CHAPTER 6

Is it Possible to Promote an Agricultural Agenda in the WTO?[1]

LU Xiankun and Alan Matthews

LEDECO GENEVA and Friends of Multilateralism Group (FMG); University of Dublin, Trinity College

Agricultural trade policy reform is increasingly an agenda spanning developing as well as high-income countries: developing nations accounted for almost 60% of global food trade in 2018 excluding intra-European Union (EU) trade. Improving multilateral rules for domestic support will reduce market and production distortion, enhance stability of the global market of agricultural products, and help mitigate their environmental impact. Radical steps are needed to break the logjam. A first step would be to revise the World Trade Organisation (WTO) methodology to calculate product-specific support, to ensure it only captures instances where programs transfer resources at above world market prices and does not penalise countries where transfers are negative – as is the case in India. Revising domestic support rules through the lens of climate change is also important given that agricultural activity accounts for a quarter of all human-caused greenhouse gas emissions.

1. REVIEW OF AGRICULTURAL LIBERALISATION UNDER THE MULTILATERAL TRADING SYSTEM

In the long history of the multilateral trading system, it was not until the Uruguay Round (1986-1994) that the issue of agriculture was brought under multilateral discipline for the first time. The Agreement on Agriculture (AoA) concluded at the end of that Round included disciplines on agricultural policies across three pillars, i.e. domestic support, market access, and export competition. The AoA helped to increase market access by lowering tariffs, defining, and limiting trade-distorting agricultural subsidies, and disciplining export programmes such as export subsidies and credits.

1 Cite as: Lu, X and A Matthews (2021), 'Is it Possible to Promote an Agricultural Agenda in the WTO?', in B Hoekman, X Tu, and D Wang (eds), *Rebooting Multilateral Trade Cooperation: Perspectives from China and Europe*, CEPR Press, London.

Given the political sensitivity of agriculture in many economies, efforts to push for agricultural reform within the multilateral trading system have always been balanced by governments' desire to pursue their legitimate agricultural policy goals, including non-trade concerns such as food security and the livelihood of rural populations. Therefore, the agricultural reforms remained a work in progress.

To continue the reform, the AoA specifically included a 'built-in agenda' in its Article 20, with members recognising that 'the long-term objective of substantial progressive reductions in support and protection resulting in fundamental reform is an ongoing process' and committing to restart negotiations 'one year before the end of the implementation period'. In February 2000, WTO members decided to launch new negotiations on agriculture under the Committee of Agriculture in Special Sessions. When the Doha Round was launched in December 2001, the agriculture negotiations were integrated into the Round and members reaffirmed their commitment to 'a programme of fundamental reform' aiming at 'substantial improvements in market access; reductions of, with a view to phasing out, all forms of export subsidies; and substantial reductions in trade-distorting domestic support'.

The importance of making progress on further agricultural trade policy reform was underlined by world leaders when they adopted the UN Sustainable Development Goals (SDGs) in 2015. One element of SDG 2 to end hunger, achieve food security and improved nutrition, and promote sustainable agriculture is a commitment to 'correct and prevent trade restrictions and distortions in world agricultural markets, including through the parallel elimination of all forms of agricultural export subsidies and all export measures with equivalent effect, in accordance with the mandate of the Doha Development Round'.

However, as for the broader Doha agenda, agriculture negotiations have made little progress in achieving the above-mentioned objective. Agreements were reached on tariff rate quotas (TRQs) and Public Stock Holding (PSH) in 2013 at the Bali Ministerial conference and on export subsidies in 2015 at the Nairobi Ministerial Conference. However, the global market for agricultural products remains highly distorted.

Based on OECD statistics (2017-2019), transfers to producers in OECD countries averaged 17.6% of gross farm receipts, with 48% directly linked to prices, output or input use, hence considered to be highly market-distorting. For the emerging economies covered in the OECD database, aggregate support to producers averaged 8.5% of gross farm receipts, of which 83% fell into the market-distorting category. The agricultural sector also has a higher world average bound (applied) tariff of 62% (17%) as compared to 29% (9%) for industrial products, as well as a higher incidence of tariff peaks and non-tariff measures such as tariff quotas, import licensing, and abusive sanitary and phytosanitary measures.

2. A NEW CONTEXT FOR AGRICULTURAL TRADE AND POLICIES

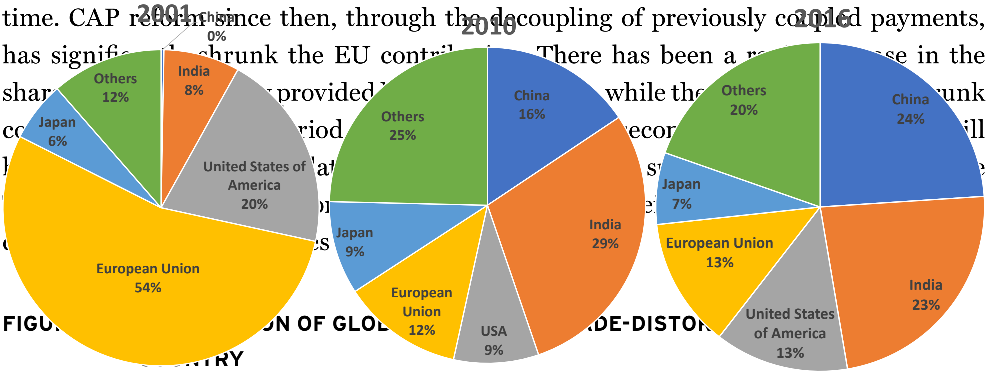
Many reasons can be listed behind the difficulties to move the agriculture reform agenda forward in the WTO. A major reason has been the broader geopolitical context that has put the WTO into crisis and undermined its main functions of legislation and litigation as well as implementation. The emergence of China as the top-ranked trader of goods has called into question the traditional distinction between developed and developing countries and entitlement to special and differential treatment (S&D) which has also spilled over into the agricultural negotiations. More recently, Covid-19 has made negotiations more difficult as meetings have moved to a virtual format, while also prompting countries to apply trade measures, especially export prohibition or restriction measures, that would not be used in more normal times.

Global agricultural trade has also witnessed some new developments. Trade in agricultural products has grown significantly in size and in importance. Global agricultural exports have more than tripled in value and more than doubled in volume since the AoA came into force in 1995, exceeding $1.8 trillion in 2018. Agricultural trade plays an important role in meeting the domestic food needs of many countries, with import shares, e.g. for wheat (25%), soyabean (43%), and even rice (increased from 4% to 9%). The UN Food and Agriculture Organization (FAO) projects that global food demand will increase by 50%, from 2012-2013 levels, by 2050, with expected continuation of upward trends in population, urbanisation and income, particularly in developing countries. International trade of agricultural products is highly relevant for the achievement of the UN SDGs, not only Goal 2 (zero hunger), but also Goal 12 (sustainable consumption and production), Goal 15 (life on land), as well as other goals such as Goal 6 (water), Goal 7 (energy), and Goal 13 (combat climate change).

As global trade of agricultural products has grown since 1995, developing countries are playing an increasingly important role. From 1995 to 2018, the share of total food imports and exports by developing countries grew from 26% to 40% and from 31% to 40%, respectively. If intra-EU trade is excluded, their imports and exports accounted for almost 60% of global food trade in 2018. South-South trade also increased, accounting for over 24% of total food trade in 2018 compared to 12% in 1995.

The landscape of agricultural support is also changing. Focusing first on trade-distorting support (TDS), as defined in the AoA Article 6 whether exempted from reduction commitments or not, the global total has increased only slightly between 2001 (when China joined the WTO) and 2016 (the latest year when all the major players have submitted notifications). It was $106 billion in 2001, $116 billion in 2010, and $122 billion in 2016. This partly reflects the success of the disciplines on trade-distorting support introduced in the AoA. Whereas developed countries accounted for most domestic support in 2001, the share provided by developing countries has been increasing (Figure 1).

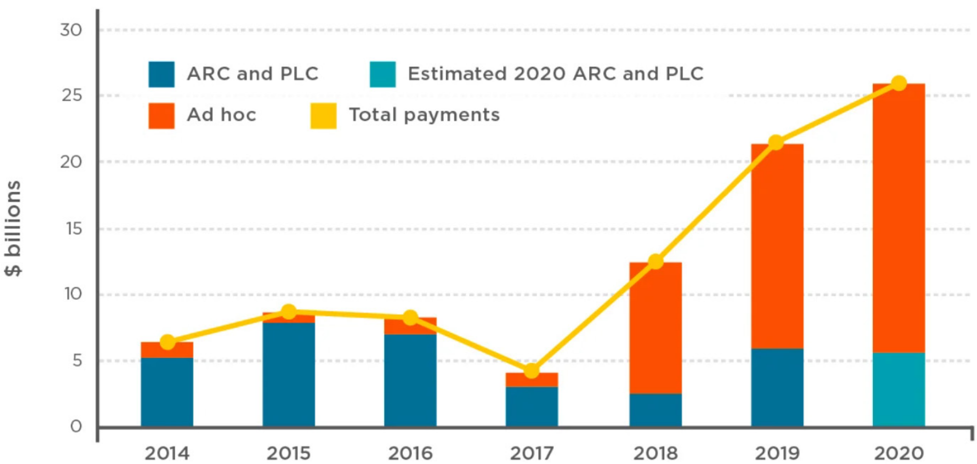
Around 80% of TDS is due to the five major members separately identified in the figure. Strikingly, in 2001, the EU accounted for half of all global TDS, one indicator of the malign impact that its Common Agriculture Policy (CAP) had on world markets at that time. CAP reform since then, through the decoupling of previously coupled payments, has signifi[illegible] shrunk the EU contri[illegible]. There has been a r[illegible]se in the shar[illegible] provided [illegible] while th[illegible]unk c[illegible]riod [illegible]econ[illegible]ill [illegible]



FIGU[illegible]ON OF GLOB[illegible]DE-DISTOR[illegible] [illegible]NTRY

Source: Own calculations based on the updated analytical tool made available by Canada, JOB/AG/190.

FIGURE 2 US FARM SUBSIDY PAYMENTS BETWEEN PROGRAM YEARS 2014 AND 2020



Source: Environmental Working Group (EWG) and the Congressional Budget Office's January 2020 Baseline for Farm programmes. ARC refers to the Agricultural Risk Coverage and PLC to the Price Loss Coverage programmes.

On the other hand, expenditure on Green Box measures (exempted from disciplines by virtue of Annex 2 of AoA) has grown considerably from $142 billion in 2001, $368 billion in 2010 to $456 billion in 2016. Green Box measures include government services such as research, advice and training, pest and disease control, agri-environment payments to farmers as well as domestic food aid. Higher expenditure on these measures can support sustainable agricultural development and domestic food security and should be welcomed. Green Box measures also include various kinds of direct payments to farmers that meet specific criteria to ensure their trade-distorting effect is reduced to a minimum, but the sheer size of these payments in some countries has raised concerns that this may not be the case.

3. DIFFICULTIES FOR FURTHER AGRICULTURAL REFORM

In recent years, WTO agricultural negotiations have centred around seven priority issues: domestic support, public stockholding (PSH) for food security purposes, cotton, market access, the special safeguard mechanism (SSM), export competition, and export restrictions. While all these issues are important, making progress on domestic support is seen as the key issue by all countries, as it will reduce market and production distortions, enhance stability of global market of agricultural products, and help mitigate their environmental impact.

Domestic support

WTO disciplines on domestic support have been successful in limiting the growth in more market-distorting forms of support and most of the growth in domestic support has taken the form of expenditure on Green Box measures. Nonetheless, the rules on domestic support are perceived as unfair. Trade-distorting support is measured by an Aggregate Measurement of Support (AMS). While most countries are required to limit their use of trade-distorting support to exempted categories and have an AMS entitlement of zero, a few countries have a positive AMS entitlement because they provided high levels of trade-distorting support in the past. Over half of the 32 countries with positive AMS ceilings are developing countries, but the EU, Japan, US, Canada, Switzerland, and Norway among them make up 87% of the total positive AMS entitlement. Countries that have a positive AMS entitlement have the additional advantage that this positive AMS can be focused on one or a few products, thus permitting effective product-specific support well above the 10%, 8.5%, or 5% limits for countries with a zero AMS entitlement.

Trade-distorting support is primarily support linked to either production, inputs, or prices. Market price support is provided when a government purchases products at a guaranteed minimum support price. Another bone of contention is that the formula used to calculate market price support can have anomalous outcomes that do not make economic sense.

The formula used multiplies the quantity of product eligible for support by a price gap. The price gap, in turn, is the difference between the value of the administered support price and a fixed external reference price based on the world price in the base period 1986-1988, as set out in Annex 3 of the Agreement.

Because of the sharp rise in nominal prices since the AoA entered into force, this formula can show the existence of apparent market price support, if the administered support price is greater than the external reference price (which must be counted towards the product's AMS), even where the administered support price is below the current world price (where, in an economic sense, no support is provided to producers). Several countries classed as developing, including China, India, and Turkey, have exceeded their domestic support commitments in recent years.

Public stockholding for food security purposes (PSH)

The AoA specifies that expenditure on building food security stocks at market prices and, for developing countries, disposing of food at subsidised prices to low-income households, is a Green Box measure and is not limited in any way. However, it also specifies that, where stocks of foodstuffs for food security purposes are acquired and released at administered prices, the difference between the acquisition price and the external reference price should be accounted for in the AMS.

India, which operates a significant food reserve programme of this kind, has long argued that the purchase of food stocks at minimum prices for food security purposes should be exempt from AMS disciplines. It has been supported in this position by the G33 group of developing countries. For India and other proponents, the fear is that, if they must account for the gap between these administered prices and their fixed external reference prices, they would likely exceed the product-specific *de minimis* limit of 10% of the value of production in some key products. This is made virtually certain by the general uplift in food prices since the 1986-88 base period used to set the fixed external reference price. For non-proponents, the risk is that stocks built up based on minimum prices might subsequently be exported at less than the acquisition price, leading to the disruption of commercial markets and to the detriment of their interests.

At the Ministerial Conference in Bali in 2013, WTO members agreed to an interim 'peace clause' that exempted any support provided through existing PSH programmes for traditional food staples from challenge, provided that the country met certain transparency provisions and committed to ensuring that stocks procured under the PSH programme do not adversely affect trade or the food security of other members. The conference also agreed to work towards a permanent solution that would be open to all developing countries by the Ministerial Conference in Buenos Aires in 2017, and that the interim solution would remain in place until a permanent solution was found. As noted, no solution was agreed at the Ministerial Conference in Buenos Aires so the interim arrangement remains in place. India invoked the Bali Decision for the first time in its domestic support notification for the marketing year 2018-2019 submitted in March 2020.

Cotton

Cotton has had a special status in the negotiations, since the July Package adopted by the WTO General Council in 2004 recognised that cotton 'will be addressed ambitiously, expeditiously, and specifically, within the agriculture negotiations'. This was in response to a cotton initiative reflecting the importance of cotton in the export earnings of a handful of least-developed countries in West Africa, that are the main proponents of this initiative. Under the 2015 Nairobi Ministerial Decision on Cotton, exports of cotton and cotton-related products from least developed countries should have duty-free and quota-free access in developed country markets and in developing countries in a position to provide this. Cotton-specific trade-distorting support, notably provided first by the US and then by China, is thus the central element of the negotiations on cotton. Although disciplines on cotton-specific support could be addressed separately to domestic support in general, it seems there has been very limited engagement on this issue in the agricultural negotiations to date.

Market access

Reductions in high tariffs, particularly on 'sensitive' products such as beef, dairy, and rice, remain an objective of agricultural exporting countries, including the developing ones. However, there is no expectation of any immediate progress on further tariff liberalisation. The majority of WTO members have defensive positions in this pillar. Instead, the focus has been on enhancing transparency and facilitating agricultural trade without altering the core tariff commitments in members' schedules. The elements under discussion include applied tariffs transparency and treatment of shipments en route, tariff simplification, and transparency of tariff rate quota (TRQ) administration. Other issues that have been raised include tariff escalation, tariff peaks, access for tropical products, and the status of the Special Safeguard. The existence of considerable binding overhang (i.e. a large difference between countries' bound tariffs and the tariffs they actually apply) suggests some scope to lock-in tariff reforms that countries have already undertaken, but such overhang is not distributed evenly across all WTO members. There has, as of yet, not been much discussion on a possible way forward for tariff reduction in recent years.

Special Safeguard Mechanism.

WTO members have agreed that developing countries should have access to a Special Safeguard Mechanism (SSM) to counter the negative impacts of import surges and price falls. Disagreement over the technical parameters (trigger, remedies, duration, etc.) was one of the principal reasons why negotiations on the Revised Modalities proposed by then Chair of the agricultural negotiations Crawford Falconer broke down in 2008. A

Ministerial Council Decision at the Ministerial Conference in Nairobi in 2015 authorised the continuation of negotiations on this topic but there has been no real progress since then.

Disagreement over the purpose of the SSM is one major block to progress. Developing country proponents see it as linked to their broader food security objectives, designed to protect their poor and vulnerable farmers from import surges and sudden price declines. For non-proponents, the SSM is linked to progress on market access reforms. This group rejects any notion that the SSM could result in tariffs being raised above the levels bound in previous negotiations. In recent discussions, proponents have argued that the challenges the SSM seeks to address arise largely because of trade distortions and heavy agricultural subsidisation. Non-proponents have indicated their willingness to enter technical discussions on the design of an SSM that would not penalise exports of countries that do not engage in agricultural subsidisation.

Export competition

The Nairobi Ministerial Conference Decision on Export Competition, which mandated the elimination of export subsidies, has been one of the few WTO successes in the agricultural negotiations since the end of the Uruguay Round. Some countries still see unfinished business under this pillar, including disciplines on export finance, on international food aid, and the need to minimise the trade distorting effects of the export monopoly power of state trading enterprises. However, these issues are not subject to active negotiations at the moment.

Export restrictions

Several countries have imposed restrictions on food exports because of the Covid-19 pandemic (although, liberalising measures on trade in food outnumber restrictive measures). This has raised the relevance of this issue in the negotiations. Singapore introduced a proposal that would exempt from export restrictions food purchases for humanitarian purposes by the World Food Programme (WFP). It was hoped that this might be adopted by the WTO General Council at its meeting in December 2020. This did not happen, due to objections by India and several other countries, that were concerned that such purchases could adversely affect the food security of the supplying country, even though the proposal was explicitly amended to take this objection into account. Subsequently, 53 WTO members signed a unilateral declaration committing not to impose export prohibitions or restrictions on foodstuffs purchased for non-commercial humanitarian purposes by the WFP. The failure to agree on this 'trust-building' measure is just one indication of the difficulties in making progress on the agricultural agenda.

4. POTENTIAL WAY FORWARD

Recent new developments in the WTO and broader global context give some hope, albeit slim, that the organisation may be able to move ahead incrementally. These include a renewed commitment to multilateralism by the US Biden administration, new concessions from China in preferential agreements on some thorny issues such as market access for both manufacturing and services, industrial subsidies and state-owned enterprises, leadership from the new Director-General Dr. Ngozi Okonjo-Iweala, and enhanced engagement of members in the run up to the Ministerial Conference, now scheduled for November 2021. Given the divergences on key issues around agriculture reform, as well as the political and economic sensitivity of agriculture, a sense of pragmatism and openness is required of WTO members to incrementally push forward the reform agenda of agriculture.

Initiatives are required in both the short and longer term. In the short term, progress should be made on export-restrictive Covid-19 measures in the agriculture sector that can negatively impact on the food security of other members. Actions could include enhanced transparency and a review and roll-back mechanism on such measures under a Working Group of the Committee of Agriculture. Members should also work to issue a ministerial declaration to commit to an immediate abolition of export restrictions on humanitarian food aid by WFP to help combat Covid-19 based on the Singapore-led initiative.

Transparency must be enhanced for WTO members by improving the notifications on domestic support programmes and market access. Agreement is unlikely on certain elements of the proposal by the EU, the US and some other members (JOB/GC/204) in 2018, such as on punitive measures. However, members could endeavour to reach agreement on elements such as capacity building for developing countries, requiring an appropriate explanation for failure to notify, and reviewing notification compliance under trade policy reviews.

More ambitiously, members could explore the possibility to cut the 'water' between bound and applied levels for both market access and domestic support. A less dramatic move would be a stand-still commitment on domestic support among major players such as the US, the EU, Japan, China, and India.

As noted, making progress on domestic support disciplines is a priority for all members. Indeed, members have put forward a wide range of proposals detailing how this might be done. Some proposals focus on reducing existing limits (on AMS support, on Blue Box support, on *de minimis*), while others focus on introducing a new limit on Overall Trade Distorting Support (OTDS). But a breakthrough on this issue will probably require some revision of the methodology set out in the AoA to measure AMS support in the first place. This would also aid progress on the running sore, i.e. the failure to reach agreement on the treatment of purchases at administered prices for the purposes of public stockholding for food security purposes. Such a fundamental discussion, that would require reopening the rules agreed in the AoA, would be a radical step, and is not yet on the Geneva agenda. But the absence of momentum in the negotiations until now suggests that radical steps are needed to break the logjam.

The issue is that the measurement of market price support for the purposes of the AoA no longer reflects whether a member is providing economic support to its farmers or not. This gives rise to a deep sense of unfairness particularly for countries with a zero AMS entitlement, where support must be limited to their *de minimis* entitlement. We highlighted earlier that India has submitted a domestic support notification for the marketing year 2018-2019, in which it noted that its product-specific support for rice exceeded its *de minimis* level. This was the result of its minimum support price when purchasing for its public food reserve stocks being well above the fixed external reference price used to calculate the rice product-specific AMS.

Yet, the OECD Producer Support Estimate (PSE) database, which measures economic support to different products, reports that the transfer to rice producers in India was -9.83% in 2018 and -17.38% in 2019. In other words, India's minimum support price was far below world market prices in those years and subsequently, there was no economic support to rice producers. Indeed, there has been a negative transfer to rice producers in India in nearly all years since 2000 when the OECD started its measurements. In fact, India's total PSE for all crops has been negative in every year that the OECD has measured since 2001. It is no wonder that India feels aggrieved when other countries challenge it for providing unreasonable amounts of trade-distorting support to its producers.

Better aligning the measurement of market price support for AoA purposes with conventional measures of economic support while accounting for the need for legal certainty could help to facilitate an agreement on public stockholding that would meet the concerns of both proponents and non-proponents. An agreement on PSH, in turn, might open the door to a wider-ranging agreement on domestic support. The EU has already indicated that it is open to a significant reduction in its entitlement to trade-distorting support. Concessions would be required by both the US and China.

A roadmap on how to deal with domestic support related to climate change could also be valuable. This issue has become particularly important, given that agricultural production and land use change account for about a quarter of all human-caused greenhouse gas emissions. Some meaningful approaches could be developed to improve coherence between agriculture trade policy and the Paris Agreement on climate change, such as a rethinking of the Green Box to enhance the connection between Green Box payments and environmental sustainability through, e.g. a clearly defined government environmental programme.

Ultimately, WTO members should try to agree on a work programme to reconfirm their commitment for comprehensive reform on agriculture, to list general guidelines on the structure and objective of such reform, and to put down concrete timelines and a roadmap to achieve such reform objectives. The old Doha approach of a single undertaking has fallen out of favour, with many countries arguing that they can make faster progress through plurilateral agreements with other like-minded members. But this approach cannot work for some of the more complicated issues in the agricultural negotiations, particularly the reform of domestic support disciplines. Furthermore, it is hard to envisage a reform agenda of agriculture in isolation, given its political sensitivity and economic importance for many WTO members. Getting agreement on agricultural issues may require trade-off with other issues, such as on sectoral initiatives on market access of non-agricultural products or liberalisation initiatives on services, in multilateral or plurilateral formats.

5. CONCLUSION

Both China and the EU are leading players for WTO reform and their active participation is indispensable for its success. Other than interacting multilaterally within the organisation, they established a bilateral working group on WTO reform at vice-minister level in July 2018, through which they have collaborated successfully on certain issues on which they have common ground. For example, they developed joint proposals on the Appellate Body and dispute settlement, which were co-sponsored by some other members. They also led the establishment of the Multiparty Interim Appeal-Arbitration Arrangement (MPIA) which is meant to replace the paralysed Appellate Body of the WTO Dispute Settlement System on an interim basis. However, they have yet to tackle the difficulty issues such as industrial subsidies and agriculture.

On agriculture, both the EU and China face serious challenges for domestic reform, in particular on domestic support and market access. However, a successful reform effort on agriculture would help open doors for other issues under WTO reform, hence strengthening the multilateral trading system to which both the EU and China attach great importance.

ABOUT THE AUTHORS

LU Xiankun is a former senior trade diplomat for the Chinese government. He is now Managing Director of LEDECO Geneva, and CEO of the Friends of Multilateralism Group (FMG), a Geneva-based thinktank on WTO reform. LU is also associated to some Chinese and European universities and think tanks, and publishes regularly on trade and economics.

Alan Matthews is Professor Emeritus of European Agricultural Policy at the University of Dublin, Trinity College, Ireland. He is a former President of the European Association of Agricultural Economists.