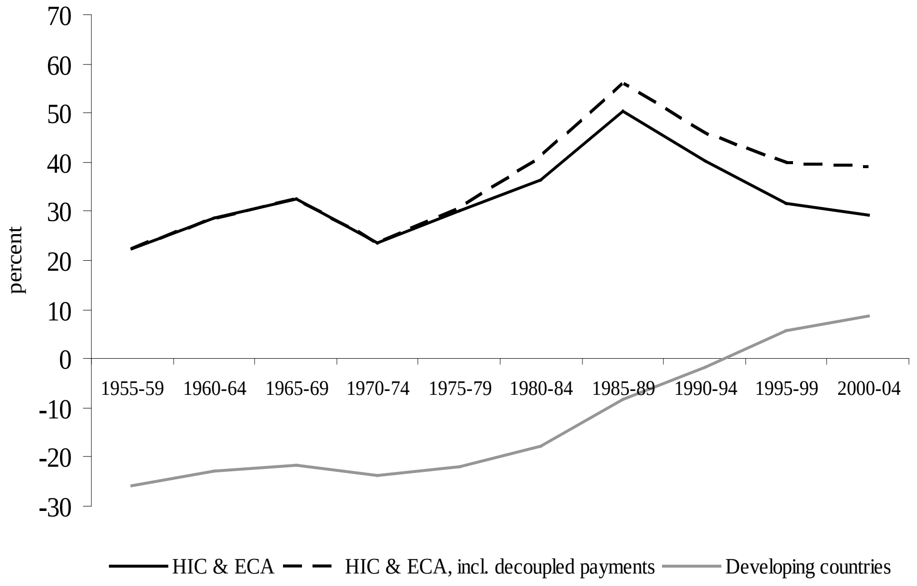
Figure 1 – Appendix 5: Nominal rates of assistance to agriculture in high-income and European transition economies and in developing countries, 1955 to 2004

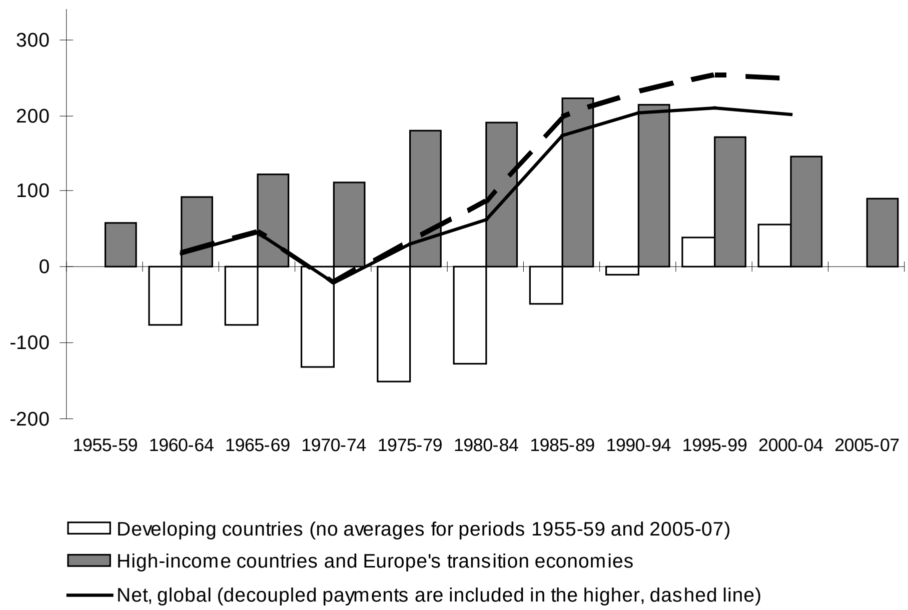
(percent, weighted averages, with 'decoupled' payments included in the dashed HIC line)



Source: Anderson (2009, Ch. 1), based on estimates in Anderson and Valenzuela (2008).

Figure 2 – Appendix 5: Gross subsidy equivalent of NRAs in high-income and European transition economies and in developing countries, 1960 to 2007

(constant 2000 US$ billion)

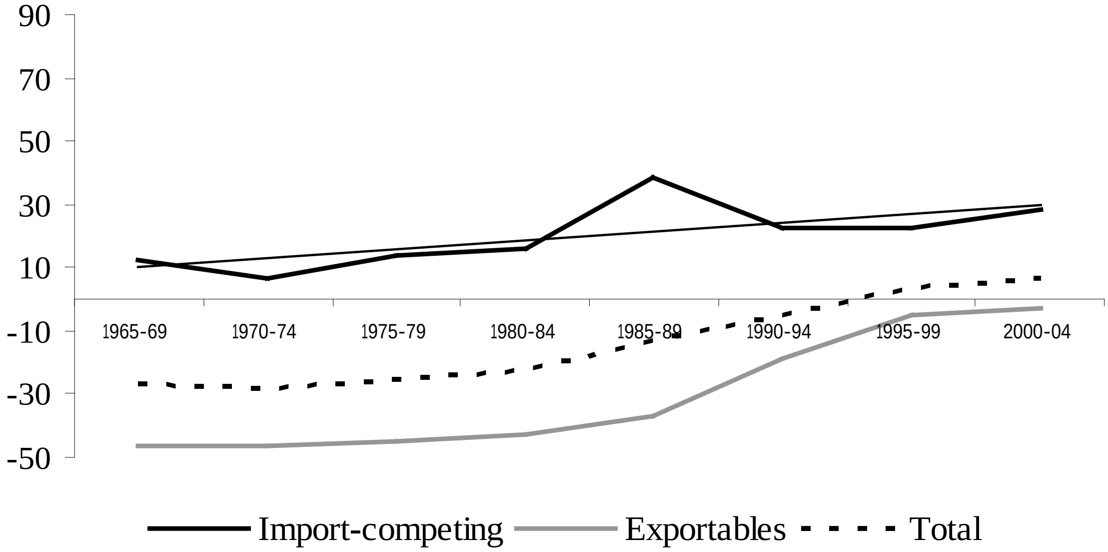


Source: Anderson (2009, Ch. 1), based on estimates in Anderson and Valenzuela (2008).

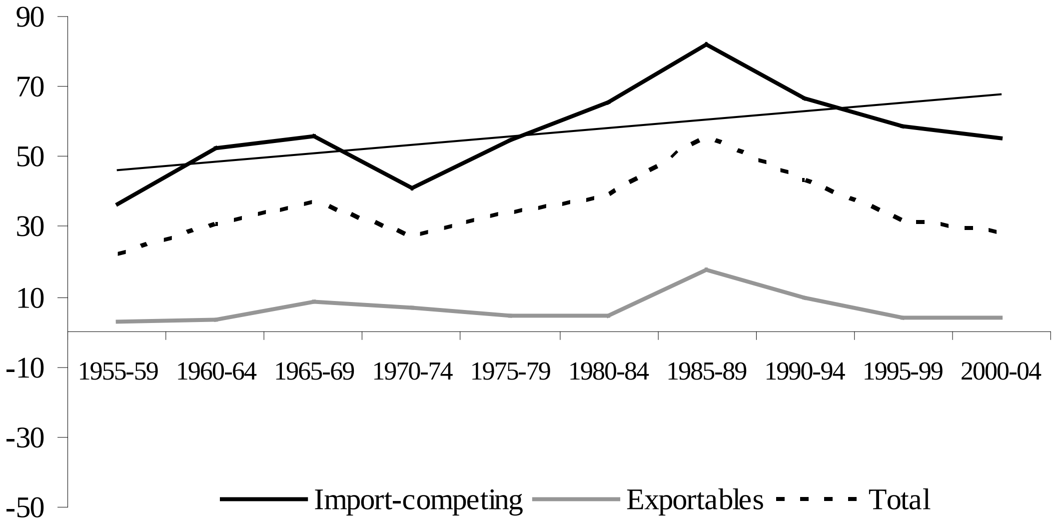
Figure 3 – Appendix 5: Nominal rates of assistance to exportable, import-competing and all covered agricultural products,a high-income and developing countries, 1955 to 2007

(percent)

(a) Developing countries



(b) High-income countries plus Europe’s transition economies



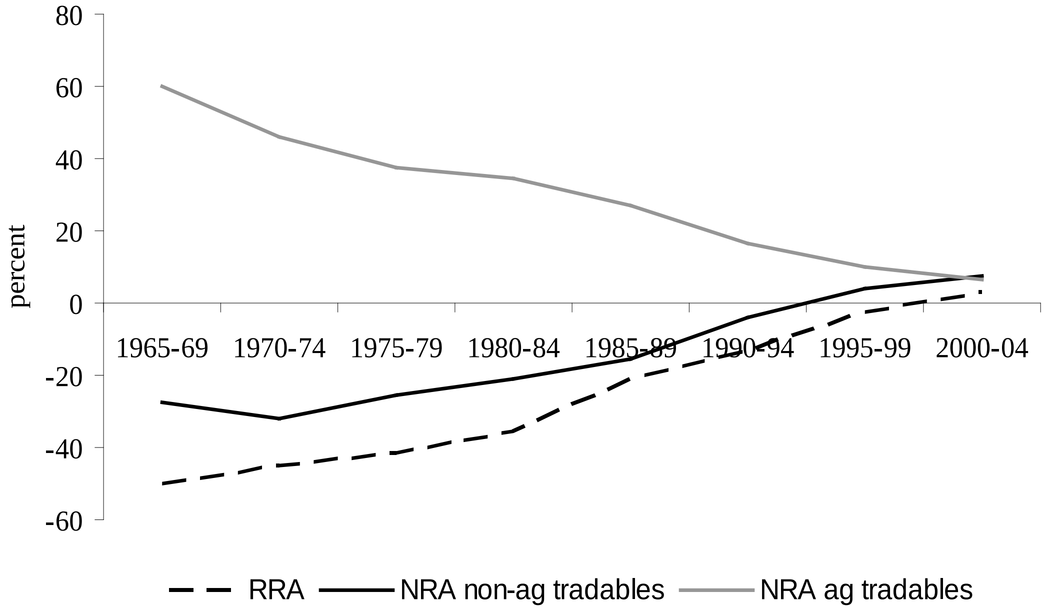
a. Covered products only. The total also includes nontradable.

Source: Anderson (2009, Ch. 1), based on estimates in Anderson and Valenzuela (2008).

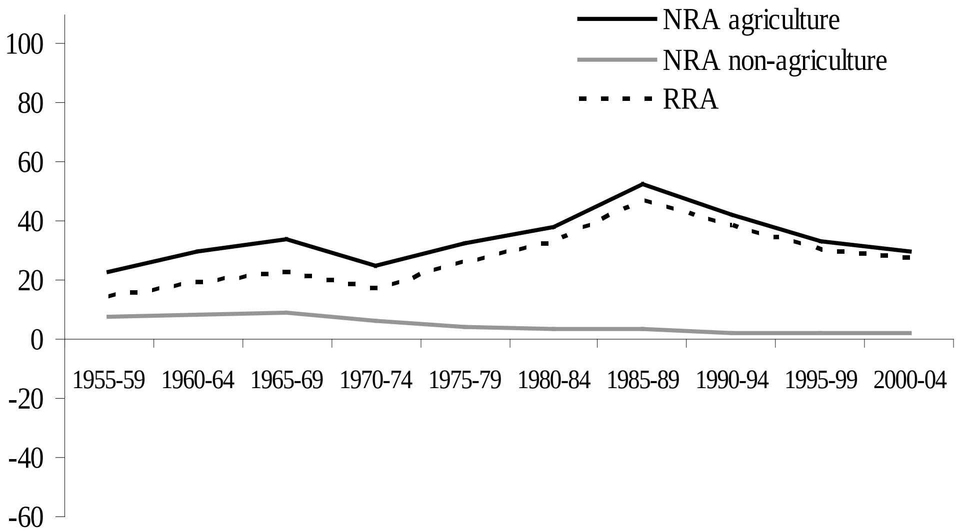
Figure 4 – Appendix 5: Nominal rates of assistance to agricultural and non-agricultural sectors and relative rate of assistance,a developing and high-income countries, 1955 to 2004

(percent, production-weighted averages across countries)

(a) Developing countries



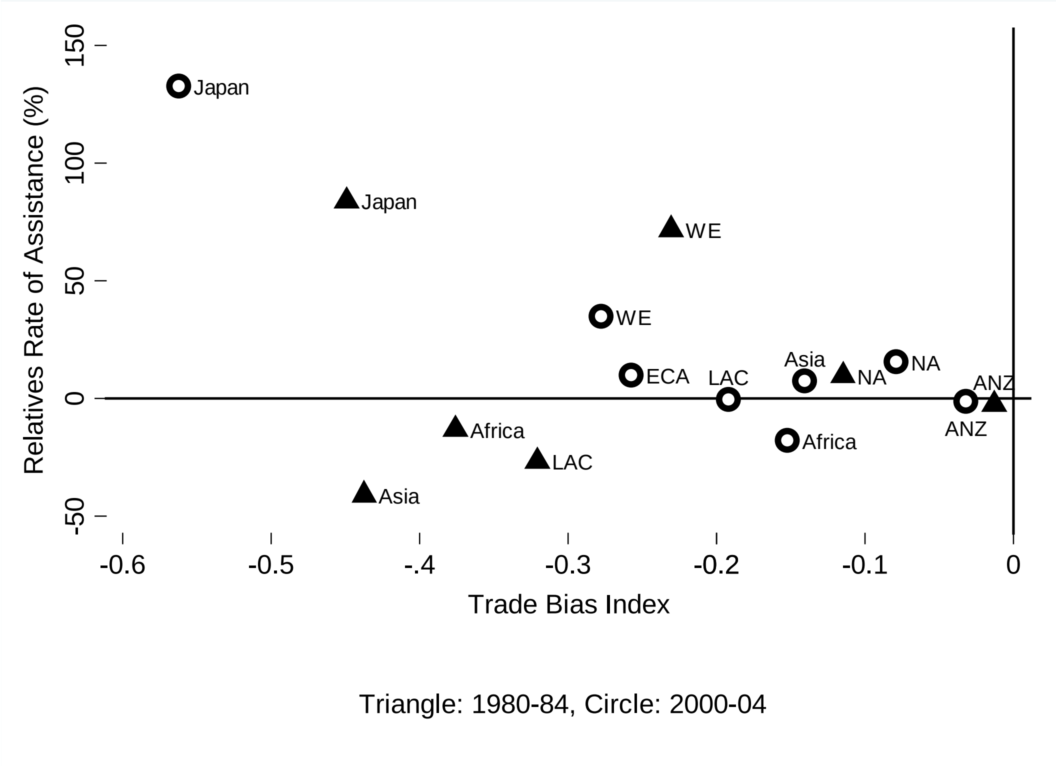
(b) High-income countries



[a] The RRA is defined as $100*[(100+NRAag^t)/(100+NRAnonag^t)-1]$, where $NRAag^t$ and $NRAnonag^t$ are the percentage NRAs for the tradables parts of the agricultural and non-agricultural sectors, respectively.

Source: Anderson (2009, Ch. 1), based on estimates in Anderson and Valenzuela (2008).

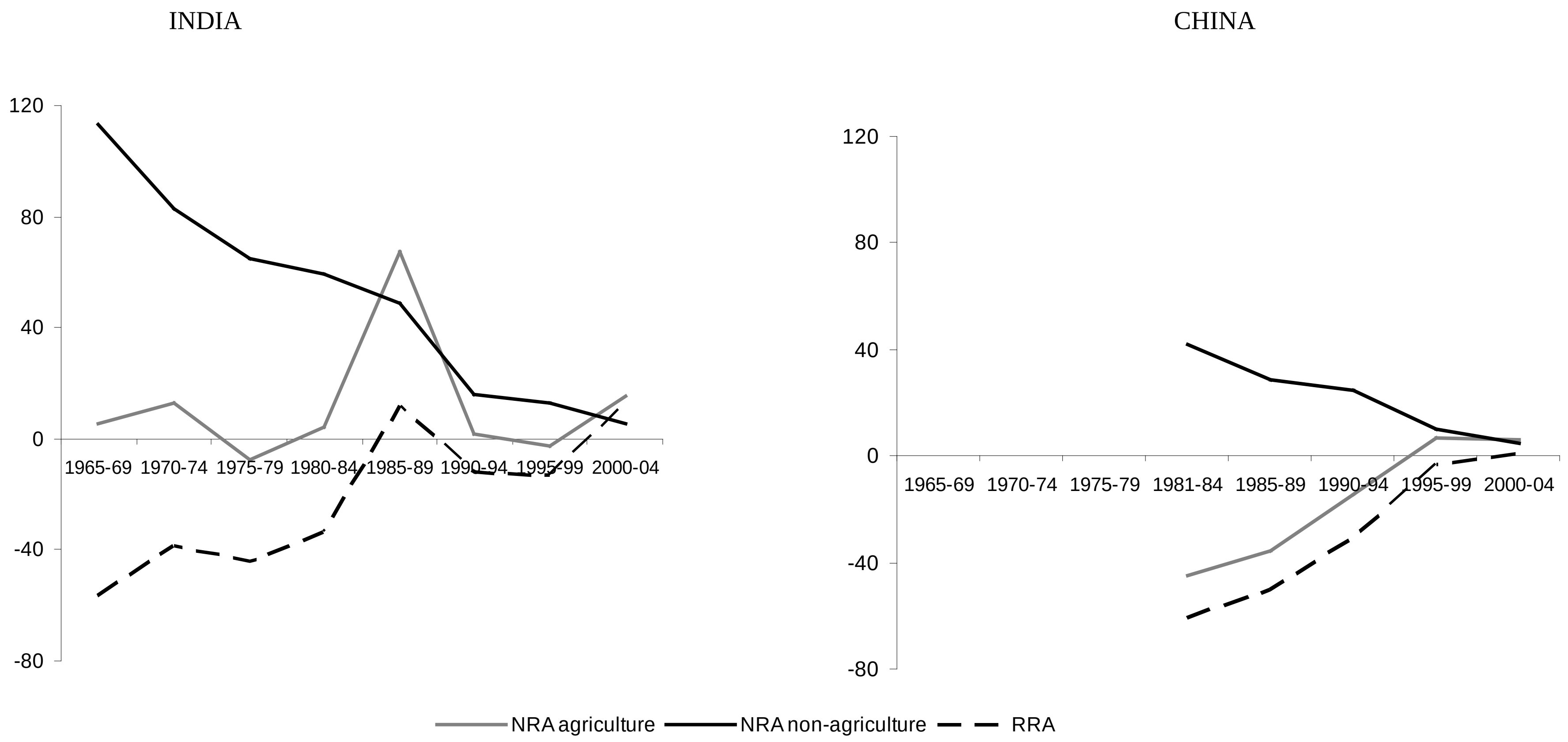
Figure 5 – Appendix 5: Relationship between RRA and the trade bias index for agriculture, various regions, 1980-84 and 2000–04



Source: Anderson (2009, Ch. 1), using the formulae in equations (1) and (2) and NRA and RRA estimates in Anderson and Valenzuela (2008).

Figure 6 – Appendix 5: NRAs and RRAs, China and India, 1965 to 2005

(percent)



Source: Huang et al. (2009)

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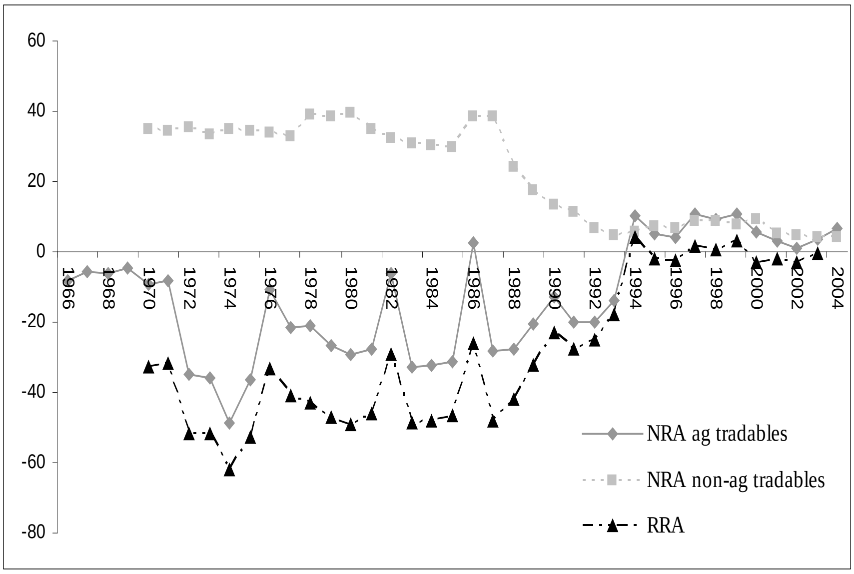
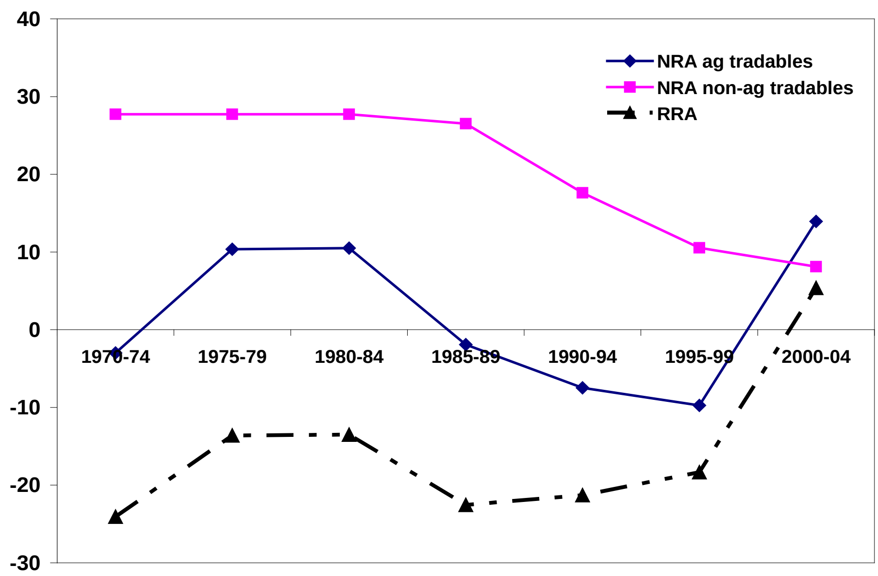
Figure 7 – Appendix 5: NRAs and RRAs, Brazil and Indonesia, 1970 to 2004

(percent)

(a) Brazil



(b) Indonesia

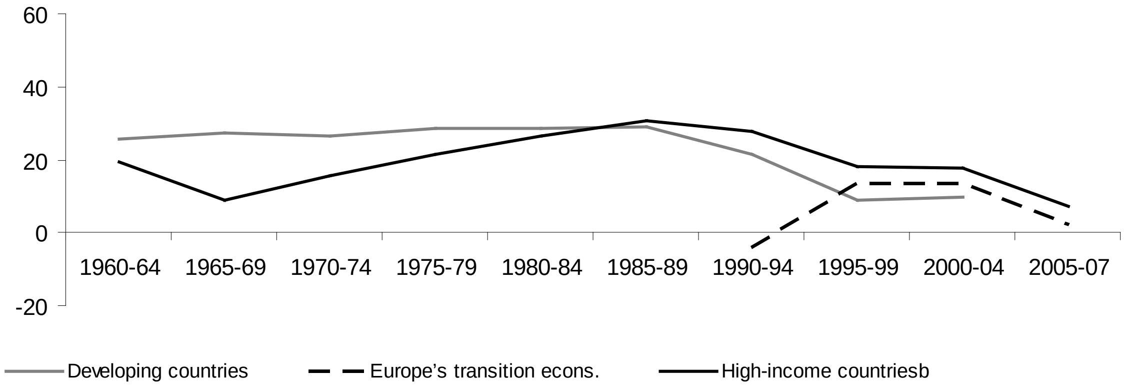


Source: Lopez et al. (2008), Fane and Warr (2009).

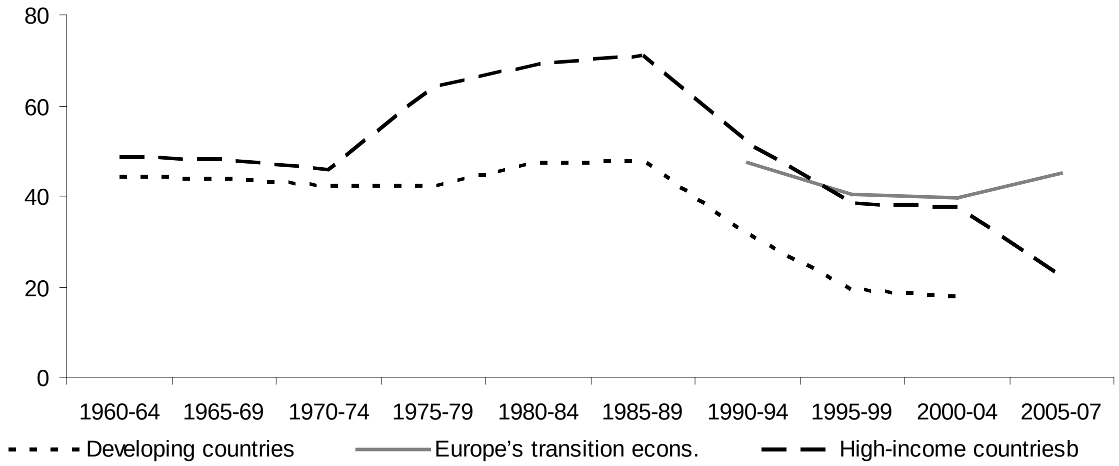
Figure 8 – Appendix 5: Trade Reduction and Welfare Reduction Indexes for tradable farm products, by region, 1960 to 2007

(percent)

(a) Trade Reduction Index



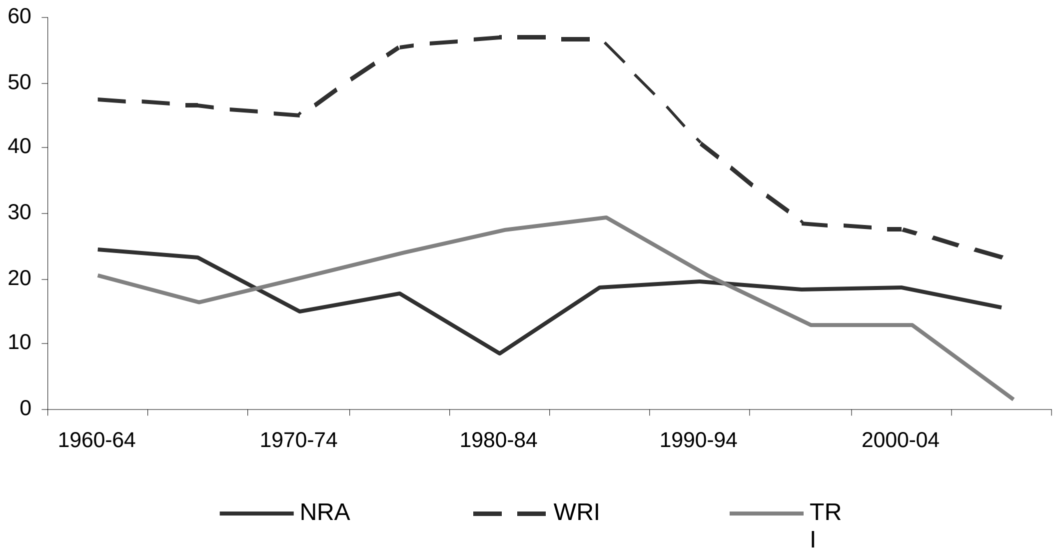
(b) Welfare Reduction Index



Source: Lloyd, Croser and Anderson (2009), based on NRAs and CTEs in Anderson and Valenzuela (2008).

Figure 9 – Appendix 5: Nominal rate of assistance (NRA), welfare reduction index (WRI) and trade reduction index (TRI) for the world's tradable farm products, 1960 to 2007[a]

(percent)



[a] Based on estimates of these indicators for a sample of 75 countries (see Anderson and Valenzuela 2008) that in 2000-04 accounted for 92 percent of global agricultural GDP. The final observation is for 2005-07 and does not include estimates for developing countries.

Source: Lloyd, Croser and Anderson (2009).

Commentary on Alternative Frameworks for Agricultural Trade Negotiations

Carlos Pérez del Castillo

Introduction

In the light of the collapse of the seven year Doha Round negotiations in the Mini Ministerial Conference convened by the Director General of the WTO last July and similar failures in the efforts to revive them since then, it is logical that people are starting to think of alternative approaches to open world markets for agriculture.

In this context, one point worth remembering is that history tells us that the Rounds never die and we see no valid reason to conclude that the Doha Round will be an exception to that rule. Setbacks and collapses happened in past Rounds and negotiations were suspended for significant periods of time, to be re-launched at the appropriate moment and reach successful conclusions.

In the current case, the negotiations will now enter a period of hibernation, and things will pick up again in due time, when conditions are ripe to engage in a meaningful negotiation. (probably second semester of 2009, at the earliest). We will have to wait for the USA election, the nomination of a new USTR and probably trade promotion authority from Congress. We will also have to wait for the changes in the EC Commission and the Indian elections scheduled for next year.

As a believer of the merits of multilateralism over other approaches, our priority should be to continue to support a successful conclusion of the Round. There are a number of good reasons for it. Firstly, we are in favour of a strong multilateral trading system which is essential for world economic growth, for stable international trade, for continuing agricultural reform and above all for promoting and defending the interests of developing countries. Secondly, and with particular regards to agriculture, it should be highlighted that there are important issues being negotiated in this Round , that **can only be solved in a multilateral context** (export subsidies and other forms of export competition, domestic support, rules and disciplines in general).

This being said, I agree that new or complementary approaches are needed to tackle negotiations in the future; at least once the Doha Round is completed. This is particularly relevant if we focus on the fundamental agricultural reform envisaged in the Agreement for Agriculture. It is clear by now, that even with a successful outcome in the Doha agricultural negotiations, there will be a lot of unfinished business with regards to that sector that will have to be tackled in the future.

Lessons from the Current Round

In looking at alternative approaches to open world markets for agriculture, it is felt that the point of departure for that analysis is to look at the lessons learned so far from the current Doha Round of Agricultural negotiations:

1 - The process of negotiations.

My feeling is that the failure of the July 2008 meeting should have happened two years earlier. The way the process was conducted from 2005 till the middle of 2007 (i.e. taking the negotiations practically out of Geneva) is to blame. Excessive reliance was placed on the capacity of mini-Ministerial meetings and only a very small group of Ministers (G 4) to solve the problems. Once that approach failed, Falconer and Stephenson took the helm of the process in Geneva, started to produce texts for discussions among Ambassadors and high level officials and things started to move forward.

2 - Reasons for the failure.

There was significant progress on some important issues during the July negotiations in Geneva. However, many divergences remained, both with regards to the issues included in the Lamy package as well as others which were not included and were never seriously tackled. As a result, my feeling is that it is an over- simplification to consider that the Special Safeguard Mechanism (SSM) was the only factor responsible for derailing the negotiations. If that issue had been solved, I can think of a number of other issues in both the agriculture and NAMA context that would have subsequently cropped up to prevent a closure of the modalities.

In the agricultural front, issues such as: the extension of geographical indication protection to products other than wines an spirits; the level of reductions in cotton subsidies; the ACP reservations with the EC-Latin America banana deal; the creation of new TRQs, and the number of special products tariff lines which would be eligible for zero cuts (“no cut” lines), are only five examples of controversial issues which were far from being solved.

On the NAMA side: persistent disagreements by a number of countries with the suggested Swiss formula coefficients and flexibilities put forward by Stephenson and subsequently Lamy,(Argentina and the G 11 among others) and the link between formula cuts and sectoral negotiations, were also probable candidates for a break down.

A number of countries’ internal political considerations played a major role in preventing convergence:

- India, in a fragile political situation, with weak support from its rural sector and with elections coming up later this year, never showed any signs of compromising from its maximalist positions. Their outright defence of food security and the rural poor through the SSM, will certainly strengthen the government’s political base.

- The United States entered the week’s negotiations with little credibility due to the absence of trade promotion authority on the one hand, and the indecent (from a WTO perspective) approval of the Farm Bill on the other. They wanted to close the modalities, but at a price they could sell to Congress. As the days went by, they realised the little likelihood of being able to harvest any significant deal (in particular with regards to market access both in agriculture and NAMA).The SSM dispute with India and China gave them a good excuse to bow out without losing credibility.

- Argentina ´s concerns were devoted exclusively to NAMA during the whole week, and, surprisingly, they practically abandoned the defence of their interests with regards to agriculture. They did not back Uruguay and Paraguay in their stance regarding the SSM, although they were original co- sponsor with these two countries of a proposal on the subject. Their position must have been influenced by the tense relations prevailing in the country between the government and the agricultural sector, and their desire to avoid at any cost the extension of the conflict to the industrial sector. Moreover, Argentina considered there were serious imbalances between the results proposed for agriculture and NAMA. Considering the current situation of high commodity prices and the fragile situation of the domestic process of industrialisation, they saw no need to rush into an agreement.

- China, which is still suffering the impact of the trade liberalisation measures linked to their accession to the WTO, was probably relieved with the failure of the negotiations, which would have imposed additional liberalisation efforts.

- Brazil wanted to close the deal at all costs. In order to preserve the leadership of the G.20, Celso Amorín has, from way back, sacrificed the country’s level of ambition in agriculture (in particular access to markets) in order to support the defensive interests of net importing G20 members, such as India, China, Egypt, Venezuela and others. At the recent negotiations, he fully endorsed the Lamy package proposal, including 1) the modest levels of reduction in overall trade distorting domestic support (OTDS) from the major trading partners, 2) the terms suggested for the triggering of the SSM and 3) the coefficients and flexibilities suggested for NAMA. As a result, they lost the support of India and China and also Argentina and probably others in the G.20.The final outcome certainly weakens the position of Brazil as self assigned spokesman for the Third World

The EC seemed to be relatively comfortable with Lamy´ s package, including OTDS cuts which were in line with what they were prepared to offer, and with tariff-rate quota expansion of the order of 4%. However, they insisted that their approval of the package was subject to getting results in intellectual property issues. At a very minimum, they were seeking agreement that the issue of the extension of protection to geographical indications for other products would become part of the single undertaking of the Doha Round and negotiated in the second half of the year, once the modalities had been agreed. That controversial question never got to the negotiating table.

- The non invitation of an African country or the Coordinator of that Group to participate in the G.7 proceedings did certainly not help to gain the support of that regional group.

With regards to the SSM, it was not only the USA that had serious reservations. As presented by Falconer this mechanism could be activated at very low trigger points (110% of imports), causing serious disruptions to what can be considered normal trade flows. The possibility of raising tariffs above Uruguay Round bound duties did not make any sense from a WTO perspective. The proposal of Lamy regarding this subject, raising the trigger to 140% of imports was an improvement, but still had some problems. The latter was rejected not only by India and China, but by the whole G33.

3 - Evolution of negotiations

I would like to express concern with the way agricultural negotiations have evolved in the WTO context; with the idea of frameworks; and with the large number of flexibilities that have been introduced in the text of the agreement in order to accommodate individual countries or group of countries – both developed and developing **-** concerns, sensitivities or special conditions.

a) Multilateralism

These agricultural negotiations have been characterised by a dramatic erosion of the concept of multilateralism. Reading closely the text produced by the President of the Agriculture negotiations, we will have to agree that there is very little of Multilateralism left in them. Other than the usual special and differential treatment for developing countries and in particular LDC, the texts introduces different treatments for a large number of other cases: the USA on blue box domestic support; Switzerland and Norway on sensitive products; the Small and vulnerable economies and the recently acceded countries (RAM´s), the countries experiencing erosion of preferences, etc.

Equally worrisome, are the multiple flexibilities that have been introduced in the market access pillar of the Agriculture negotiations. The acceptance of sensitive products; special products; special agricultural safeguard; special safeguard mechanism for developing countries as well as the number of provisions for exemptions, will allow substantial deviations from the full application of the tariff reduction formula (up to two thirds). This will seriously reduce and in many cases prevent the possibilities of real market access. A matter of greater concern are the long term implications for agricultural market access embodied in these multiple flexibilities that have been introduced in the Agreement . They are not temporal in nature and will most likely become permanent features of the Agreement on Agriculture. They are definitely not in line with the long term interests of trade liberalisation and fundamental agricultural reform.

Some people will defend this strategy as a pragmatic approach to help the attainment of convergence among Members and finally a successful outcome. It may well be so, but, in my mind, the costs are too high.

b) The concept of the single undertaking

Like many others, I also have problems with the way the concept of the "single undertaking" has evolved. The justification for launching a Round encompassing a wide range of subjects was to enable members to find an overall balance in the wide context of the negotiations. Members were supposed to request for ambitious results in areas where they had international comparative advantage over others, and to compensate with concessions in areas where others had that advantage. Theoretically, it made sense. However, as negotiations are conducted today (and it was also the case in the Uruguay Round), members look for balance in each individual sector or issue that is being negotiated. Agriculture and NAMA are two typical examples. The fact that at the July 2008 meeting the approach was to agree on modalities on Agriculture and NAMA **only**, and then to continue negotiations on all other issues (services, rules, intellectual property, etc) seriously challenges the concept of the single undertaking as well as the very notion and justification for a Round of trade negotiations.

Possible New Approaches for Agricultural Liberalisation

The wide heterogeneity of interests between the 153 Members of the WTO, the difficulties of reaching agreement through consensus, the growing number of defensive positions with regards to trade liberalisation and the long periods of time and effort needed to reach multilateral solutions on complex issues, are certainly factors that have had an impact in the slow pace of governmental trade negotiations and in the little support perceived from the private sector in favour of multilateral approaches.

There are a number of options that can be considered as alternative ways to the current framework approach followed in the Doha Round, to open world markets for agriculture. Among them, can be considered: sectoral negotiations ; plurilateral or critical mass negotiations.; preferential trade agreements (regional, plurilateral or bilateral); unilateral reforms and enlarging the WTO agenda to provide larger scope for trade –offs.

Sectoral Negotiations

The idea of replacing Multilateral Trade Rounds by a permanent system of sectoral negotiations was conceived when the WTO was created. The organisation was supposed to become a permanent multilateral negotiating body, tackling successively different issues of interest to the membership, and starting with the mandated negotiations agreed at the end of the Uruguay Round (agriculture and services). As we all know this approach was short lived, and at the insistence of the European Communities we were soon embarked in the launching of a new comprehensive Round, incorporating in the agenda subjects of interest to them, as the only way of securing a high level of ambition, in particular on agriculture.

In the light of the difficulties experienced since the launching of the Round , including the recent break down, and the problems already raised with the concept of the single undertaking, it would be desirable, at least once the Doha Round is completed, to return to the original idea of sectoral negotiations.

The principle of "establishing 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" is embedded in the Agreement of Agriculture. This fundamental reform requires that the process of negotiations in agriculture continues after Doha. In the absence of a new trade Round, the most effective way to proceed, in our mind, would be through the launching, within the WTO, of sectoral negotiations after the implementation phase of the obligations agreed in the Doha Round. . In order to be successful, however, there should be an explicit agreement among members, that sectoral negotiations in agriculture would be followed by sectoral negotiations in the WTO on issues of interest to other members. Negotiating agriculture alone in the WTO without some possibility of trade-offs in other areas is a sure recipe for failure or for very modest results.

In order to be successful, sectoral approaches should be multilateral in nature, and ensure the participation of all Members, whether they have offensive or defensive concerns on the subjects under negotiation. This is particularly important with regards to agriculture in view of the protectionist and defensive attitudes of so many Members in the WTO (both developed and developing). I am afraid that unless one can have all members on board, and prevent that some important players can "opt out", one will not be able to properly address important issues such as subsidies and particularly domestic support. Access to markets can be obtained through other means such as bilateral, regional or preferential trade agreements. As already mentioned, the above mentioned issues can only be handled multilaterally.

Another issue that needs to be faced when considering the sectoral approach to negotiations is the need to level the playing field. The current situation in agricultural negotiations in the WTO is that developed protectionist countries enter the negotiations with a much greater bargaining power than their developing counterparts. I would even suggest that the current situation gives a special and differential treatment to developed countries. During the Uruguay Round, these developed countries, supported by their treasuries, were able to bind in the WTO high levels of agricultural domestic support and export subsidies. Very few developing countries were able to do so, since their governments had scarce financial resources to subsidise agriculture, as well as other budget priorities in their developmental programmes. As a result, you are faced at the outset with a fundamental imbalance. Developed countries can enter future negotiations with a significant advantage: the possibility of trading these bound distortive practices (which are inconsistent with WTO doctrine) against real market access opportunities in developing countries, which is the only thing these countries have to offer, if we are talking of reciprocal agreements. This problem has to be tackled if we want ambitious and meaningful results.

Another important issue when considering a sectoral approach is the modalities of that negotiation. Consensus among members on how to achieve the long term reform envisaged in the Agreement is a prerequisite. For example, priority could be given to the elimination of all distorting forms of domestic support (amber box, blue box and de-minimis). A possible approach could be to eliminate first the amber box in a reasonable period of time, let's say 8 to 10 years. Then proceed with the elimination of the blue box and so on. Similarly, we could agree on the level of reductions and eventual elimination of tariffs (and expansion until then, of TRQ´s)

In order to monitor progress in the implementation of what was agreed, we could have special sessions of the Agriculture Committee or eventually the General Council every two years. Alternatively, progress and compliance with the agreed objectives could be looked at during sessions of the Trade Policy Review, which should be strengthened for that purpose. If countries are not complying or violating their obligations, a role could be envisaged for the Dispute Settlement Body. We could think of a variety of ways of handling the process, and these are just first thoughts on this matter.

Plurilateral negotiations (critical mass approach)

I am not a supporter of plurilateral approaches or Critical Mass (CM) Agreements in the WTO. I am not convinced that plurilateral approaches are a convenient way out, although I acknowledge that the CM approach to negotiations in agriculture may be faster, certainly less complex and easier to implement than the approach embodied in the Doha Round. However, it is not a useful way out, in particular for developing countries.

It has been stated that the focus of CM agreements is the liberalisation of market access on a reciprocal basis. Market access is certainly the area in which trade liberalisation would provide the greatest benefits to all parties, both in developed and developing countries and would have the greatest impact on production and trade. But it is not the only one, and in order to secure the long term fundamental reform in agriculture envisaged in the Agreement in Agriculture it is necessary to tackle as well the significant trade distorting effects to international trade brought about by protectionist measures practiced by developed countries such as domestic support and export competition. Only by eliminating, or at least considerably reducing these measures, are we likely to establish a fair and market oriented agricultural trading system and prevent restrictions and distortions in world markets. It must be recalled that these measures **can only be tackled** in a multilateral context, while market access can be obtained through other means such as bilateral, regional or preferential trade agreements.

Another shortcoming, in my view, of CM agreements is that they are voluntary in nature. In view of the protectionist and defensive attitudes of so many members in the WTO with regards to agriculture - both developed and developing - it will be difficult to attract enough participants to reach a critical mass. It is likely that many important players in these negotiations will “opt out” of engaging in such negotiations. Unless one can incorporate on board all relevant members in the three pillars of the agricultural negotiations, it is unlikely that you will be able to properly address a meaningful process of agricultural reform.

A further problem with plurilateral approaches is that they create different categories of members undermining even further the multilateral nature of the WTO. The non incorporation of developing countries into these agreements could undermine their insertion in the international trading system, contributing to their greater marginalisation. They could also further marginalise them from discussions on major new issues of the international trade agenda.

Finally, CM agreements are likely to confront, for systemic reasons, a great deal of resistance from a large number of WTO members.

It follows from the above, that if we should abandon the idea of comprehensive trade Rounds in the future, the plurilateral or critical mass approach is not the answer, in particular for agriculture. We should go back to the idea of WTO being a permanent negotiating forum, tackling successively and multilaterally agreed sectoral negotiations .

Enlarging the WTO Agenda

I have strong hesitations regarding widening much further the current agenda of the WTO to other issues such as climate change, in order to provide a larger scope for trade–offs. Experience in the GATT/WTO negotiations shows that Members insist in looking for trade offs within a single sector, and this is likely to be the case for new topics. Moreover time has come to decide that the WTO cannot deal with everything. It is not in its long term interest. Intellectual Property was brought to the WTO during the Uruguay Round because of the binding nature of its commitments and the link with Dispute Settlement and also because WIPO had no teeth and power to enforce any decision. Unsuccessful intents were made to introduce labour standards and environmental issues. Now we have proposals to incorporate climate change and it is likely that in the future some will suggest human rights.

We should be flexible to incorporate in future agendas trade related matters which are important to trade such as: private standards, traceability, biofuels, biotechnology etc It is imperative to incorporate in the WTO better rules and disciplines regarding preferential agreements. For the rest, in my opinion, it would be better to beef up relevant international organisations with competences on the subjects, such as FAO; WIPO; ILO and the Multilateral Environmental Agreements (MEA) and to establish better coherence and coordination among them and the WTO.

Preferential Trade Agreements

Regional and bilateral trade agreements may well be for the foreseeable future the main vehicle for trade liberalisation. For agriculture these agreements may yield improvements in market access opportunities for those participating in them. It may improve the situation with regards to some NTB (sanitary or technical barriers). As already mentioned, these agreements will not address issues such as subsidies or domestic support.

My feeling is that , in the last analysis, the proliferation of preferential agreements, with different product coverage, rules of origin, private standards, exceptions , and measures which are not necessarily in line with multilateral agreed rules and disciplines (WTO +) will become administratively too complicated and costly for private enterprises involved in international trade. Moreover, trade agreements between major trading partners are likely to involve considerable trade diversion, enhancing tensions, disputes, retaliation and a return to protectionist practices. It may also marginalise even further the developing countries from the international trading system. Hopefully, a time will come in which wisdom will prevail and all parties involved will realise that it is better to return to multilateral rules. In other words, my bet is that multilateralism will prevail in the end, but it seems as if it will have to suffer a lot more setbacks and erosion before we get there.

Unilateral liberalisation

A large degree of trade liberalisation achieved by developing countries in the last decades was through a process of unilateral reform outside the scope of multilateral negotiations. It must be mentioned that in most cases, this process was part of economic adjustment assistance measures negotiated with the multilateral financial institutions, as part of the conditions to obtain international finance, and in line with the prevailing Washington consensus philosophy.

In theory, at least, the merits of this approach are that it enables countries to reap the benefits of trade liberalisation without onerous negotiations. The drawback is that this modality does not yield any bound commitments to other members.

In practice, however, there is an alarming erosion of consensus about the benefits of an open trading system, including in food and agriculture. What should be regarded as sound agricultural trade policy reforms are seen more and more as painful concessions. It is highly unlikely that under the present unstable global circumstances, including the strong possibility of recession, WTO Members would agree to pursue trade liberalisation through unilateral reform.

Carlos Pérez del Castillo

4 November 2008

Critical Mass Approaches to Multilateral Trade Negotiations in Agriculture:

Observations Based on the Agricultural Frameworks Project

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4 December 2008

This short note, prepared after consulting several country studies commissioned for this project and the overview paper, makes a few points concerning the relative merits and likelihood of so-called critical mass approaches to multilateral negotiations in agriculture playing a greater role in the future. A longer version of this note will be prepared after the conference. Comments are most welcome and can be sent to simon.evenett@unisg.ch.

As Gallagher and Stoler (2008) rightly note in their overview paper for this project the Doha Round negotiations are a mess. We are unlikely to look to this round for best practices in the organisation and conduct of future multilateral trade negotiations, should the taste for such negotiations ever be recovered.

Elsewhere (Evenett 2008) I have argued that it is the combination of a number of factors, some relating to the organisational decisions taken by the WTO members during the Doha Round and others relating to a disparate set of political and economic considerations, that collectively have conspired to rob the Doha Round of a "landing zone," as the Mr. Lamy likes to put it. Having said that, I have also argued and still believe that a severe economic downturn in the industrialised countries (triggered by the current freeze in global financial markets) could have a silver lining. Namely, to soften up western export lobbies and get them to see the value of locking-in as much developing country tariff reform (which there has been a lot of, especially in the larger emerging markets) and stop trying to extract more market opening from developing countries. Likewise, and in the interests of balance, developing countries should take the previously-tabled agricultural modalities and see this an opportunity to lock-in Western commitments to eliminate agricultural export subsidies and current levels of domestic support payments.

Extreme levels of fear among prime ministers and presidents--that is, fear of a 1930's trade war, of a multi-year recession, and of mass unemployment--is probably the best short-term hope for concluding the Doha Round (see the contributors of Baldwin and Evenett, 2008, for related perspectives.[112])

Now the purpose of this little digression on the Doha Round travails is that, apart from the fact that they have stimulated many to begin thinking about alternative ways to organise multilateral trade negotiations to the current version of the Single Undertaking, is that it highlights the fact that choice of negotiating modalities (such as critical mass approaches) alone don't determine negotiating outcomes, even though the former must surely influence the latter. Probably there is only so much we can expect from design, but still that doesn't mean we shouldn't strive for improvement.

Gallagher and Stoler (2008) encourage readers to give greater attention to the possible contribution of critical mass negotiating approaches to multilateral trade negotiations on agricultural matters. What

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[112] To be published today, see www.voxeu.org!

follows are a number of observations, that are not necessarily inter-related, on some of Gallagher and Stoler's suggestions motivated by the stimulating country studies prepared for this project.

Sole focus on market access matters?

The first point of contrast between the overview paper and the country studies concerns the suggestion in the former that critical mass negotiations should focus on market access matters. It is argued in the former paper that research shows that most of the gains from a potential future multilateral agricultural accord comes from reducing border barriers to trade in agricultural products, implicitly demoting the importance of domestic support. Such research findings reflect the long-standing belief among economists that non-price or non-quantity related payments to producers do not distort market outcomes. Hence constraining such transfers will have distributional effects but little impact on resource allocation.

Reading the country studies confirmed comments that I have heard in many developing countries, namely, that there is a strong belief that the scale of domestic support payments in the West (which if I remember correctly totals several hundred billion U.S. dollars per year) is such that it must distort market outcomes. One way of looking at this is that the economists may have missed something, God forbid. Perhaps, and what I offer here is a conjecture (nothing more and certainly no evidence!), what has been overlooked is that farmers like to farm! So as long as governments keep subsidising farmers (however accomplished), farmers will continue to produce output and this depresses world prices and affects developing country farmers' incomes.

If this is an accurate characterisation of the "logic" shared by certain developing country policymakers then what are the implications for critical mass accords? Well, in principle, there is nothing to prevent domestic support to be included in a critical mass negotiation. However, given that any negotiation would have to be mutually beneficial and that domestic support programmes are the preserve of a subset of the WTO negotiation, it suggests that critical mass approach would have to combine a negotiation on domestic support with other matters, such as market access. Another implication is that domestic support policies don't appear to be implementable on a discriminatory basis and consequently any critical mass accord would, at least as far as the domestic support commitments are concerned, effectively have to respect the MFN requirement.

The second comment on including domestic support policies concerns the political constraints in leading industrialised country jurisdictions. If those constraints are not relaxed then it is difficult to see how any developing countries insistence on including domestic support policies in a critical mass negotiation will result in a better outcome than the current Doha Round negotiation. (Perhaps I am being too negative here, in which case it would be worth figuring out what erroneous implicit assumptions I am making.) Of course, supporters of critical mass negotiations that are restricted to market access matters could argue that the existence of these political constraints is precisely why domestic support policies should be excluded, if any progress is to be made. I suppose the point here is that including domestic support policies will, if current political factors persist, result in nothing and excluding such policies from a critical mass negotiation can't do any worse than that!

Including SPS?

The Chinese country study argues that Chinese policymakers attach considerable weight to developing new international rules on SPS matters. The concerns of the Chinese appears to be that SPS measures can be implemented in a way so as to limit market access to foreign agricultural products and that the benefits of border barrier liberalisation will be attenuated if they are replaced by discriminatory SPS policies. It is unclear to me why as a technical matter a critical mass approach could not take on board, as part of its negotiating agenda, both traditional border measures as well as SPS standards. This is not to say that the politics of negotiating both policies are the same, but even if they aren't such political factors are not specific to the critical mass approach.

Relationship to GSP regimes?

Perhaps I missed something but I was surprised not to read any discussion of the potential consequences of the agricultural provisions of national (many industrialised country) GSP regimes for possible critical mass negotiations on agricultural matters. It would be useful to know to what extent, if at all, the provisions of such schemes alter the magnitude and balance of gains from critical mass accords.

Agriculture as the ultimate anchor of the ambition of the Doha Round

The country studies contain numerous remarks about the attitudes of negotiators from developing countries, in particular as they relate to the centrality that agriculture has played in the Doha Round. Many argue, it seems, that the degree of liberalisation of agricultural policies determines the upper boundary of the liberalisation of other aspects of international commerce in the Doha Round. Leaving aside the issue of whether the degree of liberalisation can be compared meaningfully across types of international commerce and assuming such developing country negotiating priorities persist, the question does arise whether an agricultural negotiation could in fact be "detached" from other multilateral trade negotiations--or whether a critical mass negotiation on agriculture would have to precede negotiations in other areas of international commerce?

What's on the table?

The proposal in the overview paper that quantitative assessments of different potential critical mass agricultural deals be conducted is a good one. Such assessments could provide a wealth of information on how much is really at stake and on how the magnitude and distribution of gains depends on key the parameters (product coverage, country coverage, policies covered) of the critical mass negotiation.

Alternative frameworks for multilateral negotiations on agricultural trade liberalisation

Sallie James[113]

Concerns about the viability of the Doha round negotiations were initially dismissed as premature. After all, the Uruguay round was more than three years overdue for completion when it was finally signed in April 1994. Its agenda was arguably more ambitious than the Doha round, too: members for the first time brought agriculture under full GATT disciplines; adopted entire new agreements on services trade, investment and intellectual property rights and new agreements formalising and binding on all members some of the Tokyo round codes; established a new and binding dispute settlement system; and created a regular system for reviewing members' trade policies. Although the Doha round is hailed as aiming for an unprecedented level of ambition, the ultimately successful Uruguay round experience says that ambition alone is not a full explanation for a long and protracted round.

Factors behind the failure so far

The Doha round is not completely dead yet, and it would be premature to declare it so, especially since the careers and Geneva postings of the bureaucrats handling the round depend on it continuing. But there are some stark differences between the conditions under which the two rounds were negotiated that could be instructive as to its potential.

Firstly, it may be that the development focus of the round, while well-intentioned, is the nail in its coffin. Formally named the Doha Development Agenda, its foundation document, the Doha Ministerial Declaration, states that:

> "The majority of WTO members are developing countries. We seek to place their needs and interests at the heart of the Work Programme adopted in this Declaration…we shall continue to make positive efforts designed to ensure that developing countries, and especially the least-developed among them, secure a share in the growth of world trade commensurate with the needs of their economic development."[114]

It is true that trade is an important component of development, but unfortunately the combination of an explicit development focus and the pervasive mercantilism throughout the WTO system has led to a situation where many developing countries see their role as a largely passive one. While they are happy and proud to take an active political role in the negotiations, and were openly jubilant at the failed Cancun ministerial conference in September 2003, their market access offerings so far have been limited. Their stance appears to be that the DDA requires cuts from developed countries to provide increased market access for developing country markets. The inbuilt assumption of "special and differential treatment" for developing countries in all areas of the negotiations encourages this ultimately counter-productive view.

Second, the breadth of membership in the WTO now makes agreement much more difficult. In previous rounds, the major developed trade powers were able to present as a final text to the rest of the GATT contracting parties any deal they had managed to agree amongst themselves. The developing country membership, by far in the majority now but by no means homogeneous in terms of negotiating power or objectives, are no longer content for such arrangements to continue. Indeed, some of them appear to derive perverse pleasure in being seen to be obstructionist.

The single undertaking, where nothing is agreed until everything is agreed, is another source of tension and difficulty in concluding the Doha round. Even though the single undertaking is based on a laudable rationale – that countries would be willing to tolerate otherwise unsatisfactory outcomes in some areas of the talks if it meant that other areas yielded a favourable result – it has also enabled any

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[114] WTO, Doha Ministerial Declaration, WT/MIN(01)/DEC/1, 20 November, 2001.

country, no matter how small or insignificant it may be in world trade, to hold up the round. The appearance of flexing ones negotiating muscle, no matter how misguided or ultimately self-destructive, may in fact bring political kudos to obstructionists in their home market and derive from wider foreign policy and geopolitical concerns. **A mercantilist atmosphere, selectively understood development focus, and ability (indeed, political incentives) to obstruct a deal is not an auspicious combination for negotiated trade liberalisation.**

The structure of the current draft of the negotiating text on agriculture reflects this tension. Rather than bring agriculture further into the mainstream of the multilateral trading system, the text contains numerous exceptions – some of them newly introduced and with no *prima facie* pretence of being temporary – to the generally agreed modalities, analogous to the carve-out for textiles in industrial goods that led to the Multi-Fibre Arrangement. Any trade agreement that is tens of pages long is an invitation to increase distortions and exploit loopholes for protectionist ends. But the sheer technicality of the modalities – over one hundred pages of complex formulae, exceptions and conditions for agriculture alone – has left even seasoned observers scratching their heads.

Moreover, in order to secure even the limited agreement so far, the ambition of the round seems at first glance (although the aforementioned technicalities, exclusions and bracketed numbers make it difficult to tell) to have been significantly moderated from the original intent. Numerous quantitative studies on the global economic impact of the round have been successively downscaled to reflect the new and lower levels of ambition in each successive negotiating text.[115] Assuming prices for commodities stay high, the overall trade-distorting support limit for the U.S. (under the latest draft) would not be constraining, although product specific support for cotton and sugar may well breach limits.[116] Policy reform by the EC, although far from sufficient, would likewise make it easier to stay within proposed limits. Although developed country market access will be improved, the significant water in many developing country tariff schedules (not to mention the numerous special exclusions they have access to) must mean disappointment for countries looking to significantly expand exports to developing countries.

Even the “development” focus of the round does not give unambiguous guidance. Poorer countries themselves are by no means a united front. Even within the Group of 20, a powerful grouping of poor country agricultural exporters, differences exist between the two largest players, Brazil and India. Brazil, focused more on its offensive interests in gaining market access in other countries, was keener on disciplines on the special product and special safeguard mechanisms available to developing country members, seeing their potential to undermine the ‘headline’ market access benefits and to prevent real increases in trade flows *between* developing country members. India, on the other hand, takes a more defensive position on agriculture, preferring less stringent requirements for triggering tariff increases in the event of a surge in imports, and favouring special safeguard tariffs even above pre-Doha levels, a truly staggering and damaging precedent for the WTO architecture and its goal of making trade more, not less, free. The celebration of solidarity between developing countries that was evident at Cancun and that spawned the G-20 is based on only superficial political reasoning and can fall apart when economic interests become stark.

Where rich country trade barriers and subsidies are clearly harming the interests of developing countries, the development imperative of the DDA gives fairly clear guidance on what the correct policy should be. Although rich country tariffs and tariff-rate quotas are noxious and should be removed, it is poorer countries that will spend a higher proportion of GDP on food products, and where future market opportunities lie.

[115] Antoine Bouet, Simon Mevel and David Orden (2007) “More or Less Ambition in the Doha Round: Winners and Losers from Trade Liberalisation with a Development Perspective”, The World Economy, Vol 30, Issue 8: pp. 1253-1280, August.
[116] Randy Schnepf and Charles Hanrahan, “WTO Doha Round: Implications for U.S. Agriculture”, Congressional Research Service report RS22927, July 24, 2008.

Closer examination of particular developing countries' negotiating stances are telling. India, for example, has made itself into something of a 'poster child' for developing country interests. But some of their concerns, such as the focus on subsistence farmers, are entirely without merit. Subsistence farmers by definition cultivate crops for their own consumption and so do not participate in the market in any way. They are not harmed by cheaper imports and, indeed, if the price of imports falls below their own costs of production, they will gain. Internal distortions responsible for poor price transmission have been held up as a reason not to be swayed (from a defensive position) by offers to cut rich country price-suppressing subsidies. But if price transmission is indeed poor, then surely that negates protectionist arguments, too (of course, maintaining minimum support prices will soon break the government's budget if trade in the supported commodities is open). Notwithstanding a recent paper's claim that "farmers should be taken up with the motive of profit making rather than just for subsistence living"[117], import barriers, Five Year Plans and infrastructure deficiencies will not help currently uncompetitive farmers become more competitive. Political pressure from certain groups in the governing coalition, and claims from civil society and other groups that "every agriculture product in the developing world is a concern of livelihood security and therefore, qualifies as special products…" will not aid the ambition of the round to the extent they are influential with the government, notwithstanding the claim that consumer groups "play a very active role in these consultations".[118]

China's insistence that its contribution was given in 2001 upon accession to the WTO an exercise in "unilateral liberalisation" is not credible. To be sure, China made many reforms to join the WTO. But it also gained access to a system that protected its rights as well as extended its responsibilities. Many of the barriers China faced as a non-member were reduced as it gained most-favoured-nation status. Chinese exports and imports have increased dramatically since accession, as China reaps the benefits from deeper integration in the global economy. A recent study admitted that China has much to gain from a successful conclusion to the Doha round, even if it was purely at the systemic level; a viable WTO protects Chinese producers from, for example, the arbitrary and unjustifiable use of SPS and TBT measures against its goods.[119]

Like India, China points to equity and food security concerns, and the poverty of some of its people as reasons to resist further trade liberalisation, ignoring the evidence between openness to trade and lower poverty levels, and indeed its own research showing the net benefits of a Doha deal for China.[120] Diversifying supply through more open markets is surely a more suitable model for food security than self-sufficiency programs. China's stated goal of more open world markets and increased export opportunities on the one hand seems at odds with another key priority, to "creat[e] more space for improving the national food-security, the sustainability of poor farmers and rural development".[121] Clinging to the latter will preclude the type of deal that would secure the former.

Brazil is a competitive, export oriented developing country with strong market access interests for its products. Although initially keen to show its growing global importance and solidarity with other developing countries, it seems that its export interests –and the damage that some G20 and G33 proposals would do to those interests – are becoming too stark to ignore.[122] Similarly, Brazil chooses

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[117] Surabhi Mittal, "Viability of Alternative Frameworks for Agriculture Trade Negotiations Country Paper: India", draft working paper, October 2008.
[118] Surabhi Mittal, "Viability of Alternative Frameworks for Agriculture Trade Negotiations Country Paper: India", draft working paper, October 2008.
[119] Jikun Huang and Jun Yang, "Viability of Alternative Frameworks for Agricultural Trade Negotiations: Perspectives from China's Case Study", working paper, Center for Chinese Agricultural Policy, Chinese Academy of Sciences, October 2008.
[120] Jikun Huang and Jun Yang, "Viability of Alternative Frameworks for Agricultural Trade Negotiations: Perspectives from China's Case Study", working paper, Center for Chinese Agricultural Policy, Chinese Academy of Sciences, October 2008.
[121] Jikun Huang and Jun Yang, "Viability of Alternative Frameworks for Agricultural Trade Negotiations: Perspectives from China's Case Study", working paper, Center for Chinese Agricultural Policy, Chinese Academy of Sciences, October 2008.
[122] The Institute for International Trade Negotiations (ICONE), "The Brazilian perspective on the critical mass proposal for the WTO negotiations on agriculture", draft working paper, September 2008.

to deal with non-trade concerns such as equity and poverty, through tax redistribution rather than protection.[123]

None of this is to say that the larger developed trading nations are blameless. The United States passed a woefully unreformed farm bill in May 2008 that continues many of the failed distortionary policies of the past and adds new, possibly trade distorting, programmes into the mix. Unfortunately, a growing protectionist element in Congress and a president-elect who supports farm subsidies and campaigned on a trade-skeptic platform do not bode well for future reform.

A way forward

Various studies have pointed to the relative modesty of the gains from a Doha agreement, at least under the modalities currently most likely. Eliminating export subsidies, while a welcome development, is merely formalising reforms already undertaken by the worst offenders (e.g., the EC). Cuts in domestic support and trade barriers are also welcome, but under the most likely scenarios will deliver only limited benefits in terms of real cuts to currently levels of support and protection. On the plus side, there are benefits of providing certainty to business in these turbulent times. Although the recent meeting of the G-20 major economies (not to be confused with the G-20 grouping in the WTO) in Washington DC made a pact to refrain from increasing protection in the following 12 months, the very next day Russia (admittedly not a WTO member) announced sharp increases in import duties.[124] Preventing wider backsliding should be at the front of policymakers' minds.

Some of the obstacles to a successful conclusion to the round may be overcome by economic conditions. When the DDA was launched, the most pressing problems in agriculture were related to artificially low commodity prices. Developing country agricultural exporters were, rightly, concerned about the price-depressing effects of rich world agricultural subsidies. Market access to developed country markets, although not necessarily where market growth lay, was restricted. Because of agriculture's relatively new exposure to the disciples of the multilateral trading system and rich world political economy realities, market access and subsidies in agriculture were by far more pernicious than those in industrial goods. The focus of the round was to reduce them.

As it turns out, near-term US and EC subsidies will possibly be lower than even their offered ceilings on trade-distorting support, and the EC at least has made some moves in recent years away from the distorting production-linked subsidies of the past. Of course, higher agricultural prices are by no means assured in the future, but the focus of the agricultural commentariat during at least the first half of 2008 was the rapid *increase* in agricultural prices and their effects on poor people abroad. We were reminded that poor people are consumers of food as well as farmers, and finally some development organisations were seeing the importance of trade liberalisation from the consumers' point of view. Negotiators finally caught up with this reality, with proposals by Japan and Switzerland (eventually integrated in the latest draft modalities) to place some disciplines on export restrictions. But there are concerns about this stretching the Doha mandate.

A change in the mandate itself – a new round, as it were – could save the single undertaking, assuming it was adopted by the membership. The current mandate no longer reflects commercial reality; many net-importing members seem more concerned with supply security and high prices for foodstuffs. Similarly, the new categories of countries it creates set a bad precedent. No longer content with dividing countries into "developed" and "developing", the agriculture negotiations recognise Recently Acceded Members, least developed countries, net-food importing developing countries etc. as groups worthy of special treatment even beyond that provided developing countries as a whole. (In NAMA, too, there are special categories of, for example, countries with a relatively high proportion of unbound tariffs and "small and vulnerable economies").

[123] The Institute for International Trade Negotiations (ICONE), "The Brazilian perspective on the critical mass proposal for the WTO negotiations on agriculture", draft working paper, September 2008.
[124] Alan Beattie, "Moscow to raise import tariffs", *Financial Times*, 18th November 2008.

There are some practical changes that might yield results, too. Countries often represented by trade or foreign affairs ministries (often only with portfolio responsibility for export promotion) will have a different focus from those represented by industry/commerce/agriculture ministries who have portfolio responsibility for a country's tariff regime. If members are not driven by a "whole-of-government" approach, there will always be a conflict between ministries; not a situation conducive to coherent negotiating strategies. The proposal in Brazil to cede authority from the executive to the legislative branch is the opposite to current (albeit shaky) policy in the United States, where the "whole of country" view more likely to be adopted by the administration is thought to be more conducive to trade liberalisation. Individual house districts can take a parochial view; one big constituency in a certain electoral district could potentially prevent the rest of the country from gaining as a whole.[125]

If at all possible, a move away from the mercantilist mindset of trade negotiators is needed. This may be as simple a step as involving economists in trade ministries and in key negotiating posts, rather than lawyers. The very language of trade negotiations – "concessions", "bargaining chips" etc – has no basis in economics and has contributed to the failure in the round so far. The trade-off between constituencies appears to have reached its use-by date.

The potential for 'critical mass' type agreements

An 'agreement of the willing' may offer an alternative way of leveraging export interests to counter political pressures against reductions in trade barriers if mercantilism cannot be abandoned. Several plurilateral agreements in services and in NAMA provide a hopeful precedent. Plurilateral agreements in agriculture would allow India, for example, who has important and worthy offensive interests in growing services trade, to excuse themselves from agriculture agreements not to their liking could allow them to move in a more liberalising direction in other negotiations and help to unlock the round more broadly. Indonesia's mixed attitude to the negotiations – defensive in food products because of food security and other non-trade concerns, but adopting an offensive position as regards tropical products[126] – could be neutralised in a framework of critical mass agreements.

The analogous sectoral agreements in NAMA are proving to be tough going, however, even when countries have little defensive interests that would explain their reluctance to join. The slow progress in those sectorals may be tied up with negotiating tactics and reflect reluctance to engage until other areas of the negotiations are more settled.

Because agricultural products are still subject to subsidies, there also must be a mechanism for ensuring that the worst offenders are accounted for in a critical mass agreement. That may take care of itself: those countries large enough in a given commodity market to have price-suppression effects when they subsidise would presumably be included in any critical mass agreement. Countries accounting for, say, less than one percent of world exports in that commodity will presumably not have any price-depressing effect and could "safely" (if wrong-headedly) subsidise with abandon. Dealing with subsidies within such a framework may therefore be more consequential, and certainly more workable, than any attempts to do so as part of, say, a regional preferential trading arrangement.

The voluntary nature of critical mass agreements means there is no need for obstructionist groupings to prevent others from reaching a deal: those who do not wish to liberalise don't have to. As stated in the ICONE paper, negotiations on certain commodities will facilitate a more pragmatic approach and prevent the kinds of ideological and rhetorical arguments than the single undertaking has wrought.[127] The problem is when obstructionist countries are necessary for reaching critical mass. Some NAMA

[125] The Institute for International Trade Negotiations (ICONE), "The Brazilian perspective on the critical mass proposal for the WTO negotiations on agriculture", draft working paper, September 2008.
[126] M. Husein Sawit and Prabowo, "Alternative Framework for Agriculture Trade Negotiations: a View from Indonesia", draft working paper, Strategic Asia, October 2008.
[127] The Institute for International Trade Negotiations (ICONE), "The Brazilian perspective on the critical mass proposal for the WTO negotiations on agriculture", draft working paper, September 2008.

sectoral negotiations have shown that defensive countries, or large countries such as China who feel they have "given" enough during accession, still have potential to scupper a deal.

Some other questions that need to be considered before a critical mass agreement could be considered successful:

1. To what extent are the trade proportions of countries a *function* of the trade barriers in place? For example, would cotton-producing African countries be higher up on the league table of cotton exporters if, say, American cotton subsidies were eliminated? That seems to be a circular argument in favour of-- and yet undermining support for -- a successful critical mass agreement. The members comprising the critical mass may change in time.
2. Another factor that might determine a country's willingness to participate in any critical mass agreement is how much of its *own* exports/imports accounted for by the commodity. If a member comprises "only" 1 percent of world trade in a commodity, but that commodity accounts for, say 50 percent of that country's exports then they might be willing to join. Similarly, if a country accounts for 10 percent of world trade in a commodity and is needed to form a critical mass, the political power of its own farmers is what is relevant. In other words, the importance of a country to world trade in a certain commodity does not necessarily signify the political calculus that country will make in joining any critical mass agreement in that commodity.
3. Then there are concerns with particular countries. China's diversified export base, for example, means that securing its interest in any one critical mass agreement may be difficult.
4. On an institutional/systemic level, one might well ask whether countries can stay wedded to the positive parts of the WTO's institutional framework (the accessions process, the dispute settlement system, the trade policy review mechanism, committee based work) if multilateral market access agreements are no longer the mode of reciprocal trade negotiations? Some of the country studies mentioned the importance of the single undertaking in forcing other members to take their concerns seriously, and imply that a new approach based on critical mass agreements could leave them isolated.

Conclusion

The multilateral trading system supported by the GATT/WTO has led to historic cuts in trade barriers and prevented – at least so far – a return to the days of Smoot-Hawley and its beggar-thy-neighbour offspring. The dispute settlement system has mainly been a success, with only a few outstanding compliance issues (some of them, sadly, accruing to core developed trading nations). Consultative and committee-based mechanisms, such as the notification system of the SPS Committee, have enabled issues to be resolved before they cause full-blown trade-wars.

But if the WTO as an institution worth preserving, the single undertaking seems to have failed as a negotiating tool. In order to secure consensus, the ambition in the round has had to be downscaled (see remarks above about the seemingly "water only" nature of proposed average cuts in domestic support and trade barriers). It appears that members have, in their desire to complete the round, abandoned the initial goal of phasing out agricultural exceptionalism and bringing agriculture into the mainstream of trade negotiations. The present draft deal seems to be a mostly minimalist one that has abandoned all pretence of ambition for the sake of saving a system whose purpose many members seem to have forgotten, or to which they seem unwilling to contribute.

While it is tempting to see current events – historically high food prices, budget constraints in subsidising developed countries, production patterns moving toward comparative advantage as large developing countries become more efficient producers – as encouraging unilateral reform in protected and/or supported agricultural markets, it is likely that institutional arrangements to encourage countries to adopt policies in their own best interests remain necessary. Critical mass type arrangements are therefore worth a try and are unlikely to be less successful than the single undertaking arrangement guiding negotiations so far. Reclaiming the Doha round as a trade liberalisation exercise, rather than a rural development project, will focus the negotiations to a purpose more appropriate to its institutional structure.

Comments on the pursuit of Critical Mass Agreements in the area of Agriculture

Tim Josling

November 28, 2008

The Warwick Commission (2007) make the case that the negotiation gridlock in the Doha Round could be eased by the conclusion of “supplemental agreements” between a limited number of WTO members that account for the bulk of trade (a critical mass) in a particular product or commodity. The benefits could then be multilateralised to all WTO members without the non-signatories undertaking any obligations. Gallagher and Stoler (2008a) develop this notion and apply it to agricultural trade by examining how many countries it might need to form a critical mass in several temperate zone farm products.[128] The tentative results of this analysis suggest that for many commodities the number may be quite manageable. Gallagher and Stoler (2008b) take the argument further and discuss some of the possible forms that Critical Mass Agreements (CMAs) could take and how they might be useful in the area of agriculture.

My comments will be in two parts: first, a reaction to the idea of CMAs in agriculture as expounded in the Gallagher and Stoler articles; second, an attempt to place CMAs in the context of the Doha Round agricultural negotiations, including a tentative suggestion as to the possible content of a CMA in the area of exporter policies in agriculture.

CMAs in agriculture: possibilities and pitfalls.

The paper by Gallagher and Stoler (2008a) gives a persuasive rationale for CMAs. Developing and least developed WTO members that benefit from non-reciprocity and special and differential treatment are nevertheless included in the negotiations that impose obligations on other countries. Proliferation of opt-outs for special and sensitive products in the case of agriculture diminish the obligations of developing countries further but still allow them to demand concessions from the developed countries. The “single undertaking” in effect gives rights over the content of agreements to those that are not undertaking any significant or politically painful obligations. This at best prolongs the negotiations themselves and at worst prevents the more ambitious outcomes. Negotiations among groups of countries that have a significant stake in the outcome could be more efficient. The fact that others will free-ride on the benefits should not be a reason to avoid CMAs.

Would such an approach have any negative side-effects? A CMA is both a negotiating device and a trade principle. As a negotiating option, if agreements hammered out among a few countries were then endorsed by the membership as a whole, it seems innocuous. Indeed, it would reflect what happens in practice at the present, where most of the discussions go on among those countries that are most impacted by the outcome. Informal working groups have in the DDA been asked to produce ideas on issues that are then presented to a larger group. The formalisation of this approach to complex negotiations could help to move the talks forward, with the proposals being packaged at a later stage. But this is a minor modification to the process of negotiations that raises few interesting issues.

The systemic impact of CMAs is much more important. If an agreement can be reached by a sub-set of members, which then goes into effect without the membership as a whole having to agree, then the nature of the WTO is changed with possibly serious results. This might be worthwhile if it resolved a significant problem with the present system. That seems to be the main argument driving the exploration of the CMA and other “alternative frameworks” for negotiations.

If the problem to be solved is that countries that have little stake in the outcome are essentially blocking the outcome agreed by the more significant stakeholders then the question is “why”? Are they using their presence at the negotiating table as a bargaining chip for discussions on issues about

[128] The numbers would presumably be somewhat smaller for Mediterranean products and even smaller for tropical products.

which they do care? If so, excluding them from the room poses a problem. Why would they agree to sit outside just because they do not have to assume any obligations. Their strategic advantage is maximised if they remain in the room, and can "sell" their acquiescence to an agreement for concessions elsewhere in the talks. So one would expect strong opposition from those who have other interests in the talks. The fact that many smaller countries would feel themselves disenfranchised seems to go against the post-2000 efforts to promote inclusion and build the confidence of developing countries in the management of the multilateral trade system.

As a consequence, it seems more likely that all WTO members will need to agree to a "self-denying ordinance" that they will leave the negotiation of certain items (market access in particular sectors, certain trade rules) to other members. So long as each member felt that they gained by having a more focused role in negotiating the issues and sectors that they did care about then this could be attractive. This implies that such CMAs would essentially be limited to specific issues and sectors where the negotiating benefits of being at the table are minimal for many countries and their loss of involvement in the decision-making is not a serious consideration. If one assumes (perhaps wrongly) that that most of those countries that excluded themselves were developing countries, then one could accept that CMAs also be negotiated among groups of developing countries (south-south trade initiatives) where no perceived threat to developed country trade issues was at stake. Agreements among groups of developing country exporters (see below) could also be contemplated, though the involvement of the major importers would obviously widen the scope for such talks.

The analysis in the Journal Article (G and S, 2008a) of the number of countries that would account for 90 percent of trade gives an indication of the improvements in efficiency in negotiations that could be achieved by plurilateral discussions. But it also raises the key questions to be asked of such an approach: (i) why would countries agree to join such negotiations, and agree to a solution, and (ii) why would countries not wish to join the discussions, or at the least sign up to the results? The article suggests (correctly in my view) that the prime reason why countries agree to multilateral (or bilateral or plurilateral) is to obtain better access for their export sectors. So the question is whether importers of a product would ever take part in talks in which they have no export interest. The larger countries, as the article points out, often have both export and import positions in a particular product. But that seems to still be too limited a set of countries to discuss market access in an agricultural product. If one included broad groups of agricultural products the scope increases a bit, but also increases the number of countries that would want to be included in such talks.[129]

The Discussion Paper (G and S, 2008b) distinguishes between two different CMAs: those that apply to all WTO members and those that apply to the signatories only. The second group includes regional and bilateral trade pacts: the incorporation of these into the WTO structure raises more fundamental questions, and will not be addressed in my comments.

The more immediately relevant CMAs are those where all benefits are extended to all WTO members. All existing trade rules would be unchanged. Non-discrimination and national treatment would still hold. The Dispute Settlement process would be unaffected, and any negotiated agreement could be made legally enforceable on those who agreed to apply it even if the complainants were not among those who made these "parallel commitments". The agreements themselves would be mainly different in the way in which they were negotiated.

One would have to set up a process for these CMAs to be incorporated as a part of the WTO. The process could look like this: having fulfilled the requisite criterion for a critical mass (presumably with the implicit approval of the WTO Council) the participants could negotiate under the auspices of the WTO and report back when they had reached an agreement. Some form of review of consistency might presumably be needed at that stage, and the obligations of all members would be made clear.

[129] I assume that participation in the negotiation of a CMA is an option for all members. If this were not to be the case, I think that the WTO integrity would be damaged.

Such CMAs could also be open for additional members to sign up, though some additional provisions would have to be made if members were allowed to succeed from the CMA.[130] The remainder of my comment focuses on the feasibility of such an agreement in the context of agriculture.

CMAs and the Doha Round

Two different types of agreement are possible to envisage: those that deal with one sector (usually though not exclusively addressing market access provisions) and those that deal with a trade rule or issue (such as safeguards, export subsidies or GIs). The conditions under which such a CMA could be concluded would depend on the interests of the members, and these would differ by sector and by issue.

Sector CMAs

For sector negotiations one could imagine the ideal conditions for a CMA to be where production is concentrated in not more than (say) twenty countries. If these countries are predominantly exporters, then one would assume that their commercial interests would be similar, though they would be concerned about export competition as well as market access. If significant high cost production existed in the importing countries then one would not expect to see much interest in CMAs from these countries - or, at least, the CMAs would not include much market access. Conversely, if production were widely spread, and if importers were themselves major producers, then a CMA would have less of a rationale: the same mix of interests would be present as in a multilateral negotiation. It could be possible still to have a CMA, but only by omitting smaller countries that nevertheless had a stake in the outcome.[131]

As a result, it is not easy to see how sector discussions for temperate zone products would be negotiated. Obviously, from the point of view of the exporter, improvement in market access in the major markets is the key target. But rather than a CMA negotiation being ambitious, it would seem more likely that it would agree on minimal concessions by the importers where they happen to have balancing export interests. Japan for instance is not likely to have enough of an export incentive in agriculture to be keen on such talks.[132] The fact that in the DDA it can make common cause with the other countries of the G-10 seems to give it more "cover". It can make concessions eventually as a part of its general interest in a multilateral trade system but may not be able to concede in the more exposed environment of a CMA.

So what commodities in agriculture could be expected to satisfy the conditions for a successful sector CMA? One could imagine CMAs to be attractive where production is concentrated in a few countries and markets are mainly in non-producing countries. Tropical products fit these conditions well. This accounts for the popularity over the years of international commodity agreements (ICAs). An ICA is an example of a CMA: the constraints on ICAs that were adopted by the UN in 1949 include the provision that both importers and exporters are included and that they account for over half of the imports and over half of the exports. There are several provisions in the GATT that refer to ICAs, primarily to allow countries to manage trade in accordance with their ICA obligations. The management usually implies export restrictions and the coordinated build up of stocks, triggered by price events. Sometimes, importers undertake to respect these price conditions, though this is easier to arrange in case of state trading.

The "benefits" of the ICA (ostensibly improved market stability) are extended to all without obligations. Excluded exporters need not apply the export restrictions or storage triggers. Importers (whether signatories or not) also get the advantage of more stable prices, though they might be

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[130] This could take the form of a renegotiation to see whether there still existed a critical mass in that sector or are of agreement.
[131] And this then raises the issue discussed above as to why any country would agree to be excluded.
[132] One could, however, make the argument that Japan would be willing to see market access barriers reduced by other importers, allowing it to follow at its own pace. But this means giving up its major leverage in the negotiations, the "selling" of market access improvements in Japan to other countries.

expected to pay a premium in the form of somewhat higher average prices over time. Presumably the main advantage of having importer participation is the opportunity to influence the setting of the price triggers. The exporters have the problem of enforcement by signatories and of the free-ride by non-participating exporters.

Mention of ICAs has an anachronistic quality: the high point of such agreements was the 1970s, and they have been largely abandoned since that time. But, what goes around comes around. The latest draft modalities document for the agricultural negotiations includes a provision for commodity agreements.[133]

Rule-related CMAs

Can CMAs be used for negotiating changes in rules, rather than in agreeing on new tariff schedules? Or, put more broadly, can issues other than market access be discussed by sub-groups of the WTO membership and agreements be concluded? The most persuasive argument in favor of CMAs seems to lie in these areas other than market access.[134] The rules essentially restrict the activity of countries regardless of whether they import or export a commodity. The impact is felt by only those countries that employ the instrument that is to be constrained. Limits on export subsidies apply as obligations to all Members but only concern those who do (or would like to) employ that trade measure. If those countries themselves have an incentive to restrict the activity in another exporter then they may be willing to give up their own freedom of action. The country that has to "give up" the most may well look for benefits outside this agreement, but the chances of reaching such an agreement could still be enhanced if only the "users" of the instrument in question were in the room.

Why would developing countries and those that do not use export subsidies (as an example) allow the negotiation of their elimination to go on in a plurilateral forum from which they have excluded themselves?[135] Presumably the benefit would be that they see advantages from the elimination of such subsidies but have no leverage to use in such a negotiation. They may even decide that they might have to give a concession if they were at the table. If the prospect of a decision among the exporters was deemed to be likely then it may be rational for importers to stay away from the talks. The chances of a "bad" agreement for them would be minimal.

The issue of domestic supports is in some ways similar, though with a larger number of countries that would need to be "in the room". Importers as well as exporters use trade-distorting domestic subsidies. Could one imagine a CMA on this topic? Unfortunately the issue has become more prominent politically that its economic importance would suggest. Most of the discussions have been about lowering the limits on trade-distorting support, even though the prospect of those limits being breached is not apparent.[136] So the discussion on domestic supports could probably be advanced by negotiating a mutual agreement on constraints on farm support policies that are broadly limited to the

[133] This emergence of accommodation for commodity agreements in the Doha Draft Modalities is somewhat unexpected. First, it is included under market access, under the heading "other issues" and the sub-heading "commodities". After two paragraphs that deal with the negotiation of commodity-specific tariff escalation provisions, and one that makes provision for negotiations on the elimination of non-tariff trade measures, the Draft elaborates in eight paragraphs a revised approach to the negotiation of international commodity agreements. The main points of this section of the Draft Modalities (not in squared brackets, so one must assume that the Chairman thought that agreement was possible on this text) are that the WTO should make provision for allowing Members to take joint action including the adoption of international commodity agreements for stabilization of prices for exports of agricultural commodities at prices that are stable, equitable and remunerative.
As such this reaffirms the existing language of Article XXXVIII of GATT(94) that such arrangements can be negotiated. But the change comes in re-defining the term "arrangements" to include those where only commodity-dependent exporters are members. So exporter cartels would apparently be encouraged and given the cover of WTO legitimacy under the market access provisions. Indeed, the WTO has apparently agreed to give assistance to countries seeking to negotiate such agreements and has suggested monitoring these through "trade for aid" programs.
[134] There are of course market access issues that do not involve tariff negotiations. Safeguards, tariff simplification and preference erosion could in principle be dealt with plurilaterally, but it is difficult to conceive of many countries wishing to opt out of such negotiations.
[135] This exclusion could either be on a case by case basis or through an agreement that certain issues are restricted to those that "qualify" as interested parties. Again, I would still maintain that at some stage the membership as a whole should consider the outcome of the CMA.

[136] I don't mean to imply that this could not happen. See the IFPRI work on Domestic Support Notifications at their website: http://www.ifpri.org/events/conferences/2008/20080314.asp

OECD countries (and are generally shrinking for other reasons). The fact that the US chose to sell the idea to its farm sector as a quid-pro-quo for greater access to emerging country markets is one of the reasons why the issue for so long held up the Round.[137]

Are there other issues that might be negotiable in a plurilateral setting? One that I suggested in a paper for an IPC meeting (Josling, 2008) is that of export restrictions. I wrote that:

> Perhaps easier to imagine [than a deal between exporters and importers] would be an agreement among exporters to resist the use of export restrictions. The motivation for this would be that each exporter would give up a policy instrument that is often unpopular domestically and has unfavorable repercussions abroad. It is difficult to imagine exporters using export restrictions alone for any length of time, except for political reasons (which would not be restricted in a WTO context, as the country could claim a national security exemption). Other exporters would move in and increase their market share. So such export instruments are likely to be of short duration, and the effect on their status as reliable suppliers is likely to far outlast the action itself. Exporters in general have an incentive to maintain (or restore) the confidence of importers in the ability of the market to cover their needs. So a self-denying ordinance among exporters could be imagined if this were to help break a logjam in (say) a market access negotiation.

The IPC paper goes on to suggest that such an approach to curbing exporter trade restrictions could also be packaged with other export competition issues under negotiation in the Doha Round. Perhaps one could put together an "exporters code" that included the ending of export subsidies, both direct and through food aid, export credit guarantees and state-trading entities, as well as a ban on export embargoes and a limit on export taxes. This could be offered as a "stand-alone" component of the final Doha modalities. It could be seen as an "early harvest" if concerns about export availability persist.[138] The details of such a code could be negotiated by those who are most effected (the exporters but also recipients of food aid) and implemented on a non-discriminatory basis.

[137] The EU by contrast has changed its domestic policy in such a way that it can "sell" its declining AMS for benefits elsewhere. But it would presumably settle for tight constraints on US policy.

[138] In political terms such a code would rest on the proposition that the EU is intent on removing export subsidies for its own reasons and no longer expects to receive much in negotiating terms for this decision. The fundamental problem with the Round, that the issues of market access and domestic support have become linked would not be cured by an exporter agreement. However, any movement towards a resolution could break the logjam.

Conclusion

The main interest in the negotiation of CMAs is the apparent failure of the Doha Round to reach agreement on agricultural modalities. But the scope for these agreements in the context of the Round is limited by the fact that countries would have to voluntarily withdraw from the negotiating room in order to speed up the talks. Such conditions would work only in those cases where a limited number of countries were involved. This would seem most likely to be feasible in matters of exporter policy. For sector negotiations it is not easy to see why the importers would not want to be in the room. Unless they had strong export interests in other included commodities this would not speed up negotiations. To the extent that one would be offering a "free ride" to any country that agreed to stay outside the agreement, there could be some takers. But one would in essence be depriving these countries of the use of their negotiating rights, unless each country participated in a CMA.

If the negotiations are not concerned with market access then many of the problems are removed. One could imagine attempts to discuss mutual restraints on export subsidies and export restrictions. Even domestic support should be amenable to plurilateral discussion, though it has become too central to the Round to be separated now.

To the extent that the Doha Round does not reach a conclusion, the opportunities for CMAs are expanded. They could be initiated by individual countries on a "sign-up" basis, under the auspices of the WTO. The issue of loss of negotiating rights would be less if there were no search for balance among agenda items in a round. In fact, one could imagine each Ministerial mandating such agreements, setting up working groups and examining outcomes, thus keeping ownership of the process. If other plurilaterals (such as market access agreements among regional trade blocs) could be incorporated in such a managed set of WTO-sponsored agreements then it could help to revitalise the multilateral trade system.

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Clarifying the Concepts of a Single Undertaking and Critical Mass Decision-Making

Patrick Low[139]

Prolonged negotiations and increasingly complex formulas are spawning a growing literature on alternative models for international trade negotiations. The two concepts that inform much of this discussion are the single undertaking (SU) and critical mass (CM) decision-making. A problem with some of the discussion is that these two concepts have not been pinned down with sufficient precision. They do not necessarily mean the same thing to different commentators and the relationship between the SU and CM decision-making could benefit from further clarification. The purpose of this note is to offer some suggestions as to how the terms of the discussion might be tightened.

The context

Dissatisfaction with multilateral negotiating and decision-making processes arises in several dimensions. The particular focus of the SU and CM discussion is on how gridlock and frustrated closure scenarios in multilateral trade negotiations can be addressed more effectively. In essence, the solution offered by SU and CM is to reduce the degree of participation by Members in negotiations and decision-making. Fewer voices and narrower differences among participants ("like-mindedness") would make it is easier to reach decisions and advance negotiating agendas. Stated thus, SU and CM look like a repudiation of multilateralism, the essence of which is inclusiveness. The prospect of a global trade regime defined in this way – which in effect means that it would no longer be global – is anathema to many, for reasons not explored here. However, a more careful definition of the concepts of SU and CM should rescue them from the stigma of elitism underpinned by power politics alone.

Before considering such definitions of SU and CM, and the possible conditions that could be attached to them so as to avoid retrograde outcomes, it is perhaps worth specifying briefly some of the arguments for considering these alternative approaches. Negotiations among large numbers are harder to manage than negotiations with fewer participants. The problem could be characterised simply as one of transactions costs. But like-mindedness also enters the picture. Governments can more easily agree if they share negotiating priorities and a common view of what they wish to achieve in negotiations. The higher the variance across these dimensions, the harder it is to strike a deal – to identify reciprocal bargains. Moreover, the more parties there are to a negotiation, the greater the number of issues that may need to be addressed in order to frame acceptable trade-offs. And all of this becomes more complicated in an increasingly multi-polar world where it is no longer sufficient for one or two large players to strike a deal under which the rest of the trading world will find whatever accommodation they can. These factors must be a non-trivial part of the explanation of why many governments find regional settings less challenging than a full-fledged multilateral trade negotiation.

In thinking about SU and CM, two opposing approaches can usefully be distinguished. One is informed by the view that multilateralism is essentially a hegemonic construct that has lost its usefulness. Sub-sets of like-minded governments working together can do more today to make the world a better place than continued painful and seemingly endless efforts to work in a multilateral setting. If this position is held in a pure enough form, the analysis ends here. The concepts of SU and CM are irrelevant, since there is no need for governments to answer to, or try to accommodate, a global regime.

The second approach recognises intrinsic value in a global approach to trade relations, and looks for accommodation – indeed legitimacy – for more supple and efficient approaches to building and sustaining the multilateral trading system. The argument here is not about suppressing regionalism, but rather finding ways of doing multilateral business that both respond to highly varied priorities *and* promote and guarantee inclusiveness. Efficient multilateralism would stand a far greater chance than

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competitive multilateralism of constructive co-existence with regionalism. Much more could be said about the dynamics of this particular relationship under different institutional design scenarios, but this is not the issue of concern in this note.

The basic assumption here is that governments value the multilateral trading system and are willing to assume the responsibility this implies of working within the confines of certain policy disciplines, while at the same time searching for ways of making multilateralism function better. In this spirit, the notions of SU and CM become important.

Defining the single undertaking and critical mass decision-making

a) <u>The single undertaking</u>

The notion of a single undertaking first appeared when the Uruguay Round was launched in 1986. The idea behind this particular version of a SU was that all parties needed a guarantee that parts of the whole negotiating agenda would not be split off from the main agenda unless all parties to the negotiation agreed that this was desirable. Such agreement has only ever been secured on matters that can be characterised as procedural – the Trade Policy Review Mechanism during the Uruguay Round and the Transparency Mechanism on regional trade agreements in the Doha Round. By keeping the whole agenda joined up negotiators enjoyed the guarantee that all possible trade-offs would survive the entire negotiation, and that sub-sets of countries would not be able to walk away with that they wanted, leaving the interests of others high and dry.

As the Uruguay Round proceeded and it became clear that a new institution – the WTO – would be born, the SU took on an altogether more contentious meaning. From being a mechanism to prevent the early harvesting of partial results, it was transformed into the condition that no WTO Contracting Party could become a founding Member of the WTO unless it accepted the package as a whole. So from being an agreement that nothing was agreed until everything was agreed, it became requirement that everything had to be adopted or WTO Membership would be denied. Not surprisingly, many governments regarded this as unduly coercive and were convinced they had assumed unwelcome and quite possibly welfare-diminishing obligations.

It is difficult to know which of these versions of the SU conditions current thinking about whether the Doha Round SU obligation is desirable. Some argue that the SU is desirable as protection against disregard by influential players of the interests of less influential players. Others wonder whether it might be used again to eliminate the option to refrain from participating in particular aspects of the negotiations, such as the sectoral agreements under NAMA.

b) <u>Critical mass decision-making</u>

The phrase critical mass decision-making first entered the trade negotiator's lexicon in the aftermath of the Uruguay Round, when governments agreed to continue negotiations on telecommunications and financial services. It was subsequently used in the Information Technology Agreement and is currently under discussion in relation to the NAMA sectorals. The idea is simply that as long as a subset of parties can strike an agreement that they are willing to apply on a non-discriminatory basis, such a deal should be allowed to go forward with multilateral blessing. Underlying a critical mass framework is the market-based notion that the composition of a critical mass on any issue will be determined by those willing to be part of the critical mass. This implicitly reflects the reality that those outside the CM agreement are not important enough in relation to the issue at hand to destabilise the agreement. This can be variously thought of as recognition that small countries cannot affect "prices" or that a free-rider is an external party that cannot destabilise a CM agreement. So CM agreements only go forward if all the players perceived to be key are part of it.

Properly defined, the issue is about critical mass decision-making and not the single undertaking

The argument made here is that a proper definition of CM decision-making renders consideration of the SU irrelevant to this discussion, except perhaps as a political declaration of intent on the part of all negotiating parties to stay the course and ensure coherence and completeness in pursuit of the agenda.

This requires some explanation. The issue turns on how CM is defined in terms of different categories of decision that must be taken for a multilateral negotiation to be launched, conducted and closed. The first and third of these decision-making stages – launching a negotiation and adopting the results – would appear to be necessarily multilateral decisions taken on the basis of consensus if the CM agreement is going to be part of the multilateral trading system and not a separate agreement negotiated outside this framework.

Both of these stages, but particularly the adoption of results, are what renders the discussion of the SU redundant in terms of this architecture. The adoption of CM decision-making, then, is not a licence for sub-sets of WTO Members to do what they like in the expectation that those who fall outside the critical mass are nevertheless expected to fall in line. Those who wish to pursue CM agreements need to sell the proposition to the Membership at large, partly by explaining why the issue is important to them, and partly by proposing an architecture that those outside feel comfortable with. And if the outsiders are inappropriately composed and the fear of free-riding is real, the CM agreement will simply not come about. Moreover, since it is assumed that outsiders benefit from the CM Agreement without acquiring obligations, then it may also be assumed that they will be less inclined to oppose agreements they do not see as being in their immediate interests. And those within the CM agreement will be robbed of the tempting subterfuge of claiming to speak for others who now have a different status with respect to new obligations.

Critical mass decision-making is more relevant to rule-making than market access

No two WTO Members have identical market access obligations. The starting point of a tariff or subsidy structure and the history of participation in successive trade rounds (or in an accession negotiation) will determine the level and distribution of each Member's market openness profile. Since CM decision-making is precisely about differentiated outcomes it may be argued that quite a bit of the work of non-uniform obligations has already been done in this domain by market access negotiating modalities. Critical mass, in other words, is already written in to negotiations about tariffs and subsidies.

Where the clarity of this proposition may be harder to establish is in the domain of sectoral negotiations. Arguments about critical mass in relation to the NAMA sectorals, for example, have introduced a binary structure that more usually applies to a set of rules in a particular area. It is the way a sectoral market access negotiation is structured – a Member is either in or out in terms of a particular sectoral liberalisation initiative. This complicates the politics of market-opening negotiations, which could otherwise proceed along traditional request-offer lines or via a formula, but it seems that the sectoral focus may be perceived by some as the only way of securing a reciprocal bargain.

As far as rules are concerned, however, the situation is much more straightforward. Critical mass is more about the desire of a subset of Members to push a rules-related agenda forward in a particular area, as long as other important players agree to participate. In the trade liberalisation context, critical mass is more about persuading others to be part of a negotiation on pain of losing benefits elsewhere, or even the deal as a whole. The political economy of CM agreements on rules should be less complicated than those turning on market access, provided that both signatories and non-signatories are prepared to build an agreement on this kind of variable geometry architecture and understand that the stability of such arrangements depends on avoidance of free-riding in the present and future. More could certainly be said about this particular challenge, but it does not seem to present an insurmountable obstacle to more enlightened (and effective) progress than arrangements hostage to lowest-common-denominator politics because everyone has to come along.

The Warwick Commission listed several conditions besides the non-discrimination requirement that would be desirable before a CM agreement could go forward. These included demonstrating a net positive welfare outcome, with consideration for the inter-jurisdictional distributional fallout in cases where the net welfare gain implied losses for some countries, the establishment of justiciable rights and obligations (obligations for CM agreement signatories and MFN rights for all), the right of all parties to participate in the relevant negotiations, and the right of all parties to join the agreement on the same terms as original signatories. These conditions require more careful analysis and specification. At the same time, some of them would be taken care of by the consensus gateway requirement for placing an item on the WTO agenda, although rendering them explicit may change the balance of power in negotiations.

Conclusions

An appropriate identification of the key components of CM decision-making makes an analysis of the notion of the SU redundant in the context of a system that allows decisions to be taken by a subset of Members of the WTO and embedded in the WTO system by a consensus decision. Critical mass agreements are beneficial for the system as a whole, as well as for those inside and outside such agreements. They benefit the system because they make it possible to move agendas important to some countries without prejudicing the interests of others. They allow the multilateral trading system to keep up with RTAs and to facilitate a process of multilaterisation of regional agreements over time. For those inside a CM agreement they allow movement in areas that would be excluded if the system had to move at the pace of its slowest active member. They also hold out the promise of broader adherence to new norms over time and allow access to the instruments of the multilateral trading system, including dispute settlement. For the non-signatories, who will generally be developing countries, the possibility of CM agreements reduces the likelihood of pressure being applied to subscribe to norms considered not to be in the national interest at a particular stage of development. Critical mass agreements, especially in the area of rule-making, offer positive-sum outcomes as long as they are appropriately designed.

The Variable Geometry[140] Approach to International Economic Negotiations

Peter Lloyd[*]

1. Introduction

After the collapse of the Doha Development Round negotiations in Cancun and again in July of this year there has been discussion of alternative approaches to WTO negotiations. This includes the possibility of variable geometry (see, for example, Patel, 2003; Cornford, 2004; Warwick Commission, 2007; VanGrasstek and Sauvé, 2008; Sauvé, 2008; Gallagher and Stoler, forthcoming). However, the problems of reaching agreement in the DDR negotiations are only one example of a more general problem in international economic negotiations. Over the last decade or so negotiations in many different multilateral fora have stalled because of the lack of a consensus; other examples include the OECD MIA negotiations, the Kyoto Agreement and climate change negotiations

Variable geometry is a strategy that allows negotiations of one or more particular issues to lead to an agreement that is not binding on all of the parties to the agreement. In practice, it is a strategy found in many-country negotiations. Variable geometry is an alternative to strategies that require all parties to be bound by all of the terms agreed in a complex many-country many-issue negotiation. The essential feature is that it is an opt-in provision.

Variable geometry can be applied to a wide range of negotiations relating to rules covering international trade in goods, or services or factors or property rights (including emissions trade). All of these can be regarded as aspects of global economic integration, the process of reducing barriers to trade and establishing common rules for international trade.

There are other negotiating strategies which are designed to introduce flexibility in many-country negotiations in other ways. Bhagwati (1991, p. 77 and 1993, p. 45) proposed the idea of "open clubs" as a strategy for negotiating regional trade (or integration) agreements. The idea in this context is that a group of countries negotiating an agreement, agree as a part of these negotiations to accept subsequently any other country which wants to join the group on the same terms. This is a strategy suited to a larger group of countries among which a subset are initially willing to enter an agreement. Like variable geometry within a fixed group, it is an opt-in provision. All members would be bound by all of the commitments and obligations. It is variable geometry with respect to membership of the group and all of the commitments and obligations which its members have agreed to. Lawrence (2006) has proposed that the WTO be reformed as a "club of clubs".

Variable geometry can be applied to an agreement at the regional level as well as to multilateral agreements. In fact, the term first appeared in documents and treaties of the European Union.

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[140] The term has been borrowed from engineering, where it describes a feature of the wing construction of aircraft and, occasionally, other designs. The analogy between the engineering and economic applications is, however, weak. It would be more accurate to describe the strategy used in international economics agreements as "variable geography".

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Section 2 and 3 discuss the history of variable geometry in the EU and the WTO. We shall see that the term has been given different interpretations in different contexts. Section 4 examines the experience with variable geometries after their introduction. Section 5 considers how variable geometry might be used in future negotiations at the WTO.[141]

2. Variable geometry in the European Union

The experience of the EU will be examined first because it is both the origin of the strategy and has some of the clearest examples. Moreover, this EU regional experience has strongly influenced the attitude of the EU and some other countries in their view of the possibilities of variable geometries in the WTO.

In the EU, variable geometry emerged in the later stages of the evolution of the EU integration. It has been described by various terms – “variable geometry”, “two-speed Europe”, “Europe à la carte”, “closer cooperation” and “enhanced cooperation”. These terms are usually treated as synonyms but there are subtle differences among them.[142] The two outstanding examples of variable geometry are the Schengen Agreement and the Economic and Monetary Union (EMU).

The 1985 Schengen Agreement, and the 1990 Schengen Convention which supplemented it, relate to the free movement of persons among the signatories, the Schengen States. Since the freedom of movement is guaranteed within the Union for all persons who are nationals of an EU Member State, it relates to the intra-union movement of non-EU nationals wishing to move among Member States. For the signatories, the effect was to allow the removal of all internal border controls on the movement of persons, both EU nationals and non-EU nationals. It implements complete freedom of movement of all persons residing in or admitted to a Schengen State. The territory without internal borders is known as the Schengen Area.

The Schengen States have also agreed to establish common controls at their external borders and adopted a common visa policy. Of the 15 “old” Members States at the time of the negotiations, Ireland and the United Kingdom were not been willing to remove controls on the intra-EU movement of non-EU nationals, and they retained their national border controls on the movement of these persons from other EU Member States.

Provision for a Monetary Union was formulated in the Maastricht Treaty on European Union of 1992 though the agreement proceeded by three stages and the initial Monetary Union did not come into effect until 1 January 1999. The European Economic and Monetary Union (EMU) involves adoption of a common currency (the Euro) and a common monetary policy administered by a common central bank (the European Central Bank or ECB). Member States that are not members of EMU retain their own currencies and central banks. At the time of its formation 12 of the 15 Member States opted in; the three member states that did not sign were the United Kingdom, Ireland and Denmark. Member States opting in to the EMU must meet specified conditions. They must meet a detailed set of convergence criteria and they must have their national currency in the European Exchange Rate Mechanism (ERM II) for two years.

A third example in the EU is the 1991 Social Policy Agreement. It set out the policy objectives for the 1889 Social Charter relating to employment and working conditions and other social policies. 11 of the then 12 Member States signed this agreement. The United Kingdom opted out (or, more accurately, did not opt in). Following the election of a new Labour Government in 1997, the United Kingdom announced that it would drop its opt-out. The Social Policy Agreement was then incorporated into the Social Chapter of the EC Treaty through the Treaty of Amsterdam.

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[141] Variable geometry has also been proposed as a method for reaching agreement in APEC negotiations (See Scollay, 2007).

[142] For example, “two-speed Europe” is a more general term that has two different models; core Europe and variable geometry Europe. Core Europe is a proposal that a core of countries wantintg to go further in integrating their economies form a group within the EU with their own institutions and integration policies across a number of areas whereas variable geometry Europe ad hoc groups agreeing to further integration in particular areas. Variable geometry Europe is the route that has been chosen.

Looking at the three examples together, one feature is that, at the time of their formation, they involved different subsets of the members of the EU. The UK is the only country that opted out of all three. Another feature is that all involved the adoption of common policies in one policy area.

As a general strategy, variable geometry was first officially incorporated in the Treaty on European Union. It is now referred to as a provision for “enhanced cooperation”. In addition to the general arrangements, provision for enhanced cooperation was made in some other treaties, as in the Treaty establishing the European Community after the 1997 Treaty of Amsterdam. The provision was relaxed in the 2001 Treaty of Nice with a view to making it less restrictive in the context of the enlargement of the Union to 27 Member States and more general; the right of veto which member States enjoyed over the establishment of enhanced cooperation was removed, the number of Member States required was changed from the majority to a fixed number of eight, its scope was extended to the common foreign and security policy (the so-called “second pillar”) and to police and judicial cooperation (the “third pillar”), and a new requirement that enhanced cooperation must contribute to enhancing integration within the Union and not undermine the single market or create a barrier or discriminate among States was added. The current general rules are reproduced in the Appendix. This provision is authorised by a qualified majority of the European Council, acting on a proposal from the European Commission and after consulting the European Parliament.

Variable geometry agreements are outside the “acquis communautaire”, the body of common rights and obligations which bind all Member States within the European Union. In effect, the EU has two tracks towards greater integration, the acquis communautaire and variable geometry. In the case of the Schengen Agreement and Convention, the rules adopted are known together as the “Schengen acquis”, which is binding on Schengen States only.

The Economist (2004) compared the variances of EU policies to a lake that has many deep parts (areas in which all countries have common policies) and many shallow parts (areas in which countries pursue different policies). Others have characterised it as an arrangement that has allowed the French and German governments that wanted to proceed further in integration policies than some others, particularly the UK, to do so. The UK reluctance to accept obligations in these areas is due to a number of factors. As a country it has been less convinced of the benefits of integration in general. Its laws and institutions evolved separately from those of the continental countries.

These recent provisions regularised the variable geometry practices that had evolved earlier in certain areas. However, the new provisions of the Treaty of Amsterdam and the Treaty of Nice have not yet been used.

3. Variable geometry in the WTO

Variable geometry strategies have been used a number of times during the period of GATT negotiations, though not under that name. They have been used in instances where standard methods of negotiation by offer and request or formula have not made progress or when special opportunities for additional commitments arose (as in the ITA and the zero-for-zero negotiations on industrial product groups in the Uruguay Round)..

The most important of the GATT variable geometries are the nine Tokyo Round Codes that emerged as a part of the outcome of the Tokyo Round multilateral negotiations completed in 1979. There were irreconcilable differences among the Contracting Parties in the negotiations on these areas that prevented agreement among all Contracting Parties. The Tokyo Round Codes were stand-alone agreements with their own signatories and institutional procedures.

The Codes were as follows:

- The Agreement on Technical Barriers
- The Agreement on Government Procurement

- The Agreement on Interpretation and Application of Articles VI, XVI and XXII (known as the Subsidies Code)
- The Agreement on Implementation of Article VII (known as the Customs Valuation Code)
- The Agreement on Import Licensing Procedures
- The Agreement on Implementation of Article VI (known as the Anti-dumping Code)
- The Agreement on Bovine Meat
- The International Dairy Agreement
- The Agreement on Civil Aircraft

Of these, the last two covered aspects of market access in two sectors of goods trade on which agreement among all parties could not be reached. (The agreement on bovine meat was purely a forum for collecting and discussing information.) The first 6 covered separate areas of rules relating to trade in goods. Some of these were already within the scope of the rules of the GATT but were considered to need tightening or extending. Some were largely or wholly outside the then existing rules; this applied to the Agreement on Technical Barriers and to the Agreement on Government Procurement (where GATT Article III.8 excluded government procurement from National Treatment obligations). These two agreements resemble most closely the variable geometries of the EU.

These codes had two distinguishing features. First, they were opt-in agreements. Second, code reciprocity applied only to other code signatories, not on an MFN basis. For those codes which dealt with rules rather than market access, reciprocity means that the commitments in areas such as consultation, notification and the exchange of information were restricted to the signatories.

As part of the Marrakesh Agreement concluding the Uruguay Round in 1994, five of the Tokyo Round Codes were renegotiated and became part of the "single undertaking" that is binding on all Members of the new organisation, the WTO. The term "single undertaking" first appeared in GATT language in the 1986 Punta del Este Ministerial Declaration which launched the Uruguay Round and it was incorporated in the Marrakesh Agreement establishing the WTO[143].

The other four remaining agreements - the Agreement on Government Procurement, the Agreements on Bovine Meat, the Agreement on Civil Aircraft, and the International Dairy Agreement - however, were not included in the single undertaking. They were given the designation of "plurilateral agreements" to distinguish them from the multilateral agreements in the WTO. The terms of a plurilateral agreement are binding only on those members that sign the agreement. Reciprocity is extended only to members.

There have been other variable geometry agreements in the WTO, in both goods and services trade. One important case is the "zero for zero" agreement applying to tariffs on selected groups of industrial goods in the Uruguay Round. This was initiated by the Quad countries with other Developed countries and some Developing countries joining. The percentage of world exports accounted for by the participants varied, with most in the 70-90 per cent range (Hoda, 2001, chapter II).

These agreements in the Tokyo Round codes and the later plurilateral and other variable geometry agreements gave the GATT/WTO a structure similar to that of the EU. There was a single undertaking binding on all parties and supplementary agreements binding only on those parties that signed these agreements and whose benefits were limited to the signatories, paralleling the *acquis communautaire* and the variable geometries of the EU.

[143] The term "single undertaking" has shades of meanings; see Grasstek and Sauvé (2006) and Stoler (forthcoming).

GATT and WTO negotiations have adopted a number of other strategies to give flexibility to the negotiations. These include the approach called “critical mass” in the GATT/WTO lexicon. This approach was adopted in the negotiation of the Information Technology Agreement and the services agreements in the period after the conclusion of the Uruguay Round and before the beginning of the Doha Development Round (1995-2000). They too are opt-in agreements with the added feature that participants must form a sufficient mass to bring the agreements into force.

The ITA agreement stipulated that the participants representing 90 per cent of world trade would have to accept and sign before the agreement came into force. Originally only 29 signatories signed but after the Singapore Ministerial 11 other countries signed and the agreement came into force. Other countries chose not to opt in. However, the terms are applied on an MFN basis and do not discriminate against non-signatories, thus multilateralising the agreement. Thus, the ITA is not a plurilateral agreement and not a variable geometry but, like the plurilaterals and the Tokyo Round Codes, it is outside the single undertaking.

The services agreements negotiated between the conclusion of the Uruguay Round and the opening of the Doha Development Round were negotiated on a similar basis. Negotiations in these area of service trade had proven difficult in the Round. This applies to the Agreement on Basic Telecommunications and the Agreement on Financial Services. In place of a critical mass in terms of a percentage of the market, these agreements specified that they had to be signed by all parties who had agreed to the negotiations. This basis of negotiations was an alternative to that used in other services. They were limited to the interested parties but open to others to join when they came into effect. However, like the ITA, these agreements are applied on an MFN basis and they are, therefore, multilateral agreements.

There are also a number of other circumstances in which the rules of the GATT and WTO have not been applied uniformly among members. These include Grandfather Clauses, aspects of the various agreements on textiles and clothing before the Uruguay Round, special treatment for socialist countries relating to state trading in goods under various GATT articles and, mostly importantly, Special and Differential Treatment for Developing Countries introduced in the Tokyo Round. These clauses and agreements too are binding on all members of the WTO and do not breach MFN. VanGrasstek and Sauvé (2006) list a number of ways in which GATT rules and obligations have been applied “inconsistently’, that is, in different ways to different groups of members of the GATT or WTO. Developing countries in particular have weaker obligations. Non-uniformity or non-consistency is, however, a broader concept than variable geometry.

After this review of variable geometries in the EU and the WTO, a more precise definition that covers both organisations and distinguishes variable geometries from other forms of flexibility can be given. A variable geometry has two features. First, it is an opt-in agreement devised by a proper subset of a larger group of countries. Second, it is made as a stand alone agreement (though in the case of those GATT/WTO agreements relating to market access for goods or services, the signatory member commitments are entered into their national schedules of commitments) . This definition covers both market access and rules agreements.

Its benefits may be restricted to the subset of countries or extended to other non-signatories. This definition is broader than that used in the EU. In the case of EU agreements relating to rules, the benefits are confined to members by some other feature of the agreement: for example, in the case of the EMU, the common currency limits benefits from the elimination of exchange costs and exchange risks and a common monetary policy to the members or, in the case of the Schengen area, the benefits of greater freedom of movement of people are limited to a reciprocal exchange among the members of the area. My definition covers agreements such as “critical mass” agreements which are multilateral.

4. What has happened to the variable geometries?

The country composition and structure of the variable geometries in the EU did not last.

The original 1985 Schengen Agreement was signed by five (out of nine) members of the EEC: these were the original six less Italy. After the formation of the European Union in 1992, the Schengen Area expanded to 13 (out of 15) Member States. (Although it signed the Agreement, special provisions continue to apply one of the original three opt-outs, Denmark.) Moreover, the scope of the common policies had expanded. The 1997 Treaty of Amsterdam brought the Schengen Agreement into the EU legal framework. This Treaty also provided that the two who remained outside the Schengen Area - the UK and Ireland - could take part in some or all of the arrangements. In fact, the UK and Ireland have done so with regard to some arrangements, though both maintain their own national border controls. The gradual extension of the Schengen Area led two countries outside the EU, Iceland and Norway, to take part in the Schengen cooperation, including the removal of national border controls. (These two countries along with EU Member States Denmark, Sweden and Finland belong to the Nordic Passport Union, which had abolished internal border checks.) As part of the terms of their accession, the 10 Member States that joined the EU in 2004 and the two that joined the EU in 2007 (Bulgaria and Romania) are bound by the entire Schengen acquis, though there is a transition period during which certain provisions will not apply to them until border controls have been abolished. Nine of these countries have now joined the Schengen area, bringing the total number of participants to 24 (out of 27 Member States).

At the time of its creation in 1999, 12 of the then 15 Member States of the EU joined the EMU. The UK, Denmark and Sweden have remained outside. The 10 countries that joined the EU in 2004 and the two that joined in 2007 must join the EMU after they meet the convergence criteria. All intend to join the third stage – the adoption of the Euro and membership of the ECB - in the next 10 years. Slovenia, Cyprus and Malta have already joined the EMU. This brings the number of countries in the Euro zone to 15 (out of 27) with 9 more on track.

Similarly, the structure of the Tokyo Round Codes and the Uruguay Round plurilateral agreements outside the single undertaking did not last. As noted in Section 2, five of the Tokyo Round Codes were renegotiated in the Uruguay Round and became part of the "single undertaking" and thus binding on all Members of the new organisation. Of the remaining four, the Dairy and the Bovine Meat Agreements expired on 31 December 1997. The Agreement on Trade in Aircraft is largely redundant as its disciplines were mostly incorporated in the Uruguay Round Agreement on Subsidies and Countervailing Measures, which is a part of the Single Undertaking. This leaves the Agreement on Government Procurement as the only variable geometry survivor of the Tokyo Round Codes.

As of March 2007, the number of signatories of the ITA had increased to 70, representing 97 per cent of world trade in IT products. More than 100 countries are now signatories to the Agreement on Basic Communications and the Agreement on financial Services.

5. New variable geometry in the WTO?

The breakdowns of the current Doha Development Round multilateral negotiations at Cancun in September 2003 and again in July 2008 has raised doubts about the current methods of negotiating in the WTO and prompted a number of writers to suggest ways of introducing greater flexibility. More generally, the Warwick Commission (2007) suggested we need a reflection exercise to rethink the multilateral trade system and others have echoed this view.

We need first to outline the features of the Doha Round attempt at trade negotiations.

The scope of issues being considered by negotiations in the current Doha Development Round is broader than those considered in the Uruguay Round. And the number of countries has increased. These have made negotiations more difficult.

Others, however, have suggested that the problem lies with the method of negotiation. After the July failure, in a keynote address to the 2008 WTO Public Forum the Director-General outlined the negotiation problem in the following terms:

> "Three principal constraints today represent a challenge to our work: the first is the bottom-up approach, under which members must themselves always take the lead in tabling negotiating proposals and compromise solutions; the second is the concept of a "single undertaking", which implies that in a round of negotiations with 20 different topics, nothing is agreed until all is agreed; and the third is the decision-taking by consensus, which is reasonably close to unanimity." (Lamy, 2008).

Paragraph 47 of the Doha Ministerial Declaration declares that the outcome of these negotiations shall be treated as parts of a single undertaking; the only exception is the improvements and clarifications of the Dispute Settlement Understanding. Thus the outcome is to be treated as a package. In the words of the WTO itself "nothing is agreed until everything is agreed". The last two give a veto to those members who do not agree with a result in any area. These three features operating together have made negotiations very difficult in many areas.

At the same Forum, Sauvé (2008) proposed variable geometry à la EU as a possible solution. A number of economists and commentators have also put forward "variable geometry" as a way around impasses in these negotiations (see, for example, Lawrence, Bressand and Ito, 2001; Patel, 2003; Cornford, 2004; Lawrence, 2006 and VanGrasstek and Sauvé, 2006).

Others have suggested reintroducing "critical mass" as a method of negotiation (for example, the Warwick Commission, 2007, pp. 30-32; Gallagher and Stoler, forthcoming; Evenett, forthcoming). Critical mass negotiations may be regarded as a form of variable geometry.

The features of such a variable geometry approach to negotiations would have to be determined. First, there is a strong case for abolishing the single undertaking. Not participating in a particular agreement that they did not want or like might make some countries more willing to accept an overall package. In the Uruguay Round, many Developing Countries were persuaded to accept the TRIPS and TRIMS Agreements because of improved market access for their exports and other gains. Subsequently, these agreements have been a source of resentment and regret by some developing countries that has given rise to a background of ill will and inhibited the DDR negotiations.

Then, there is the possibility of reintroducing variable geometry agreements whose benefits apply only to the participating Members. The stand-alone or non-SU feature of a critical mass geometry, together with limited participation, removes the veto power of those not participating (but not of those participating).

There is a strong argument for making any variable geometry agreements concluded among a subset of WTO Members non-discriminatory. This is *de jure* (but sadly not *de facto*) a fundamental principle of the WTO. However, the possibility remains of reverting to Tokyo round non-reciprocal variable geometries for areas of rules.

A question arises as to whether there should be any general rules or pre-conditions for the start of variable geometry negotiations. The EU Treaty on European Union contains a list of "provisions" relating to variable geometry relations in this regional agreement. These are reproduced in the Appendix. Lawrence (2006) proposes a list of "operating rules" if the WTO were to be managed as a club-of-clubs. In relation to the reintroduction of critical mass negotiations in the WTO, the Warwick Commission (2007), Gallagher and Stoler (forthcoming) and Sauvé (2008) list a number of features. The combined list is the following: CM agreements should require a "sufficient" number of countries, be open to all Members both at the time of negotiation and subsequently for non-signatories to join, non-discriminatory, subject to standard WTO dispute settlement procedures, tariff-based and should provide technical assistance and aid-for-trade for those Developing Countries who participate.

A critical mass approach along these lines would still not be easy. The critical number of participants would presumably still include all major importers. Some countries and most particularly the USA would be concerned over free riding by non-participants.

The key aspect of these rules or pre-conditions is the question as to whether the variable geometry arrangement should be permanent or temporary. Both the EU and the WTO have shown a definite tendency to regard a variable geometry union as a temporary step towards the eventual inclusion of all members into the negotiated arrangements. In its current treaty provisions, the EU clearly regards an “enhanced cooperation” agreement as a transitional phase. It is described as “a last resort”, to be established [only] when “such cooperation cannot be attained within a reasonable period by the Union as a whole”, with participation in its deliberations open to all members, and “such cooperation shall be open at any time to all member States”. That is, there can be two speeds but the eventual goal is the same for all Member States. The WTO has displayed a similar ambiguity over its variable geometries. After all this the Single Undertaking was introduced into the Uruguay Round and the Doha Ministerial Declaration to remove this ambiguity.

In my view, the question of a permanent or a temporary union and, more generally, all of the procedures that should be followed in a variable geometry negotiation is closely related to the objective(s) of the organisation or group conducting them. In this regard the experience of the EU is salutary.

The first of the EU conditions for its variable geometry is the requirement that “enhanced cooperation shall aim to further the objectives of the Union, protect its interests and reinforce its integration process.” This states clearly that the interest of all Member States is paramount. In the original EU negotiations of the EMU, for example, the debate focussed on whether the sub-set of countries pursuing the goal of a monetary union was an “optimal currency area”. Subsequently, however, the EU came to the view that membership of the EMU is a part of the acquis that should bind all Member States.

From this point of view, there is a great contrast between the EU and the WTO. The WTO lacks a clear objective and, because of this, it lacks a vision of where it is heading. The Preamble to the Marrakesh Agreement setting up the WTO, like that of the preamble to the GATT before it, has two proximate objectives; the first is “reciprocal and mutually advantageous arrangements directed to the substantial reduction of tariffs and other barriers to trade” and the second is “the elimination of discriminatory treatment in international trade relations”. The first of these proximate objectives, coupled with the other bottoms-up feature of the negotiations strategy noted by the present Director-General, have brought about negotiations in which attempts to reduce border barriers to trade are essentially directionless incrementalism. They have been swamped by the perceived self-interest of the participating Members that led them to resist almost every attempt to lower barriers. The WTO desperately needs, in my opinion, a strong and clear objective. Without such an objective, the WTO negotiations to improve market access and reduce subsidies will remain directionless.

I would prefer an objective of free (and therefore non-discriminatory) trade for the WTO. Indeed, it is hard to conceive of any other long term objective.[144] In this regard the EU currently has the objective of a “single market” (= complete integration), which is even stronger than the original objective in the 1957 Treaty of Rome of a “common market” and considerably stronger than free-at-the-border trade. This has guided the evolution of its variable geometry exercises.

[144] The EU-style objective of complete integration is not feasible as it raises basic questions of the scope of WTO rules in relation to beyond-the-border regulations that impede trade and the coverage of WTO rules in relation to movements of capital and labour and areas such as competition.

6. Concluding Remarks

Variable geometry offers new possibilities as a general stand-alone limited participation strategy in negotiations in the WTO. But the experience of both the EU and the WTO has shown that the design of workable variable geometries is complex and difficult. It is no panacea.

Appendix

Consolidated versions

Of the Treaty on European Union and

The Treaty on the Functioning of the European Union

TITLE IV
PROVISIONS ON ENHANCED COOPERATION
Article 20
(ex Articles 27a to 27e, 40 to 40b and 43 to 45 TEU and ex Articles 11 and 11a TEC)

1. Member States which wish to establish enhanced cooperation between themselves within the framework of the Union's non-exclusive competences may make use of its institutions and exercise those competences by applying the relevant provisions of the Treaties, subject to the limits and in accordance with the detailed arrangements laid down in this Article and in Articles 326 to 334 of the Treaty on the Functioning of the European Union.

   Enhanced cooperation shall aim to further the objectives of the Union, protect its interests and reinforce its integration process. Such cooperation shall be open at any time to all Member States, in accordance with Article 328 of the Treaty on the Functioning of the European Union.

2. The decision authorizing enhanced cooperation shall be adopted by the Council as a last resort, when it has established that the objectives of such cooperation cannot be attained within a reasonable period by the Union as a whole, and provided that at least nine Member States participate in it. The Council shall act in accordance with the procedure laid down in Article 329 of the Treaty on the Functioning of the European Union.

3. All members of the Council may participate in its deliberations, but only members of the Council representing the Member States participating in enhanced cooperation shall take part in the vote. The voting rules are set out in Article 330 of the Treaty on the Functioning of the European Union.

4. Acts adopted in the framework of enhanced cooperation shall bind only participating Member States. They shall not be regarded as part of the acquis which has to be accepted by candidate States for accession to the Union.

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Agriculture-specific negotiations from an EU perspective

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The project on critical mass in agriculture combines two innovations. The first is the idea to negotiate agreements only among a subset of WTO members that are willing to participate, while the benefits of the critical mass agreement are passed on to all WTO members in adherence to the Most-Favored Nation (MFN) principle. This deviates from the practice of consensus decision-making that requires all member states to agree before any agreement can be passed, but stops short of a more aggressive version where the MFN principle is limited to the participants of the critical mass agreement. The second idea is to negotiate a separate deal on agriculture or certain agricultural products instead of pursuing the Single Undertaking approach adopted in the Uruguay Round and the Doha Round. These two innovations are connected, the relevance of the critical mass approach depending on the breadth of negotiations.

At one end are negotiations with tightly delimited agricultural product coverage. In such a case, the critical mass approach can be a crucial advantage over the traditional consensus practice. In each negotiation, it allows leaving aside some states with particular political sensitivities concerning the selected set of products – as long as sufficient trade coverage is attained to attenuate participating states' reluctance to tolerate free riding. Furthermore, it makes the conclusion of negotiations independent of the inertia of the many states that have insignificant trade shares in the selected set of products, a problem that would be even more severe if a multitude of product-specific negotiations were conducted in parallel.

Negotiations with intermediate breadth would link a substantial share of agricultural trade or the entire sector. It would also be possible to add non-trade issues to the package. Finally, this could lead to the other extreme, a Single Undertaking approach subsuming trade in agriculture, industrial goods, and services, as well as additional issues such as intellectual property or trade facilitation. Under such circumstances, a MFN-compliant critical mass option would offer little value. The membership would be unwilling to accept any state with significant trade shares free riding on the entire new Single Undertaking agreement. They would do so not only because they want to safeguard their export interests to that country but also because they would find it difficult to sell such an unbalanced deal at home. As all economically relevant member states would have to be included, they would all want to have a voice in negotiations. There would thus be little change to the current practice of negotiations in concentric circles whose composition is often adapted to the issue at hand; the complexity of achieving agreement among a large number of member states, with many of them having an individual weight in negotiations, would not be reduced. However, the formal option of free riding would imply the danger of legitimising such behavior internationally and of creating domestic pressures to resort to it. A MFN-compliant critical mass option would therefore inhibit rather than facilitate a Single Undertaking agreement.

This contribution neither attempts to establish rules concerning the functioning of the critical mass approach (such as necessary coverage of import and export shares by the participating states and maximal import and export shares by individual non-participating states), nor to identify products for which those rules might be fulfilled. Instead, it examines the more basic question of whether specific agreements for selected agricultural products or the entire agricultural sector could be concluded. In doing so, the chapter assumes an EU perspective.

Here, a warning is in place: It appears that EU decision makers have given little thought to alternative frameworks for WTO negotiations. This implies, first, that much explanation would be necessary

[145] European Centre for International Political Economy

before critical mass negotiations in agriculture could take off, and second, that the political evaluation presented in this chapter is necessarily speculative as key actors have not made up their minds themselves.

Distribution between EU member states

The EU takes decisions on trade agreements on agricultural goods by qualified majority. Nevertheless, any such agreement would need to gain overwhelming support from EU member states because the Council would be unwilling to pursue a product- or sector-specific trade agreement which is not deemed essential for the EU if it could only be ratified by a contested vote. The distribution of perceived benefits and costs of any agreement would therefore have to be sufficiently balanced across EU member states as to guarantee that no government feels it is losing out; observing that the EU as a whole has an approximately balanced trade account for the products covered is only a weak indicator for the EU's willingness to accept such a deal. The problem is that EU production across member states is highly heterogeneous. Table 1 shows the distribution of production volumes and self-sufficiency rates in cereals and the main kinds of meat for several EU member states – all products where tariffs are high. While France grows almost twice as much cereals as it uses, Dutch production amounts only to a fifth of the country's need for cereals. This heterogeneity would make it difficult to rally a strong majority of EU member states behind any product-specific agreement; only an artfully designed package of several products might sufficiently balance perceived benefits and costs across the EU (while such a package tailor-made to the EU would probably not fit a sufficient number of other WTO member states).[146]

A further complication results from the fact that protectionist EU member states have a long record of horse trading. Even if a state would slightly benefit from a given agreement but fear that a subsequent agreement might target products in which it has a strong defensive interest, it would likely resist the agreement in question. In doing so, it would hope to stymie the principle of product-specific liberalisation in agriculture as well as to assure itself of the support of other protectionist member states against any agreement to which it would genuinely object.

What about an agreement that would comprise agriculture in its entirety? The balance of production and consumption in agricultural products that enjoy significant tariff protection differs strongly across member states. Several countries where production exceeds consumption would thus lose from lesser tariff-induced price markups on EU agricultural markets. This is a serious problem because EU policy making in agriculture has a long tradition of distributive bargaining over national advantages – in seeming contradiction to the "community interest". As discussed further below, several EU member states have attempted to undermine the EU offer on agricultural liberalisation, especially during the July 2008 negotiations in Geneva.

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[146] The fact that the EU has engaged in a series of sector-specific reforms after the comprehensive 2003 CAP reform does not mean that the EU would also be willing to endorse sectoral liberalization in the WTO. The sector reforms of recent years consist mostly in replacing highly distorting subsidies with compensation through less distorting subsidies. But such compensation would not be politically feasible for tariff cuts.

Table 1

	Output in 1000 tonnes, 2006				
	Cereals	Bovines	Pigs	Sheep	Poultry
Denmark	8 632	129	1 749	2	170
Germany	43 475	1 193	4 662	43	1 009
Greece	3 804	61	123	75	154
Spain	19 363	671	3 230	227	1 257
France	61 708	1 510	2 263	121	1 722
Italy	20 207	1 111	1 556	59	628
Netherlands	1 750	384	1 265	16	661
Austria	4 460	215	505	0	102
Sweden	4 128	137	264	4	102
United Kingdom	20 878	847	697	330	1 517
	Self-sufficiency in %, 2006				
	Cereals	Cattle	Pigs	Sheep & goats	Poultry
Denmark	106.7	88.6	665.0	28.6	156.8
Germany	106.7	122.9	97.3	52.4	87.4
Greece	76.8	26.4	37.0	84.9	78.6
Spain	69.6	97.6	125.3	108.2	96.3
France	191.5	106.7	107.3	51.2	133.0
Italy	79.1	57.0	66.4	40.7	109.6
Netherlands	21.4	113.9	226.9	87.0	161.1
Austria	100.0	145.8	99.5	83.3	70.1
Sweden	116.9	66.7	89.7	42.4	84.8
United Kingdom	105.6	66.0	51.5	86.7	85.3

Source: data from (Eurostat 2008).

Linkages between agricultural interests

Linkages between agricultural products need to be considered when designing negotiating packages. One such linkage exists between products that are substitutes on the market. The producers of competing goods would resist liberalisation even if they were not directly targeted by the negotiations. Probably more important are vertical linkages between agricultural raw materials, intermediate goods, and processed goods. In the EU, tariffs are generally high on agricultural raw materials that compete with EU production (e.g. milk, wheat, starch, and sugar). In turn, processing industries call for tariffs and export subsidies to level the playing field with foreign competitors that have access to cheaper raw materials. This complicates specific agreements for processed products (that should in principle be easier to negotiate because products tend to be more differentiated) as long as trade in raw materials is not open.[147]

Another important linkage reaches beyond the WTO Agreement on Agriculture. The EU would not accept an agriculture-only deal that does not include improved protection of Geographical Indications. The Mediterranean countries have much small-scale uncompetitive farming threatened by liberalisation, but also many renowned producer regions qualifying for Geographical Indications. Therefore, they have vociferously insisted on a strong EU stance in this regard. Including Geographical Indications would, in turn, open the door for other WTO member states to also include their intellectual property demands, for instance national rights on genetic resources.

[147] Even without tariffs on animal fodder, EU meat and dairy producers will argue that the EU's restrictions on genetically modified feedstuff put them at a competitive disadvantage that needs to be offset through trade measures.

The link to non-agricultural interests

The linkage between EU agricultural policy reform and non-agricultural concessions by other states – on industrial goods, services, and intellectual property – was a decisive factor in convincing the EU to accept the Uruguay Round Agreement on Agriculture. The linkage tilted the balance of welfare and domestic political effects in favor of making agriculture an integral part of the WTO. This was the case especially in Germany, which eventually came down in favor of the 1992 Common Agricultural Policy (CAP) reform that resolved the WTO deadlock over agriculture. By the same token, the perspective of foreign market access in industrial goods and services was essential for the EU to make its offers on trade liberalisation in agriculture, notably on tariffs where domestic pressure for reform was weak.

How would governments perceive the link to these non-agricultural economic interests, and which positions would the respective pressure groups take in the case of agriculture-specific negotiations? First, non-agricultural business interests are in principle in favor of agricultural liberalisation in order to lower taxes and reduce overall price levels and thus production costs in Europe. But these interests are too diffuse and weak to take an active role in shaping CAP reform. Their main interest in agriculture is the strategic linkage to foreign market access in industrial goods and services. Therefore, they would likely give a cool reception to agriculture-specific negotiations that would undermine the EU's bargaining power on other issues that are of greater interest to them.

Second, EU member states and the Commission are already concerned about spending all of the EU's bargaining chips in the Doha Round without getting equivalent concessions from emerging countries in return, leaving the EU with little leverage in future rounds. These concerns would become more acute if negotiations were conducted solely on agriculture.

Third, many in the EU believe that the EU has made the greatest concessions of any major trading player during the Doha Round – especially in agriculture. It has agreed to an ambitious progressive tariff-cutting formula, despite its high, concentrated agricultural tariffs; it has offered the removal of export subsidies, of which it is the heaviest user; it reformed its domestic subsidies significantly in 2003 and continued subsequently with several sector reforms. By contrast, the US passed expensive, trade-distorting farm bills in 2002 and 2008. And developing countries have managed to negotiate lesser cuts (even though they start from higher bound levels of protection). This exasperation would complicate an agriculture-specific deal that would be perceived as an unfair reward for defensive, inflexible negotiating strategies in the WTO.

The role of multifunctionality objectives

The debate about the multifunctionality of agriculture shapes EU policy-making. Agriculture is seen to preserve open spaces, enhance scenic variety, and maintain traditional landscape characteristics that carry cultural significance. Similarly, agriculture is appreciated for promoting biodiversity, for instance by offering a habitat to species that depend on (traditional) farming. Finally, the volatility of food prices and the food crisis in many developing countries have reinvigorated the argument that a high degree of self-sufficiency is necessary to assure the EU's food security.

This discourse is pervasive among EU institutions, member states, farmers' federations, NGOs, and the media. Many actors use multifunctionality objectives to ask for CAP reform that targets subsidies on socially valued services that are not remunerated on the market. Such a reform would, as a side effect, reduce the production- and trade-distorting effects of the CAP. But protectionist interests still manage to convince many decision makers and large swathes of the public that inefficient and distorting policies are necessary to attain multifunctionality objectives. Indeed, it is the belief that the CAP serves multifunctionality objectives that explains much of the popular support for the CAP.[148]

[148] See (Eurobarometer 2008).

A specific agreement that comprises all of agriculture would run into the same criticisms that have been aimed at the Doha Round, namely concerns about rural job losses, a deepening income divide between urban and rural areas, large scale land abandonment with resulting habitat loss, and the decline of a distinctive countryside culture.[149] It is an open question, however, how product-specific negotiations would fare. On the one hand, opponents would certainly attempt to muster the full weight of the EU's supposedly threatened multifunctionality objectives against the limited economic benefits possibly to be reaped from a product-specific agreement. On the other hand, it is possible that a product-specific agreement would receive a more sober analysis by decision makers and less attention from a general public susceptible to protectionist propaganda. A debate on 'agriculture' is likely to differ from a series of debates on 'garlic, fresh or chilled' or 'mushroom of the genus Agaricus'. In this regard, boiling agriculture down to a number of technical negotiations that stir up fewer passions among protectionist lobbies and the public could be a way forward.

Instrument coverage

Up to this point, four factors have been discussed: the distribution of perceived benefits and costs between EU member states, linkages between agricultural interests, links to non-agricultural stakes, and the role of multifunctionality objectives. They have been seen to shape the chances of an agriculture-specific agreement differently depending on the product coverage of the deal. Another dimension, not tackled so far, is the agricultural policy instruments regulated by WTO agreements. Clearly, the prospects for an agriculture-specific agreement differ across policy instruments.

Chances are best for an agreement on export support. The European Commission and several member states would like to abolish export subsidies that do not fit into the market-oriented tool box of the future CAP. Furthermore, NGOs have discredited this instrument on the grounds that it harms the global poor. But farmers argue that the EU must not disarm unilaterally, leaving them on an uneven playing field on world markets where key competitors receive some form of export support. This demand for reciprocity has been entrenched through the Doha negotiations where the EU has been demanding corresponding disciplines on other forms of export support, such as export credits and State Trading Enterprises that favor exports, in exchange for removing its export subsidies.

Another policy instrument for which an agriculture-specific agreement might be reachable from the EU perspective is Amber and Blue Box support. The European Commission, which unsuccessfully tried to decouple all domestic support in 2003, succeeded in the current 'Health Check' reform of the CAP to further reduce the list of products entitled for payments on output, cultivated area, or livestock numbers. But it also introduced new flexibility for EU member states to re-couple some of their generally decoupled CAP allocations. Negotiations on an agriculture-specific agreement might add the necessary momentum for fully decoupling subsidies. Such an agreement would, however, have to draw a difficult line with regard to targeted area and headage payments, such as the EU's Less Favored Area payment that stimulates farming, especially in mountain regions. Defining which subsidies are permissible because they achieve a sufficient level of targeting – for instance by setting an upper limit for the share of a country's territory that can be considered as disadvantaged – would be a challenge for such negotiations.

Perspectives are dim for cutting those (presumed) Green Box payments that distort trade without serving efficiently any domestic policy objective, notably the decoupled income aid provided through the Single Farm Payment. The EU takes pride in having transferred most of its subsidies to the Single Farm Payment or the Second Pillar of the CAP, consisting of rural development and environmental payments. It is difficult to imagine that agriculture-specific WTO negotiations could convince the EU to abandon its Single Farm Payment and to better target this money to socially valued services provided by agriculture. But it might be possible to improve Green Box disciplines on selected subsidies – such as clarifying and tightening disciplines on payments for income insurance and income safety nets that protect farmers against individual income losses, or investment aids for producers that

[149] See the EU's leading farm federation's statements at http://www.copa-cogeca.be.

suffer from ‘objectively demonstrated structural disadvantages’. Since current WTO disciplines are vague and an increasing share of subsidies is channeled through such measures, minimising their trade-distorting effects is an important objective.[150]

It is difficult to envision substantial cuts to high tariffs. This is the blind spot of many reform promoters. Finance ministers value tariffs for generating revenues and providing ‘costless’ protection to farmers. Cutting tariffs would make farmers even more dependent on subsidies and give additional strength to the argument that subsidies are justified to compensate farmers for compliance with strict EU standards. Environmentalists fear that tariff reductions would lead to land abandonment and subsequent habitat loss for wildlife, as well as pressure on European farmers to further intensify production methods to stay competitive. On an international level, tariff cuts are feared to cause more polluting transportation and the expansion of ecologically irresponsible farming in developing countries. Lower tariffs would also shrink the preference margin that the EU could grant on products that have been produced with high environmental production standards. Finally, development NGOs are satisfied with the EU’s new Generalized System of Preferences and the Everything But Arms initiative, and fear that MFN-tariff cuts would harm the poor by eroding preference margins.

A different kind of problem with tariff cuts is that complete phasing out is hardly realistic for any of the products where liberalisation could unlock substantial additional trade. A clear focal point for negotiations would be missing, and states would likely fall into the same quagmire of exceptions as in the Doha Round.

An issue that is not on the Doha Agenda but that has been very visible during the food price surge in the first half of 2008 is export restrictions. It would be appealing to address this problem through specific negotiations, especially because it has not yet become an object of multilateral bartering with countries linking disciplines on export restrictions to certain other concessions. The EU would certainly support such a proposal, as the 2008 price hikes have created discontent among consumers and accelerated inflation. But the EU has the purchasing power to cover its need on the world market even if some countries’ export restrictions drive up prices; and, in the worst-case-scenario, it is not dependent on world markets to assure its food security. Disciplining export restrictions is thus not a priority for which the EU would be willing to pay a price in the form of significant market access liberalisation – while the least developed countries most threatened by food insecurity have little to offer in exchange for more reliable supply.

Conclusion

The outlook for an agreement with comprehensive coverage of policy instruments and including the entire agricultural sector is gloomy. Governments in several EU member states would fear losing from such an agreement; non-agricultural business interests would not be enthusiastic; concerns about giving away bargaining chips for future negotiations would spread; and general opinion would resist the idea that overly defensive and inflexible positions in the Doha Round should subsequently be rewarded with an agriculture-only cherry-picking agreement. In particular, Geographical Indications would have to be part of any agreement on agriculture, which would incline other WTO member states to add further issues to the basket.

The coalition of nine EU member states – France, Italy, Ireland, Poland, Hungary, Greece, Portugal, Lithuania, and Cyprus – that threatened not to ratify an agreement with the modalities discussed at the WTO ministerial meeting in July in Geneva, would probably strongly resist an agriculture-only deal. The repeated calls from business interests for a more balanced Doha deal, complaining in particular that the EU does not receive sufficient concessions from emerging countries, also indicates that the EU

[150] See (Blandford and Josling 2007) and (Diakosavvas 2003) for criticism of current Green Box disciplines.

negotiated very close to its bottom line.[151] Negotiations exclusively on agriculture would release politicians not only from the domestic pressure exerted by non-agricultural stakeholders but also from the international pressure that builds up during a full-blown WTO trade round (and that was influential in particular during the run-up to the Hong Kong ministerial when the EU was criticised for its defensive position on agriculture).

Prospects for highly product-specific agreements that comprise a small set of tariff lines are also poor. Such negotiations might have the advantage of escaping the heavy rhetoric against abandoning European farmers, letting rural areas fall into decay, and endangering food security. But it would be difficult to find many such packages that would be acceptable to (almost) all EU member states – given their heterogeneous production structures – and that do not require parallel reforms of other products.[152] Furthermore, the EU might come to see them as a distraction from more serious trade negotiations and abstain from them to underline their commitment to a substantial trade deal. As the EU moratorium on free trade agreements under Trade Commissioner Pascal Lamy has shown, such systemic considerations matter for EU trade policy making.

Therefore, it is worthwhile not only to explore whether several policy instruments could be reformed on a product basis but also whether agreements on specific instruments could be found that apply to the entire agricultural sector. Instrument-specific agreements could include the complete removal of export support or output subsidies or the tightening of some Green Box criteria. Such negotiations could stimulate a debate about the relative efficiency of policy instruments instead of market access volumes gained and conceded. This, in turn, would help to make a critical mass approach with some free-riding more acceptable; in particular, participants in such agreements could form an avant-garde of states committed to domestically efficient and internationally responsible instruments.

The feasibility of agriculture-specific agreements will probably improve over time. First, EU agriculture is becoming more export oriented, and public decision makers but also farm organisations themselves are becoming more aware of the EU's agricultural export interests. Second, already decided CAP reforms will be progressively implemented. Over time, the EU will get accustomed to its new policy mix and feel more at ease with limiting its policy space. Third, the possibility to claim credit for the CAP reform steps undertaken between 2003 and 2008 will fade over time. The EU will thus expect less from its trading partners in exchange for locking in what is has already done unilaterally. Fourth, decision makers' thinking will be less dominated by the Doha Round bargaining spirit. If the round fails or succeeds, decision makers will not expect a new round to be started soon after for which bargaining positions would need to be maintained. This would create leeway for agriculture-specific talks. Hence critical mass in agriculture does not provide an avenue to harvest what has been negotiated in the Doha Round; rather it might become a realistic scenario only after Doha negotiations have been closed. Essentially, it is a post-Doha option.

Alternatives to a MFN-compliant critical mass agreement limited to agriculture deserve further examination. One is a package that clusters several issues of priority interest to the business community, for instance liberalisation of selected services sectors, trade facilitation, and the updating of the Information Technology Agreement. A scaled-back agreement on agriculture that simplifies tariffs, removes nuisance tariffs below a threshold (say of 5%), locks in already decided domestic subsidy reforms, and applies the Hong Kong declaration on the removal of export subsidies and duty-free, quota-free access for least developed countries, could be part of such a package. Negotiations clustering priority issues could be done on a critical-mass, MFN-compliant basis.

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[151] See WTO Doha Round: entering into the end game of negotiations - letter from Philippe de Buck to Commissioner Peter Mandelson, 2008-07-17, http://www.businesseurope.eu.

[152] Such a procedure might have a detrimental side-effect: It could cement the status quo in each country's most protected products as the country's export-oriented agricultural interests, which might lobby for reciprocal liberalization, will be partly satisfied through specific WTO agreements. This resembles the danger that regional integration could weaken export-oriented interests' support for WTO negotiations (Levy, 1997).

Another option for negotiating such a cluster-based agenda is *not* to extend the MFN principle to states that do not sign up to a critical mass agreement. This would change the rules of the game much more fundamentally than a MFN-compliant critical mass approach and greatly enhance the chance of seeing substantial liberalisation among major trading nations. Interestingly, such an ‘exclusive’ agreement would not be as aggressive at it might look at first sight and not mean that the rich and powerful would disadvantage the weaker and poorer countries. Many of the benefits would go to states that are not participants. Regarding trade in services and trade facilitation, for instance, participating countries will generally not adopt two policy regimes – one for companies from signatories, the other for companies from non-signatory states – but simply liberalise and improve their regulations applying to all foreign suppliers. The same would be the case with stricter disciplines on trade defense instruments and tighter control of Free Trade Areas and their rules of origin. Also, reductions in subsidies inherently benefit all foreign producers. The only real argument against such an approach would be trade diversion that harms non-signatories. However, this would hurt non-participating least developed countries little as they already enjoy preferential access that could be further extended to compensate them for their preference erosion (or at least to avoid that they compete on less advantageous terms than more developed countries that have signed up to critical mass agreements). In addition, trade diversion between just two sets of countries – signatory and non-signatory states – would likely be much less of a problem than the trade diversion and the administrative difficulties for businesses brought about by the continuing surge of bilateral and small-group preferential trade agreements. Finally, all states could accede to such critical mass agreements on equal terms to prevent trade diversion, something that is not the case with bilateral deals. Therefore, moving toward critical mass agreements with MFN conditional to membership in the agreement is an option to consider seriously rather than dismiss out of hand.

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Comment on Critical Mass Negotiations

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The four papers commissioned for this meeting make a very interesting reading. They demonstrate the complexity of the major emerging markets' positions on agricultural trade liberalisation in both the DDA and in general. There is, to me, a surprising degree of scepticism about plurilateralism – as critical mass agreements – or way forward. It is based on the fact that, particularly in agriculture, as the product space for an agreement is narrowed each side becomes gradually more clearly defined as either an exporter or an importer and thus its mercantilist interests – and the WTO is, after all, still a mercantilist construct – become more starkly defined. Hence ultimately in a world of finely defined plurilaterals, importers will tend to walk away from the negotiation and no deal is possible. This is the traditional logic for rounds in the GATT, and it still has a lot of force left in it.

On the other hand, the DDA has certainly not been a great advertisement for the single undertaking. It has highlighted the huge diversity of views and capabilities across the 153 WTO members and has reached an unsightly stalemate. So where does that leave us? I want to make two points: we need to finish the DDA as is, and then we can think hard about critical mass.

The DDA was started under the rubric of a single undertaking and has, according to whom you ask, got 85% to 98% of the way towards a deal. It is an ambitious deal, especially in terms of coverage and the depth of the cuts it proposes in bound subsidy and tariffs rates. I regret the fact that the countries which so desperately need the stimulus of world markets – the least developed countries – have been encouraged (and readily responded to encouragement) to offer no liberalisation of their own regimes, and that most other developing countries (in WTO parlance) have so much water in their tariffs that there will be little effective liberalisation for them either. But I am in the minority in this view and don't propose that we should re-open this issue at this stage.

I suggest that the parties to the talks show similar forbearance! The world has changed since August and the stakes for the DDA are suddenly immeasurably higher. It seems to me no time to change the rules. At their 15th November Summit Meeting in Washington the G20 leader "instructed" their trade ministers to conclude the DDA, and for good reason. As the world descends into the worst recession for nearly 80 years, some market stimulus would be welcome. More important, given the paucity of explicit, high-level, support for liberalising trade there is a significant probability of our slipping back into protectionism and trade war. Concluding the DDA world is a clear rejection of such a path, a clear embrace of the multilateral approach to addressing global problems. That is, the counter-factual to the DDA is not the status quo, but, very likely, regress to a much less favourable regime in which growth, innovation and poverty reduction would all fall well below the levels we have come to accept.

With these prospects I believe that we should bite the bullet and settle recognising that each has to give up some red-lines quickly to reach agreement. To change the rules would make the process slower not faster, Part of the bullet-biting may be to give smaller, non-systemic, countries a bit more latitude over degrees of liberalisation, but this should be pragmatic not formulaic. In the context of the current meeting, let me state, that I do <u>not</u> consider any of Brazil, China, India or Indonesia to be small and non-systemic!

Once the DDA is out of the way, I believe we should debate the modalities and get another series of trade liberalisations underway. I know the argument that GATT/WTO is not really about liberalisation per se but about regulation and the enforcement of previously committed liberalisations, but I do not accept it. I think it desirable both substantively and institutionally to keep the train moving.

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[153] The views expressed in this note are the author's alone. They may or may not reflect those of his employers.

For the future I believe that we might experiment with plurilateralism and critical mass. If purely sectoral deals emerged with a critical mass, that would be fine, but overall I suspect that for the reasons noted above we will have to combine several of them into a single package to reach closure. The critical dimensions that we need to settle are what a critical mass is and what happens to excluded countries.

A definition of critical mass is required in order for this route not to become just a loop-hole in Article XXIV's (GATS Article V's) "substantially all trade". I suggest a double criterion for critical mass agreements to be WTO compatible: they should include countries accounting for 80% of the trade flows concerned and one-third of membership. While there is plainly scope to negotiate the precise thresholds, the logic of these numbers is as follows. The former recognises that WTO should facilitate liberalisation where significant traders have interests going beyond those of the minor ones but it is also faithful to the idea that it is a global body that deals with global issues. The latter criterion (currently 51 countries) prevents the use of critical mass agreements from being used by small groups of particular countries to further particular aims that are of no interest or adverse interest to the rest. For example, a TRIPS-type agreement by 30 rich countries would not be an appropriate use of WTO structures. For regulatory agreements there is also a question of which trade: I would be pragmatic here subject to as requirement that the objective is to include all trade that is materially affected by the deal.

The treatment of excluded countries has two dimensions: whose exports were affected and whether other importers could join. On exports, I favour a simple MFN rule to preserve non-discrimination. If tariff or other concessions under an agreement were restricted to its members and membership varied across agreements, the WTO would become just an enforcement tool for discriminatory trade agreements: this is diametrically opposed to its original intention as well as bring mind-bogglingly complex for traders. On joining, I would let any-one join and oblige no-one to.

Once several plurilaterals were packaged into a mini-round it is likely that there would be pressure to move back to universality. This would be perfectly acceptable to me but the fact that there was an option to continue without universality may bring a sense of realism to negotiations.

It is far from clear that all this would work and that is why I wrote 'experiment'. If not much had happened within three years I would then try to open up another comprehensive round.

Appendix 6 – Global Trade Opinion Polls

The Institute for International Trade conducted two Global Trade Opinion Polls in connection with this project: one poll in September 2008 and a second poll in October 2009. The complete results of these polls are reproduced in this appendix.

GLOBAL TRADE OPINION POLL

Survey No. 16 (September 2008)
Special Agricultural Frameworks Survey

SUMMARY

This survey was conducted as a part of the ACIAR/RIRDC-funded research project into the viability of alternative frameworks for agricultural trade negotiations. The results discussed below are preliminary and will be finalised once additional survey input has been received from our collaborators in India, China, Indonesia and Brazil.

The survey of experts showed that by a margin of two to one (52% to 26%), respondents felt that many other issues apart from the SSM could have led to a collapse of the WTO talks in July. A majority (57%) also believes that a complex modalities text like the draft on the table is unavoidable to achieve agricultural trade reforms. By a very wide margin (71% to 7%), respondents are convinced that the WTO system will be characterised in the post-Doha period by a large number of “carve-outs” and special protective measures for agriculture.

A significant majority (57% to 33%) think that leading developing countries (apart from Brazil and Argentina) have little real interest in agricultural market access reform – although this is one of the areas where there is a big difference in the view from Geneva as opposed to the view from capitals (nearly all in developed countries).

Overall, on nine of the fourteen propositions surveyed, there were significant differences in the responses from Geneva-based and capitals-based respondents. This could change importantly once we receive additional input from our collaborators in developing countries.

Information in this preliminary draft is based on responses from our current pool of nearly 130 negotiators, policy-makers and experts from both developed and developing countries located in Geneva and key capital cities around the world. The survey was conducted in September, 2008.

Detailed responses are presented in the tables that follow below.

Proposition Surveyed	1	2	3	4	5	NO
(A) If the negotiations had not broken down as a result of the special safeguard mechanism, there were many other open issues that were so difficult that they would surely have led to a breakdown in the talks.	31.0	21.4	21.4	23.8	02.4	
	Likely		=	Unlikely		
	52%			26%		

Proposition Surveyed	1	2	3	4	5	NO
(B) Although further compromises will be needed to bridge the differences revealed at the end of July, the US Congress will make the necessary cuts in the farm supports adopted in the 2008 Farm Bill in order to ratify an eventual agreement.	07.1	40.5	14.3	26.2	09.5	02.4
	Likely		=	Unlikely		
	48%			36%		

Proposition Surveyed	1	2	3	4	5	NO
(C) The deal on the table at the end of July in Geneva embodied a "comparably high level of ambition" in agricultural and NAMA market access.	11.9	19.0	31.0	23.8	14.3	
	Likely		=	Unlikely		
	31%			38%		

Proposition Surveyed	1	2	3	4	5	NO
(D) The goal of a "comparably high level of ambition" across goods sectors is a standard that helps to ensure consensus in WTO negotiations	07.1	35.7	07.1	31.0	14.3	04.8
	Likely		=	Unlikely		
	43%			45%		

Proposition Surveyed	1	2	3	4	5	NO
(E) Although we don't have all the details, EC and US offers to expand TRQ access under the 'sensitive' product provisions deliver on the Doha Round's promise of "substantial improvement in market access"	11.9	31.0	23.8	23.8	nil	09.5
	Likely		=	Unlikely		
	43%			24%		

Proposition Surveyed	1	2	3	4	5	NO
(F) A complex modalities agreement such as the 100+ pages on the table in July, and the difficult implementation task it implies, is unavoidable to achieve agricultural trade reforms.	26.2	31.0	04.8	19.0	16.7	02.4
	Likely		=	Unlikely		
	57%			36%		

Proposition Surveyed	1	2	3	4	5	NO
(G) There is little risk that the 'status' exceptions for classes of WTO Members, the 'special' and 'sensitive' product exceptions, the Special Safeguard Mechanism or the Special Agricultural Safeguard will continue beyond the implementation period of a Doha agreement.	02.4	04.8	16.7	33.3	38.1	04.8
	Likely		=	Unlikely		
	7%			71%		

Proposition Surveyed	1	2	3	4	5	NO
(H) Apart from Brazil and Argentina, the developing leadership of WTO has little interest in the 'substantial improvement' of market access in agriculture given their rate of macro-economic growth and political economy problems that agricultural liberalisation implies for them.	28.6	28.6	09.5	26.2	07.1	
	Likely		=	Unlikely		
	57%			33%		

Proposition Surveyed	1	2	3	4	5	NO
(I) The US's offer to cut recent growth in its domestic supports and the EC's offer to lock in the CAP reform decisions it took in 2003 should have been attractive enough for the developing country leadership to agree to more substantial cuts in their own agricultural barriers.	11.9	23.8	16.7	21.4	21.4	04.8
	Likely		=	Unlikely		
	36%			43%		

Proposition Surveyed	1	2	3	4	5	NO
(J) 'Critical mass' agreements among countries accounting for a high proportion of trade in a product or sector—similar to the International Technology Agreement—are a practical possibility for the future liberalisation of agricultural markets.	21.4	26.2	16 .7	16. 7	19.0	

Likely	=	Unlikely	
48%		36%	

Proposition Surveyed	1	2	3	4	5	NO
(K) Large-scale, reciprocal 'free trade' agreements such as NAFTA-EC, combined with duty-free/quota-free arrangements for least-developed countries, are a potential way forward for ambitious trade reform.	11.9	28.6	11.9	28.6	19.0	

Likely	=	Unlikely	
41%		48%	

Proposition Surveyed	1	2	3	4	5	NO
(L) Although the protection of agricultural markets accounts for almost two thirds of welfare losses from the protection of goods markets, agriculture represents only 8% of goods trade and production. WTO Members should leave their longstanding differences in the sector to diminish as their economies grow and turn their attention, instead, to bigger 'prizes' in trade facilitation and the liberalisation of labour and investment markets.	21.4	23.8	11.9	14.3	26.2	02.4

Likely	=	Unlikely	
45%		41%	

Proposition Surveyed	1	2	3	4	5	NO
(M) The value of 'core' WTO services, for example, its role as a forum for Trade Policy Reviews; as an enforceable framework of basic trade principles, and; to coordinate technical assistance such as 'Aid for Trade', will not be compromised whatever happens to the Doha Round negotiations.	28.6	19.0	16.7	16.7	19.0	
	Likely		=	Unlikely		
	48%			36%		

Proposition Surveyed	1	2	3	4	5	NO
(N) In a future negotiation, greater parity between developed and developing countries' liberalisation commitments would be facilitated if agricultural and industrial tariffs and other market access issues were subject to a single 'modality' that cut high industrial country agricultural protection in step with cuts to high developing country protection of NAMA products	19.0	21.4	19.0	21.4	16.7	02.4
	Likely		=	Unlikely		
	40%			38%		

Survey Responses Reflecting Important Differences in View from Geneva-Based and Capitals-Based Respondents

	Geneva-Based	Capitals-Based
Proposition Surveyed	Likely	Likely
(A) If the negotiations had not broken down as a result of the special safeguard mechanism, there were many other open issues that were so difficult that they would surely have led to a breakdown in the talks.	59%	48%

	Geneva-Based	Capitals-Based
Proposition Surveyed	Likely	Likely
(B) Although further compromises will be needed to bridge the differences revealed at the end of July, the US Congress will make the necessary cuts in the farm supports adopted in the 2008 Farm Bill in order to ratify an eventual agreement.	35%	56%

	Geneva-Based	Capitals-Based
Proposition Surveyed	Likely	Likely
(D) The goal of a "comparably high level of ambition" across goods sectors is a standard that helps to ensure consensus in WTO negotiations	29%	52%

	Geneva-Based	Capitals-Based
Proposition Surveyed	Likely	Likely
(E) Although we don't have all the details, EC and US offers to expand TRQ access under the 'sensitive' product provisions deliver on the Doha Round's promise of "substantial improvement in market access"	53%	36%

	Geneva-Based	Capitals-Based
Proposition Surveyed	Unlikely	Unlikely
(G) There is little risk that the 'status' exceptions for classes of WTO Members, the 'special' and 'sensitive' product exceptions, the Special Safeguard Mechanism or the Special Agricultural Safeguard will continue beyond the implementation period of a Doha agreement.	62%	77%

	Geneva-Based	Capitals-Based
Proposition Surveyed	Unlikely	Unlikely
(H) Apart from Brazil and Argentina, the developing leadership of WTO has little interest in the 'substantial improvement' of market access in agriculture given their rate of macro-economic growth and political economy problems that agricultural liberalisation implies for them.	59%	16%

	Geneva-Based	Capitals-Based
Proposition Surveyed	Unlikely	Unlikely
(K) Large-scale, reciprocal 'free trade' agreements such as NAFTA-EC, combined with duty-free/quota-free arrangements for least-developed countries, are a potential way forward for ambitious trade reform.	65%	36%

	Geneva-Based	Capitals-Based
Proposition Surveyed	Likely	Likely
(L) Although the protection of agricultural markets accounts for almost two thirds of welfare losses from the protection of goods markets, agriculture represents only 8% of goods trade and production. WTO Members should leave their longstanding differences in the sector to diminish as their economies grow and turn their attention, instead, to bigger 'prizes' in trade facilitation and the liberalisation of labour and investment markets.	34%	53%

	Geneva-Based	Capitals-Based
Proposition Surveyed	Unlikely	Unlikely
(M) The value of 'core' WTO services, for example, its role as a forum for Trade Policy Reviews; as an enforceable framework of basic trade principles, and; to coordinate technical assistance such as 'Aid for Trade', will not be compromised whatever happens to the Doha Round negotiations.	21%	45%

GLOBAL TRADE OPINION POLL

Survey No. 17 (October 2009)
Second Special Agricultural Frameworks Survey

Summary
This is the second survey conducted as a part of the ACIAR/RIRDC-funded research project into the viability of alternative frameworks for agricultural trade negotiations. The results discussed below will be incorporated into the project's conclusions and discussed at a special conference scheduled for November 20, 2009 in Canberra, Australia.

The survey measured attitudes toward the future of the Doha Round negotiations (Part 1) as well as respondents' views on the possibility of conducting agricultural trade negotiations in a "critical mass" framework (Part 2). Survey questionnaires were sent to 142 trade policy experts and 116 responses were received. Forty-eight of the respondents are located in Geneva and 68 responses were received from experts outside of Geneva (from all parts of the world).

Prospects for the Doha Round Negotiations
Two-thirds of those responding believe that the Doha Round could only be concluded in 2010 if the negotiations are based on progress already made, but only slightly more than a quarter of respondents seem to feel that the Round will be brought to a conclusion in that timeframe. A very large proportion were unable to respond one way or the other on this point (42 percent of Geneva respondents).

Nearly three-quarters of respondents doubt that the draft modalities on the table should be abandoned in order to conclude the Round. There is a sizeable difference of opinion between Geneva- and Non-Geneva-based respondents over the origins of the many loopholes found in the agriculture modalities. Slightly more than half of non-Geneva participants in the poll believe the loopholes are an attempt to mollify small, marginal players, while nearly 60 percent of Geneva participants disagree with this view.

Fifty-three percent of non-Geneva respondents think it unlikely that future negotiations would be prejudiced by a revised, low ambition outcome to Doha, but only a third of Geneva participants share this view.

Critical Mass Negotiations in Agriculture
Six out of ten respondents hold the view that a critical mass agreement (CMA) could be a practical framework for agriculture negotiations in the future, with less than 30 percent ruling this out. However, eighty-six percent think it would be politically infeasible to conclude an agriculture CMA without the participation of large developing countries like India and Indonesia.

To be viable, an agricultural CMA would need to cover subsidies as well as market access (86% of respondents); would need to cover at least 80 percent of global trade in covered products (79% of respondents); and, would need to be balanced by simultaneous negotiations in other non-agricultural areas (69% of respondents). Views are split on the question of whether some minimal number of WTO members would need to be involved in a CMA for agriculture to make it acceptable.

More than two-thirds of respondents think that a CMA would be a difficult framework for the EU to manage, given internal dynamics that would likely pit "loser" member states against perceived "winners", but there is a very wide spread between Geneva and non-Geneva respondents on this question.

What Can We Conclude?
For the Doha Round, we have to conclude that we are stuck with the current approach to modalities, but there is substantial doubt that this will permit an early conclusion (2010) to the negotiations.

From the survey results we can conclude that experts feel that under certain circumstances, critical mass may be a viable approach to future agricultural trade negotiations, however, the respondents' conservatism signals that they are willing to envisage a CMA only if it has the participation of the countries least likely to liberalise, and only if it covers the same broad territory as the current negotiations. There is clearly a limit to which the experts are willing to engage in "thinking outside the box".

The details of the survey results are presented in the tables that follow.

Viability of Alternative Frameworks for Agricultural Trade Negotiations
Detailed Results of October 2009 Survey (IIT GTOP)

Part 1 – Doha Round Propositions

Proposition Surveyed	Very Likely True	Likely True	50-50 Can't Say	Doubt True	False	No View
(A)The G-20 will succeed in guiding the Doha Round negotiations to a conclusion based on "the progress already made, including with regard to modalities".	10.3	17.2	24.1	20.7	27.6	
Survey Segment	Likely True			Unlikely True		
Total Survey Population (116)	27.6		24.1	48.3		
Non-Geneva Respondents (68)	29.4		11.8	58.8		
Geneva Respondents (48)	25.0		41.7	33.3		

Proposition Surveyed	Very Likely True	Likely True	50-50 Can't Say	Doubt True	False	No View
(B) Concluding the Doha Round on the basis of the progress already made is the only way to reach an agreement before the end of 2010.	34.5	31.0	3.5	17.2	13.8	
Survey Segment	Likely True			Unlikely True		
Total Survey Population (116)	65.5		3.5	31.0		
Non-Geneva Respondents (68)	64.7		nil	35.3		
Geneva Respondents (48)	66.7		8.3	25.0		

Proposition Surveyed	Very Likely True	Likely True	50-50 Can't Say	Doubt True	False	No View
(C)The complex draft modalities for agriculture now on the table in the Doha Round are necessary because the overall approach to reducing tariffs and subsidies gives governments far less flexibility in deciding how to implement their commitments compared to the Uruguay Round agricultural negotiations.	17.2	34.5	13.8	20.7	13.8	
Survey Segment	Likely True			Unlikely True		
Total Survey Population (116)	51.7		13.8	34.5		
Non-Geneva Respondents (68)	52.9		11.8	35.3		
Geneva Respondents (48)	50.0		16.7	33.3		

Proposition Surveyed	Very Likely True	Likely True	50-50 Can't Say	Doubt True	False	No View
(D) Many of the special modalities provisions now on the table for agriculture are an effort to respond to demands from countries with sensitive agriculture sectors but which are minor marginal players who account for a very small percentage of global agricultural trade.	13.8	31.0	13.8	13.8	24.1	3.5
Survey Segment	Likely True			Unlikely True		
Total Survey Population (116)	44.8		13.8	37.9		
Non-Geneva Respondents (68)	52.9		17.6	23.5		
Geneva Respondents (48)	33.3		8.3	58.3		

Proposition Surveyed	Very Likely True	Likely True	50-50 Can't Say	Doubt True	False	No View
(E) In order to conclude the Doha Round (at all) we need to abandon the complex modalities in the Chairmen's texts and start over with simpler, more flexible and less ambitious modalities	6.9	10.3	10.3	44.8	27.6	
Survey Segment	Likely True			Unlikely True		
Total Survey Population (116)	17.2		10.3	72.4		
Non-Geneva Respondents (68)	17.6		5.9	76.5		
Geneva Respondents (48)	16.7		16.7	66.7		

Proposition Surveyed	Very Likely True	Likely True	50-50 Can't Say	Doubt True	False	No View
(F) Revising the Doha mandate to accommodate a simpler, lower-ambition agreement in agriculture – matched by similarly low-ambition outcomes for NAMA and services , would prejudice future WTO negotiations.	24.1	13.8	17.2	27.6	17.2	
Survey Segment	Likely True			Unlikely True		
Total Survey Population (116)	37.9		17.2	44.8		
Non-Geneva Respondents (68)	41.2		5.9	52.9		
Geneva Respondents (48)	33.3		33.3	33.3		

Part 2 – Critical Mass Propositions

Proposition Surveyed	Very Likely True	Likely True	50-50 Can't Say	Doubt True	False	No View
(G) A critical mass agreement (CMA) among a relatively small number of countries accounting for a high proportion of global trade in agriculture and where the benefits would be applied on an MFN basis to all WTO Members (like the ITA) should be seen as a practical framework for future negotiations on agricultural trade.	20.7	37.9	10.3	17.2	10.3	3.5
Survey Segment	Likely True			Unlikely True		
Total Survey Population (116)	58.6		10.3	27.6		
Non-Geneva Respondents (68)	58.8		5.9	35.3		
Geneva Respondents (48)	58.3		16.7	16.7		

Proposition Surveyed	Very Likely True	Likely True	50-50 Can't Say	Doubt True	False	No View
(H) Any CMA in agriculture would need to cover trade-distorting domestic supports (and export competition if not eliminated in the Doha Round) as well as market access barriers.	72.4	13.8	6.9	nil	3.5	3.5
Survey Segment	Likely True			Unlikely True		
Total Survey Population (116)	86.2		6.9	3.5		
Non-Geneva Respondents (68)	88.2		nil	17.6		
Geneva Respondents (48)	83.3		nil	8.3		

Proposition Surveyed	Very Likely True	Likely True	50-50 Can't Say	Doubt True	False	No View
(I) Any CMA in agriculture would need to cover at least 80 percent of global trade in covered products.	48.3	31.0	3.5	10.3	3.5	3.5
Survey Segment	Likely True			Unlikely True		
Total Survey Population (116)	79.3		3.5	13.8		
Non-Geneva Respondents (68)	82.4		nil	17.6		
Geneva Respondents (48)	75.0		8.3	8.3		

Proposition Surveyed	Very Likely True	Likely True	50-50 Can't Say	Doubt True	False	No View
(J) To be acceptable within the framework of the WTO, any CMA in agriculture should have some minimal level of Member participation (e.g., not less than one-third of all WTO Members) irrespective of the impact on the percent of global trade covered by the CMA.	27.6	20.7	10.3	20.7	17.2	3.5
Survey Segment	Likely True			Unlikely True		
Total Survey Population (116)	48.3		10.3	37.9		
Non-Geneva Respondents (68)	52.9		nil	47.1		
Geneva Respondents (48)	41.7		25.0	25.0		

Proposition Surveyed	Very Likely True	Likely True	50-50 Can't Say	Doubt True	False	No View
(K) To be politically viable, a CMA negotiation on agriculture would always need to be balanced by negotiations in non-agricultural sectors (NAMA and services) whether those negotiations were also on the basis of a CMA framework or otherwise	34.5	34.5	13.8	10.3	3.5	3.5
Survey Segment	Likely True			Unlikely True		
Total Survey Population (116)	69.0		13.8	13.8		
Non-Geneva Respondents (68)	70.6		23.5	5.9		
Geneva Respondents (48)	66.7		nil	25.0		

Proposition Surveyed	Very Likely True	Likely True	50-50 Can't Say	Doubt True	False	No View
(L) Even if they could be convinced of the potential for large welfare gains, major players in international trade in agriculture would be politically unwilling to conclude a CMA in agriculture without the participation in the negotiations of large developing countries like India and Indonesia.	65.5	20.7	nil	6.9	3.5	3.5
Survey Segment	Likely True			Unlikely True		
Total Survey Population (116)	86.2		nil	10.3		
Non-Geneva Respondents (68)	88.2		nil	11.8		
Geneva Respondents (48)	83.3		nil	8.3		

Proposition Surveyed	Very Likely True	Likely True	50-50 Can't Say	Doubt True	False	No View
(M) It would be more difficult in a CMA framework for European Union negotiators to manage the EU's internal dynamics in agriculture because those Member States who saw themselves as "losers" through liberalisation would not be able to see the same degree of shared "pain" on the part of other "losers" as is evident in a single undertaking negotiation.	41.4	27.6	6.9	17.2	3.5	3.5
Survey Segment	Likely True			Unlikely True		
Total Survey Population (116)	69.0		6.9	20.7		
Non-Geneva Respondents (68)	82.4		nil	17.6		
Geneva Respondents (48)	50.0		16.7	25.0		

Appendix 7 – Doha Modalities Projection

Doha modalities projection

The ATPSM model allows the use of arbitrarily complex tariff reduction formulae (using the embedded scripting language) and the attribution of different tariff cutting modalities to arbitrary sets of participating economies drawn from the 'universe' of 151 countries included in the database. Furthermore, the model may be initialised with different treatment of tariff quotas and in-quota-tariff rates for different economies and sets of economies, and with different rates of cut for export and domestic supports in each economy or sets of economies.

In our projection of the Doha outcome, we elected to be 'optimistic' about compliance with the December 2008 modalities.

Tariffs (bound, over-quota rates): We assume that every developed economy will achieve the minimum 54% average cut in bound rates (but no more) taking account of all deviations and exceptions.[154] We assume that developing countries that are not otherwise designated in an 'exceptional' category will achieve the maximum average cut in bound rates of 36% (but no more) taking account of all deviations and exceptions.[155] We assume that developing countries able to access the 'Small and Vulnerable' exceptions and recently acceded members (RAMS) will make average cuts of 24% in bound rates.[156] Least-developed countries will make no cuts in bound rates.[157] A group of 'very recently acceded members' (VRAMS) and a group of 'small, low-income, RAMS with economies in transition' are also exempted by the modalities from making any cuts in bound rates,[158] but we have differentiated the two groups. The VRAMS comprise Macedonia, Saudi Arabia, Ukraine and Viet Nam. Their exemption from cuts in the Doha modalities recognises that they have recently agreed to make substantial bound-rate cuts, on accession. The estimated cuts on agricultural products range from about 25% (Ukraine) to 44% (Vietnam) to 60% (Saudi). We have therefore included an average 'Doha' tariff cut of 40% for these economies in our ATPSM simulation.

In-quota tariffs: We assume that all products currently subject to a tariff quota will be designated as 'sensitive'. We assume that all developed economies will cut in-quota rates by 50%; one of the approximately equal options available in the modalities.[159] We have assumed that non-exempt developing countries (only) will cut in-quota rates by 15%.[160]

The appropriate expansion factor for **tariff quotas** is more difficult to estimate. In the Uruguay Round agreement, WTO members were obliged to maintain current market access through quotas at the current level and, where new MFN tariff quotas were created as part of the 'tariffication' process, to establish a 'minimum access' quota of 3-5% of 1986-1988 domestic consumption. In fact the expanding 'minimum access' quotas represent the smaller proportion of agricultural quota-trade by value (about 45%)[161] so that the overall proportion of domestic consumption covered by both the minimum and current access quotas was about 9% (assuming that 'minimum access' quotas reached 4% of consumption) in the base years. Under the 'sensitive product' provisions of the Doha modalities the tariff deviation by developed countries is compensated by a quota (or quota expansion) equal to 3-4% of domestic consumption in the 2001 base year, but less under some circumstances.[162] The rate of

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[154] Para 62 of TN/AG/W/4/Rev.4
[155] Para 64 of TN/AG/W/4/Rev.4
[156] Paras 65 and 66 of TN/AG/W/4/Rev.4
[157] Para 151 of TN/AG/W/4/Rev.4
[158] Para 67 of TN/AG/W/4/Rev.4 and footnote to that para.
[159] Para 109 of TN/AG/W/4/Rev.4
[160] Para 111 of TN/AG/W/4/Rev.4
[161] de Gorter, H., and E. Kliauga (2005) "Reducing Tariffs versus Expanding Tariff Rate Quotas" in Anderson, K and Martin, W. (eds)., *Agricultural Trade Reform and the Doha Development Agenda*, Palgrave Macmillan and the World Bank
[162] Paras 74 to 77 of TN/AG/W/4/Rev.4

growth of global agricultural demand/consumption growth has fallen sharply over the past 30 years[163]. We assume (optimistically) that domestic consumption in the developed countries grew by about 20% in the 16 years after 1988 (at 1.1% annual growth rate). So an expansion of developed country quotas by 3% of 2001 consumption would be equivalent to an expansion of 3.6% of 1988 consumption. This implies a growth in the overall tariff quota from about 9% ('current access' plus 'minimum access') of consumption to about 12.6% of consumption in developed countries using a constant 1988 consumption base, or **about 40%**. Developing countries that avail themselves of sensitive product tariff quotas are not required to make any expansion of the quota volume in the December 2008 modalities.[164]

Export subsidies: We have assumed that all export subsidies are eliminated.

Domestic supports: We have allocated all domestic support in the ATPSM model database to the Overall Trade Distorting Support category ('amber' + 'blue' + *de minimis* support) and applied the cuts imposed on developed countries by the December modalities.[165] Specifically: EC, 80% cut; USA and Japan, 70% cut; other developed economies 55%. We have not imposed any support cuts on developing countries in the model.

Country groups: We have designated three groups of developed economies for the purposes of implementing the different rates of liberalisation: EC, USA + Japan, all other developed economies. We have allocated developing countries to various groups in accordance with the December 2008 modalities as follows:

[163] FAO, "World agriculture: towards 2015/2030" report accessed 1 June at http://www.fao.org/docrep/004/y3557e/y3557e00.htm
[164] Para 81 of TN/AG/W/4/Rev.4
[165] Paras 3 - 12 of TN/AG/W/4/Rev.4

Annex Table: Developing country groups

LDC	Small and	RAMS	VRAMS	Other Developing
Angola	Antigua and	Albania	Saudi Arabia	Argentina
Bangladesh	Barbados	Armenia	FYR Macedonia	Bahrain, Kingdom
Benin	Belize	Bulgaria	Viet Nam	Brazil
Burkina Faso	Bolivia	China	Tonga	Chile
Burundi	Botswana	Croatia	Ukraine	Colombia
Cambodia	Brunei Darussalam	Ecuador		Costa Rica
Central African	Cameroon	FYR Macedonia		Cyprus
Chad	Côte d'Ivoire	Jordan		Egypt
Congo	Dominica	Kyrgyz Rep		Estonia
Democratic	Dominican Rep	Moldova		Hong Kong, China
Djibouti	Ecuador	Mongolia		India
Gambia	El Salvador	Oman		Indonesia
Guinea	Fiji	Panama		Israel
Guinea Bissau	Gabon	Saudi Arabia		Korea, Republic of
Haiti	Ghana	Chinese Taipei		Kuwait
Lesotho	Grenada			Latvia
Madagascar	Guatemala			Liechtenstein
Malawi	Guyana			Lithuania
Maldives	Honduras			Malaysia
Mali	Jamaica			Malta
Mauritania	Jordan			Morocco
Mozambique	Kenya			Pakistan
Myanmar	Macao, China			Peru
Nepal	Mauritius			Philippines
Niger	Namibia			Qatar
Rwanda	Nicaragua			Singapore
Senegal	Nigeria			Slovenia
Sierra Leone	Papua New Guinea			South Africa
Solomon Islands	Paraguay			Thailand
Tanzania	St Kitts and Nevis			The Gambia
Togo	St Lucia			Tunisia
Uganda	St Vincent & the			United Arab
Zambia	Sri Lanka			Venezuela
	Suriname			
	Swaziland			
	Trinidad and			
	Uruguay			
	Zimbabwe			

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Viability of Critical Mass Framework for Agricultural Trade Negotiations

An alternative to the single undertaking approach

by P. Gallager and A. Stoler

Pub. No. 10/025.

The long-term health of the Australian economy and those of our neighbours depend on the maintenance and expansion of international markets for our exports and a liberal trading environment facilitating imports. The need for open markets is especially critical in the case of agricultural products. The World Trade Organization (WTO) is the central locus in the global framework for the trading system where trade liberalisation and reform is pursued, but the WTO's Doha Round of trade negotiations is now more than six years late, mainly because of a continuing impasse in the agricultural trade negotiations. This project was undertaken because there was a belief that an important reason for the impasse was the use of the "single undertaking" framework for negotiations, that forces all WTO Members, no matter how marginal they may be, to participate in all of the negotiations. The researchers' view was that an alternative means needs to be found to provide for more successful agricultural trade negotiations in the future.

Finding an alternative approach, or a new framework, for agricultural trade talks that would not lead to blockages in the future benefits not only those interested in agricultural trade liberalisation but also everyone with a stake in continuing trade liberalisation. This is because it is normal in the WTO for most other negotiations' progress to be linked to that of agriculture, so if agriculture moves, so does everything else.

In this research into alternative frameworks for agricultural trade negotiations, the need was identified to be able to show that an alternative framework is technically feasible; that it is capable of producing an economic outcome at least as significant as the "single undertaking approach; and, that it is politically viable as a negotiating framework. The researchers have shown that agriculture could be negotiated on the basis of a "critical mass" framework and that this framework would yield economic outcomes superior to that expected from the ongoing Doha Round. However, too much is invested in the current Round's modalities to expect that "critical mass" could be applied to the current negotiations. Also the testing of the political viability of the framework shows that many key policy-makers will find it difficult to think outside the box of the so-called "single undertaking".

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Viability of a Critical Mass Framework for Agricultural Trade Negotiations - An alternative to the single undertaking approach

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