The crisis of governance and the WTO

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SUBSIDIES AND TARIFFS

As the new trade negotiations round launched at Doha commence, agriculture remains the most distorted sector in global trade. Support for farmers in the OECD (Organisation for Economic Co-operation and Development) amounts to about US$1 billion a day, with roughly 80 percent of total global support concentrated in the United States, Europe, and Japan. According to *The Economist* (June 9, 2001) Special Report on Agricultural Trade, "if rich countries were to remove . . . subsidies . . . poor countries would benefit by more than three times the amount of all the overseas development assistance they receive each year."

With average tariffs on agricultural products more than three times higher than on non-agricultural goods, and peaks unmatched at 800 percent, market access also remains a serious problem. Access to OECD markets is very restricted, with European OECD countries alone accounting for almost half of the tariff rate import quotas embedded in WTO member country market access commitments. Furthermore, in no other area are export subsidies tolerated. In the early stages of post-war multilateral trade negotiations, export subsidies were recognized, and prohibited, as the most harmful form of subsidies for manufactured goods.

THE CAIRNS GROUP

Historically, outcomes on agriculture were determined by agreements between the United States and the European Union. As members where agriculture plays a relatively minor role in their respective economies, both in terms of employment and share of GDP, and with budgets able to sustain massive domestic support, they did not represent the majority of the GATT/WTO membership. Not surprisingly then, agriculture was continually glossed over to the detriment of poorer countries with a comparative advantage in this sector. A third force was needed to break the impasse and to create momentum for reform, and it was the Cairns Group that played this role.

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The Cairns Group, established in 1986, is a specific-issue trade coalition of agricultural exporting countries of which both Australia and Canada are original members. The common objective that unites the diverse membership is a desire to see agriculture treated the same as other sectors of global trade. This is to be achieved via reform addressing the "three pillars"—namely, elimination of all forms of export subsidies, substantial improvements in market access, and major reductions in trade and production-distorting domestic support leading to its elimination.

In the 15 years or so since its inception, the Cairns Group has continued to grow and mature. The Cairns Group now has 17 members, with the enlargement of membership in South America, and the addition of South Africa in particular, having reinforced its relevance. It includes countries from Africa, the Americas, and the Asia-Pacific region, at various stages of development. The majority of members are developing countries. This unique diversity has lent its voice an additional credibility. Today, the Cairns Group is an instantly recognizable brand name in agricultural trade policy and is accepted WTO-wide, including by the United States and the European Union, as the third force in the agriculture negotiations.

MANDATED NEGOTIATIONS

The important achievement of the last round for the Cairns Group was the extent to which agriculture was integrated into the multilateral rules-based trading system. Furthermore, WTO members recognized that this was just a first step in liberalizing agricultural trade, and agreed to mandated negotiations that commenced in March 2000.

At the beginning of the Doha Ministerial Conference, the article 20-mandated negotiations on agriculture had been in progress for almost two years. During this time, negotiating proposals from 121 governments (including 4 proposals by the Cairns Group) had already been submitted, but with little real progress made in negotiating further liberalization.

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DOHA MINISTERIAL CONFERENCE

After the failure of the Seattle Ministerial Conference to launch a new round, it was crucial for the health of the multilateral trading system that the Doha Ministerial succeed. It was also very important for trade in agriculture. Prospects for further agricultural liberalization outside a larger round would have been much more problematic. Negotiating across a number of sectors and issues allows greater flexibility in finding trade-offs that can accommodate members normally opposed to reform in agriculture.

The Doha Ministerial Conference (November 9-14, 2001) was successful for a number of reasons. With the risk of a global economic slowdown, there was a greater onus on the major players to demonstrate leadership and flexibility in ensuring that agreement was reached. In addition, the Doha Declaration offered a mandate for negotiations, which was broad enough to allow many members to claim they had met their objectives.

The Doha Declaration provided for a more far-reaching and ambitious mandate on agricultural reform as well as a time frame for the negotiations. In paragraph 13 of the Doha Declaration, the previous work done on the negotiations is recognized, including members' negotiating proposals. The key reform commitments are as follows:

- 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*.

These are closely aligned with the objectives of the Cairns Group, especially the focus on the three pillars of market access, export subsidies, and domestic support. The declaration makes it clear that these are the main platforms for negotiations. In negotiating these, members must also ensure that "special and differential treatment for developing countries . . . be an integral part of all elements of the negotiations," included in the schedule of concessions and commitments. At the bottom of the hierarchy, "non-trade concerns" need only be "taken into account."

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DEVELOPING COUNTRY INTEREST IN THE NEW ROUND

With developing countries making up the vast majority of the WTO membership, the success or failure of addressing their concerns was always going to be key to the successful launch of a new round. Such countries were more involved in the process than they had been in the Seattle Ministerial Conference, and this was reflected in the resulting Doha Declaration where fully two-thirds of the text made references to special provisions for developing countries.

The interests of developing countries are best served by opening their economies to global trade. In this endeavour, however, such countries face special challenges. This is particularly the case in agriculture since it plays such a dominant role in developing-country economies. But it is precisely for this reason that a transition to a more competitive market-based agriculture is so crucial to their development. Avoidance of reform is not the answer. Preliminary research from ABARE, Australia's leading applied economic research agency, shows that if developing countries were to increase their import barriers over current levels, while other countries maintained current support, developing countries would sustain economic losses individually and as a group.

Operationally effective special and differential treatment plays a crucial role facilitating adjustment to a more open and fair trading environment. These can and should include, *inter alia*, flexibility in the implementation of reform commitments, provision of technical assistance to promote capacity building, and the improvement of export opportunities for products of interest to developing countries.

With the Doha Ministerial Declaration stating that "special and differential treatment for developing countries shall be an integral part of all elements of the negotiations," it is clear that the WTO is focused more than ever on development issues. How agriculture is dealt with in the new round will also be crucial in this respect. After all, it is the elimination of trade and production distortions in agriculture that will be of the greatest benefit to developing countries, whose farmers cannot compete against the treasuries of rich developed countries. This is also essential to addressing such non-trade concerns as food security, poverty alleviation, and rural development.