Seminar Proceedings:

"Achieving the Doha Development Agenda"

Part I: *Export Competition and Market Access*

13, June 2002 Geneva Switzerland

**IPC member panelists represent their own personal opinions. They do not represent a particular country or organization.*

The IPC would like to thank the Department of International Finance and Development, United Kingdom for their support of this seminar.

Session One: Uruguay Round Implications for the Doha Agenda

Opening Remarks:

Dale Hathaway: The Uruguay Round introduced rules for agriculture where there had been none in the original GATT. The results of the Uruguay Round are that: 1) tariffs remain high, especially on products that underwent tariffication; 2) export subsidies continue; and 3) there are no controls on export credits, food aid and state trading organizations. The rules that were set up did not effectively control trade-distorting domestic subsidies and according to the OECD, rich countries are spending more to subsidize agriculture now than at the end of the Uruguay Round.

Rolf Moehler: In this Round the role of the developing countries is stressed. There are those who say that in the Uruguay Round, developed country negotiators neglected the developing countries. In the agriculture negotiations only two groups of developing countries were interested, those in the Cairns group and the net food-importing countries. I am pleased to see that [this] has changed. The Uruguay Round was also good for enlarging the WTO. It would have been hard to accept China, and in a few years Russia, as a member without any preexisting disciplines on agriculture from the Uruguay Round. I believe that it was a very good idea to make Article 20 part of the Uruguay Round Agreement on Agriculture. If we fail to open agricultural trade, there will be a backlash.

Mike Gifford: Until the Uruguay Round there were too many individual country exceptions. One cannot underestimate the [benefit of the] establishment of the rule of law in agricultural trade that was established in the Uruguay Round. [D]eveloping countries have to decide how much weight to place on the general applicability of rules to all countries, while at the same time arguing for Special and Differential treatment. If you are the EU or the US, you can get your way by pushing through what benefits you. But, if you are a smaller country, you have to rely on the rule of law and the general applicability of the rules.

Discussion:

The Rule of Law and the Uruguay Round

The discussion was opened by an acknowledgement of the importance of the rule of law that was created in agriculture through the Agreement on Agriculture for the small countries. However, one negotiator pointed out, large countries gained a lot from this as well because before the Uruguay Round, large countries, particularly the US and EU had difficulty resolving even the most minor disputes.

Rolf Moehler agreed saying that before the Uruguay Round, if there was a disagreement and a panel was raised, either actor could just 'block the panel.' He did express, however that some issues, such as the GMO issue may be too big for dispute settlement since they are not only a matter for commercial trade, but also of consumer tastes.

Hathaway agreed that the creation of the dispute settlement system was very valuable. However, he pointed out what the respected legal scholar, John Jackson has said; that the dispute settlement system is now being used to solve problems that should be negotiated. He further expressed that settling things through dispute settlement may be a disadvantage for smaller countries that may not have the legal resources necessary to "make themselves heard effectively."

The Blair House Agreement

One negotiator was concerned that from the developing countries point of view there is no point in negotiating a multilateral agreement if the large countries are going to have another Blair House agreement. He asked the panelists whether they foresaw a repeat of the Blair House agreement. Moehler responded that "the Blair House Agreement was the end of a process where everybody asked the EU and the US to come to an agreement." He felt that it was likely that this would happen again.

O'Mara said he did not feel that by making the Blair House agreement the US was then not allowing the smaller countries' voices to be heard. "Other countries were invited, but the invitations were not taken. It was not a perfect outcome, but under the circumstances, something was better than nothing." He felt that it was too early to tell whether or not there would be a repeat of Blair House, but expressed confidence in the chairman and the clarity of his program. He expressed that given the clear program set out by Ambassador Harbinson, it all depends on the political will in the capitals. "The subjects are clear cut although the solutions may remain ambiguous."

The questioner agreed that small countries should not feel that it is useless to negotiate. He felt that it is likely that the large countries will come to an agreement alone at the end, but that they will not be going into it with "a blank piece of paper." The large countries realize that whatever they decide, they will have to sell to the rest of the WTO members. "If the unhappiness is greater than the relief at arriving at an agreement, they realize that it will be difficult to convince the other countries that they should implement

it." He emphasized that the more inflexible the small countries are in the negotiations, the less impact they will have on the final outcome.

The Outlook for the Doha Round

One developing country negotiator pointed out that agriculture is not the only area being negotiated and because of this, developing countries may have to compromise their position in agriculture. A country would then be bound to implement the agreement, and the "playing field will continue not to be level." He wondered if at the end of this Round, there will be another dissatisfactory outcome and the need for another Article 20.

Gifford recommended that developing countries work together to say to the developed countries, 'you are not going to have much progress *outside* of agriculture without an ambitious result *in* agriculture'. He felt confident that negotiators could expect more progress on agriculture than in the Uruguay Round, "because this time you are not starting from scratch." He indicated that the question may be how much emphasis to place on agriculture.

O'Mara asked whether regional trade agreements may be "mechanisms where [developing countries] could better advance your interests." One negotiator replied that the WTO is where the groundwork for all regional agreements must take place. "It is difficult to have a free trade agreement without a strong agreement at the WTO."

The discussion then revolved around what would constitute a success for the developing countries in this Round. One negotiator pointed out that "[i]t is generally accepted that agricultural liberalization will play a significant part in a good outcome for developing countries. This could afford an opportunity to attract investment into their agriculture sectors and allow them to concentrate on comparative advantage in order to develop industries for export." The negotiator further expressed the feeling that elimination of export subsidies and large cuts in domestic subsidies may be the best way to achieve this outcome.

Moehler argued that the only developing countries that would truly benefit from trade liberalization would be those who are already efficient producers. O'Mara disagreed. "The more liberalization of trade in agriculture the better for developing countries. The first fifty years of GATT, at least on the industrial side, gave a huge benefit for post-war Europe and the US…I cannot imagine why liberalization [of trade in agriculture] would not have that same benefit."

The negotiator replied that it might be the efficient producers that are able to take advantage immediately from liberalization. Other small countries would have to make some significant policy changes and infrastructure investments in order to benefit fully from liberalization. However, at least in a more liberalized trading system they would have an opportunity that does not now exist for them.

Same Rules in Agriculture and Industrial Products

Panelists were asked whether it was possible to have the same rules in agriculture as in industrial products.

Gifford said that it was indeed possible to have the same rules, but that it may not be practical in some cases. In some cases the agriculture agreement goes farther than the agreement on industrial products, and that agriculture should not have to go backwards in these areas. "An example of this may [be] anti-dumping…the administrators of anti-dumping legislation around the world find it more convenient to say that dumping is going to be defined as selling for export at below a constructed cost of production. This means nothing in agricultural due to its cyclical nature. The steel and textile people will make sure that there is no change in the anti-dumping rules, why should agriculture follow them?"

Moehler felt that advocating for the same rules in both areas may be a useful negotiating position as it is used by the Cairns group, but that it is not likely to happen. He further expressed that it would be a waste of time to pursue this. He recommended that the negotiators rather "concentrate on tightening up the rules that already exist."

Special and Differential Treatment

O'Mara contended that the best special and differential treatment for developing countries would be to have the same rules for every member of the WTO. Hathaway added that, "in the Uruguay Round we said, there are a lot of policies that you have and they are bad for you, but as a special and differential treatment, we are going to let you keep them for quite a while. S&D should give developing countries the advantage of gaining from the system rather than by allowing them to opt out of the system."

Session Two: Export Competition

Opening Remarks

Joe O'Mara: The major issue in this Round in relation to export subsidies is whether or not they will be eliminated. [The rules on export credits] are laid out in Article 10.2 where it was agreed to negotiate an international discipline in the OECD to govern their use. This has never been accomplished. It should be quite possible in this Round to reach "discipline" on this…The difficulty will be with countries and entities within countries where it is unclear how the moneys are spent and what kind of terms and conditions are used. Whether or not there can be a way to discipline [State Trading Enterprises] will be the question for this round. With regard to food aid, it is unwise to create new rules until it is clear why the existing rules are not working or why it is impossible to keep them from working. The rules that exist in the Food Aid Convention and the FAO Committee on Surplus Disposal have the responsibility for discipline. If the US circumvents export subsidy rules in the way it runs its food aid program, the idea should not be to set up new rules, but to take the US to the disputes resolution panel.

Rolf Moehler: I think the case for elimination of export subsidies is grossly overdone…Export subsidies have two negative effects on international trade: the price effect and the production effect. The price effect has been reduced by the disciplines introduced in the Uruguay Round. If export subsidies were eliminated, EU policies would have to change market-based support in a way that would enable the EU to export without export subsidies. Therefore the effect on the world market may not be as big as some people think. Of course [elimination of export subsidies] is in the interest of the Cairns Group-member developing countries. But, African countries that now have some kind of preferential access would lose and also to some extent the net importing developing countries would also lose. [I]f you only come to discipline on export credits rather than elimination, your case for export subsidy elimination will be weakened. It would be useful to seize the opportunity to avoid the abuse of food aid as a hidden export subsidy in the future. This would again help the exporting developing countries, but also probably help those who are the beneficiaries of food aid because they would better be able to develop their agriculture. [I]f we insist on having food security at least partly by means of international trade, we have to do away with export restrictions and export taxes. I think a safeguard clause would probably be useful in the case of an emergency; it would be possible for a member to reduce its exports, but not block them off entirely.

Mike Gifford: Because we do not have identical domestic policies, a wide variety of export assistance measures have developed. If Europe is going to be asked to eliminate export subsidies over a number of years, then politically it is important that there be the perception that other countries means of assisting exports must also brought under some kind of a discipline. You are going to have to have all of the perceptions as well as the realities on the table if you are going to have a thorough discussion of what is to be done. Nobody has a problem with food aid if it is given on a grant basis, but again it is perception, and the perception is that if you are going to deal with export assistance measures, you are going to have to 'throw the net fairly wide' so that everyone is captured.

Dale Hathaway: One thing about the US Title One Program that is hardly noted and never mentioned is that it is a balance of payments program in bad times. It has nothing to do with food. One aspect will be, are the developing countries interested in having the US give up this potential tool on balance of payments assistance that does not require going through the IMF? [M]y understanding is not only that the EU wants to discipline Title One, which I understand, but that they also want the US to cut back on grant aid. Has the EU basically decided that all food aid is bad? Grant or otherwise?

Discussion

Export Assistance Programs

One negotiator expressed concern about whether the US Congress, through the TPA (trade promotion authority) bill, would require US negotiators in Geneva to eliminate export subsidies while keeping the US export credit and food aid programs intact. O'Mara responded that despite any wording in the TPA bill, he did not believe that the US negotiators would not avoid negotiating on this issue. [Note: Seminar was held prior to passage of TPA.]

The panel was asked to respond to Moehler's statement in his opening remarks that fighting for elimination of export subsidies while refusing to negotiate on the elimination of export credits and food aid was unrealistic. Gifford responded, "If you want to have an ambitious result in agriculture, when it comes to export assistance everything has got to be on the table, whether it causes political difficulties or not. If you expect the US to negotiate disciplines on single-desk selling agencies but say that Food Aid and export credit are not on the table, you're dreaming in Technicolor." Many negotiators and panelists agreed that all export assistance measures need to be negotiated together in order to come up with an optimal package.

One negotiator commented that "there is no reason to say which of these are more distortive because some are more transparent. Crimes are being made and we can't say that those that have more witnesses should be treated more favorably than others."

One negotiator, whose country has been a beneficiary of many of the export assistance programs under discussion has also been negatively effected by export assistance to a neighboring country with whom it has a traditional trading relationship. The negotiator commented that there are times when these programs are very useful, but expressed the need to create rules that prevent these programs from becoming supply driven.

Robert Thompson asked to hear from some of the high food-importing country negotiators about their opinions on export assistance programs. One net food-importing country negotiator said, "What we as a country fear most is [that] a market of ours would be literally removed from under our two feet by the use of Food Aid grants..."

A six-part suggestion was presented that was taken from a proposal by a group of developing countries whose aim was to help negotiators "put rules on food aid so that they would not be used as surplus disposal [but] for the legitimate needs of some of our less fortunate members." The recommendations were that: 1) Food Aid should be 100% in grant form; 2) It should be entirely demand driven; 3) There should be an in-built mechanisms, that Food Aid is higher when world prices are higher and not vice versa; 4) Food Aid should be procured regionally, indirectly assisting production in neighboring countries; 5) Food Aid must also be accompanied by a quick response in both technical and financial aid which may be made for increasing domestic production; 6) An inter-agency revolving fund should be created; one permanent fund, which would take care of all Food Aid.

Export Subsidies

Gifford expressed confidence in the possibility of eliminating export subsidies in this round, but asserted that in order for that to happen two things have to occur. "1) Certain countries have to change their domestic agricultural policies. 2) Everyone's…practices [must be] covered under export assistance, [or else there will be the percetion that] it is an unbalanced deal. You have got to address that perception of equity or fairness if you want a big result." One negotiator disagreed with Moehler's comment in his opening remarks that the elimination of export subsidies would lead to a reduction in prices, but he rather would expect to see an increase in prices. Moehler voiced that it was clear what should be done with regard to export subsidies, and that is a continuation of what was done in the Uruguay Round, namely, a reduction of the volume and the budgetary outlay commitments.

Food Aid

The panelists were asked for more ideas on how to handle food aid other than the US saying there should be nothing done in the WTO and the EU calling for all food aid outside of emergency to be called an export subsidy. It was suggested that there may be a problem in the future because some countries are calling for a definition of what is good and what is bad food aid. Gifford replied that the WTO should not necessarily define what is good versus bad food aid, but should define it "as part of the export credit continuum." He maintained that grant-food aid should be used based entirely on each country's willingness to aid countries in need. He suggested that "rather than coming at Food Aid directly, it is better to come at it through the rubric of export credit. If you start from the export credit side, you can make a decision whether or not you need anything on top of that on Food Aid in the WTO." One negotiator said that some developing countries that food aid should be demand driven. "Countries would import those products that they do not produce that would not hamper their domestic production, at Food Aid prices." He conceded, however that this, too would be trade distorting.

Hathaway was not opposed to negotiating discipline on food aid in the WTO. He does not think that the FAO (Food and Agriuclture Organization) deals with the situation effectively. He believes the problem is more that negotiators do not know what they want to do on food aid.

Both negotiators and panelists expressed concern over the difficulty of defining what is good versus bad food aid. One negotiator used the example of the US sending a great deal of food aid in the form of soya oil when it was apparent that stocks of soya oil in the United States were particularly high to illustrate 'bad food aid.' "The recipient country may be happy, but this has caused disturbance in the oil markets of other countries. This is how a normal trade flow is suddenly disrupted by Food Aid. You make the effort to develop a market and suddenly, you have to retreat completely from that market, search for new buyers – maybe new requisites for importation and so forth."

However, one negotiator pointed out that although it required intense negotiation, in the Uruguay Round negotiators did come to an agreement on what was distorting versus non-distorting forms of support. This is the same kind of situation. He further pointed out that in the United States food aid often garners political support because the aid may open new markets. O'Mara stated that a rule delineating good versus

bad food aid would not be helpful due to the changing nature of need. He stated that if countries feel that the US, or any other country is circumventing its obligations on export assistance, that they should bring a case against the US in the WTO and prove that it had an injurious effect. He asked why the existing rules had not been used in the past. He agreed that although it is appropriate for the WTO to decide whether or not food aid is being used as an export subsidy, that the WTO is not a competent body to define when it is appropriate to use food aid.

Several negotiators articulated the difficulty of bringing a case against the US on the issue of food aid. Many negotiators agreed that it may be viewed as 'politically incorrect' to say that you want countries to give less food aid to people in developing countries. Negotiators also commented that it would be risky to pursue a case on this against the United States because the rule that applies, Article 10.4, is very unclear. One negotiator compared his country's reluctance to bring a case on food aid to that of the reluctance of others to bring a case on GMO's into the WTO. "You do not want to taint your reputation on a commercial interest."

O'Mara said that he did not see how a rule defining good versus bad food aid would solve the problem. Although he did agree that everything should be on the negotiating table, he reiterated his feeling that appropriate action should be taken through the disputes resolution procedure. Hathaway expressed concern about categorizing food aid in the WTO. "If grant aid or long term loans are the only criteria used, what happens if you give grant aid as balance of payments assistance? You have to be careful in making categories because too much of a good thing may turn out to not be a good thing."

Many negotiators and panelists agreed that the fact that the United States' food aid program is run out of the Department of Agriculture was suspicious. Gifford suggested that because of this, food aid should be treated as a means of circumventing the rules on export assistance and should be treated as such. Hathaway declared that "the Department of Agriculture has more ability to operate Food Aid and to withstand political pressure to use it as a dumping program than our Aid agency." He further explained that the United States Department of Agriculture (USDA) is the best equipped to deal with the program because it knows how to get commodities transported. Gifford countered by saying that although the Canadian Department of Agriculture used to run their food aid program, that the experts were moved to the aid agency thirty to forty years ago.

Prospects for the Doha Round

One negotiator expressed his frustration that the products where developed countries are inefficient have special rules, whereas there are very strict rules for products where the developing countries are efficient. He asserted that this trade pattern was not fair, and could even be defined as "colonial." "From a balance of payments point of view, it is not feasible to have a lot of imports of products where you're not efficient and on the other hand, not be able to sell a liter of milk into some other markets." Some Latin American negotiators commented on the fact that they had expected gains in agriculture from the Uruguay Round that were never realized. Some went further to say that if they do not receive a good deal on agriculture in this round, that they may prefer not to have any agreement.

Session Three: Issues in Market Access

Opening Remarks

Mr. Mike Gifford: If you want an outcome that satisfactory from a developing country point of view, you need significant concessions from developed countries. However, for developed countries, most of the potential future growth in agricultural trade is going to be with and between developing countries. If developing countries say, 'we are not going to do much in access, it has all got to be done in developed countries,' that will just give the import sensitive sectors in developed countries the ability to say, 'the developing countries are not prepared to offer access, why should we?' The modalities for tariff reductions are going to have address tariff escalation and tariff peaks. The only way a developed country can steer through the minefield is if, everything's covered and, there are no exceptions.

In a new round on market access, you want to make sure that to the maximum extent possible, access is granted on an MFN basis. You want to be sure that there is a genuine minimum access commitment negotiated that grants access either at free or at a very low nominal rate, and then you want to expand those minimum access commitments. You want to make sure that you do not just deal with those commodities that are at 3% going to 5% of domestic consumption, but you have also got to deal with those like sugar, for example. If you want to encourage the modalities to become rules instead of a sort of airy suggestion by the chairman you need to build in some inducements. One potential inducement: only those countries that fully subscribe to the modalities proposed in the chairman's paper will have the right to use special agricultural safeguards. You have got to make TRQs be more common. You need a legitimate minimum and you have to make the within tariff quotas low or free.

Domestic support is important, and certainly the most egregious forms need to be disciplined and limited, but from a developing country perspective, the real gains from this round have to be in significantly improving market access. It was a good idea to divide the domestic support into trade-distorting and non-trade distorting. But once types of measures are classified as non-trade distorting, it is very difficult to persuade a domestic member of parliament in a developed country that domestic subsidies should be subject to reduction commitments on non-trade distorting support. If I were a developing country negotiator, I would focus on getting the maximum access and getting rid of export subsidies and disciplining all the other export assistance measures. If there is going to be a repeat of Blair House, it is going to be over domestic support. Neither Brussels nor Washington are going to accept the kinds of reductions that developing countries would like to see.

Rolf Moehler: My advice would be let's stick with the formula from the Uruguay Round. It is a relatively simple formula. I know the arguments against it – it does not deal with mega tariffs, it leaves high tariffs, it leaves the possibility to have only minimum reduction for certain products. I think the Uruguay Round formula is the only formula that is possible if you want to have your modalities ready by the 3rd of March of next year. Tariff rate quotas have a bad reputation, so we have to do two things: improve their administration and increase these quotas. For those products now at 5% of domestic production, assume we go up to 10%. That is not nothing. Ten percent of consumption, if you have the possibilities of importing, is not negligible. S&D does not help developing countries much on market access. The EU has made an interesting proposal that, to my knowledge has not been discussed, but which, presents a possible solution for this problem namely, a general system of preferences (GSP) for developing countries. Make it more predictable, make it renewable and go further for developing countries as far as market access is concerned. The other way is through tariff rate quotas. If a country declares 'we have basic commodities where we cannot expose our farmers to the volatility of the world market,' then you can choose a tariff rate quota. I agree that there may need to be a Special Safeguard Clause for developing countries. However, do not take this current Special Safeguard Clause. I have myself difficulties every time I read it to understand it. But, some sort of this Special Safeguard Clause may be necessary if you move really to a greater liberalization in developing countries. Why should you be less protected than we are in the developed world?

Mr. Joe O'Mara: I agree that the market access outcome is the most substantial in terms of its benefits to all members and has the largest benefit for developing countries. I would advocate the elimination of tariff rate quotas. There are high tariffs in certain commodities in certain countries but if you were to look at what is the most pervasive, most difficult to manage, it is tariff rate quotas. If I had to prioritize where the effort should be, I would spend more time on tariff rate quotas instead of versions and variations of formulas on tariffs to improve the current situation.

Dale Hathaway: It seems to me, what ought to be done is abolish the current Special Safeguard Clause which the rich countries wrote for themselves and put in a new Special Safeguard Clause program for all of agriculture rich and poor. Then, if you want to do something for the developing countries, allow them to use different trigger levels.

Discussion

Tariff Formulas

The panelists were asked whether the formulas presented so far could result in effective market access and elimination of tariff peaks. Moehler replied that although the Uruguay Round formula would not reduce all of the tariffs, that it would at least be a step in the right direction and result in significant market opening. He commented that there are not many tariffs that are at 300-400% any more, and further that "the technical basis is lacking to address this problem head on."

Ad Valorem Tariffs

One negotiator expressed frustration with the use of non ad-valorem tariffs and asked the panelists whether or not they thought it was possible to convert all tariffs into non ad-valorem tariffs. "[E]very time examples are put in terms of tariffs, they are put in terms of ad valorem tariffs…but when it comes to actually see what is being applied in the products that we want access in, it is usually non-ad valorem tariffs. In the Uruguay Round, we gave concessions for some products, in order to get some access to these countries. But now, after so many years have passed and prices have gone down, the funny thing is if you see the numbers, protection actually has gone up again. Are we supposed to pay again to reach the levels for which we already paid in the Uruguay Round?"

Mr. O'Mara agreed that switching to ad valorem tariffs would be much simpler, especially for customs administration. Moehler agreed that while it is possible to convert all specific duties into ad valorem tariffs, that it may not be worth the fighting that would arise from the negotiations.

Special Safeguards

Rolf Moehler agreed with Dale Hathaway's suggestion to rewrite a special safeguard applicable to all. "The actual Special Safeguard Clause is linked to tariffication. The farther we get from the Uruguay Round, the more tenuous this link will become."

One negotiator from a developing country agreed that the current special safeguard should be eliminated and a general safeguard that can be more easily used should replace it. The negotiator noted the dual nature of agriculture, in many LDC's where 50% of agricultural production is in large industrial holdings and the other 50% are subsistence farmers. Small-holders largest competition may not be from the high-income countries' subsidized exports, but rather from large-scale farmers in their own or another developing country. Special and differential treatment is not needed for the large holdings, but for the small-holders and subsistence farmers. "When we talk of trade, let's not forget about the social realities in these countries."

Mr. Gifford sympathized with the situation described. "Certainly, I would say that there needs to be some kind of easily triggered, but rigorously disciplined agricultural safeguard to handle situations like that. But if you're not prepared to play by other rules of the game, then you shouldn't be able to use it." Mr. O'Mara, however, voiced hesitation about the use of a trade instrument to combat the problems of subsistence farmers. "I am more concerned about how it would be abused." He expressed further concern about the difficulties that may arise from defining what exactly is subsistence. "[I]t would leave so much room for abuse, and it's still wouldn't deal with the problem you express." The negotiator suggested that a level of 10% of the level of income support that the US gives could be a definition of subsistence.

Robert Thompson expressed concerns with the use of special safeguards or tariffs to help the small farmer. "Any mechanism that distorts market prices distributes the benefits in proportion to sales. Therefore, by definition, the small subsistence farmer, who sells very little, gets very little of the benefit." By its very design, this type of scheme fails to aid the farmers it purports to help. "[W]e have got to be sure that the instrument we choose actually reaches the desired goal." The negotiator agreed that there is no trade remedy that can truly help subsistence farmers without benefiting large farmers. He added that in countries that have a very large percentage of subsistence farmers and there is no technical capacity for efficient distribution, targeting the small farmer is very difficult. Therefore, any special safeguard designed to deal with this situation must be used on a country-specific basis. Another developing country negotiator worried that his farmers not be locked out of other small countries' markets with safeguards. He emphasized that his country is working to create some measure that distinguish between the difficulties of subsistence farmers competing against subsidized imports while allowing his countries' farmers, that "are not large plantations… a chance to compete in international markets as well."

Hathaway noted that his intention was not for a general safeguard to be used to help subsistence farmers. He gave an example in which a safeguard like he suggested would be needed. "Every once in a while, the US market for poultry comes under pressure. As you know, the US primarily exports dark meat. When US poultry prices collapse, large quantities of dark meat are dumped on small, Caribbean countries. The Jamaican industry was almost wiped out two or three years ago by this practice. Since regular

safeguard rules are so cumbersome and so slow that they will never be put in place in time to save developing country businesses, small markets and other countries must be able to deal with this type of major import surges."

Mr. O'Mara agreed that in the situation described by Hathaway there may be a need for a time-limited safeguard although it would clearly not be an effective instrument for assisting subsistence farmers. "My concern is that if we agree a major outcome in market access is vital to this negotiation, how much energy and time is should we use to make sure it has no impact?" Gifford agreed with O'Mara's concern over possibility of further protection. He reiterated his feeling that instruments like this should not be used unless a country is playing by the other "rules of the game" and urged negotiators not to "give it as a freebie." He emphasized that it should only be considered as part of an ambitious outcome.

One negotiator brought up the idea of "a special and differential countervailing measure, under which countries can apply a countervailing measure on imports from developed countries without proving injury and causal links with a subsidy." Perhaps a measure like this would be effective since it targets those who are are subsidizing their farmers. Mr. Gifford countered that an automatic countervail based on domestic support would not be likely to get any support from developed country members of the WTO.

One negotiator argued that a general safeguard could be disastrous for negotiations of other regional trade agreements since regional agreements are based on WTO agreements. Mr. Gifford suggested that parties to the regional agreement could agree not to use the safeguard among themselves. However, the negotiator felt that the necessity of negotiating about the existence of such an instrument would be an added burden to an already complicated set of negotiations. He further noted that this may indicate that "the only way to achieve free trade is through regionalism." Another negotiator agreed, adding that, "in the end if you have a readily usable instrument, it's very difficult to resist the pressure of local constituencies to address this problem." He further discouraged the creation of any new instruments for protection from import surges. "What concerns me most is the *lack* [of import surges]. We have a number of instruments for commercial defense, and the creation of a permanent new feature would perhaps not be the avenue that we should put our emphasis on."

Session Four: The Links between the Pillars

Opening Remarks

Dale Hathaway: Politically, a number of countries will not really place offers in agriculture until they see the rules and situation in industrial tariffs. They must have good political returns and prospects from industrial tariffs in order to be more flexible in agriculture.

The key basic link between the three pillars is essentially domestic policy. If export subsidies are eliminated, internal prices must be lowered to compete in international markets. If you screw down the export subsidies, the Europeans would have to change their policy. If export subsidies are eliminated, you cannot keep high internal prices. That means, essentially, that you have to move all elements of these three pillars together. You have to move domestic supports to Green Box policies, which will allow the elimination of export subsidies. The same thing is true of much of the protection on access. The key, therefore, is domestic policy and until and unless the domestic policy is aligned properly, the ability to deal with and make real progress on the other two pillars is very limited.

Joe O'Mara: There are also degrees of importance, or benefit within those three pillars. The pillar that has the most impact on benefiting all of the WTO members is market access because it forces eventual reform within the domestic policies irrespective of what the domestic support requirements may be in the WTO agreement.

Discussion

Non Trade Concerns

The panelists were asked their opinions on how to address non-trade concerns when looking at the three pillars. Mike Gifford stated that the domestic political situation would determine what a government would spend on its agricultural sector. However, he noted that because one country thinks something is a non-trade concern, other countries cannot be expected to then understand that there will be no further liberalization. Gifford agreed with what European Commissioner for Agriculture Franz Fischler, that the multiple objectives in agriculture should be achieved in non-trade distorting ways and not at the expense of other countries.

Rolf Moehler emphasized the need to look at the different non-trade concerns individually rather than in a general way.

O'Mara maintained that non-trade concerns were dealt with in the Uruguay Round in Paragraph Five, Annex Two "which says specifically that environmental conservation and related objectives are permitted policies if they are delivered in a non-trade distorting way, which is described in other parts of that provision." He asked the negotiator if he would add anything to that. The negotiator from a developed country explained that, "the situation is such that, at least in a few countries, the prices for production of agricultural goods are much higher than the world market price. Because the costs are so high, we need a higher price for the producer. For that, we need support related to the products if we have such non-trade concerns as food security and agricultural landscape." O'Mara countered that it is unreasonable to expect a change to something that has already been negotiated, particularly if it would result in less liberalization. The negotiator replied that he was not advocating less liberalization, but that some countries may not support an elimination of tariffs and Amber Box support.

Another negotiator emphasized the need to take into account the non-trade concerns that arise from the lack of liberalization. He pointed out specifically, environmental damage, rural poverty and rural unemployment cause by protection and subsidies.

Session Five: The Relationship Between Agricultural Trade and Development

Remarks

Robert L. Thompson: If the developing countries are going to benefit more from this round of trade negotiations than past negotiations, there needs to be more help to facilitate greater development, reduce poverty, and expand export revenues. The World Bank agrees with the developing countries that in past Rounds, they benefited relatively little and the Bank is spending a lot of time right now addressing this issue.

Most of the world's poverty is in rural areas. Roughly 70% of the people who live on less than one dollar a day reside in rural areas and most of them are farmers. The Bank has recently reviewed its rural development strategy and my comments draw heavily on that exercise. The first conclusion is that the agriculture sector in most developing countries is under-performing relative to its potential. In part, the international environment in which developing countries function is distorted against those that have export aspirations because of the artificially depressed international prices. Also, binding tariff rate quotas increase the variance of international prices. High-income country policies have driven prices below [the] long term trend-line, and this is hurting the earning potential of the lowest income members of society: farmers. Developing country governments have artificially depressed the incentives to produce, and artificially depressed the incomes of the already lowest income members of their society. In part this reflects the political economy in many developing countries. Governments, responding to the balance of political power in many developing countries, have had a strong incentive to keep the price of food artificially low for their urban residents.

Another important part of the climate in developing countries that the Bank believes has also impeded their agriculture development and accelerated poverty reduction in rural areas is the gross under-investment in Green Box measures, particularly in rural roads, telecommunications, infrastructure in general, investments in agriculture research and extension, market information systems, enforcement of honest weights and measures, etc. Every high-income country that has become a significant agricultural exporter made large investments in these kinds of Green Box measures, which translated a latent comparative advantage into a realized export performance. Whether you are talking about national investments, borrowing from international banks or official development assistance from bilateral donors, none of these are creating the enabling environment that is necessary for trade. The Bank is trying to convince Ministries of Finance that they need to do more to raise productivity in agriculture, but they also must acknowledge the need to develop the rest of the non-farm rural economy. The Bank wants to build more trade enabling capacity-building into its ongoing lending program, so if greater market access achieved, developing countries will be able to take advantage of it. The Bank believes if the WTO negotiations provide full market access tomorrow to all low-income countries, nothing would happen in a number of them. They just don't have the minimum basic infrastructure and investment know-how to take advantage of those opportunities.

The present international trading environment increases the variability of international market prices for many agricultural products as well as depresses them. This has significant adverse impacts on the macroeconomy of export-dependent developing countries. The Bank is trying to find mechanisms to help developing countries on both the micro and the macro level to lay off some of this risk through market instruments. In the international trade negotiations the Bank also needs to pay particular attention to the risks imposed on these developing countries by the highly exaggerated volatility in international commodity prices. The negotiations should remove the artificial distortions of the terms of trade that exist so the incentive to produce is not artificially depressed. The Bank also needs to invest in raising productivity in agriculture so that agriculture can contribute more to the incomes of rural people. But, we must acknowledge that solving the problem of rural poverty requires productivity in agriculture, but has also non-farm employment opportunities.

The Bank believes there is a strong relationship between agricultural trade and development. Trade, is a much more powerful engine of growth than aid, but the Bank also recognizes that aid, whether in borrowing or official development assistance, can play an important role in providing the essential Green Box investments that are necessary to translate latent comparative advantage into trade performance.

Discussion

The link between trade liberalization and poverty alleviation

Thompson was asked to quantify how much trade liberalization contributes to alleviating poverty. The questioner noted that if efficiency is increasing, people will continue to have to move out of agriculture and asked what those people should do in countries with large rural populations. Thompson advocated a focus

on creating non-agricultural jobs in rural areas so that these people are not flooding already crowded urban areas causing more unemployment, urban crime, urban unrest and political instability.

With regard to quantifying the benefits, Thompson said that there is a model being developed at Purdue University linking trade liberalization and poverty alleviation. He further mentioned that interesting data along this line was presented at an OECD conference that he recently attended. He noted that "nobody has ever suggested that everyone gains from trade liberalization." He voiced his opinion that the mistake that the World Bank and IMF made in the past is assuming that if the gains of the gainers exceed the losses of the losers, society as a whole is better off. He acknowledged the valuable contribution made by NGOs in forcing the World Bank and IMF to recognize that if the 'losers' are among the lowest income people in society and if policies drive them below the subsistence level, then there needs to be some compensation for them.

Investment Priorities for Developing Countries

Joe O'Mara asked Thompson if he thought that aid had been a failure. Thompson replied that he was limiting his comments specifically to aid for agricultural development. "There is a present and increasing urban bias in how developing countries are investing their own public investment resources, in what they are willing to borrow from international banks and also from what they are asking the bilateral donors to provide. If you really are committed to poverty reduction, you have got to make investments where the bulk of poor people reside. Otherwise you will have all those rural poor immigrating to the cities."

Rolf Moehler asked how the Bank avoids the risk of capital misallocation when deciding how to target the trade assistance that it provides to small countries. He asserted that it would be difficult to decide where to invest the money due to the unpredictability of the outcome of the WTO negotiations. Thompson replied that the Bank's trade assistance goes for more general investments like investments in roads, telecommunications, and laboratory capacity to help exporters meet the sanitary and phyto-sanitary requirements in importing countries.

One negotiator asked why developing countries have reduced their investment in the agricultural sector over the last fifteen years. Thompson suggested that, if countries do not have expectations of profits, it may be difficult for them to justify investments in agriculture. Thompson said that there is speculation both among economists and in Ministries of Finance whether it is ever possible to get a positive benefit/cost ratio on any agricultural product with the current depressed state of world prices. This has also been a contributing factor to the low investment in agriculture. He contended that the availability of cheap imports from subsdizing countries has "gotten the developing country governments off the hook" in some cases.

The Development Box

Thompson was asked about the proposed 'Development Box' and whether he thought that the intended development objectives could really be realized through the proposed tools that would go in such a box. He responded that the most important tools of development are already available through Green Box policies. "A society has to make those investments from their own resources or from borrowing from international institutions. Once that is done, perhaps we should talk about things like special safeguards as was done up here." When asked by a negotiator how the WTO negotiations can help to make sure that those investments take place, he replied that the negotiations can reinforce what is being done elsewhere.

The WTO as a Development Agency

One negotiator asked Thompson if the expectations about the WTO accomplishments are inflated, or whether the proper limits on the WTO's role versus the role of other agencies is not set effectively. Thompson asserted that expectations are too high if we do not acknowledge that the primary investments in infrastructure need to be made before and a level playing field can be created and trading opportunities can be realized. "On a level playing field, developing countries should have their competitive position enhanced to compete against imports, and in those sectors where they have a potential comparative advantage, [they should be] prepared to export."

Another negotiator noted the tendency among many developing country negotiators to demand the use of the same distortive policies used by the developed countries, instead of implementing better policies. He added that, although you may be able to feed your whole population, you may not be able to employ everyone in agriculture.

O'Mara commented that attempting to use trade policy as a development tool is unrealistic and asked Thompson if there was any coordination between the Bank and UNCTAD in trying to help make these needed infrastructure investments. Thompson replied that although the Bank does not collaborate with UNCTAD, it does have a relationship with the FAO, which is also helping the developing countries participate effectively in the negotiations. He added that although the negotiations are certainly essential, they are not sufficient.

Moehler cautioned that we should be aware of the limits of the WTO. He agreed that NGOs in developed countries are playing a useful role in highlighting the responsibility of the WTO to take developing countries' needs into consideration. However, he warned "we cannot see the WTO as *the* engine of economic development." Thompson noted that often it is in the areas where developing countries are most efficient that the developed countries are the most protectionist.

Mike Gifford agreed that although trade liberalization is a necessary condition for agricultural development that it is not sufficient. "Developing countries won't rest in agriculture in the absence of a positive international trading environment, particularly when some can increase imports of subsidized products from developed countries as a substitute for investing in their own agriculture. It is difficult to get people to invest, particularly in developing countries, unless there is greater security of access and a greater certainty that you're going to get a better outcome from the WTO negotiations."

Biotechnology, Trade and Development

Thompson emphasized the need for investments in agricultural research. "Agriculture will probably have to double production with less water than today." In the long run, the trading environment is very important, since most likely more products will have to move through international markets. However, "we need to recognize that we do need to survive the short run to get to the long run."

When asked whether the "lack of a common view toward [biotechnology] by the developed countries has effected the Bank's policies toward biotechnology and its effect on the production capacity of developing countries," Thompson reiterated the need for agricultural research. Although he noted that the Bank has no official position on biotechnology, he said that economists at the Bank feel that "the developing countries should have available all the available research techniques to bring to bear on these problems…If rich consumers in high income countries do not want to use the products of biotechnology, so be it. But do not deprive the poor in the developing countries from the potential benefits they might be able to achieve."

One person referred to the work of Rob Paarlberg on GMOs in developing countries, noting that in his recent papers and speeches he has "emphasized that developing countries are hesitant to adopt GM technologies because of fear of being excluded from certain markets. [Paarlberg's] concern is that this is going to be a major impediment to the adoption of these technologies." Moehler indicated that if he were a developing country producer he would also be reluctant to use GMOs due to the political climate on biotechnology in Europe. "There is a strong consumer resistance fueled by respectable NGOs and political parties, and governments are reluctant to get into a fight with public opinion because they feel that they would lose." He suggested that the optimal situation may be one where products of GM technology are admitted into the EU as imports regardless of whether the EU would like use GM technology in their own production. He further noted that the argument that these technologies could provide an important benefit to the developing countries is not well publicized.

Gifford agreed that the concerns in Europe have inhibited the use of the new technologies in developing countries keeping them from being able to use it to develop their agriculture sectors. O'Mara expressed his worry that if countries continue to use unreasonable precaution with respect to these technologies as Europe has, that it may be the "end of the SPS agreement and a serious blow to any outcome in agriculture." One developing country negotiator added that although they may negotiate greater market access in this Round, that access could "very well evaporate in the next second" due to SPS standards by other countries.

The seminar closed with a warning from Moehler that negotiators realize that they are not starting from zero. "Don't try to reinvent the wheel."