Agricultural Trade Policy Made Easy

Making sense of trade policy for farmers, policymakers and the public

AGRICULTURAL TRADE POLICY MADE EASY

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FOREWORD

Australian agriculture is highly dependent on world markets for its prosperity. However, many of these export markets face extensive barriers to trade through a combination of border restrictions and domestic support. In other markets Australian agriculture must compete with subsidised exports from other countries.

The problem of these barriers is well known and has been well documented. Australian governments and farmers have campaigned against these barriers for years, the latest effort directed through the Doha round of trade talks currently underway. A problem with the agricultural negotiations is the complexity of the concepts used to tackle the various forms of farm support. To leave one area out leaves scope for substitution of support through other programs so everything has to be covered. And different classifications of supports and different concepts used in reducing farm support all serve to create a 'language' in the WTO of its own.

This booklet on agricultural trade policy aims to make sense of the complex concepts of agricultural policy for farmers, policymakers and the public. With better understanding of what is at stake and why, better decisions will follow.

Peter O'Brien
Managing Director
Rural Industries Research and Development Corporation

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Boxes, charts and tables

ACKNOWLEDGEMENTS

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1 WHY THIS BOOKLET

Trade policy negotiations can easily descend into a debate about acronyms and GATT-speak with words like 'modalities' and 'multifunctionality' cropping up in discussions and meetings. A look at the glossary at the back of this booklet is proof of that. The special 'language' and the unnecessarily complicated concepts and positions adopted during negotiations aimed at reducing distortions to trade are a barrier to wide understanding of what trade policy is about.

The lack of understanding about trade policy and the benefits from removing distortions to trade in all their guises has itself become a barrier to more liberal trade. Nowhere is this more apparent than in agricultural trade policy. The large restrictions on agricultural trade are now one of the major sticking points in the current round of multilateral trade negotiations aimed at liberalising international trade — the Doha round of negotiations, which, as another example of the point being made, is called the 'Doha Development Agenda'.

Concepts used in agricultural trade policy such as the 'three pillars' and 'green boxes', 'blue boxes' and so-on may be clear to negotiators, but they are not clear to a wider audience. Too few people — both farmers and the wider public — understand what is at stake and what should happen.

The basic premise of trade and trade policy, after all, is very simple. People choose to trade because it makes them better off and when trade barriers and trade distorting measures are removed there is more competition and more people become even better off. Subsidies, both direct and indirect, can and usually do lead to more trade, so it has to be stressed that trade negotiations are about trade *liberalisation,* not trade expansion. Just why these simple propositions aren't appreciated in the case of agricultural trade is partly due to the lack of understanding of trade policy and partly due to raw politics. Both are demystified in this booklet.

2 SOME BASIC CONCEPTS OF TRADE POLICY

Why trade?

People trade goods and services because it makes them better off. There are two drivers of trade. One is absolute advantage or who is the least cost producer. The other is comparative advantage or who is the least cost producer *relative* to the production of some alternative in the economy or country.

If Africa can produce bananas more cheaply than England because of its climate and other conditions then England will buy bananas from Africa. Africa has an absolute advantage in banana production.

Comparative advantage is more subtle, but more important. It depends not on who has the absolute advantage, but who is *relatively* more efficient at producing bananas compared with their other production choices. So a country could be high cost at producing everything and have no absolute advantage in anything, but it will still pay to trade. How does this happen? It depends on the fact that countries produce and consume more than just bananas and that the real 'cost' of producing bananas is how many other things have to be foregone. In the simple example in box 1, Africa and Latin America produce and consume just two things —

1 Comparative advantage

Let's suppose Africa produces bananas and textiles. So does Latin America, except in Africa, the resources used to produce a kilogram of bananas instead of textiles is different from Latin America. In Africa, if people put their effort into producing an extra 100 kilos of bananas they have to forego producing 300 shirts. In Latin America, to make the same products, 100 shirts go for sale to produce the extra 100 kilos of bananas. The trade-off or 'rate of exchange' in Africa is 1:3, in Latin America it is 1:1. Africa has a comparative advantage in producing bananas, while Latin America has a comparative advantage in shirts. If Africa produces all bananas and no shirts and Latin America does the reverse and they trade, the world as a whole will have both extra shirts *and* bananas. It will pay Latin America to sell shirts to Africa in exchange for bananas, somewhere between 1:1 and 1:3 — say 1:2. Even if Africa was a competitive producer of shirts in an absolute sense, it is an even better producer *relatively* speaking at growing bananas. Hence, Africa has a relative comparative advantage in bananas and that is what it will export in exchange for imports.

Source: Centre for International Economics

shirts and bananas. If someone is busy making shirts they cannot be simultaneously growing bananas. To make more shirts they have to give up time and resources and produce less bananas and vice versa. So the 'cost' of a shirt is how many bananas have to be foregone. This 'cost' is the ratio between shirts and bananas or, if you like, the rate of exchange. Because the rate of exchange is different for Africa and Latin America it pays Latin America to concentrate on shirt production, Africa on bananas and for them to trade and exchange at some rate between the African and Latin American internal rates of exchange. It matters not that Africa, is say, better at producing both shirts and bananas than Latin America, what drives trade is that they are relatively more efficient at producing bananas.

The key message is that comparative advantage *always* exists since it is a relative concept. And comparative advantage always means it pays to trade. There will always be gains from trade. Likewise, stopping trade through barriers at the border or providing domestic subsidies will have a cost.

So why do countries restrict trade?

Countries restrict trade for many reasons. National defence, self-sufficiency and food security are some common reasons. Many more reasons can be found. But behind the rhetoric is the reality that the protection is there to benefit some industry group and the interests in it. Those interests could be to protect jobs or asset prices. But trade restrictions *always* involve taxing consumers and transferring this to producers. The politics of this are spelt out later and ways to counter it discussed. But for now the point is that protection makes producers better off at the expense of consumers. So why do consumers go along with this? Basically because the large costs and transfers involved are spread thinly over a large group of consumers so it does not pay them to organise and lobby for change. Producers, however, are concentrated, receive large benefits and so it pays to organise and politically argue for protection. The key message here, however, is that restrictions on trade always involves taxing consumers in one form or another, and it imposes costs that have repercussions throughout an economy.

How do we measure the gains from trade and how big are they?

The gains from trade are enormous. All exchange of goods and services between people, companies, cities or countries is all trade. In that sense, most of today's prosperity could be thought of as a result of trade. But 'trade' and 'trade policy' in the sense it is used in this booklet is simply short-hand for international trade — the exchange of goods and services between countries. This trade is *no different* in an economic sense than any trade within a country and that is a useful way to think of it. The difference is, of course, a political one. Countries wishing to promote their own self-interest are not concerned with another country's welfare. That different objective leads to different political forces operating when discussing whether to restrict trade.

The gains from trade in a conceptual sense are represented in box 1. When producers voluntarily exchange goods and services with consumers for reward both parties are better off — otherwise the exchange would not have occurred. The total gain is the benefit to producers and consumers as represented by the areas shown under the demand and supply curves marked in the diagrams in box 2. The key message though is that both the exporter and importer benefit from trade. Trade is win–win and the reverse also holds: restricting trade is lose–lose.

The gain from trade in box 2 is just for one industry — wheat. In reality there are many industries and there are repercussions for other industries when trade restrictions are placed on a good such as wheat. For example, the chicken industry that uses wheat as a feed is adversely affected and the cost of living rises as bread prices go up when wheat imports are restricted. Organisations such as the World Bank routinely measure the gains to the world economy from removing restrictions on trade. These estimates vary according to various assumptions about how the world works, but one estimate puts the gain to the world economy from removing all barriers to trade on all products at an extra US$2.8 trillion of GDP by 2015.[1] This

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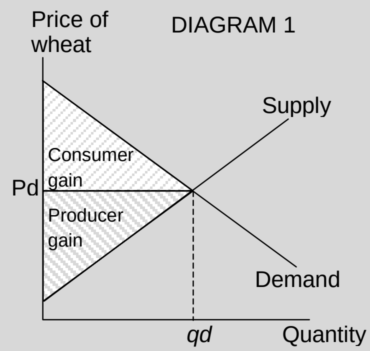
1 World Bank 2002, *Global Economic Prospects and the Developing Countries*, Washington DC, p. 176.

2 How to measure the gains from trade

Consider a country producing wheat. The market for wheat can be represented by diagram (1) below. There is a downward sloping demand curve showing that consumers will buy more wheat if it is cheaper. There is also an upward sloping supply curve showing that the higher the price, the more wheat farmers will produce.

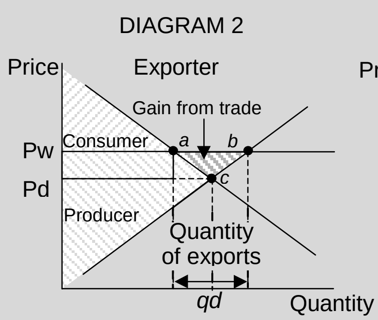
If there is no trade, supply and demand will equilibrate at the equilibrium quantity qd. The consumer and producer gain is shown as the area of the two triangles respectively on the graph.

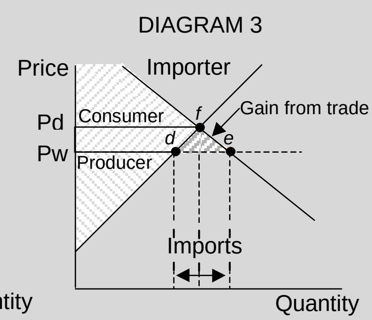
Now suppose trade is permitted and the world price Pw is above Pd as in diagram (2). Producers will switch supply from the domestic market to the more profitable export market and also produce more because the world price, Pw, is higher. As supplies are taken off the domestic market the internal price at which wheat is sold rises to the world price. Producers are better off but consumers are worse off.



Note, however, for the exporting country, the extra gain to producers outweighs the loss to consumers with the net increase being marked by the area of the triangle abc. This net increase is the gain from trade for the exporting country.

There must also be an importing country, which is the reverse of the exporter. But the importing country also gains the area def (diagram 3). For the importing country the gain to consumers outweighs the loss to producers. The total gain from trade is the sum of the two triangles abc and def. Both countries are better off. Trade is a win–win situation.





means 320 million fewer people living in poverty. Agriculture is a big part of this, and later and more detailed analysis by the World Bank shows that 93 per cent of the potential gains worldwide from removing agricultural protection come from removing barriers to trade at the border rather than removing other forms of protection through supporting farmers through domestic programs or by subsidising their exports.[2] That introduces the notion of the forms and the specifics of agricultural protection, so we turn to this next.

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[2] Martin, W. 'Implications of Trade Reform for Developing Countries', powerpoint presentation presented at ABARE Outlook Conference 05, Canberra, 2–3 March 2005. Session title: Impacts of liberalisation on developing countries, 2 March 2005, 4.00 p.m.

3 THE ECONOMICS OF AGRICULTURAL PROTECTION

Agricultural industries around the world are protected in a host of different ways. There are different ways to measure these various forms of public assistance and clarify them, but one of the most consistent across countries, commodities and time has been by the Organisation for Economic Cooperation and Development (OECD) in Paris. The measurement they report is the producer support estimate or PSE for short. It represents the total monetary transfer to *producers* that would be required to leave them as well off if a particular support program was removed.[3] It is not a measurement of the 'economic cost' or loss to society from restricting trade as represented by the areas in the graphics in box 2 in the previous chapter. Rather it is a measure of the size of the transfers to farmers. The economic cost of farm programs is due to the differences in support between countries and between commodities within a country. Like the concept of comparative advantage which depend on relativities, so the economic costs from farm support

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[3] The PSE is defined as 'the annual monetary value of gross transfers from consumers and taxpayers to agricultural producers, measured at the farm-gate level, arising from policy measures that support agriculture, regardless of their nature, objectives or impacts on farm production or income'. The percentage PSE measures the transfers as a share of gross farm receipts so a PSE of 32 per cent (which it was in 2003 for OECD countries) means farmers derived one third of their receipts from transfers from consumers and taxpayers as measured at the farm-gate.

programs depends on relativities between different levels of support for different industries.

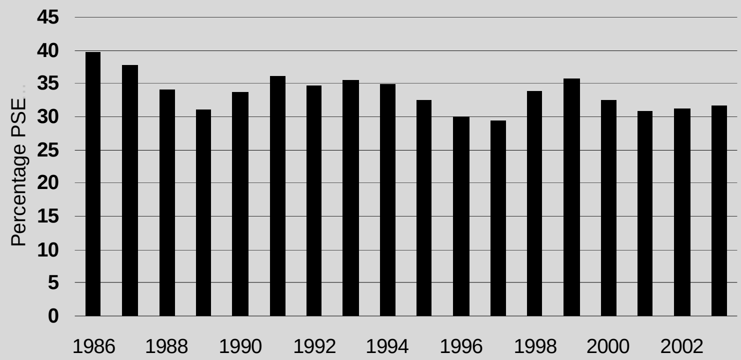
Differences in farm support across countries and commodity

The overall level of support for agriculture as represented by the PSE for OECD countries has fallen slightly between 1986 to 2003 as shown on chart 3. But it is still very high. For 2003, for example, over 30 per cent of the gross returns to farmers in OECD countries came from transfers from consumers and taxpayers.

The fluctuations in support in part reflect movements in world prices for commodities. When prices are low the support afforded to farmers through some forms of protection, such as quotas, rises. The total PSE for OECD economies in 2003 was US$257 billion. The total support estimate or TSE is the annual monetary value of all gross transfers from taxpayers and consumers (net of budgetary receipts) arising from policy measures that support farming — which includes producers as represented by the PSE. The TSE for OECD countries in 2003 was US$350 billion, which is where the expression ‘US$1 billion a day’ comes from. That figure represents the total transfer to agriculture in OECD countries from taxpayers and consumers.

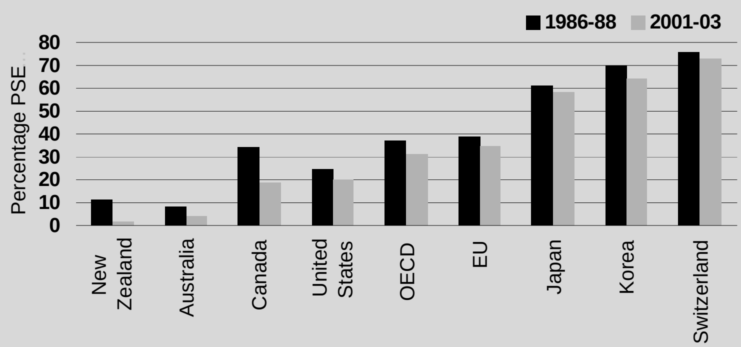
The movement in the average of total support across OECD economies, however, conveys little. It is differences or relativities and the dispersion that matters for the economic distortion to markets. The differences across countries are shown in chart 4. Some countries’ farmers such as those in Switzerland, Korea and Japan receive vastly more assistance than their counterparts in other countries such as New Zealand and Australia. The sheer size of the EU and United States in world agricultural markets makes their high levels of support important.

3 Levels of agricultural protection, OECD



Source: OECD database.

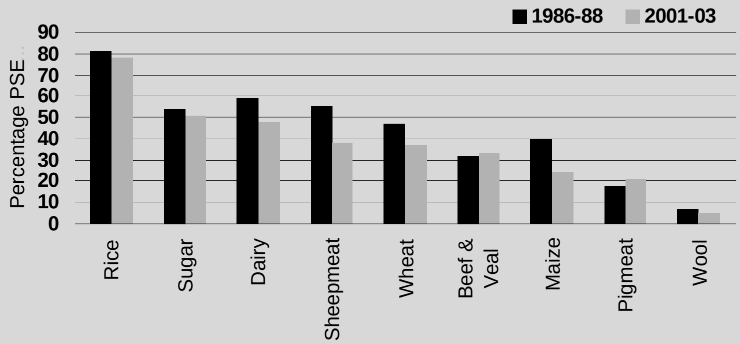
4 PSEs by country



Source: OECD database.

On a commodity basis, the PSEs vary enormously (chart 5). Rice and sugar are highly protected and vastly more so than commodities such as wool. The disparities cause too many resources to be allocated to rice, sugar and dairy production in some countries such as Japan, the EU and the United States when those resources could be better used in more efficient industries in each economy. This 'better use' of resources is the gain from trade liberalisation.

5 PSE by commodity



Source: OECD database.

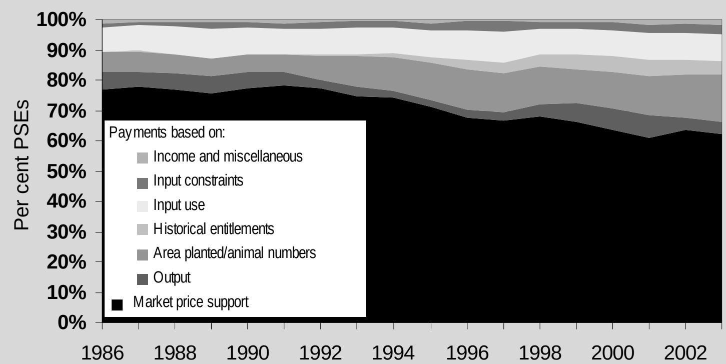
The composition of support

In measuring the PSEs to agriculture, the OECD breaks down the various supports to agriculture into how distorting of markets they are. A payment to farmers based on a per tonne basis, for example, will be highly distorting. The subsidy is, in effect, a price increase to the farmer and there is an incentive to produce more to qualify for more subsidy. By contrast, other farm support can be through building rural infrastructure such as roads or through supporting research and development (R&D), which do not provide a direct incentive to farmers to grow more of a particular crop. They still encourage overall farm production, however. All farm supports have a distorting effect in that they encourage more production than otherwise, but some policies are more distorting than others. The distinction turns out to be important since negotiators have been trying to reduce the worst excesses of farm support. Market price support and payments based on output are the most distorting farm support and these have been falling as shown in chart 6. However, distorting policies still dominate OECD farm protection.

Pillars and boxes

At the start of the Uruguay Round negotiations, when for the first time a determined effort was made to extend the multilateral trade-liberalising process to agriculture[4], it was recognised that some industries were protected by restrictions at the border (tariff or quotas), some protected by a host of domestic subsidies in various guises, and some industries received assistance through the subsidisation of their exports. (All too often industries were protected by all three forms of support.)

6 Composition of support



Source: OECD database.

[4] For a brief history see Stoeckel, A. and Corbet, H. 2002, *Opportunity of a Century to Liberalise Farm Trade, Rapporteurs' Report with a Chairman's Statement by Clayton Yeutter, Cordell Hull Institute's Meeting at Airlie House, Virginia, May 2002*, RIRDC Publication No. 02/126, pp. 1–20.

So, after a long struggle, a framework was established to deal with farm support under each of the three pillars:

- market access
- domestic support; and
- export subsidies.

Reductions in support were negotiated in each pillar. The same framework of the three pillars is used today and is reflected in the Doha round of negotiations on agriculture.

In attempting to remove the most distorting forms of public assistance, farm supports were also classified according to the colours of traffic lights (see box 7). 'Red box' measures are not relevant to agriculture. 'Green box' measures were regarded as not seriously trade distorting (although in reality they are to some degree) and were to be allowed.

'Amber box' supports were to be added up for all commodities and included with general 'amber' support to agriculture to give a total figure for all agriculture — the aggregate measurement of support (AMS). This was then subject to agreed reductions over the implementation period. A stalemate in the negotiations on agriculture and what to put in which box was broken in the Blair House Accord by creating another box — the 'blue box'. These were payments that were neither amber nor green and were those subsidies based on historical production areas or animal numbers and therefore deemed to give little incentive to farmers to increase current production. Of course, talk in the Doha round of 'updating these historical base numbers' flies in the face of the concept of non-distorting supports. Farmers will increase production just to qualify for a higher base level of support.

7 Domestic protection: the traffic lights and examples

Red box:

- Prohibited (not used in agriculture).

Amber box:

- Any support measure that is related to current production and encourages future production. Examples would be guaranteed minimum prices such as US loan rates on grains or deficiency payments and marketing loans.
- Under the Uruguay Round Agreement on Agriculture, support under this box is permitted subject to inclusion in the Aggregate Measure of Support (AMS) for all agriculture, which is then subject to reduction commitments under the WTO.

Green box

- Government support payments not related to production. Examples would be government assistance to R&D or structural adjustment payments (temporary).
- Payments under this box are permitted and not subject to disciplines or reduction commitments under the WTO.

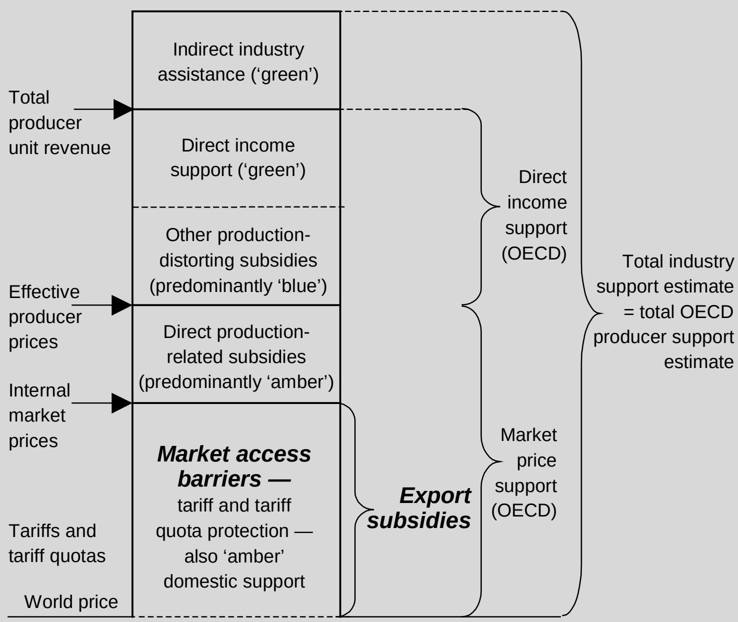
Blue box

- Payments tied to base level areas or animal numbers and with conditional limits on production. Examples would be ‘headage’ payments in the EU or the Conservation Reserve Program in the USA.
- Payments are not subject to reduction commitments via AMS.

Linkages between pillars

Although the three pillars of support are negotiated separately and treated differently, it is important to realise that they are all interconnected. Change in one area, like market access, can have repercussions for the level of export subsidies and domestic support. These interrelationships are shown below in chart 8. On the left axis is price and on the bottom of this axis is world price. Any tariff or tariff quota

8 Relationships in farm support



Source: Centre for International Economics

will lift the internal market price in a country above the world price by the amount of the tariff or its equivalent in the case of a quota. This higher internal price will mean exports are not competitive so an export subsidy has to be given to make up the difference as shown.

Note that if tariffs or tariff quotas were eliminated there would be no point in giving export subsidies. To maintain such a subsidy would be very expensive. A country such as Australia could simply ship product to the country with the export subsidy and ship it out again, qualifying for the subsidy. Eliminating barriers at the border also eliminates export subsidies.

Also note that dumping is defined (loosely) as the difference between the internal market price and the world price. So all agricultural export subsidies are by definition dumping, a practice abhorred by those countries who use export subsidies the most!

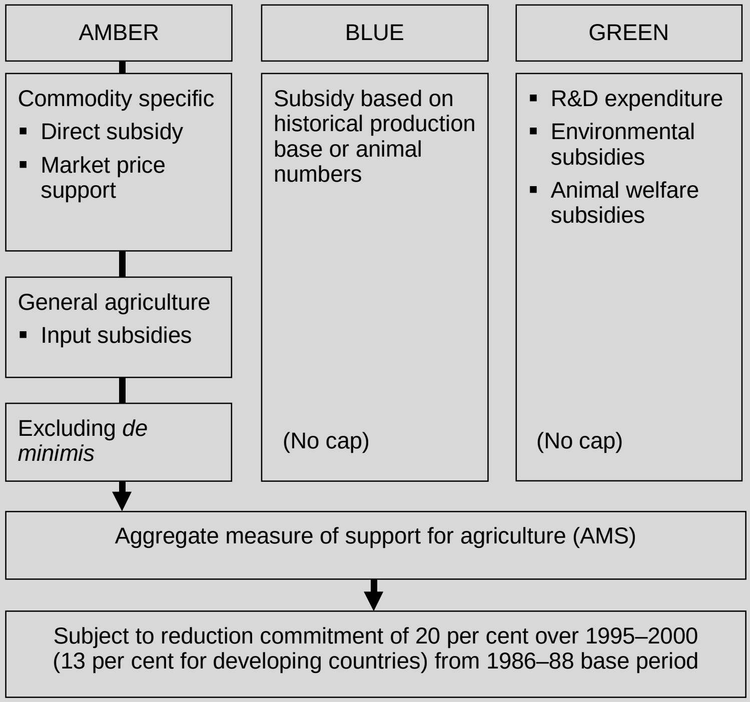
On chart 8, the addition of amber box payments, such as a direct subsidy per tonne produced, gives an effective producer price and the combination of that with market access barriers gives the OECD definition of market price support. Other direct income support payments that make up blue and direct green payments make up the total unit revenue received by producers. On top of that farmers can receive indirect support such as R&D that are also green box payments. The OECD's calculation of PSE comprises the lot.

Chart 8 is a representation of the links between supports; other elements are not shown. For example, it was also negotiated as part of the Uruguay Round agreement that the first 5 per cent of 'amber' support was to be excluded from the total AMS for any specific crop, or overall. This first 5 per cent — or *de minimis* as it became called — turns out to be a problem and is discussed later.

A key achievement in the Uruguay Round agricultural negotiations was the establishment of the three pillars framework of improving market access, reducing domestic support and reducing export subsidies. There has also been a shift in protection away from distorting to less distorting support with the development of the concept of boxes. Originally, only amber box supports were to be subject to reductions as shown below (chart 9).

Note that the AMS is a negotiated definition and is not an economic concept. The AMS for a commodity has two components. One is the difference between the admin

9 WTO domestic support reduction/commitments



Source: Centre for International Economics.

istered price and the border reference price times the quantity produced. The other is the budgetary outlay related to the amount produced. The AMS is the sum of these two. Note also that amber, blue and green box payments are included in the OECD's calculations of PSEs which are classified into different types of (distorting) policies as shown earlier.

The intention was that the limits negotiated under the Uruguay Round on the AMS would reduce spending of the worst kind on agriculture and result in a less distorted world market for agriculture. The results have fallen far short of this goal. It is important to see why this outcome resulted because the problems and sticking points in the negotiations on agriculture in the Uruguay Round are still issues to be addressed in the Doha round of trade talks on agriculture. The achievements and problems with the Uruguay Round outcome are discussed next.

4 THE URUGUAY ROUND, AGRICULTURE AND ITS PROBLEMS

To appreciate the difficulties with the Uruguay Round and agriculture and what has proved to be a limited outcome on agricultural liberalisation some perspective is required.

The General Agreement on Tariffs and Trade (GATT) was negotiated in the aftermath of World War II. The multilateral framework of principles and rules arose out of the inter-war period, beginning with the virulent economic nationalism in the 1920's, the collapse of world trade in the 1930's following the Smoot-Hawley tariff Act in the United States and the ensuing Great Depression.

From the outset it was intended that an organisation would be established to administer the multilateral rules of trade agreed to. This organisation, to be called the International Trade Organisation, never came into effect because of tension in the United States, particularly over agriculture. Instead, a secretariat based in Geneva was set up to administer the GATT and it became a *de facto* world trade organisation. As one of the Uruguay Round agreements, the World Trade Organization or WTO came into being in 1995. Its objectives are set out in box 10. The system of governance is in chart 11. The WTO administers the various agreements — including the GATT, the General Agreement on Trade in Services (GATS), the Agreement

10 WTO objectives

- Raise standards of living.
- Ensure full employment.
- Promote the steady growth of real incomes and effective demand.
- Expand the production of and trade in goods and services.
- Sustainable development and environmental protection.
- Special treatment for developing countries consistent with the levels of development.
- Overriding objective:
  – To help trade flow smoothly, freely, fairly and predictably.

Source: World Trade Organization, http://www.wto.org.

11 Governance in the WTO

Source: World Trade Organization, http://www.wto.org.

on Trade-related Aspects of Intellectual Property Rights (TRIPs), the Agreement on Agriculture as well as the Trade Policy Review Mechanism and the Dispute-Settlement Understanding.

Since the formation of the GATT there have been nine successive rounds of trade talks to lower tariffs (see box 12). However, agriculture was 'left out' of past negotiations up to the Uruguay Round. Agriculture was too difficult for countries such as the European Community (as it was then known), Japan and others so the subject was simply 'taken off the table' so as to not jeopardise other negotiations on industrial products.

During the 1980s, soon after the Tokyo Round, the GATT system was nearing collapse and the excesses of Europe's Common Agricultural Policy (CAP) with its 'butter mountains' and 'wine lakes' were all too apparent. A third world debt crisis also occurred at that time. Finally, the world launched the Uruguay Round of trade talks in 1986 and included agriculture formally in the negotiations for the first

12 A brief history lesson

Round	Year	Countries	Comment
Geneva	1947	23	
Annecy	1949	29	
Torquay	1951	32	Modest tariff reductions
Geneva	1956	33	
Dillion	1961	39	
Kennedy	1967	74	Tariffs, anti-dumping, customs valuation
Tokyo	1979	99	Substantial tariff reductions, non-trade measures
Uruguay	1994	125	Comprehensive, agriculture included plus new areas
Doha	?	148	21 agenda items

Source: Centre for International Economics.

time. Given the political sensitivity of agriculture, its formal inclusion was a major achievement.

What was achieved from the Uruguay Round

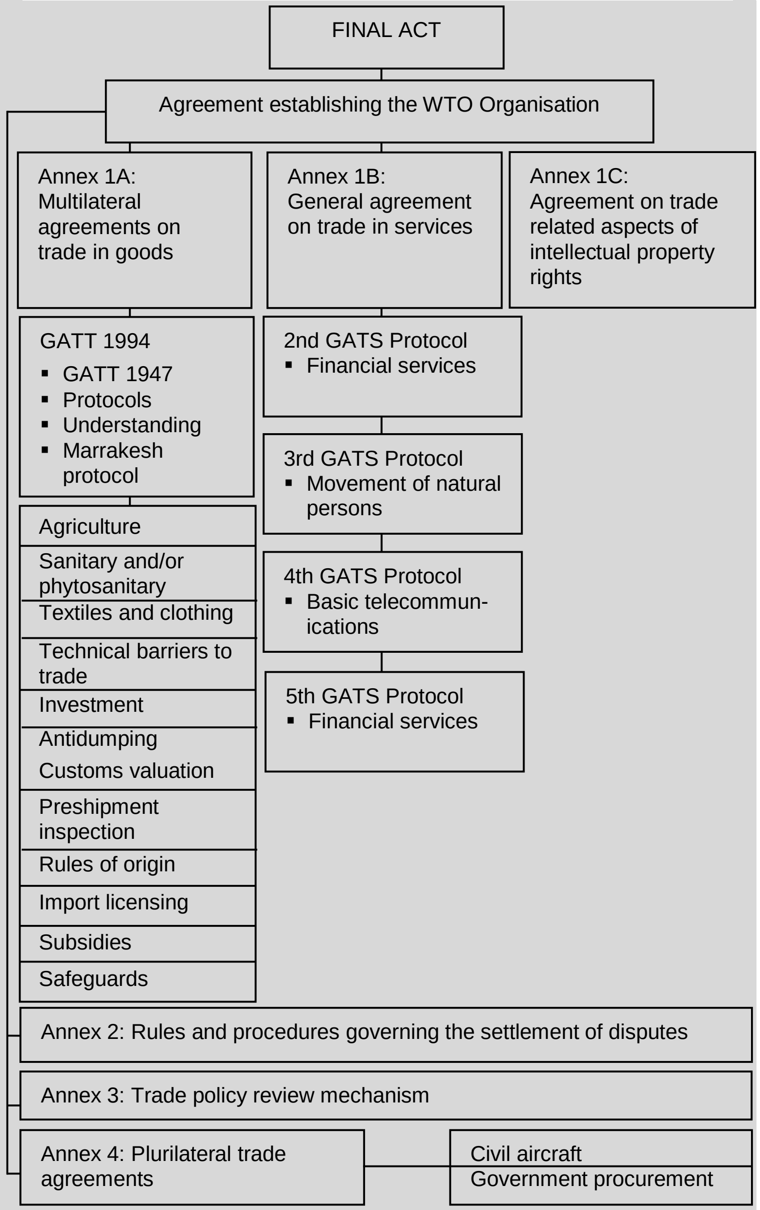
The outcome of the Uruguay Round is embodied in the Final Act. It was signed by Ministers for Trade in Marrakesh in 1994. A summary of the components of the Final Act is in box 13 and the Agreement on Agriculture is but one part of the final act. Other agreements, however, either directly or indirectly affect agriculture. For example, with expiration of the 'Peace clause' on 1 January 2004 (a clause exempting claims against agricultural subsidies), agricultural subsidies are now covered by the WTO Subsidies Agreement.

The key elements negotiated in the Agreement on Agriculture were improved market access, reduced export subsidies, discipline on and reductions in domestic supports, safeguards and special and differential treatment for developing countries.

A particular problem was what to do with agricultural quotas under market access and the desire for tariffication of these quotas. The compromise struck in the Blair House Accord was for tariff rate quotas or TRQs. These TRQs have turned out to be a major step backwards so it is important to see their basic operation. A TRQ, as shown in chart 14 has two parts.

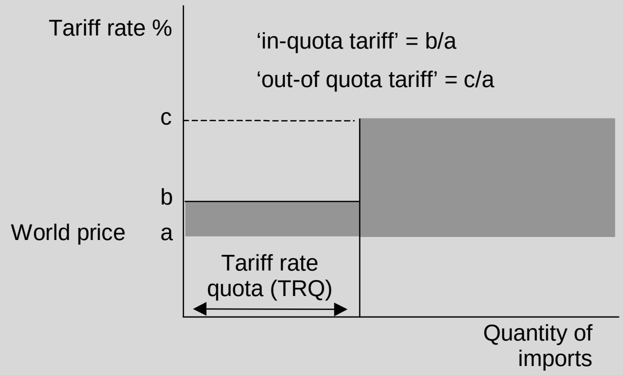
There is a tariff for the in-quota quantity of imports allowed and a separate and higher tariff for the out-of quota amount of imports. Thirty-seven countries have tariff quotas on 1371 products. Tariff quotas were only permissible for products previously protected by quotas and tariffied.

13 Summary of the Final Act



Source: Centre for International Economics.

14 A tariff quota



Source: Centre for International Economics.

The numerical commitments for cuts in agricultural support are shown in table 15. Larger cuts were negotiated for developed countries than for developing ones. Also, as noted in the previous chapter, the AMS cut of 20 per cent was from a base of 1986–88 and it does not cover blue box or green box payments which have no discipline on them, or the *de minimis* payments.

Agriculture has special provisions on safeguards, which for other traded goods, are handled under the Safeguards Agreement. The provisions deal with special circumstances such as sudden import surges. These safeguard provisions can only be used on products that were tariffed — which is less than 20 per cent of agricultural products. They can only be used if a country reserved the right to do so in its Schedule submitted to the WTO. The triggers for safeguard action can be price or volume related and the measures that can be taken include temporary increases in tariffs.

15 Numerical commitments for cuts in agricultural support from the Uruguay Round

	Developed countries 1995–2000	*Developing countries 1995–2004*
	%	%
Market access: tariff reductions		
Average cut for all agricultural products	-36	-24
Minimum cut per product (base 1986–88)	-15	-10
Domestic support		
Total AMS cut for agriculture (base 1986–88)	-20	-13
Export subsidies		
Cut in value of subsidies	-36	-24
Cut in subsidised quantities (base 1986–90)	-21	-14

Source: World Trade Organization. http://www.wto.org/english/thewto_e/whatis_e/tif_e/agrm3_e.htm. Assessed 8 December 2004.

Another set of special provisions in the Agreement on Agriculture covers special and differential treatment for developing countries. Developing countries were allowed increased transition periods (ten years) and were given less onerous reduction commitments (table 15). The argument was that protection for agriculture in developing countries was needed for food security, to support peasant farmers, to compensate for the lack of capital and to prevent drift to the cities. Despite the evidence that protection for agriculture actually worsens some of these aspects, developing countries were accorded special status. On top of that, the least developed food-importing countries, which had concerns about food security and the impact of rising food prices, were given extra provisions. These provisions mainly related to extra technical and financial assistance to improve agricultural productivity and infrastructure.

A final aspect of the Agreement on Agricultural is Article 20, which deals with non-trade concerns. Negotiations have to take genuine non-trade concerns into account such as the 'way of life', 'rural landscape' or regional development. These 'multifunctional' aspects of farm support were initially seen to be just excuses for protection and somehow a basis to legitimise on-going support for agriculture. But two things have happened since. One is the awareness that most of these 'multifunctional' concerns can be addressed under existing green box provisions. Second, a report by the OECD[5] showed clearly that all these so-called multi-functional aspects of agriculture could be addressed more effectively by policies aimed at the particular concern and not to subsidise agriculture. If 'cows eating grass on the hillsides' was important, it was far cheaper to subsidise the activity of 'dry' cows eating grass on hillsides and not milk production.

Problems with the Uruguay Round outcome

The Agreement on Agriculture looks good on paper, but as noted earlier, the outcome in terms of actual liberalisation of markets has turned out to be far more limited. There are many reasons for this, which the Cairns Group[6] countries are working hard to circumvent this time.

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5 OECD 2001, *Multifunctionality, Towards an Analytical Framework, Agriculture and Food*, OECD Publications, Paris.

6 The Cairns Group was formed in 1986 before the Uruguay Round was launched. They comprise non-subsidising agricultural exporting countries and include Australia (Chair), Argentina, Bolivia, Brazil, Canada, Chile, Colombia, Costa Rica, Guatemala, Indonesia, Malaysia, New Zealand, Paraguay, the Philippines, South Africa, Thailand and Uruguay.

Lack of discipline in aggregate measure of support

The AMS has not provided any real discipline on amber box spending, for several reasons. The first is that the calculation of AMS relies on the estimation of a price gap, which is the difference between the 'administered price' and an 'external reference price'. There are problems with both of these. As the administered price is set by the domestic government, it can be abolished, which is exactly what the Japanese government did with rice. In an instant, the AMS calculation for Japan's rice — the country's most highly protected commodity — evaporated into thin air.

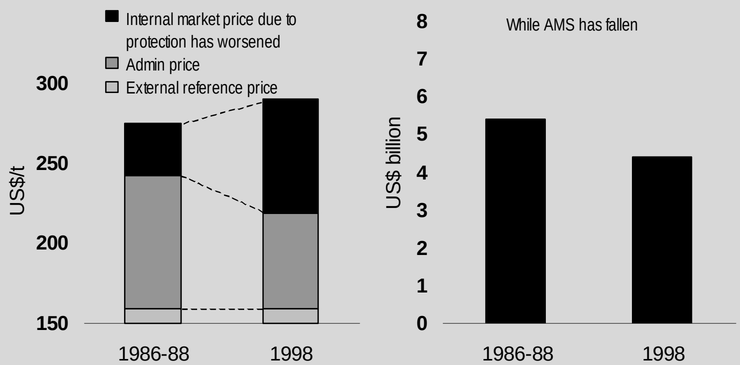
Administered prices can and do differ from actual internal market prices, which is a real issue for protection, along with the external price. The problem with the external reference price is that the base period chosen was 1986–88 rather than the landed import price in the current year. The base period was one of relatively low prices so the price gap was high and inflated the base tariff equivalent. Reductions from a large inflated base have meant less actual cuts.

An example of the lack of discipline on the AMS is the US dairy industry. Chart 16 shows how the administered price for dairy has fallen so the AMS calculation has also fallen. But the internal market price has increased and protection for dairying in the United States has worsened.

Dirty tariffication

Another reason for the ineffective outcome on agriculture was 'dirty tariffication'. The agreement was to tariffy existing non-tariff measures. But that means estimating a rate of

16 What's wrong with the WTO domestic support measures: United States dairy industry



Source: Department of Foreign Affairs and Trade, *Australian Background Paper*, June 2002.

duty equivalent to a tariff in its effects. In estimating these tariff equivalents many countries inflated their estimates, offering high protection and a larger base to reduce tariffs from.

'Water in the tariff'

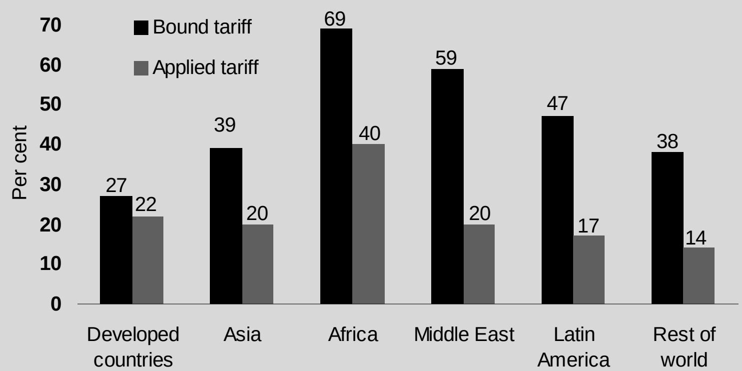
A related issue is 'water in the tariff'. The GATT and the Agreement on Agriculture are agreements not to increase tariff rates from a nominated rate in their tariff schedule. These rates are called bound rates. But there is nothing stopping a country from applying a lower tariff, which exists in practice. An example would be Japanese beef, which has a bound rate of 50 per cent, but an applied rate of 38.5 per cent. So Japan could cut its bound rate on beef by 23 per cent as part of the Doha round of talks, but it would not make one iota of difference for Australian beef exports. The difference in the applied and bound rates is the 'water in the tariff'.

The problem is that developing countries placed very high ceiling bindings on tariffs, which were previously unbound. Bound tariffs in the base period were abnormally high and substantial reductions in bound rates (which are the rates negotiated over) will have to be made for extra trade to flow. The extent of water in the tariff for some regions is shown in chart 17. Water in the tariff, in general, is worse for developing countries.

De minimis

The *de minimis* exemption in AMS calculations is too generous. For example, in the United States the AMS was US$10.4 billion, but the US claimed US$9.5 billion as *de minimis* exemptions. All support payments should be subject to disciplines and reductions.

17 Extent of 'water in the tariff'



Source: Buetre, B., Nair, R., Che, N. and Podbury, T. 2004, ABARE Conference Paper 04.6, 'Agricultural trade liberalisation: Effects on developing countries' output, incomes and trade', presented at the 7th Annual Conference on Global Economic Analysis, Trade, Poverty and the Environment, Washington DC, 17–19 June.

No cap on blue or green box payments

Blue box and green box payments were exempt from any disciplines or reduction commitments. But all policies that support farming distort the supply of agricultural products to a greater or lesser degree. It was a mistake to have no cap on blue box payments and to a lesser degree to leave green box payments uncapped as well.

Average cuts in tariff

Another trick that limits actual liberalisation is the averaging of cuts of tariffs. *The negotiated 36 per cent reduction in tariff was an average reduction*. Some tariffs could be reduced by more, others less, so long as the average cut amounted to 36 per cent (24 per cent for developing countries). Note, though, that a minimum cut of 15 per cent (10 per cent for developing countries) was to be made for each tariff.

The problem with an 'average cut in all tariffs' is that it is not the same as a 'cut in the average tariff'. The difference is more than semantic as this example shows.[7] Suppose an agreement is reached for an average cut in tariffs of 50 per cent. A country has two agricultural tariffs — one at 1 per cent and the other at 100 per cent. A cut of 100 per cent in the 1 per cent tariff, and of zero in the 100 per cent tariff, yields the necessary 50 per cent average cut in tariffs — great for the headlines. But in reality, virtually nothing has been done. The average tariff has fallen from 50.5 per cent to 50 per cent. On the other hand a 50 per cent cut in each tariff would bring the average tariff down to 25.25 per cent — a worthwhile reduction.

The problem is that there are large dispersions of tariffs over several thousand agricultural tariff lines. In real life,

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[7] This example is taken from the World Bank 2004, *Global Economic Prospects*, p. 92.

some analysis[8] has shown that, taking the US tariff schedule as an example, to achieve a cut in the average tariff of 30 per cent for agriculture and food, an average cut of 90 per cent would have to be negotiated! Even with a minimum cut of 20 per cent for all tariff lines, an average cut of 84 per cent would be required to achieve the same 30 per cent difference in average tariffs. Agreeing to tiers or bans reduces the scope for playing tricks. In the simple example above, if two tiers were agreed, each of the two tariffs would have to be cut by the agreed 50 per cent. The problem is the existence of tariff peaks, such as on sugar and rice.

Export subsidies

Again, because of low commodity prices in the base period (1986–90) base levels of export subsidies were unusually high. Where subsidies had increased during 1986–94, countries could use 1991-92 as the base. The higher the base, the weaker the impact of reduction commitments.

Also, no binding constraints were negotiated on the use of export credits, which are in effect a form of export subsidy. All forms of subsidies have to be included to have effective discipline on cutting total export subsidies.

Special and differential treatment

The Uruguay Round outcomes, as for previous rounds of trade talks, contain provisions for special and differential treatment for developing countries. But although the objective of these special provisions may be admirable, in practice they create other problems that are not in the interests of either developing countries themselves or the world

[8] Stoeckel, A. 2004, 'Market access under the Doha Round', report for the Rural Industries Research and Development Corporation, RIRDC Project CIE-13A, May.

economy. Some of the special provisions, namely the granting of preferences for trade access as a form of development aid, have actually made the recipient country worse off. Trade preferences have been the 'kiss of death' for some countries according to some studies.[9]

At the heart of the problem is that a cornerstone of the GATT system is the 'most favoured nation' or non-discrimination clause as in Article I. But special and deferential treatment for developing countries weakens this principle and weakens the WTO system. But the WTO system was put in place to introduce a set of rules and disciplines on trade to help protect the interests of the small and weak against the strong.[10]

Overall

The Uruguay Round did not achieve meaningful reductions in protection for agriculture partly for the reasons above. These issues will have to be addressed in the Doha round. But there is another deep-seated problem explaining the poor outcome — a lack of political will to reform. The state of play in the Doha round of negotiations is taken up next.

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9 Stoeckel, A. and Borrell, B. 2001, *Bad Aid, Bad Trade: Preferential Trade and Developing Countries*, prepared for Cairns Group Farm Leaders Meeting, Uruguay.

10 Stoeckel, A. 2004, *Termites in the Basement: To Free Up Trade, Fix the WTO's Foundations*, prepared for Rural Industries Research and Development Corporation, Publication No. 03/092, Canberra.

5 THE DOHA ROUND: STATE OF PLAY AND KEY ISSUES

It was hard enough to get the Uruguay Round of trade talks launched back in 1986, and it has proved no easier to get another round of trade talks underway. The WTO Ministerial Conference of 1999 — the so-called 'battle of Seattle' — ended in disarray. The intention was to launch a new round of trade negotiations at that meeting. It was not to be the case.

Rather, it took another meeting held in November 2001 to launch the Doha round of negotiations — called the Doha Development Agenda. The significant features of the WTO Ministerial Conference in Doha, Qatar, are twofold. First, it was agreed the negotiations would be a single undertaking, meaning participants have to adhere to all the agreements reached, as in the Uruguay Round negotiations. Second, there was a clear mandate for negotiations on agriculture. That mandate calls for a fair and market-oriented trading system through a program of fundamental reform in order to correct and prevent restrictions and distortions in world agricultural markets. It also commits governments to comprehensive negotiations aimed at 'substantial improvements in market access; reductions of, with a view to phasing out, all forms of export subsidies; and substantial reductions in trade-distorting domestic support'.[11] Despite the clear

[11] WTO Ministerial Declaration, Doha, November 2001.

mandate to negotiate on agriculture and ambitious aims, the going since Doha has proved tough. First, the 'modalities', which are the 'how' and 'by how much' to reduce protection, were to be decided by March 2003. A text by the Chair of the Agricultural Committee was circulated, the so-called Harbison text, but there was no meeting of minds.

The modalities deadline passed with positions wide apart. The Cairns Group of agricultural exporters were asking for substantial improvements in access and reductions in agricultural protection, but other interests, particularly in Europe, the United States, Japan and Korea, showed little interest in moving. The next ministerial meeting in Cancún in September 2003 also ended in failure, although a new development was the emergence of the G-20 group of developing countries.[12]

Since the Cancún ministerial, a 'framework agreement' without modalities has been developed and agreed. This framework agreement sets the broad guiding principles of the Doha round negotiations. It was agreed at the end of July or, rather in the early hours of 1 August 2004 (but is cited as the 'July package'). The state of play in the Doha round negotiations is now a technical phase to try to settle the modalities ahead of the WTO Ministerial Conference in Hong Kong on 13–18 December 2005.

What's in the July package on agriculture

Annex A of the framework for establishing modalities in agriculture gives shape to the modalities that will emerge from the current phase of the negotiations. The framework

[12] G-20 member countries are Argentina, Boliva, Brazil, Chile, China, Cuba, Egypt, Guatemala, India, Indonesia, Mexico, Nigeria, Pakistan, Paraguay, the Philippines, South Africa, Tanzania, Thailand, Venezuela and Zimbabwe.

builds on the three pillars of export subsidies, domestic support and market access.

Export subsidies

The framework explicitly recognises export subsidises and competition that includes all export subsidies, export credit guarantees and insurance, food aid, exporting state-trading enterprises, export restrictions and taxes. Special and differential treatment for developing countries is also to be included. The framework agreement now specifies that all forms of export subsidies will be eliminated 'by a credible date'. All types of subsidies, including export credit, non-legitimate food aid and subsidised state-sanctioned exporting monopolies will be simultaneously eliminated. However, the issue of monopoly powers of state trading monopolies will be negotiated further.

Domestic support

On domestic support, the framework agreement specifies that all developed countries will make substantial reductions in trade-distorting domestic supports. Those with higher levels of support are to make larger cuts from 'bound' levels. First, a new base level of trade-distorting domestic support is to be defined as:

- the current final bound total AMS; plus
- the permitted level of *de minimis* support; plus
- the amount of blue box payments.

There will be disciplines on each of these components separately, but this new overall base level will be reduced according to a tiered formula, which will mean larger cuts to those with the highest overall base levels of support. In the first year this base level will be cut by 20 per cent as a minimum.

The current final bound total AMS will be substantially reduced, again using a tiered approach. To get over the problem of average cuts, product-specific AMSs will be capped at their respective average levels by a method to be agreed.

Reductions in de minimis support are to be negotiated

Blue box support is not to exceed 5 per cent of the average total value of agricultural production over a historical period to be negotiated.

Finally, if the sum of reduction commitments for each element exceeds the reduction commitment based on the new base level of trade-distorting support, the former prevails. There is far greater specificity in the reductions on domestic support than in other areas. There is still plenty of scope, though, to mess with the definition of what is in blue box and green box payments. One of the good signs is the emphasis on less trade-distorting support, but the problem still exists that all subsidies eventually distort trade, even green box subsidies.

Market access

Market access has been the most difficult component of trade talks to negotiate so far. Yet it is the most critical component to achieve the Doha mandate of a market-oriented world system for agriculture. Furthermore, it is the most valuable component in terms of gains — achieving open market access for agricultural trade far outweighs the gains from other areas of export subsidies and domestic supports. The World Bank research cited in chapter 2 shows that 93 per cent of the worldwide potential gains from agricultural liberalisation come from this pillar of better market access. Yet this is the area where there has been least progress in the negotiations so far.

The framework agreement commits members to 'substantial improvements in market access for all products'. But, there are let-out clauses in the framework agreement, particularly regarding how to deal with sensitive products. Again, one of the scary findings from the World Bank research is that exempting 2 per cent of tariffs as sensitive products is enough to undo most of the potential impact of lowering barriers at the border.[13] Capping sensitive product tariffs at say 200 per cent limits the impact of exempting these products. The economics behind exempting sensitive products is that it widens the disparities between assistance to industries, which, as seen from earlier chapters, is the root cause of the cost of protection. There is also the issue of giving further flexibility to developing countries for 'special products' and how to use 'special safeguard' actions.

The framework agreement on market access sets the scene for the next phase of the negotiations and the key principles established so far are:

- the approach is to be a single approach;
- the approach is to be tiered and progressive, with tariffs in higher tiers to have higher cuts;
- reductions of tariffs are to be from 'bound' rates; and
- there is to be special treatment for developing countries and sensitive products.

The evolution of proposals on market access is represented in diagram 18, taken from the WTO.[14] The banded

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[13] Martin, W. 'Implications of Trade Reform for Developing Countries', powerpoint presentation presented at ABARE Outlook Conference 05.

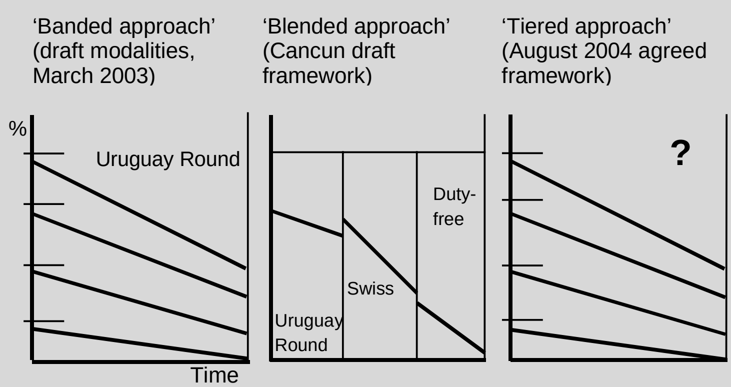
[14] WTO 2004, *WTO Agricultural Negotiations: The Issues, and Where We Are Now*, updated 25 October 2004.

approach under the draft modalities proposal of March 2003 is shown in the left-hand panel of chart 18. The blended approach proposed at the Cancún meeting is shown on the second panel. It comprises both Uruguay Round type cuts, Swiss formula type cuts and a component for duty-free access.

The July package now recognises a tiered approach with decisions yet to be made on the level and numbers of tiers, the type of tariff reduction in each tier and whether it should formally define overall maximum tariff rates. Yet to be negotiated are how to treat sensitive products and whether or not each government can select the number of sensitive products.

There are other substantial issues yet to be decided, such as eliminating in-quota tariff rates, the administration allocation of quotas and whether special agricultural safeguard should go.

18 Approaches to tariff reduction formulas



Source: WTO 2004, *WTO Agricultural Negotiations: The Issues, and Where We Are Now*, p. 45.

Unfortunately, there has been little progress on market access over the last four years. The hard work is yet to come. At the core of this problem is the difficulty of convincing countries that it is in their own interests to free up trade. There is an ongoing lack of political will to reform agricultural markets. This problem of lack of political will and what to do about it is taken up next.

6 POLITICAL ECONOMY OF REFORM

Restrictions on agricultural trade have changed little over the last fifty years. This lack of reform reflects a deep-seated political problem. Narrow vested interests arguing for the *status quo* have been able to dominate the national interest and so protection remains. In a public choice sense the benefits are concentrated, but the costs are diffuse. So it is not worthwhile for voters to spend the time to inform themselves fully about the costs of protection or the benefits that reform can bring. But the lack of political will for reform on issues is not new.

Political will changes and can be changed. Persistent budget deficits in Europe and the United States in the 1970s and 1980s were explained away at the time as a public choice problem.[15] Yet somehow these issues were addressed. Also, the public choice explanation for lack of trade liberalisation does not square with the facts in Australia's liberalisation of its protected car and textiles industries. The benefits were concentrated, but the costs diffuse yet somehow political will was changed and trade liberalisation happened. Just how political will can be changed is worth contemplating since a political problem requires a political solution.

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15 It was held that the beneficiaries of targeted payments by governments were concentrated but costs spread over all taxpayers who had little incentive for reform.

The secret to understanding the politics behind agricultural trade restrictions is to appreciate that while things have not got much better, things in general have not got worse either. Farmers in protected markets want to maintain protection to keep their benefits and land prices high. They would like more. But they have not been able to get it. The reason is that there is a set of political counterforces. Understanding where these forces are and what determines them is one of the keys to understanding how to shift the political balance in favour of reform.

Who is for reform?

A good place to start is to find those groups in favour of agriculture reform, by asking who bears the cost of current restrictions/import barriers. Taxpayers are one group. Half of the nearly US$1 billion a day transferred directly and indirectly to farming in rich countries comes from taxpayers. When federal budgets are heavily into surplus, as they were in the United States during the framing of the last Farm Bill of 2002, there is less discipline from taxpayers. But now budgets in Europe, Japan and the United States are heavily in deficit and treasuries, who frame annual budgets, need to rein in spending and juggle competing claims for hospitals and schools as well as support for farmers. There will be financial pressure over the next decade to reduce farm subsidies. We are already seeing this in the United States with talk of some cuts in domestic farm subsidies. Trade reformers can focus on reducing barriers at the border so more of the domestic support programs are forced onto national budgets.

Consumers are the other group transferring (either directly or indirectly) the other half of the US$1 billion a day to farming. But consumers are notorious for being poorly organised because of their diffuse interests in better outcomes. It does not pay them to organise and campaign for reform. Consumers are an important force, but unlikely to swing the tide of protectionism for farmers.

Another group who bears the costs of import barriers is the exporters. The only purpose of exporting goods and services is to pay for the valuable imported goods and services that add to welfare. Through linkages and workings in the economy and the exchange rate, the cost of restricting imports ultimately falls on exporters. Exporters are a more organised group than consumers and can exert considerable sway in government policymaking circles.

There are many other groups that are disadvantaged by restrictive agricultural trade policies. Developing countries — especially agricultural exporters — are particularly hard hit. But developing countries pursuing trade reform have used the argument, 'we are poor because of your trade restrictions, so you should lower barriers, not us'. Yet 80 per cent of the gains from trade reform go to the country reducing its *own* barriers. Developing countries would be best off with multilateral reform, but failing that, they should unilaterally reduce their own barriers. The difficulty with the current argument developing countries put is that it fuels the push for yet more special and differential treatment for developing countries. Preferential trade sets up the perverse incentive for countries to block progress towards free trade since it erodes the value of their preferences. Mauritius, which receives preferential access for sugar into the EU, actively opposes opening of the world market for sugar as it would lose sales to countries such as Brazil, Australia and Thailand.

Other groups affected by farm subsidies are more subtle, such as green groups concerned with preserving the environment. It is found that something like 80 per cent of all farm subsidies are perverse in that they not only damage and harm the economy, but they also damage the environment. All of these groups can be mobilised and if they coalesce around a common goal of freeing world agricultural trade, it is more likely there will be reform.

Mobilising these other groups

To overcome the powerful political forces resisting agricultural trade reform, equally powerful counterforces need to be mobilised. The best way to mobilise these political counterforces is to identify the interests of the other groups who bear the burden of farm support. The burden on taxpayers and consumers needs to be clear. The burden on exporters and the effects on developing countries, the 'greens' and so on also needs to be clear.

All too often this transparency of policy is absent. The lack of transparency is part of the reason for the heavy reliance on market access as the form of support that is so highly used by protectionist countries today. The insidious feature of restrictions at the border is that it is a hidden transfer from consumers to producers. If, for example, protected farmers were offered budgetary assistance in place of restrictions on imported goods at the border, the budgetary cost on national treasuries would rise enormously. This partly explains why barriers to trade are the preferred instrument of protection and why there has been so little progress on reducing barriers to trade at the border in the Doha round.

To show that agricultural subsidies could be better spent elsewhere (on schools or hospitals or given back to taxpayers) and to show what the real burden is on exporters such as the Boeing Corporation for example in the United States, requires economy-wide analysis. The key features are highlighted in box 19.

19 Economy-wide analysis

In chapter 3 it was shown that the PSEs for agriculture were not in fact the economic cost of the support. The calculation of the PSE or the AMS is simply an arithmetic exercise. Neither indicates what will happen to an economy and how adjustment will be spread in the economy on changing agricultural trade policies. To make that calculation requires measuring all the economic repercussions around an economy when an agricultural support is removed.

Economy-wide analysis involves two things. It involves measuring all the linkages around an economy. And it means measuring the response by producers and consumers to changing prices when agricultural supports are removed. Economy-wide analysis explicitly measures the ‘unseen’ — all the hidden effects that occur when countries impose barriers to trade. Economy-wide analysis captures all interactions between all ‘actors’ in an economy. Everything that happens to one sector affects all other sectors. Protection for motor cars will cause farming costs to rise. Economy-wide models formally capture the notion of opportunity costs and that everything comes from somewhere and must go somewhere.

When the economy-wide analysis of agricultural policies is made, it is possible to deduce the economic benefits and costs of protection and who bears the burden and who gains. This knowledge can be most helpful in identifying the political counterforces that have an interest in agricultural trade policy reform. That knowledge encourages coalitions of interest to form to lobby for change.

Source: Centre for International Economics.

The feature of economy-wide analysis that is so valuable for changing the political economy of protection for farmers is that the burden born by other sectors is identified. But that work is not valuable unless other groups in society not obviously affected by agricultural policies — such as the Boeing Corporation — understand the analysis and become involved in agricultural trade policy. One simple calculation, for example, shows that global reform of sugar polices would see Brazil earn enough extra foreign exchange to purchase another ten 747 jumbo jets or twenty 737s from the Boeing Corporation. And that is per year!

To involve other groups in agricultural trade policy — such as manufacturers or exporters — requires 'due process'. Due process is the open, independent and transparent analysis of the economic costs and benefits of protection. Open, independent economy-wise analysis has to be repeated systematically in the capitals of member countries. Economy-wide analysis *combined* with due process changes the *politics of protection*.

The best way for this to happen is through the Trade Policy Review Mechanism (TPRM) of the WTO. Under the TPRM a systematic review of the trade policies of member countries is conducted. The aim of the reviews is to enhance the transparency of Members' trade policies. The largest four trading members are reviewed every two years, the next sixteen reviewed every four years and others each six years. But these reviews contain no analyses of the economic benefits and costs of the policies they report on and neither are they conducted independently of the departments of trade administering the restrictive trade policies. Two critical changes are therefore needed. The first is to introduce economy-wide analysis of the costs and benefits of trade policy. The second is to make the analysis independent of the departments of trade that administer trade policy. This work should be conducted in the domestic capitals of the world, not in the WTO's headquarters in Geneva. The TPRM should be the 'auditor' of the in-country analysis.

Dispelling the myths

While coalition building for reform is valuable there is still a need to constantly address many of the myths advanced in support of protection. The most common myths and the appropriate response are indicated in box 20. Arguments

20 **Myths and realities of agricultural protection**

Support is needed to	Response
Provide for self-sufficiency	Biggest subsidiser of all — the EU — is more than 100 per cent self-sufficient. The EU is the world's second largest exporter of sugar, for example.
Keep people in rural areas	At one point Europe lost one farmer for every minute over 20 years.
	The average age of farmers in subsidised countries is no different to that in countries with low protection of farms.
Preserve the countryside	Fragile land has been returned to native vegetation when subsidies removed
	Better to subsidise hedgerows and maintenance of 'small green fields' rather than milk production.
	First best policy is a direct subsidy to preserve countryside combined with free trade.
Preserve jobs	Assistance for one job is a tax on another — for every job saved there is a job lost.
Provide adequate farm income	Hasn't worked. Many farmers in the most protected markets still struggle. About 70 per cent of EU subsidies go to the 30 per cent of biggest farmers.
Preserve the environment	But it has been found that 80 per cent of subsidies are perverse — they harm both the economy and the environment.
Ensure food safety	Hygiene standards are higher in New Zealand, which receives no farm support, than in protected markets. Some of the worst food safety scares have occurred in the most protected markets.

Source: Centre for International Economics.

about maintaining food safety, preserving the countryside, helping farm incomes and so on, simply do not withstand professional scrutiny. Even if a goal like preserving a 'nice looking countryside' was legitimate it does not justify restricting trade. First best policy will be some combination of a direct program preserving the countryside *combined* with free trade. Preventing the importation of milk or sugar will always turn out to be an inordinately expensive way to achieve the primary goal of looking after the countryside or whatever else is pursued. The myths are just that — myths. They should constantly be dispelled.[16]

[16] A good summary of myths and dispelling them is by Brian Chamberlin in Stoeckel, A. and Corbet, H. (eds) 1999, *Reason versus Emotion: Requirements for a Successful WTO Round*, RIRDC Publication No. 99/167, papers to a seminar convened by the Centre for International Economics, Canberra and the Cordell Hull Institute, Washington DC for the Cairns Group Farm Leaders, Sheraton Hotel, Seattle, 2 December 1999, pp. 65–76.

7 OTHER ISSUES IN THE DOHA ROUND

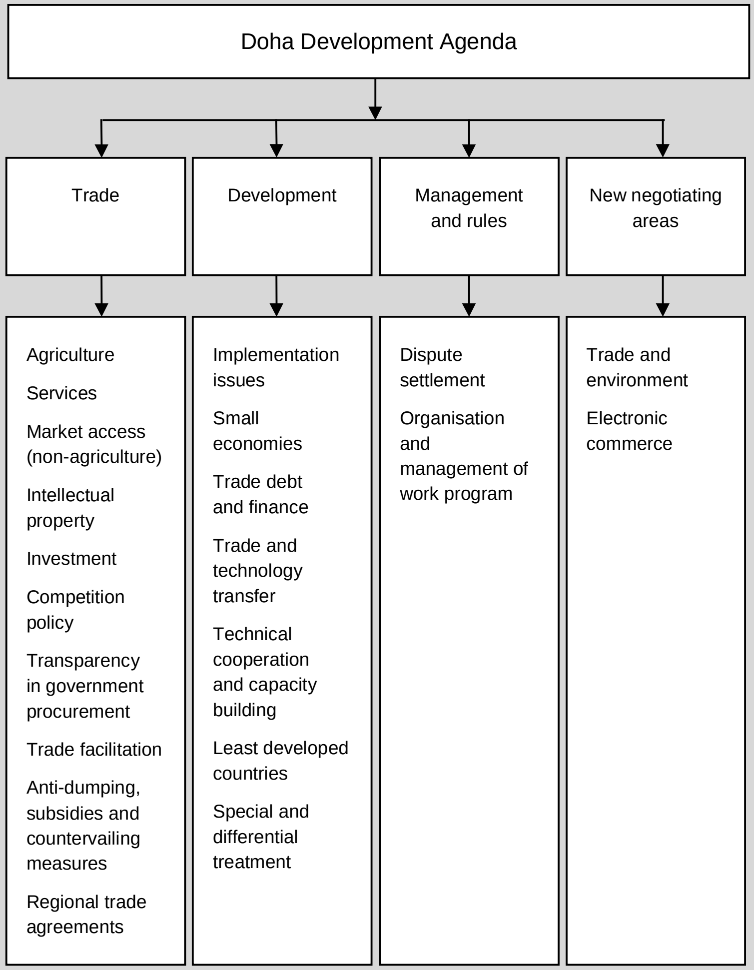
Increased market access is the number one priority for agriculture to improve world agricultural trade. However, the Doha Development Agenda will deal with a long list of other issues and those that are relevant to agriculture are discussed in this chapter.

The long list of issues under the Doha round of trade talks can be broadly divided into four areas: trade, development, management and rules, and new negotiating areas. These are set out in chart 21.

Of interest, too, are the agriculture-related issues included on the Uruguay Round agenda, but not on the Doha agenda. These agriculture-related issues cover sanitary and phytosanitary (SPS) arrangements, rules of origin and safeguards. These feature in implementation issues under the Doha round of trade talks.

About 100 implementation issues were raised before the Doha round of talks commenced. These issues were mainly concerned with developing country problems with implementing current agreements already decided as part of the Uruguay Round. Some of these issues of concern to agriculture covered rural development and food security, and the least developed net food importing developing countries. Other issues included export credits, credit guarantees and insurance and tariff rate quotas.

21 Doha Development Agenda overview



Source: Centre for International Economics.

Trade-related aspects of intellectual property rights (TRIPs)

Under this heading if trade-related aspects of intellectual property rights (TRIPs) are ‘geographic indications’ of particular concern to agriculture. These are the reservation of particular names to particular products or regions. For example, fetta cheese can now be labelled as such and sold in the European Union only if it comes from Greece. Champagne must come from the Champagne region in France and so on. These geographic indications are place names associated with products with special characteristics. A substantial amount of work is already under way and there has been agreement on multilateral registration for geographic indications for wines and spirits. There is extensive debate, however, on extending this to other products.

Also covered under TRIPs is the patentability of plant and animal ‘inventions’ and plant variety rights. A review of these aspects is in progress and there is an overlap between these issues and the United Nations Convention on Biodiversity.

Dispute settlement

Agricultural issues have been and can be subject to dispute settlement as part of the WTO processes. The Uruguay Round Agreement mandated a review of the WTO Dispute Settlement Understanding (DSU) by January 1999. A review of this settlement process has started, but so far there is no consensus. The negotiations were meant to have been concluded long ago, but there is no hard discipline on this happening, for the review of the DSU is not part of the single undertaking clause of the Doha round of trade negotiations.

Trade and the environment

Another issue affecting agriculture is how WTO rules apply to member countries that are also parties to international environment agreements. The issue of fishery subsidies, which can damage fish stocks, receive particular mention and discussion in the WTO. There are a host of other issues on trade and the environment concerning market access such as fur from wild animals and trade in endangered species. Another issue is environmental labelling and whether or not WTO rules stand in the way of 'eco-labelling'.

It has to be noted that the WTO already allows importing countries to impose trade restrictions on goods that do not meet local standards provided the restrictions are non-discriminatory and justified. However, it is well established that countries cannot restrict trade because processing methods are different. A good example of this is the dispute between the United States and the European Union over hormone beef.

SPS Agreement

Prior to the Uruguay Round negotiations many food safety, plant and animal health regulations fell under the *Standards Code*. Potentially trade-restrictive technical measures were permitted with the legitimate objective of protecting human, animal and plant health. GATT Article XX also specifies exemptions from other GATT provisions if these technical measures were necessary to protect human, animal and plant health. But countries started abusing the definition of what was 'necessary' and used these technical measures as non-tariff barriers.

A key objective of the Sanitary and Phytosanitary (SPS) Agreement was to reduce the arbitrariness of trade-restrictive measures on SPS by clarifying appropriate factors to be taken into account when imposing health protection measures. Measures are defined as those taken to protect human, animal or plant life or health from risks arising from incursions of exotic organisms which could cause diseases, risks from additives, contaminates, toxins or disease-causing organisms in imports of food stuffs and beverages or diseases carried by animals or plants. An underlying principle of the SPS Agreement is that any measures imposed should have a sound scientific basis.

The main features of the SPS Agreement follow.

Harmonisation

Countries should base SPS regulations on international standards, which are either the FAO/WHO Codex Alimentarius Commission (a joint organ of the Food and Agriculture Organisation and the World Heath Organisation), the Office of International Des Épizooties (OIE), or the International Plant Protection Commission. Regulations which comply with the standards set by these bodies can claim full compliance with the SPS Agreement. Regulations that do not comply with international standards must be based on proper scientific risk assessment.

Equivalents

Where international standards may be lacking, member countries can adopt each other's regulations as equivalents. The exporter must demonstrate that its domestic sanitary regulations are at least as good as those of the importer.

Risk assessment

A systematic and consistent approach to risk assessment based on good science is required as part of the SPS Agreement. All aspects of the risk assessment must be available to other interested members.

Transparency

Full notification of the regulations is required. The agreement is quite specific in this regard with the aim of ensuring full transparency of findings under SPS arrangements.

Special provision for developing countries

Developing countries were given special treatment regarding compliance under the SPS Agreement. Compliance was delayed as part of the Uruguay Round, but this no longer applies. Assistance is offered to developing countries, however, to strengthen their SPS systems.

Implementation issues

Some of the implementation issues are to give added time for developing countries to comply with other countries' new SPS measures. Issues include: the meaning of 'equivalents' and how this works in practice; the participation by developing countries in setting international standards; a review of time between a country setting new SPS measures and when they enter into force; and a review of the current SPS Agreement.

Rules of Origin

To ensure that rules of origin are not used as trade restrictions or to discriminate between countries or between imports and domestic products, an aim is to harmonise rules of origin across WTO members. 'Origin' is now the country where the last substantial transformation of the goods took place. The Doha 'Implementation' Negotiations were aimed at completing this harmonisation and dealing with interim arrangements.

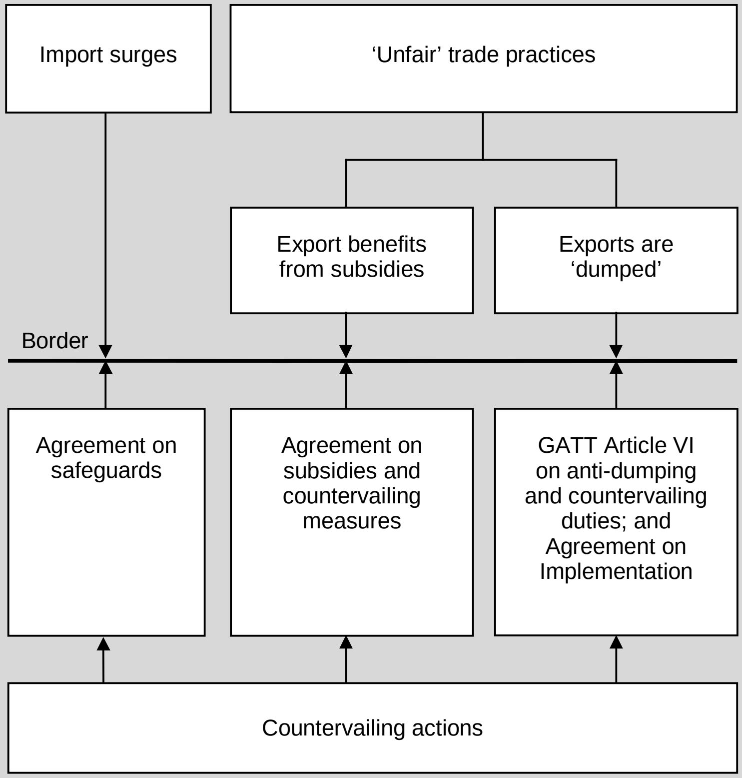
Safeguards

Under the Safeguard Agreement, if a country experiences a surge in imports, it can apply safeguard measures. The measures can only be applied after an investigation and publication of a report and if the country demonstrates these increased imports are causing ‘serious injury’. The relationship between surges in imports and other ‘unfair’ trade practices is shown in chart 22. Safeguard measures (quantitative or extra duties) are only permitted to the extent necessary to prevent this serious injury. However, in agriculture there are special safeguard measures, found in Article 5 of the Agreement on Agriculture. These special safeguard measures are based on formulae and automatic trigger levels of volume and price.

Agreement on subsidies and countervailing measures

Countervailing actions can be imposed under the WTO Agreement on Subsidies and Countervailing Measures. Here the definition of subsidies is specific and they can be prohibited, actionable or non-actionable. Subsidy-countervailing duties can be applied only after there has been a transparent investigation, the imports have been shown to have been subsidised, injury to the domestic industry is demonstrated and there is demonstrated to be causal link between the subsidy and the domestic injury.

22 WTO and 'unfair' trade practices



Source: Centre for International Economics.

Anti-dumping and countervailing duties

Anti-dumping duties are a WTO-legal trade instrument. Anti-dumping actions can be undertaken so long as they are following WTO rules and procedures. It is a WTO legal route to raising trade barriers. In fact, many large members of the WTO such as the United States, the European Union, Canada and Australia use anti-dumping as the trade policy weapon of choice to prevent imports. Since the Uruguay Round agreements, however, anti-dumping laws have been adopted by a large number of other countries especially developing ones.

An anti-dumping duty is a tariff just like any other duty. This means some people are taxed and others are assisted. For an anti-dumping action to be WTO-legal it must first be established that there is dumping, defined as the difference between the domestic price or 'normal price' and the export price, and secondly that this dumping is causing injury. However, dumping cases are all one-sided. They only look after the interests of the domestic producer and not the consumer. Decisions are not based on a national interest test and therefore the process is biased in favour of protectionism.

Multifunctionality

Non-trade concerns are frequently raised in agricultural policy. These non-trade concerns deal with the protection of the way of life, protecting the rural countryside, or wider environmental concerns. Most of these issues are given the label 'multifunctional'. Protecting rural culture and way of life may be important in some societies. But the fallacy of the argument of multifunctionality is that even if there was some basis for looking after issues such as culture or way of life, there is no justification for the *method* of protection, namely the use of border barriers. The problem is that the policies or the methods used to protect various multifunctional aspects of agriculture are not first best. There are other cheaper and more effective policies available, but they are not used because they would be too obvious, too transparent. The implication is that these policies owe their existence to deception of the public about the real cost of these policies and what they are getting in return. The problem with agricultural non-trade concerns of Europe and Japan are that they are the trade concerns of countries such as Australia and other Cairns Group countries.

Animal welfare and food safety

Animal welfare and food safety are examples of non-trade concerns. Food safety can be dealt with by the WTO as part of GATT now, so long as the same domestic arrangements apply to local products. Labelling and brands are part of this. The same is true with animal welfare. In Europe, for example, 'free-range eggs' or even 'barn-laid eggs' are sold. If consumers want such products they will choose them. However, 'truth in labelling' laws are required for this to work.

Precautionary principle and GMOs

One of the latest debates in the WTO is over the use of the precautionary principle and attempts to keep out genetically modified organisms (GMOs) from being freely traded. The precautionary principle is that if processes or new things are not scientifically proven to be safe then countries can keep the product out. The principle stems from the greenhouse gas debate. The fallacy in this principle, however, is that we can never scientifically 'prove' anything for certain. All actions involve risk. Even the decision to do nothing involves risk. The danger is that it could lock out agricultural productivity improvements.

Free Trade Agreements

Although Free Trade Agreements (FTAs) are not part of the landscape of negotiations under the Doha round of trade talks, no treatment of 'other issues' in agricultural trade policy would be complete without some mention of

FTAs. FTAs are negotiated bilaterally between countries or regions and involve partner members removing barriers between each other, but not against the rest of the world. In that regard, FTAs are really preferential trade agreements since they give a preference to some other country at the expense of others. As such they fly in the face of GATT Article I which expresses the principle of non-discrimination or unconditional most favoured nation treatment.

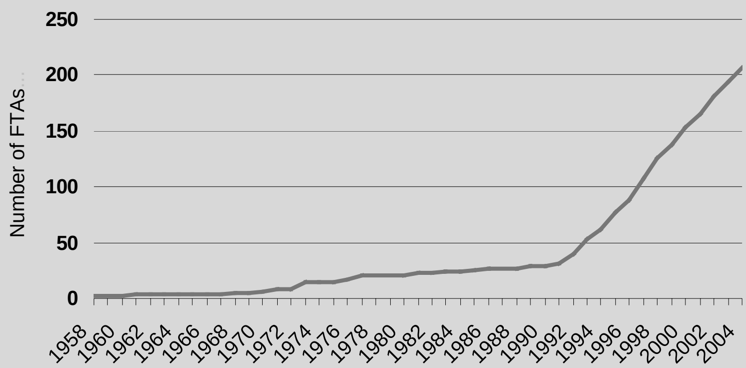
FTAs (and customs unions) are permitted under the WTO under GATT Article XXIV. This article allows countries to form FTAs under certain conditions. Agreements must be significant in scope and scale, and duties should be eliminated on substantially all the trade. The problem is that 'substantially all' and 'significant' are not defined.

The intriguing thing about FTAs is their rapid explosion in number. This is shown in chart 23. The reasons for this huge growth in FTAs is because of the snail pace and difficulty of getting agreement between nearly 150 contracting members in the WTO. And, once started, countries cannot afford to be left behind.

The slow pace of trade liberalisation is born out by the fact that the Uruguay Round started in 1986. The world is yet to see any agreement on modalities for negotiations in the Doha round endeavour as it heads into 2005. With this slow pace of events, a lot of countries have pursued either unilateral reforms or regional or bilateral trade agreements. The latter are easier to negotiate than multilateral talks, but they do have a problem — they do not necessarily provide net benefits.

While we can be confident that free trade is good, it does not necessarily follow that free trade on a *preferential* or discriminatory basis for some is necessarily good. The reason is that the preferences created by a FTA induce two

23 Regional trade agreements in force by date of entry into force



Source: World Trade Organization 2004, 'Regional Trade Agreements, facts and figures, how many regional trade agreements', http://www.wto.org/english/tratop_e/region_e/region_e.htm. Accessed 8 December.

effects. One is a trade-creation effect whereby lower tariffs to another country increases pressure on high-cost domestic industries and can create trade and increase welfare.

But the problem is that the preference granted may induce a second effect. It may end up diverting trade from a low cost non-member of the free trade area. That is, a country can end up importing more, say motor cars, but from the country's point of view these might be at a higher cost than what it was doing before. The cost of the cars to the country can differ from the cost to the consumer by the amount of tariff on imported cards. When this tariff is removed preferentially the consumer can benefit, but that gain might be less than the tariff revenue foregone (which accrued to the nation) with an overall loss. This will then lower welfare. A simple example of trade diversion lowering national welfare is given in table 24. Australia can import cars from Japan or the United States — let's say it is

24 A simple example of trade diversion Honda cars

	Japan	*USA*	*After USFTA*
Cost landed in Australia	30 000	32 000	32 000
Tariff of 10 per cent	3000	3200	0
Cost to Australian consumers	33 000	35 200 (not purchased)	32 000 (now purchased)

- Consumers gain $1000 per vehicle
- Tariff revenue falls $3000
- Net loss $2000

Source: Centre for International Economics.

an identical Honda, only it costs more to import from the United States. Under Australia's new free trade agreement with the United States that recently came into force Australia has bilaterally reduced its tariff on cars (let's say it was 10 per cent). Cars are then imported from the United States instead of Japan. The cost of cars to consumers is lower, but, after considering the effects of the lost tariff revenue (which accrues as a benefit to society), the nation is worse off as far as cars are concerned. Trade diversion has outweighed trade creation in this hypothetical example. Overall, in the case of the free trade agreement with the United States analysis[17] showed trade creation outweighed trade diversion. The point of the above example is that an FTA can leave a country worse off.

The net effect of forming an FTA is unclear and can only be decided by empirical study on a case-by-case basis.

There is substantial literature on the issue of FTAs and whether or not they are a help or a hindrance to multilateral

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[17] Centre for International Economics, 2004, *Economic analysis of AUSFTA: Impact of the Bilateral Free Trade Agreement with the United States*, report prepared for the Department of Foreign Affairs and Trade, Canberra, April.

trade liberalisation. On the hindrance side is the argument that countries enjoying the preferences wish to retain them and have an in-built incentive to not pursue further general liberalisation under the auspices of the WTO. On the help side of the argument, proponents argue that lowering barriers to trade sets up a political dynamic and amounts to multilateral liberalisation by stealth. It is important to note, however, that even if many countries in the world had free trade agreements that would not be equivalent to multilateral free trade because of the issue of rules of origin. Once a bilateral trade preference is given, rules of origin have to be defined. That is, what makes an American motor car 'American'? It has often been argued that a Honda made at an American car plant is more American than a General Motors car made in Detroit! The point is that free trade agreements can be helpful or they can be unhelpful in pursuing the cause of global liberalisation of trade and whether or not they improve welfare requires a case-by-case assessment. FTAs are a poor cousin of genuine multilateral trade reform.

8 KEY MESSAGES

The Uruguay Round agreements did not secure much actual liberalisation for agriculture. The negotiations, however, it did extend the multilateral trade-liberalising process to agriculture for the first time and establish a framework for reducing trade barriers, domestic support and export subsidies in the Doha round of negotiations. The task in the current round is to secure meaningful liberalisation. Although the three pillars are treated separately they are interlinked and change in one area affects another.

Little progress on agricultural liberalisation was achieved in the Uruguay Round negotiations because of various 'tricks' that were played in the formulae and definitions of supports and the base year chosen for negotiated reductions. Under the Doha negotiations it will be important for Australia and other Cairns Group agricultural exporters to watch out for these 'tricks'. The July package's agricultural framework, which is the document 'on the table', nominates a sound and reasonably clear course for dealing with export subsidies — their eventual elimination by a 'credible' date. There is the potential for a reasonable outcome on domestic subsidies (bearing in mind the comment about 'tricks' above). But substantial work is ahead on setting a meaningful framework and modalities for achieving market access.

Market access is the priority area for these negotiations, for several reasons. The potential gains from securing more market access are far greater than reductions in either export subsidies or domestic supports. World Bank research shows that over 90 per cent of the potential gains from full reform of world agricultural policies comes from removing barriers to trade at the border. Better market access is also simpler to monitor and less amenable to the administrative tricks that render negotiated outcomes meaningless. But better market access does more than that — it forces other support programs 'on-budget' and sets up a political economy dynamic that will help lower support to farmers over time.

Although multilateral liberalisation of agriculture will be difficult, bilateral liberalisations are a poor substitute. FTAs can be a mechanism for removing barriers to trade but, at best, they cannot deliver the gains obtainable from genuine multilateral trade reform. Their problem is that they introduce preferences into trading relationships and this can leave a country worse off. Their appeal is that they are generally thought to be quicker to negotiate. Because both positive and negative effects on welfare are possible, each FTA should be assessed on a case-by-case basis.

At the end of the day, trade reform is a political problem. Logically, reform relies on changing the politics of trade protectionism. The best way to change politics is through open, independent economy-wide analysis of the benefits and costs of protection. It is the *combination* of the economy-wide analysis with 'due process' that matters. Economy-wide analysis makes it apparent who is bearing the burden of the protection. When this work is conducted independently and openly through sound good governance processes it encourages coalitions to form to lobby for change. The technique has been shown to work in some countries that have unilaterally lowered trade barriers.

Changing the political landscape to make agricultural trade reform more likely will be a challenge. There are deep-seated views and arguments that have superficial appeal amongst the public for maintaining protectionist policies for agriculture among regions and countries such as the European Union, Japan and the United States. None of these other arguments justify protection. Food security, way of life and 'preserving countryside' objectives, if they have legitimacy, can be achieved by less wasteful policies than are used today. First best policy is free trade combined with policies that directly address 'multifunctional' concerns.

The point is that it always pays to trade because of comparative advantage. Comparative advantage is a relative concept and it is the driver of international trade. Because it is a relative concept comparative advantage *always* exists so it *always* pays to trade. It follows that there is always a high cost to restricting trade. The task is to convince governments and populations more generally that it is in their own self-interest to reform their own agricultural markets and remove barriers to trade for everyone's benefit.

GLOSSARY

Aggregate Measure of Support (AMS)

This is an agreed measure of total domestic support to agriculture. It is calculated for each commodity and then summed together with non-exempt, non-product specific agricultural support (for example, input subsidies) to give a total AMS for agriculture. In brief, it comprises estimates of support given to farmers by market price support (mostly tariffs, quotas and domestic subsidies) and budgetary outlays on non-exempt support to agriculture in general. The calculated AMS for agriculture excludes significant elements of total support to agriculture, such as:

- expenditure on research and other so-called 'green' support;
- support based on a historical base level of production or number of livestock — so-called 'blue' measures of support; and
- *de minimis* support — where for any commodity, calculated support is less than 5 per cent of gross value of production.

Levies and fees paid by farmers are a deduction.

The *market price support* is measured as the product of two numbers. The first is the gap between an external reference price and the administered price. The second is the quantity of production receiving the support. Budgetary payments such as storage costs are not included. The external reference price is fixed and is based on 1986–88. It is taken as the average fob unit value for exports and average cif unit value for imports.

The AMS is a negotiated definition and does not necessarily correspond to economic concepts or the estimates of producer support published by the OECD. The measure is set out in Annex 3 of the Agreement on Agriculture. The intention was that it would provide some discipline on support by governments for protected industries, but it has not really achieved this. Part of the reason is that negotiated reductions in the AMS domestic support are based on total AMS for agriculture, not for the AMS for individual commodities.

Amber box

Domestic support measures not qualifying for exemption under the green box or blue box and which are therefore trade distorting are — with some exemptions — included in estimates of the AMS.

Applied tariff

The actual tariff rate that is applied to imports at a particular time. An *ad valorem* applied tariff rate refers to a tariff rate expressed as a percentage of the landed or world price of the good before its entry into the importing country. A flat rate tariff or specific tariff is usually a fixed tariff per unit (that is, tonne) of import.

Blair House Accord

This was an agreement reached between the European Union and United States at Blair House, Washington DC, shortly before the conclusion of the Uruguay Round in 1996. It watered down the draft agreement on agriculture and domestic subsidies. The compromise introduced the concept of tariff rate quotas, which was a backward step since these have now become capitalised into rents for some groups and will prove even harder to remove. The accord also introduced the concept of 'blue box' domestic support.

'Blended' approach to tariff reductions

This 'blended' approach was proposed in the text at the failed ministerial meeting in Cancún in 2003 (known as the 'Derbez text' — see below). This divides all tariff lines into three components:

1. *y* per cent of tariff lines would be subject to an average cut of *x* per cent with a minimum cut for each tariff line of *z* per cent;
2. *y* percent of tariff lines would be subject to a Swiss formula for reductions with a coefficient of *m* per cent; and
3. the remaining tariff lines would be duty free.

Overall, the simple average tariff reduction would be no less than *n* per cent. Each parameter would be subject to negotiation.

Blue box

The concept of a 'blue box' was a compromise introduced late in the Uruguay Round negotiations during the Blair House Accord. Under the WTO Agreement on Agriculture, domestic support measures under production-limiting programs are exempt from AMS calculations and reduction commitments under certain conditions. These are (1) such payments to farmers must be based on fixed historical areas or yields; (2) payments are made on 85 per cent or less of a base level of production; or (3) livestock payments are made on a fixed number of head.

Bound tariff rate

This is the maximum tariff rate that a WTO member agrees to apply. It is a ceiling — applied tariff rates cannot exceed this ceiling except by negotiation and compensation to the relevant exporting countries. In many cases, especially for developing countries, the processes of tariffication and negotiation resulted in bound tariff rates being much higher than actual tariff rates. Agreement to reduce such bound tariff rates therefore has no real effect on market access.

CAP

Common Agricultural Policy.

De minimis

This is a provision of the WTO Agreement on Agriculture whereby otherwise non-exempt domestic support can be excluded from the calculation of total AMS for agriculture. If support on a product specific basis is below 5 per cent of the gross value of production for the product in question (10 per cent for developing countries), that support is excluded from AMS calculations and therefore from reduction commitments.

Derbez text

This was the last draft text on all areas of negotiations to emerge from the failed Cancún WTO Ministerial Meeting in September 2003. It was released by the chair of the ministerial meeting, the Mexican foreign minister Lais Ernesto Derbez. The text for agriculture would require substantial changes before it would be consistent with the Doha declaration or acceptable to Australia and many other like-minded countries. In particular, its proposed 'blended' approach to tariff reductions would not result in any significant increase in market access.

'Dirty tariffication'

Dirty tariffication occurs when, in the tariffication process governments choose an unrepresentative low world price or an artificially high internal price and therefore overstate the amount of protection they are giving an industry. They can then agree to a cut in tariffs that will not result in any real cut. In these situations there is said to be 'water in the tariff'.

Doha mandate

The ministerial meeting prior to that in Cancún was held in Doha, Qatar in 2001. Ministers there agreed on a mandate for the new round of negotiations in the WTO. A key part of the mandate on agriculture was a commitment to comprehensive negotiations aimed at substantial improvements in market access; reductions of, with a view to phasing out, all forms of export subsidies; and substantial reductions in trade-distorting domestic support. The mandate also included special and differential treatment for developing countries as an integral part of the negotiations.

'Enabling clause'

This clause allows developed countries to give non-reciprocal differential and more favourable treatment to developing countries. The European Union, for example, provides many preferential trading arrangements to exporting developing countries under this clause (bananas, sugar, beef etc).

Export credits

The provision by an exporter to an importer of concessional finance or extended payment terms for the goods or services being sold to the importer.

Export subsidies

Government payments to exporters that effectively allow them to lower their offer price in world markets by up to the per unit value of the subsidy.

Food aid

Aid to developing countries in the form of food. The food may be a grant or provided on generous concessional terms.

GATT

General Agreement on Tariffs and Trade.

GATS

General Agreement on Trade in Services.

Geographic indications

Products characterised by their particular geographic origin with the geographic name — such as champagne — protected under intellectual property rules. In the current Doha negotiations there is a push by some countries to extend the concept to a wide range of other commodities in addition to wine and cheese.

Green box

Under the Agreement on Agriculture, certain domestic support measures were agreed to as being minimally trade distorting and placed in the so-called 'green box'. They are exempt from domestic support reduction commitments. The criteria for inclusion in the green box are set out in Annex 2 of the Agreement, but in brief include budgetary outlays on research, or subsidies for environmental or animal welfare concerns.

Market price support

For an importer, this is normally defined as the gap between the internal market price and the world price at the border (cif price) multiplied by the quantity of production. For an exporter it is the difference between the internal price and the export (fob) price. Under the WTO Agreement on Agriculture, market price support has a special agreed definition that does not truly reflect the normal definition. The WTO definition is the gap between a fixed external reference price for the base period (1986–88) and the applied administered support price, multiplied by the quantity of production eligible to receive the applied administered price.

Modalities

How negotiations are to be negotiated. This includes the framework or broad parameters under which specific negotiations take place.

Multifunctionality of agriculture

Some countries, particularly the European Union and Japan, put emphasis on the importance of agriculture for things other than food or fibre production or providing a living to farmers. Multifunctionality refers to the beneficial side effects of agricultural activity such as maintaining the environment and aesthetic values of the countryside, regional development and lifestyles, maintenance — or enhancement — of animal welfare and health, food safety and so on. These countries advocate these issues being more fully incorporated into WTO rules to justify continued agricultural support.

Non-trade concerns

Some countries have raised the prospect that agricultural trade should not be based only on commercial considerations. They suggest that trade restrictions could be justified because of governments' concerns over environmental issues, animal welfare, rural employment and development and other issues.

Peace clause

This is a part of the WTO Agreement on Agriculture, which effectively prevents members from challenging some forms of trade-distorting support. With the implementation period for the Uruguay Round commitments now over, the peace clause has now expired. It was designed as a transitional measure to allow countries time to adjust their policies.

'Singapore issues'

These include the relationship between trade and investment, the relationship between trade and competition policy, transparency in government procurement and trade facilitation.

Special agricultural safeguard provisions

For agriculture, importers which have reserved the right to do so in their schedules can apply higher safeguard duties if import volumes suddenly rise above a certain level or if world prices suddenly fall below a certain level. This provision can only be used on products that were tariffied — less than 20 per cent of all agricultural products. Thirty-eight member countries have reserved this right.

Special and differential treatment

A key provision of the WTO is the recognition that differential and more favourable treatment be afforded to developing country members as an integral part of negotiations. In the Agreement on Agriculture, developing countries were given longer (10 years) to implement their commitments, and reductions in protection were less. Least developed country members were not required to undertake any reduction commitments.

Surplus disposal

Non-commercial exports of food commodities through food aid or other concessional programs with the purpose of disposing of surplus commodities rather than meeting genuine humanitarian food aid needs or commercial sales.

Swiss formula for reductions in tariffs

There are several formulae proposed for providing a basis for agreed reductions in tariffs. The Swiss formula places an upper bound on tariffs and reduces higher tariffs proportionately more than lower tariffs. The formula is:

$$\text{Final tariff} = \frac{(a \times \text{initial tariff})}{(a + \text{initial tariff})}$$

where the coefficient *a* is the upper bound on all tariffs.

If a = 20, for example, an initial bound tariff rate of 80 per cent would be reduced to 16 per cent, but if a = 40, the final bound rate would be 26.7 per cent.

Tariffication

A process of converting all non-tariff barriers to imports into tariffs or ordinary customs duties. Tariffication was agreed to in the Agreement on Agriculture (Article 4) and means that import barriers such as quotas, variable import levies, minimum import prices, discretionary import licensing and so on are no longer permitted except under special conditions.

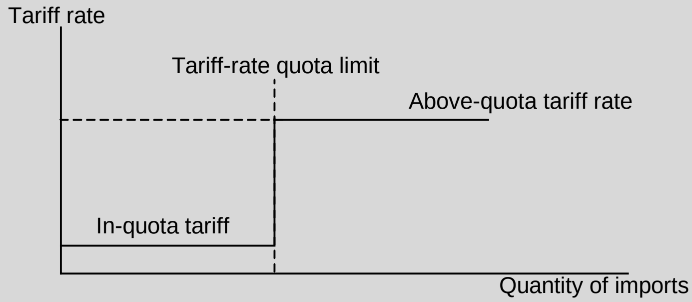
Tariff escalation

Situations where higher tariffs or import duties are applied on semi-processed products than on raw materials, and higher tariffs still are applied to finished products.

Tariff-rate-quota

Also called a tariff-quota, it is a quantity limit on imports below which a reduced or *in-quota tariff* is charged on imports. Where imports exceed the *tariff-rate quota* the level of imports above the limit are charged a higher or above-quota tariff (see chart 25).

25 **Tariff-rate quota**



Trade distortion

Trade is said to be distorted if prices and/or quantities produced bought and sold are higher or lower than would normally be the case in a competitive market.

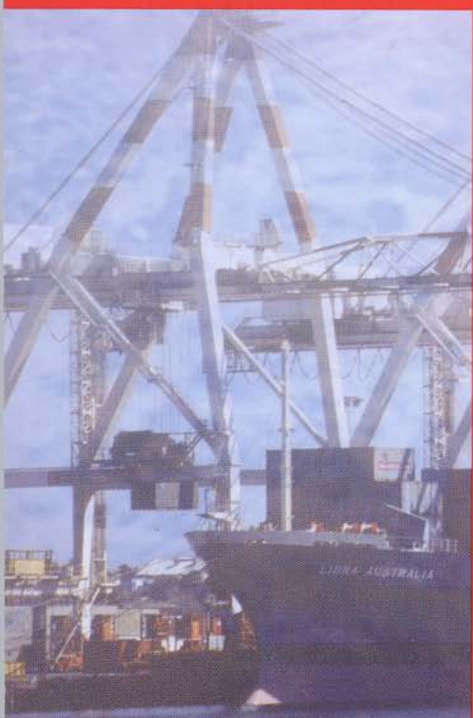
Traffic light classification of domestic support

The many forms of domestic support have been classified according to traffic lights colours depending on the extent to which they are trade distorting — red being most trade distorting (none in agriculture) and green being minimally trade distorting, with amber in between.

During negotiations in the Uruguay Round, an additional blue category was added.

TRIPS

Trade-related aspects of intellectual property rights.



Agricultural trade policy made easy

Making sense of trade policy for farmers, policymakers and the public

RIRDC Pub. No. 04/170

Many of Australia's agricultural exports face barriers to trade through a combination of border restrictions and domestic support. Removing these barriers is a well-known problem despite the potential gains to all countries. Part of the difficulty of change is the often obscure 'language' and concepts behind the protective devices and the disciplines used to reign them in. Making sense of these concepts and treatment of agricultural trade policy widens understanding by farmers, policymakers and the public alike and should lead to better outcomes.

This publication is one of a series on trade issues published by the Rural Industries Research and Development Corporation (RIRDC) as part of their Global Competitiveness R&D program. Previous reports in this series and additional copies of this publication may be obtained from RIRDC by visiting their website (www.rirdc.gov.au).

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