

IN THIS ISSUE!

WTO Agriculture Agreement: What Is At Stake? Martin Khor	Pages 1-8
West Must Pull Down Farm Fences Mills Soko	Pages 8-10
The Road Map to March 2003: What Could It Mean For Cancun? Shefali Sharma	Pages 10-12
Tandon's 15-Point Summary Perspective Of Two Day SEATINI Workshop With Uganda's Parliamentarians, Entebbe, 12-14 December, 2002	Pages 12-15
Editorial: Pulling out of negotiations is a practical option Percy F. Makombe	Pages 15-17

WTO Agriculture Agreement: What Is At Stake?

Martin Khor

WTO Agreement on Agriculture

The WTO's Agreement on Agriculture (AoA) which came into effect in 1995 brought world agriculture production and trade under multilateral trade rules. It was supposed to herald a new era of trade liberalisation in the agriculture sector, as hitherto agriculture had been mainly exempted from the disciplines of the General Agreement on Tariffs and Trade (GATT).

The AoA is imbalanced in many ways. It has been fashioned in such a way as to enable developed countries to continue

high levels of protection, whilst many developing countries have liberalised and their farmers are facing severe and often damaging competition, often from imports artificially cheapened through subsidies.

The AoA contains three main categories of commitments:

Market Access

All member countries have to abolish quantitative restrictions and non-tariff barriers and replace these with tariffs. Members also have to reduce their tariff levels: by 36% over six years 1995-2000 for developed countries, and by 24% over ten years 1995-2004 for developing countries. LDCs do not have to reduce

their tariffs, but also commit not to raise their bound rates.

Domestic support

Domestic support measures are categorised under three types: (a) the Amber Box, or measures that are taken to be trade-distorting and have effect on production, such as input subsidies and price support. (b) the Green Box, or measures that are assumed not to have effects on production, such as support for research, marketing assistance. (c) the Blue Box, or measures such as direct payments to farmers to compensate them for programmes to limit their production. Subsidies under the Amber Box are calculated under the Aggregate Measure of Support (AMS) and are subject to reduction discipline. Subsidies up to a certain limit (5% of the total value of agricultural production for developed countries, and 10% for developed countries) are exempted. Subsidies above those levels have to be reduced from the base period 1986-88 level by 20% for developed countries (over six years 1995-2000) and by 13% for developing countries (over ten years 1995-2004). Least Developed Countries (LDCs) are exempted from these reduction commitments; however they have also committed not to raise the level of support beyond the *de minimis* level.

Export competition

Direct export subsidies are subject to reductions from the 1986-88 average level by 36% in value and 21% in volume for developed countries (over six years 1995-2000) and by 24% in value and 14% in volume for developing countries (over ten years 1995-2004).

Developing countries are subjected to the same disciplines to liberalise their agriculture sector as the developed countries, the only concession being slightly lower reduction rates and slightly longer time schedules. The LDCs do not have to reduce their tariffs or subsidies, but they are also committed not to raise them. Thus, developing countries have to abide by a programme of liberalisation.

Imbalances in the agreement

The AoA contains several types of imbalances that are favourable to developed countries and unfavourable to developing countries. These imbalances have been analysed by Bhagirath Lal Das (1998) and in Third World Network (TWN 2001).

The essence of the imbalances is the following: "The WTO Agreement on Agriculture has permitted the developed countries to increase their domestic subsidies (instead of reducing them), substantially continue with their export subsidies and provide special protection to their farmers in times of increased imports and diminished domestic prices. The developing countries, on the other hand, cannot use domestic subsidies beyond a *de minimis* level (except for very limited purposes), export subsidies and the special protection measures for their farmers. In essence, developed countries are allowed to continue with the distortion of agriculture trade to a substantial extent and even to enhance the distortion; whereas developing countries that had not been engaging in such distortion are not allowed the use of subsidies (except in a limited way) and special protection." (TWN 2001).

The main form of unfairness is in the area of domestic support. Developed countries with high levels of domestic subsidies are allowed to continue these up to 80 % after the six-year period. In contrast, most developing countries (with a very few exceptions) have had little or no subsidies due to their lack of resources. They are now prohibited from having subsidies beyond the *de minimis* level (10% of total agriculture value). In addition, many types of domestic subsidy have been exempted from reduction, most of which are used by the developed countries. While these countries reduced their reducible subsidies to 80 %, they at the same time raised the exempted subsidies substantially. The result is that total domestic subsidies in developed countries are now much higher compared to the base level in 1986-88. Thus, in the European Economic Community (EEC), the subsidy in the base period, 1986-88 was US\$83 billion, and it

was increased to US\$95 billion in 1996. In the United States, the corresponding levels are US\$50 billion and US\$58 billion. The professed reason for exempting these subsidies in the developed countries from reduction is that they do not distort trade. However, such subsidies clearly enable the farmers to sell their products at lower prices than would have been possible without the subsidy. They are therefore trade-distorting in effect.

The exemption from reduction applicable to developing countries is limited to four items: input subsidy given to poor farmers; land improvement subsidy; diversion of land from production of illicit narcotic crops; and provision of food subsidy to the poor. The scope is very limited and hardly half a dozen of the developing countries use these subsidies (Das 2000,1998). Furthermore, subsidies exempted from reduction and used mostly by developed countries (Annex 2 subsidies) are immune from counteraction in the WTO; they cannot be subjected to the countervailing duty process or the normal dispute settlement process. But those exempted from reduction and used by developing countries do not have such immunity.

With regard to export subsidies, the developed countries to retain 64 % of their budget allocations and 79% of their subsidy coverage after six years. The developing countries, on the other hand, had generally not been using export subsidies, except in a very few cases. Those that have not used them are now prohibited from using them, whilst those that have subsidies of little value have also to reduce the level.

Another inequity is in the operation of the "special safeguard" provision. Countries that had been using non-tariff measures or quantitative limits on imports, were obliged to remove them and convert them into equivalent tariffs. Countries that undertook such tariffication for a product have been given the benefit of the 'special safeguard' provision, which enables them to protect their farmers when imports rise above some specified limits or prices fall

below some specified levels. Countries that did not undertake tariffication did not get this special facility. This has been clearly unfair to developing countries, which, with few exceptions, did not have any non-tariff measures and thus did not have to tariffify them. The result is that developed countries, which were engaging in trade-distorting methods, have been allowed to protect their farmers, whereas developing countries, which were not engaging in such practices, cannot provide special protection to their farmers (Das 2000a; 1998a).

This inequity and imbalance appears aggravated when one considers the limitation to the use of the general safeguard provision (in GATT) in the agriculture sector. One necessary requirement for taking a general safeguard measure is that there be injury (or threat thereof) to domestic production, which will be extremely difficult to demonstrate in this sector because of the large dispersal of farmers across the country.

Apart from these specific problems in the areas of subsidy and protection, there is a basic problem with the agreement. The AoA is based on the assumption that production and trade in this sector should be conducted on a commercial basis. But agriculture in most of the developing countries is not a commercial operation, but instead is carried out largely on small farms and household farms. Most farmers take to agriculture not because it is commercially viable, but because the land has been in possession of the family for generations and there is no other source of livelihood. If such farmers are asked to face international competition, they will almost certainly lose out. This will result in large-scale unemployment and collapse of the rural economy, which is almost entirely based on agriculture in a large number of developing countries. (TWN 2001).

Failure of developed countries to effectively reduce their protection

After many years of the implementation of the AoA, two major problems have arisen. Firstly, the developed countries

have not met their commitments (at least in spirit). Secondly, the developing countries have encountered serious problems arising either from the first, or from their having to meet their own obligations. The AoA was supposed to discipline the high levels of protection in the developed countries, and by doing so offer very substantial benefits in terms of market access to many developing countries, as they have a comparative advantage in agricultural products. In reality, however, the developed countries have made little progress in reducing agriculture protection and subsidies. High tariffs on selected items of potential interest to the South have had to be reduced only slightly.

In the first year of the agreement, there were tariff peaks at very high rates in the United States (e.g., sugar 244%, peanuts 174%); the EEC (beef 213%, wheat 168%); Japan (wheat 353%), and Canada (butter 360%, eggs 236%) (Das 1998: 59). According to the agreement, developed countries needed to reduce their tariffs by only 36% on average to the end of 2000, and thus the rates for some products remain prohibitively high (Das 1998).

Domestic support has increased rather than decreased. Although the agreement was supposed to result in decreases in domestic support in agriculture, in fact, the overall value of such support has increased. The agreement obliged developed countries to reduce the Aggregate Measurement of Support (AMS). However, only some types of subsidies fall under the AMS, and two categories of subsidies are exempted.

While developed countries reduced their AMS, they also increased their exempted subsidies significantly, thereby offsetting the AMS reduction, and resulting in an increase in total domestic support. According to OECD data, the Producer Subsidy Equivalent (PSE) for all developed countries rose from US\$247 billion in the base period to US\$274 billion in 1998. (In the EEC it rose from US\$99.6 billion to US\$129.8 billion, and in the United States from US\$41.4 billion

to US\$46.9 billion) (Das 2000: 2-3). A more comprehensive coverage of domestic support in agriculture calculated by the OECD is the Total Support Estimate (TSE), which for the 24 OECD countries rose from US\$275.6 billion (annual average for base period 1986-88) to US\$326 billion in 1999 (OECD 2000).

As explained earlier, what is even more ironic is that most developing countries, by contrast, had previously little or no domestic or export subsidies. They are now barred by the Agriculture Agreement from having them or raising them in future (Das 1998a: 62). There is a great imbalance in a situation in which developed countries with very high domestic support are able to maintain a large part of their subsidies (and in fact, due to loopholes in the agreement, to raise their level) while developing countries with low or no subsidies are prohibited from raising their level beyond the *de minimus* amounts..

Export subsidies are still high

Regarding export subsidies, the agreement also committed developed countries to reduce the budget outlay by 36% and the total quantity of exports covered by the subsidies by 21%. The base level was the average annual level for 1986-90 and the reduction is to be done over the period 1995-2000. Thus, even in the year 2000 the level of export subsidies is allowed to be as high as 64% of the base level (Das 2000: 3).

Subsidies may shift, but effect of protection remains

As discussed earlier, the AoA has categorised domestic support measures into three categories: the "market distorting" measures that have to be disciplined and reduced ("Amber Box"), and the supposedly less or non distorting subsidies that do not have to be disciplined or reduced and in fact can be increased without limit (the "Blue Box" and "Green Box"). Due to this peculiar categorisation, there has been a shift in the developed countries in their domestic agriculture subsidies from directly price related subsidy (which are subjected to reduction

commitments) to direct payments and other "indirect" subsidies (which are exempted). This has enabled these countries to increase their overall level of domestic support.

In particular, the US has already redesigned its subsidy system and moved the bulk of their subsidies from the Amber to the Blue and Green Box type of subsidies. According to one estimate, in the US, the green subsidies have predominated for the past several years. In 1998, it was estimated that the US had US \$50 billion green box subsidies and \$10 billion amber box subsidies. The EU is also in the process of shifting. According to one estimate, the EU in 1995/6 year had US\$48 billion amber-box subsidies and \$40 billion Blue and Green subsidies. In 2002, it would have shifted to \$34 billion amber box and \$52 billion blue box and green box subsidies. The overall subsidy level would be about the same (\$88 bil moving to \$86 bil).

This shift in the EU can also be seen in projections for the Common Agriculture Policy (CAP). Under the CAP, subsidies under Pillar 1 (commodity support regime, especially price based) has taken up 90% of the CAP budget whilst subsidies under Pillar 2 (payments to farmers for structural adjustment, diversification, environment management) form 10% of the CAP budget. There are also indirect measures (state assistance) for example to deal with disease control, regional income disparity. It is estimated that Pillar 1 subsidies will be reduced from 90% to 21% of CAP budget in 2006. (Actionaid 2002: p6-7). Most subsidies will be moved to direct payments to farmers to form 68% of the CAP budget in 2006 (Actionaid 2002: p8). For example, payments made supposedly to limit production (equivalent to WTO Blue Box subsidies) are paid on the basis of area grown and/or a fixed number of livestock owned, and are thus said to be not directly linked to production. Known as direct payments, these were introduced in the EU under the CAP reform process in 1992, either to compensate various sectors for cuts in market price support (arable, beef) or simply as a means of

giving further support to a sector (sheep). In the WTO, direct payment subsidies fall within the "Blue Box." (Actionaid 2002: p8) and thus are not subjected to reduction disciplines and can instead be increased.

Subsidy payments in the EU favour the largest producers. Data from 1996 show that 17% of farms that are large or extra large received 50% of agricultural support under the CAP (Actionaid 2002: p8). Another study shows that in 1997-98, direct payments in the UK's arable, sheep and beef sectors totalled about Sterling 2,730 million, and 16% of the largest holdings received 69% of the subsidies. (Actionaid 2002: p9).

Although there is a shift from one category of subsidies (which is considered market-distorting and thus subject to reduction discipline) to other categories (that are not considered market distorting because they are said to have no or little impact on the market or trade, and are thus allowed to be maintained and to increase), in fact these other categories of subsidies have significant effects on the market and on trade. For the farmer, what is important is whether he can obtain sufficient revenue and make a profit (i.e. the revenue is more than the production cost). It is not so important whether he obtains this sufficient revenue from a higher price (through price support measures) or from direct payments and various forms of grants from the government. If a subsidy, in whatever form, is assisting the farmer to obtain revenue and to be economically viable, then that subsidy is having a significant effect on production and on the market.

In Model A (amber box) the subsidy is given through price support (considered to be market distorting). In Model B (blue and green box) the subsidy is given through direct payment or grants of various types to the farmer (wrongly assumed to be not market distorting). In both models it is assumed that the world price and cost of production is the same. In Model A, the domestic price is pulled up much higher than the world price through price support. This enables the

farmer's revenue to be above the production cost, thus resulting in profit. The farm is viable even though its production cost is far above the world price. Moreover, part of the output is exported. This is made possible through a high export subsidy that enables the farmer to sell at an export price equivalent to the world price. In this model, the domestic and export subsidies are clearly market distorting and they have to be subjected to reduction or elimination.

In Model B, there is no price support, nor is there tariff protection. Thus the domestic price is the same or lower than the world price (in this example, slightly lower). The farmer gets a price which is much lower than his cost of production. But he receives a high subsidy in the form of a direct payment or/and other types of grants. This enables the farm to have the same revenue level as in Model A, and to make the same profit. Thus, the farm remains viable due to the high subsidy. Moreover, since the grants enable the farmer to sell at a price level below the world price, he is able to export at a competitive price (which is artificially low because of the subsidy). The farmer does not need an export subsidy to sell abroad. In Model B, the effect of the subsidy is perhaps less obvious or visible than the clearly visible price support and export subsidy of Model A. In Model B, the country is assumed to be "in the clear" as far as meeting its AoA commitments; it is seen as not using market-distorting subsidies nor export subsidies. Yet the effect of the Model B subsidies are effectively also market-distorting in that it enables the farm to be viable although it is inefficient; and moreover it enables the farm to "dump" its produce onto other countries (i.e. selling below the cost of production) even though it does not receive export subsidies. In this manner, Model B could be considered even more trade distorting.

The conclusion is that AoA has erroneously categorised several types of subsidies under the so-called Blue Box and Green Box and made them respectable and not subject to discipline, even though

they give an unfair advantage to the farms receiving the subsidies. This has allowed the developed countries to maintain or even increase the level of their total domestic support, with damaging effects on the developing countries, whilst they can claim to be meeting their legal obligation of reducing the amber-box subsidies under the AMS.

Effects of subsidies on developing countries

The effect of agriculture subsidies in developed countries is that their farm production levels are kept artificially high and their producers dispose of their surplus in other countries, and often dumped on world markets at less than the production cost of the exporting countries. Farmers in developing countries can make losses in three ways:

- (a) They lose export opportunities and revenues from having their market access blocked in the developed countries using the subsidies;
- (b) They lose export opportunities in third countries, because the subsidising country is exporting to these countries at artificially low prices;
- (c) They lose their market share in their own domestic market, or even lose their livelihoods, due to the inflow of artificially cheap subsidized imports.

Elimination of subsidies

As explained, developing countries have also been constrained in regard to domestic subsidies for local farmers. The overall amount of the relevant subsidies was recorded for 1995 as a ceiling, and developing countries (except LDCs) are required to reduce this amount by 13.3 per cent over the period of 10 years. There is a small general *de minimis* exclusion from the subsidy discipline for developing countries of 10 per cent of the value of production (for product-specific subsidies) and 10 per cent of the value of total agricultural production (for non-product-specific subsidies); and also exemptions for limited purposes (such as investment subsidies and input subsidies for poor farmers). These exclusions apart,

developing countries are now constrained from increasing the level of domestic support to their farmers and instead have to bring down the level. Developed countries, which in general have offered very high levels of domestic support have committed themselves to only slightly reducing these. Most developing countries have previously maintained low levels of subsidy and are unable to increase them, beyond the exemptions. And even in areas where domestic support is permissible, most developing countries cannot avail themselves of the facility because of the lack of financial resources.

The concessions to developing countries are that the rates of reduction (of tariffs, domestic support and export subsidies) are two-thirds those for the developed countries, and that there is a longer implementation period (10 years compared to six years for developed countries). LDCs are exempt from reductions. These concessions are minor, especially in view of the fact that developed countries are allowed to continue to maintain very high levels of import protection and agricultural subsidies.

Meanwhile, serious problems of implementation have emerged in developing countries. Some countries were asked to reduce or eliminate subsidies, or institutions set up to assist farmers in marketing their products, under the loan conditionalities of the international or regional financial institutions. There is thus an unfair practice of double standards. Whereas the developed countries have maintained or increased their very high domestic support, several developing countries have had their agricultural subsidy system dismantled or their rates reduced.

Subsidies in Southern Africa countries were reduced or eliminated, together with closure of marketing boards, under the influence of World Bank loan conditions. A study was done on Malawi, Zambia and Mozambique on the effects. There was a collapse of input and credit supply in some cases, and food reserves were liberalised. In Zambia, maize and fertiliser subsidies

were removed. An internal World Bank study in 2000 said: "The removal of subsidies led to stagnation and regression instead of helping Zambia's agriculture sector." (Oxfam report on reduction of subsidies in developing countries, 2002).

Effects of import liberalisation

Under the AoA developing countries (including LDCs) have to remove non-tariff controls on agricultural products and convert these to tariffs. Developing countries are then required to progressively reduce these tariffs, while LDCs are exempt from this requirement. In many developing countries this has threatened the viability of small farms that are unable to compete with cheaper imports. Many millions of small Third World farmers could be affected. The process has also increased fears of greater food insecurity, in that the developing countries will become less self-sufficient in food. For many, food imports may not be an option due to shortage of foreign exchange.

Proposals for modalities of negotiations in AoA

General

Agriculture is a very important sector for most developing countries. In terms of jobs, food security, export earnings and potential exports, it is the key sector for many of the countries. Therefore it is crucial that the AoA is supportive of the development needs and efforts of the developing countries. Unfortunately, from the above analysis, it is clear that in its present form the AoA is unfair and imbalanced, that the developed countries have been able under the AoA rules to increase their subsidies and maintain high protection, and that many developing countries have been unable to match the subsidies of their rich trading partners in the least, whilst they have liberalised their imports, often to the detriment of the local farmers and at the expense of food security.

The Doha Declaration of November 2001 (WTO 2002) is disappointingly inadequate on the issue of disciplining the subsidies

of the developed countries. It seeks "reduction of, with a view of phasing out, all forms of export subsidies" but does not give a time frame for phasing out nor rates of reduction. On the crucial issue of domestic support, it states a commitment to "substantial reductions in trade-distorting domestic support."

This appear to be a code for maintaining the artificial distinction between "trade distorting subsidies" and "non trade distorting subsidies", thus paving the way for the continuation or increase in overall subsidies. Earlier this year, the US Farm Bill 2002 was announced, representing an increase in almost 80% in the subsidies allocated to agriculture, at US\$180 billion over ten years. Recently, a summit of EU leaders concluded that the Common Agriculture Policy subsidy levels would be maintained at least until 2013. It seems clear that both the US and the EU have decided to maintain or increase their agriculture subsidy levels, probably with more changes in the direction away from the "amber box" to the "blue and green box" subsidies, but with the same damaging effects on developing countries.

This situation should not be allowed to go unchallenged. Developing countries can and should propose that in the modalities, there be clear measures for the overall rapid reduction of domestic support overall (involving the subsidies in all three boxes) and export subsidies.

The Doha Declaration also recognises that "special and differential treatment for developing countries shall be an integral part of all elements of the negotiations and shall be embodied in the Schedules of concessions and commitments and as appropriate in the rules and disciplines to be negotiated, so as to be operationally effective and to enable developing countries to effectively take account of their development needs, including food security and rural development." (WTO 2000). The challenge is for developing countries to flesh out the concrete manifestations and provisions of special and differential treatment and ensure that they be made operationally effective in all

the elements, rules and disciplines of the AoA.

Thus the modalities should encompass two main points. Firstly, there must be effective and rapid decrease in protection in the developed countries. Secondly, there must be effective special and differential treatment for developing countries.

**This is an abridged version of the paper presented at the Food and Agriculture Organisation regional workshop on the WTO and Agriculture held in Bangkok from 25-29 November 2002 by Martin Khor of the Third World Network.*

West Must Pull Down Farm Fences Mills Soko

[THE decision in December 2002 by the 15 European Union (EU) states to admit 10 new countries Cyprus, Malta, Poland, the Czech Republic, Slovakia, Estonia, Slovenia, Lithuania, Latvia and Hungary has important consequences for Africa.

The most contentious issue remains the level of agricultural subsidies to be offered to eastern European farmers once entry has been formalised in 2004. This is poised to exercise the minds of African governments ahead of the World Trade Organisation (WTO) ministerial meeting in Mexico next September.

Among Africa's key concerns are the massive export subsidies provided by EU governments to farmers. Agriculture is central to Africa's economic revival. And yet it has been one area where the Organisation of Economic Cooperation and Development (OECD) countries, and the EU countries in particular, have been flagrantly protectionist. Just ponder the following statistics. Of the \$1,2-trillion that constitutes the value of the global trade in agricultural products, Africa gets only about \$20bn about 2% of the total. The OECD states contribute \$50bn towards official development assistance but spend \$361bn subsidising their farmers. The Common Agricultural Policy

(CAP), the EU's flagship policy, makes up about half of Brussels' \$95,7bn budget.

Yet trade protectionism is not the preserve of European nations. As the 2002 WTO annual report points out, support to farmers is also particularly high in Japan and Korea. Moreover, in May this year the US, itself a visceral critic of the EU's agricultural regime, passed legislation that raised subsidies on certain farm products and introduced new subsidies for others, reversing 1996 reforms. A significant share of these subsidies goes to large agribusiness farms. Indeed, the blatancy of US mercantilism can be illustrated by the fact that US support for agriculture increased from \$7,2bn in 1996 to \$22,9bn in 2000.

The EU's eastward expansion is likely to compound these worrying trends. Agricultural spending will be one of the most costly aspects of enlargement, in part because Poland has more farmers than France and Germany combined. Already, all the candidate countries have made it clear that the EU's offer on phasing in subsidies to farmers is not generous enough; political elites in these countries will seek to extract the maximum benefits possible in order to prove to the sceptical sections of their electorates that joining the EU was not a bad idea after all.

Add to this the EU's internal dynamics. Thanks to pressure from powerful domestic farm lobbies, French President Jacques Chirac and Chancellor Gerhard Schröder of Germany announced an unexpected deal in October that will delay a radical CAP reform and ensure EU farmers continue to enjoy outrageously high subsidies. Significantly, at the Copenhagen summit last week France, the largest recipient of farm aid, tried unsuccessfully to remove a communiqué pledge that CAP spending ought to be compatible with the EU's international obligations under the Doha trade liberalisation round.

These developments do not augur well for multilateral trade. Protectionism in the OECD countries harms developing countries. Not only does it considerably

distort international commodity markets, it also damages the economies of poor countries, most of which are African. The current Doha round has been billed as a development round, which implies a greater commitment by industrialised countries to accommodate the sensitivities of poor nations. Freer and fairer trade alone cannot eliminate Africa's poverty and address its monumental developmental problems. But it can expand economic opportunities for growth.

Dismantling barriers to farm trade is, therefore, central to the economic rejuvenation of Africa: rich nations must radically overhaul agricultural policies, especially with regard to reducing subsidies, protectionist tariff barriers and dumping surpluses on the world markets.

For this to happen, decisive leadership of the multilateral trading regime is needed. Leadership is required to restore trust in the multilateral system and to bring the Doha round to a successful conclusion. Sadly, such leadership has been sorely lacking. Not only have the US and EU been engaged in debilitating trade wars, they have also succumbed to the whims of domestic vested interests. Japan has typically maintained a deafening silence.

The message is clear: there remains a yawning gap between what the rich countries preach and what they practice. This gulf undermines the credibility of the global trade system, and might scupper the Doha round. There's only one way to avoid such an outcome: the West must end its double standards.

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The Road Map to March 2003: What could it mean for Cancun?
Shefali Sharma

In January 2003, agriculture delegates to the WTO met to discuss the "Overview Paper" that is supposed to help draft the "modalities" or framework for the new Agreement on Agriculture (AoA). Countries basically reiterated their own entrenched positions. However, some developing countries (DCs) made a few new remarks that have implications for Cancun.

1) Some countries such as India, Malaysia and Kenya on behalf of the African Group stated that it was no longer enough to stick to WTO deadlines just for the sake of meeting deadlines. They suggested that unless the major substantive demands were adequately dealt with, the question of deadlines was moot.

India, in its statement in the Special Session stated, "We would like to emphasise that the modalities must comprehensively deal with all aspects of the mandate for negotiations, including rules-related elements, so that the interests and expectations of Members from these negotiations are fully addressed in the ongoing negotiations."

This was in response to agriculture committee Chair Stuart Harbinson's Overview Paper: "What is now required is to concentrate on the key aspects, keeping in mind that the negotiations on agriculture do not end at the end of March 2003 and that there will be time thereafter to address matters not directly required for the purpose of establishing draft Schedules for further commitments." (Para 10, Overview Paper TN/AG/6 available at www.wto.org)

Given that the Tokyo Mini-Ministerial will be held February 14-16, Harbinson is being lobbied by countries like the US, Australia and New Zealand to:

- 1) come up with an ambitious proposal
- 2) to circulate it before the Tokyo meeting (*Inside US Trade*, January 24, 2003.) Seemingly, this is a measure to avoid being criticised for forging the draft in the Mini-Ministerial. However, a Harbinson Draft that is discussed by only 25 key

members of the WTO in Japan further opens up criticism against WTO procedures. These 25 Members have no legitimacy in forging a compromise for draft modalities (one of the intentions of the Japan Mini-Ministerial) that is brought back to Geneva. Moreover, positions amongst various countries are too far apart to force a compromise.

According to Geneva sources, Harbinson will most likely forge a draft "in his own personal capacity" as he did with the controversial Doha Ministerial Draft Text. It will likely deal mainly with market access and minimally on the contentious topics of domestic support and export competition so that countries can start to prepare their draft schedules of commitments. This is a working-blindfolded approach that the Services Council has already adopted in creating a March deadline for Services Offers (i.e. definitions, rules and classification remain unresolved). For underfunded ministries in developing countries, the approach makes developing a coherent trade strategy based on national interests virtually impossible.

What Exactly is the Doha Mandate on Agriculture?

The EC has been arguing that the Doha mandate is not about reducing "non-trade distorting" support. While the US argued that issues related to Geographical Indications, Food Safety and Labelling (para. 28 of the Overview Paper) are not part of the Doha Mandate, the EC response has been that as long as negotiations continue in Agriculture, Para 28 concerns must be addressed. Meanwhile, there was tension between larger developing countries that insist that there can be no differentiation or graduation of developing countries versus those who believe that special concessions should be made to the lesser developing countries.

Lessons from Services negotiations?

There is a precedent in the WTO for member states to negotiate the liberalisation of sectors of their economies having neither conducted assessments of

what those sectors need nor having clarified definitions and rules related to the agreement itself. The Services Negotiations are a prime and a critically important example of that. For instance, the US and the European Commission are putting pressure on lesser developed countries to have their services offers ready by March 31 while many members cite lack of services data and capacity to even submit requests. Nor have WTO members resolved key rules related elements of the Services talks such as safeguard mechanisms and classification of services. Critical issues in the agreement as to what constitutes "like services" are far from being resolved.

Many officials readily acknowledge that the Geneva based delegations will get no help from capitals in either formulating the requests or in preparing the offers because of the highly technical and complicated nature of the agreement with sweeping implications across services sectors. Also, Ministries in many developing and least developed countries lack the human resources and expertise to conduct the request/offer exercise in the time committed by their Ministers. Currently in bilaterals, many developing country delegates describe a scenario where by one delegate finds him/herself in a room with about 12 EU or US Services trade experts in education, telecommunications, energy and other sectors. Delegates describe this scenario as highly intimidating since they themselves are negotiating many agreements while these experts know and understand the specifics regarding their own services sector.

Though Services had thus far been seen as a "tradeoff" for gains in other agreements, DCs and Least Developed Countries (LDCs) are now recognizing the complexity and the ambition of the Services requests and are increasingly concerned about the implications of their offers. Moreover, with all the deadlines to resolve development-related concerns now passed and no solution in site, DCs have little reason to make offers by the proposed March 31 deadline. However, the current state of deadlock in agriculture

should provide many of these developing countries with the leverage they need to delay or refuse making their offers entirely.

No sleep till Cancun

EU Agriculture Commissioner Franz Fischler has recently declared that any agreement on modalities for agriculture is unlikely until Cancun. This creates a very uncertain atmosphere in Geneva. It remains to be seen whether even the meager proposal tabled by the EC at the end of 2002 will be accepted by all EU members states. However, even if accepted, the proposal creates little real change in the EU's market distorting policies.

The agriculture debate has surprisingly left the US off the hook despite the egregious nature of the 2002 Farm Act. When developing countries are asked about this, they express some wonder that all the energy is going into attacking only the EC while the US still remains the largest contributor of dumped products on the world market. The US proposal will do nothing to curb its dumping practices. Instead, the proposal is focused on forcing the opening of the markets of developing countries. It aims to reduce the EC's comparative advantage over the US by demanding that the EC make domestic support reductions and eliminate export subsidies. The US proposal to reduce trade-distorting domestic support to 5% of the total value of agriculture in a country's GNP (a total of roughly \$10 billion for the US) ignores the billions of dollars spent in the US on the so-called non-trade distorting supports, including decoupled payments to farmers.

Delegations predict that after the February 4-5 Trade Negotiating Committee (TNC) and the February 10-11 General Council meetings, pressure to address the 4 Singapore issues (Investment, Competition, Government Procurement and Trade Facilitation) will increase. At the Cancun Ministerial in September, Ministers committed themselves to decide whether negotiations on these issues will be launched. It is hard to tell how

Ministers will decide, given the EC reluctance to make concessions on agriculture. Fischler will have a difficult time coming to any sort of an agreement on a mid-term review of the EU Common Agriculture Policy (CAP) that means something for developing countries. And this puts EC Trade Commissioner, Pascal Lamy in a bind. He cannot table proposals at the WTO that are more ambitious than the EU Member States' CAP reform proposals. At this point, the EC is unlikely to make any real reductions in its domestic support before 2013. In other words, DCs have no reason to accept an expansion of the already overwhelming WTO agenda.

In fact, many small delegations have made it clear that they cannot be expected to literally negotiate night and day on issues that were supposed to be resolved last year. Developed countries must show leadership and come to a valid agreement on issues such as S&D and TRIPs and Health. If not, they must stop negotiating these issues now and either put them off to Cancun or push back other deadlines for agreement on market access in agriculture, services and non-agricultural products. If they do push things off, Cancun promises to be an intensely political event with high stakes.

Implications

It is unlikely that an agreement will be made on agricultural modalities anytime soon. Harbinson may pull off what he did prior to Doha: bring a draft to the Tokyo Mini-Ministerial with options for critical paragraphs and without brackets for about ten percent of the entire WTO membership to decide. If this happens, it is likely that most issues of concern to developing countries will be sidelined in the draft. The question is how will WTO members respond to this approach? Strong statements about how the draft does not reflect the interest of developing countries, as the past shows, are not good enough. Will developing countries actually be able to address such processes that consistently undermine their interests and will they be able to do so before the Cancun Ministerial?

Meanwhile, how will Harbinson draft the modalities accommodating the EU, when the European Commission has not even tabled an official proposal? Finally, will the EC be able to convince or cajole members to agree to negotiations on the Singapore issues for last minute minor concessions in agriculture in Cancun? Whatever the answers, the months leading to Cancun promise to be fraught with difficulty for the trade system.

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Tandon's 15-point summary perspective of two day SEATINI workshop with Uganda's parliamentarians, Entebbe, 12-14 December, 2002

1. "We can do it". Don't allow a sense of defeatism to paralyse action.
2. The philosophy of Realism sometimes leads to defeatism. We must be realistic (for the world out there is real), but don't let the odds out there overwhelm you. The "out there" can be challenged and changed.
3. The objective of development is Transformation, not simply Adaptation. Defy existing power, not meekly conform and comply. The main purpose of donor aid and technical assistance is to get Africa to adapt, conform and comply.
4. The Transformative philosophy is Visionary in the long run, and Practical in the short run. There are many practical ways of defeating the system (see later). The Vision provides the Direction; the sense of the Practical provides the Means.
5. In the present global context, the long-term vision should be an

Alternative Development Paradigm to the currently dominant and moribund Capital-led globalisation (witness collapse of Argentina, the country in the third world that is most “integrated” in the globalised economy). An essential paradigm shift at the economic level is from the current Export-Led Growth (ELG) strategies (IMF/World Bank/WTO strategies) to a Domestic Demand Led (DDL) strategies. ELG strategy subordinates human needs and human rights to Corporate greed and corporate profit. DDL puts the needs and rights of the people upfront.

6. In the Medium Term (15-20 years), Africa’s only real option is to undertake a deliberately planned, phased, sequenced, and realistic withdrawal from the presently exploitative and totally unfair global system. The sequenced withdrawal should be based on national, regional and continental unity. Relink with the world when Africa is stronger. (China and India can negotiate with the Empire from a position of relative strength. Fragmented Africa cannot. It must first unite).
7. In the short and immediate term (starting today), delay the process of further integration into the global system to allow time and space to plan, to breathe, to dream. Refuse to get on to the “fast track” of globalisation led by the IMF, WB, and the WTO. Slow down the juggernaut of the WTO and Cotonou, and such other “partnership” schemes, for the globalisation train is crushing the poor in Africa under its wheels. Make the political leaders sitting in the First Class compartment of the globalisation train accountable to the people lying on the tracks. This is what real democracy consists of. (Ask them to step out

of their luxury compartments and talk to the people on the tracks, and ask their views on what “development strategy” should be).

8. There are practical ways of slowing down the train. For example, refuse to continue with Cotonou negotiations until studies (that the European Commission promised to finance but never did) are carried out on the implications of various options. Refuse to continue with WTO negotiations (for example, on the Singapore issues) until the West has fulfilled their promises undertaken at Marrakesh (called Implementation Issues). Demand compensation for the damage that the dumping of subsidised beef and cereals from Europe is causing to Africa’s economy. Demand of the West that they abandon double standards and hypocrisy, whereby protectionism and subsidies are good for them but bad for Africa. Above all, refuse to sign agreements under the WTO without first understanding and analysing the implications. Unlike agreements made with the IMF and the World Bank those made under the WTO are not reversible, and are subject to judicial process of the WTO and unilateral sanctions by the powerful against the weak. (Avoid the mistake of Uruguay Round, which African leaders signed without debate in African parliaments or consultation with the people). Don’t be fooled by the so-called “theory of comparative

advantages". It is a textbook invention of antiquity, and has little relevance to reality. Today, 70% of world trade is intra-TNC trade. Free trade is a myth. The theory of comparative advantage is replaced by the theory of comparative subsidies. The bigger the subsidy, the bigger the clout in the global trade.

9. Realism demands avoiding recklessness. Don't poke fingers in the eyes of the Empire, for the Empire will crush you (Avoid getting into an Iraq situation). But passive submission to the Empire allows the Empire to crush you anyway. There can be no genuine "partnership" between the Empire and the Colonies. That kind of partnership is between the fast-track train and the people lying on the tracks. Don't defy recklessly; don't submit passively.
10. You cannot negotiate with the Empire when you depend on it for aid and capital. (How can you negotiate with the Empire when over 50% of your budget is funded by it?) There is more capital outflow from Africa than inflow. Plug the outflows. Inflow of capital in a leaky bucket leaves no possibility for Domestic Capital Accumulation (DCA). Remember Harry Belafonte: "There is a hole in the bucket.... So fix it". Plug these holes before asking for capital and aid from outside.
11. The main source of development finance is Domestic Savings that, in the case of Africa especially, are mostly externalised through massive debt payments, transfer pricing, corruption and secular decline in Terms of Trade. Plug these four holes, and Africa would

not need foreign Money-Capital (see below for other forms of capital that we do need). Refuse to pay all illegitimate debt (75% of Africa's debt is illegitimate). Demand return of Africa's looted wealth stored in West's banks. Demand compensation for colonial loot (Israel has successfully secured compensation for the massacres of the 1930s in Europe, why can't Africa?) Africa does not need money capital from outside if it can plug all the leakages, refuse to pay illegitimate debt, and secure even 10% return of the colonial loot.

12. FDI's (foreign direct investments) are the biggest hoax of the century. In order not to "shy away" or "scare" FDI's most African leaders have timidly allowed their people to lie on the tracks of the train in the illusion that FDI's will bring "growth" which will then "trickle down" to the poor. Trickle down theories are based on flawed logic and on an inadequate understanding of the structure and processes of global economy. Meantime the train moves on, crushing the poor in its tracks. The Structural Adjustment Programmes (SAPs) have failed and abandoned. The Poverty Reduction Strategy Papers (PRSPs) are only disguised SAPs with "NGO participation". People are asked to be authors of their own exploitation.
13. Africa needs not Money-Capital, but some technology and knowhow. Unpackage FDI's. FDI's are a bundle of money-capital (or finance capital), technology, knowhow, management, inputs, and market knowledge all tied up with a string of conditionalities. Accept only those conditions that do not constrain policy options and national independence. Use local

knowledge and local resources instead of imported ones. Avoid foreign “experts”. (When you encounter official IMF/WB/WTO/OECD “consultants” or “advisers” in your Government ministries or the Central Bank, or EAC/SADC/COMESA offices, hide; better still, run from the scene). Purchase appropriate technology off the shelf. Avoid patented technology. (For example, produce generic drugs under compulsory licensing and parallel importing provisions of TRIPS instead of patented drugs). Protect Africa’s knowledge, bio-diversity and communal ownership agreed under the CBD (Convention on Bio-Diversity), and refuse patenting of life-forms (provided for under TRIPS). Don’t swallow GMOs; you are mortgaging the health of future generations to unknown diseases (such as Ebola).

14. Tell our Governments that if they continue with current globalisation, they are crushing the people. There is another form of globalisation – alternative globalisation based on putting the needs and human rights of the people above corporate profit and greed.
15. Stop the train. Slow down the juggernaut. Another world is possible. Another Africa is possible. Another Uganda is possible.

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Editorial: Pulling out of negotiations is a practical option

Percy F. Makombe

The Agreement on Agriculture (AoA) will be one of the most important issues at the World Trade Organisation (WTO) meeting

in Cancun, Mexico in September. From January to March 2003 there will be heavy lobbying in the WTO as members try to negotiate new rules for trade in agriculture. These negotiations are expected to culminate in an agreement before the end of March leading to official signing in September.

The agriculture talks come at a time when the much vaunted liberalisation of markets has failed to bring any meaningful development to developing countries. If anything, the liberalisation of markets especially in the agriculture sector has resulted in the marginalisation of small farmers and the unbridled growth of the big farmer. In a strange twist of logic, the agriculture sector seems to operate on the basis of actually giving more to those who have while at the same time taking away even the little of those who do not have.

The much touted Doha “development” agenda is in tatters as Canada, the European Union, Japan and the United States of America (US) continue to put obstacles in those areas of Doha that give advantages to developing countries. The EU and US particularly stand accused of hypocrisy over their agricultural trade policies. The huge subsidies that they give to their farmers for example are hurting farmers in developing countries. The US continues to dump subsidised cotton exports in Africa while the EU is doing the same with its sugar exports. Last year US subsidies to its cotton growers amounted to \$3.9 billion. This figure is actually three times the US foreign aid budget for the same year. Against this background, it is therefore shocking that developed countries and some gullible developing countries want the agriculture talks to focus on market access and the breaking down of barriers in developing countries. This is being done at the expense of dealing with basic distortions and the dumping of agricultural products in developing countries. These market distortions are a direct result of rich countries’ domestic support and subsidies. Yet the WTO continues to speak the language of liberalising the agricultural

markets irrespective of the disruptions visited on poor countries' economies.

This hypocrisy has not gone unnoticed because even those institutions that have previously acted as cheerleaders for the WTO are beginning to question the actions of the rich countries. This is what led Nicholas Stern, World Bank chief economist to remark in November 2002, that: "It is hypocritical to preach the advantages of trade and markets and then erect obstacles in precisely those markets in which developing countries have a competitive advantage."

The US 2002 Farm Act and the agreement in Europe to delay the reform of the Common Agricultural Policy (CAP) are the kind of examples that the developing countries should seriously think about. The CAP says EU agricultural subsidies must be maintained at the present level until 2013. The question must be asked why poor countries are being asked to open up, while rich countries are coming up with more protectionist policies. The developing countries must be wary of making serious trade concessions in exchange for promises of support that never come.

At the special negotiating session of the WTO Committee on Agriculture from 22-24 January 2003 there was no common position. The chairman of the agriculture talks, Stuart Harbinson expressed "serious concern" about the slow pace in reaching an agreement on the agriculture negotiating modalities. Despite this slow pace, Harbinson expects that he will have a draft text ready by February 12 in time for the mini-Ministerial meeting scheduled for Japan from 14-16 February. Developing countries must make it clear in no uncertain terms that the text that Harbinson comes up with must capture their concerns. If this does not happen then they should seriously consider withdrawing from the entire negotiation process.

If the AoA is to be taken seriously it must appreciate that there are fundamental differences between agriculture in the developed and the developing world. These differences provide the basis for

different rules to apply in the different settings. If the agriculture talks are to be termed progressive, they must call for:

- ? an end to dumping;
- ? the right of developing countries to come up with enforceable rules to protect themselves against dumping by the developed countries;
- ? a ban on export subsidies and credits;
- ? an agricultural system that ensures food security for the people, and livelihoods of small farmers;
- ? Commodity price stabilization;
- ? Lowering of tariffs for exports of Agricultural value-added products.

The priority for any agricultural agreement must be food security not profit. The right to food is a human right. Poverty and hunger should be recognised as systematic violations of human rights. The respect for civil and political rights cannot be divorced from the enjoyment of economic rights. Agricultural agreements whose intention is to open African markets to transnational corporations leading to the obliteration of the small farmers must be resisted. So if the text by Chairman Stuart Harbinson ignores the concerns of the developing countries, then the countries must consider pulling out of the entire negotiations. And it is practical to do so for eventually, developing countries must plan to subsequently disengage themselves from the current model of economic order that is driven by purely commercial interests.

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Notice Board

Regional Media Workshops

SEATINI will host two regional media workshops. The first one for the media in Southern Africa will be held in Kadoma, Zimbabwe from 24-27 February 2003, while the second one in Nairobi, Kenya will be held from 4-7 March 2003. The

workshops will deal with globalisation and international trade issues. The idea is to prepare the media for the forthcoming World Trade Organisation 5th Ministerial Conference in Cancun, Mexico, in September 2003.

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