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The WTO Negotiations: Will Developing Countries Benefit From A New Agreement?

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Introduction

The negotiations of the Cancun Ministerial Conference, September 2003, ended without producing any agreement due to the inelastic attitudes, but it gave an indication of a new balance of power among the 146 (148 now) members of the WTO. An important aspect generated from the Cancun conference was the emergence of the G20 group of developing countries (G20¹). The G20, which includes major developing country players such as Brazil, India and China, can be considered a good counterweight to the European Union and the United States, within the multilateral trade negotiations. Historically, the two trading powers, the EU and the US adopt highly protectionist regimens for their farm sectors, whereas developing countries have been always asking them (and other developed countries in general) to open their markets to agricultural products from the third world and to reduce their agricultural support. However, consolidating the positions of developing countries that have diverse interests is not an easy job. Interests of food importing countries for feeding their populations at a reasonable cost are not necessarily the same of interests of exporting countries for opening new markets with recovered world prices.

Hence, developing countries are facing two obstacles: creating unified positions toward a number of important issues under negotiations; and to benefit as much as possible from a new agreement, which may be resulted from the running negotiations supposed to be finalized in Hong Kong ministerial conference, 2005.

The “July Package”

In recent years, agricultural protection and its impact on developing countries have attracted growing attention. While manufacturing protection has declined worldwide following substantial reforms of trade policies, especially in developing countries², most industrial and many developing countries still protect agriculture at high levels. Agricultural protection continues to be among the most contentious issues in global trade negotiations. As explained in the introduction, conflicting trade interests between the US and the EU, on the one hand, and most developing countries, on the other, might be one of the main causes of the breakdown of the Cancun Ministerial Meetings in 2003³. Later on,

¹ Afterward, G22 became G20 after El Salvador and Peru had withdrawn.

² The developed countries' policies also played a role in this relevance, especially because developing countries can not compete in terms of industrial goods.

³ Global Agricultural Trade and Developing Countries report.

the so-called “July Package”⁴, adopted by WTO Members in August 1, 2004, established a framework for modalities or more detailed commitments regarding the agricultural negotiations. These are carried out around three pillars (market access, domestic support and export competition).

The July Package captured the notion that the highest levels of trade distorting support, and the highest tariffs should be substantially reduced. It called for all countries, save the least developing, to improve their market access on all products. In addition, it calls for a full elimination of export subsidies and other forms of export subsidization, such as the subsidy component of export credits. However, although the framework agreement has been established, the specific parameters and timetables still need to be negotiated. The running negotiations essentially focus on the technical issues under the three mentioned pillars. For example, on market access, one of the tricky issues is how to convert “specific tariffs” based on values per ton into their 'ad valorem' equivalents (AVEs), i.e., tariffs based upon a percentage of the product’s import price. Another arguable matter is how to translate non trade barriers into tariffs. This negotiation has to do with the calculation of the base tariff to be further reduced. Tariff reductions will be made on the basis of a progressive approach that means that the higher level of base tariff, the higher percentage of reduction (to be agreed) will be applied. The EU, USA, Switzerland, and Norway have large numbers of specific tariffs that need to be converted into AVEs. Other issues related to market access are those concerned with the flexibility asked by some industrial economies to keep high tariffs on sensitive products and the claim for developing countries to apply a special safeguard on special products’ imports.

As for domestic support, the July Package establishes a stricter framework for allocating subsidies among “boxes”, according to their trade-distorting effect.

Under the July Package, Members are to “expeditiously complete the review of all the outstanding Agreement-specific proposals and report to the General Council” with clear recommendations on modalities (parameters, specific targets) by July 2005, with the aim at reaching a decision on reforming the WTO Agreement on Agriculture in the Ministerial Conference to be held in Hong-Kong by the end of 2005.

⁴ July Package: the agreement on a Framework for Establishing Modalities in Agriculture and other areas, which was reached by the General Council that met in Geneva on 31st of July, 2004. The agreement was the outcome of almost 5 years of negotiations and represents a preliminary step for the final phase of agricultural negotiations that should be finalized in the Ministerial Conference to be held by the end of 2005.

Is the agreement possible?

Developed countries' agricultural subsidies, particularly in Europe and the US, always seem to be a stumbling block in the multilateral trade negotiations. Market interventions; export subsidies and credits, direct payments, and certain types of food aid are questionable forms of agricultural support. The question is whether developed countries are ready for a new Agreement on Agriculture or not. In fact, it seems in some cases they are. The EU has announced that it is prepared to negotiate on the issue of agricultural subsidies if the developing countries are willing to reduce their industrial tariffs, and the multilateral talks are back on the rails again. Therefore, there is reason for cautious optimism. Now that the EU has expanded its membership, the average subsidy in the EU budget will probably have to be reduced. It is good news that the parties are actually negotiating at all, after the breakdown of the WTO talks in Cancun, Mexico in 2003. What it is more difficult is that this stream of reforms leads to a dramatic reform of the Common Agricultural Policy. Moreover, the European commission (EC) and Switzerland spoken on behalf of the G-10 (the friends of the "non-trade concerns"), have announced that non-trade concerns should also be considered.

Prospects

What will happen next? The July package has been established, this will enable the parties to prepare submissions on market access as well as have time to prepare adjustment packages dealing with the tariff reductions. With the current trading environment, a development strategy based on agricultural commodity exports is likely to fail. This is due to the mercantilist and protectionist approach by many countries that, when aggregated, compromise world trade in agricultural and food products. Trade liberalization on a multilateral basis is based on mutual concessions and is likely to benefit all partners. The agricultural reform would reduce rural poverty in developing economies, both because in the aggregate they have a strong comparative advantage in agriculture and because the agricultural sector is important for income generation in these countries. Increased market access in industrial economies, suspended export subsidies and substantially reduced domestic support are likely to contribute to a more open and competitive world market. This scenario is likely to benefit developing countries. The Syrian agricultural sector will also be affected by this scenario, which will become clear when the country becomes a full WTO partner. Agricultural reform at the WTO will

contribute to improve market opportunities for Syrian exporters as well as to encourage reform in Syrian trade policies.

Further information on WTO negotiations

For more information about WTO and the negotiations, the following publications of National Agricultural Policies' Centre (NAPC) can be referred:

- The Syrian Agricultural Trade Reports (SATs), Issues 2003 and 2004. Can be found at http://www.napcsyr.org/dwnld-files/periodical_reports/SAT%202003%20E.pdf and http://www.napcsyr.org/dwnld-files/periodical_reports/SAT%202004%20E.pdf
- Don McClatchy: *Accession to the WTO: Procedures, Issues and Lessons for Syria from Recent Experiences (working paper)*, National Agricultural Policies Centre (NAPC), Damascus, 2004. Can be found at http://www.napcsyr.org/wto_accession.htm
- Carlo Cafiero: *Agricultural Policies in Developing Countries (Training Materials)*, NAPC, Damascus, 2003. Can be found at http://www.napcsyr.org/dwnld-files/training_materials/en/agricultural%20policies%20in%20developing%20countries/TM%20Ag%20Pol%20Dev.pdf
- Mahmoud Babili: *Negotiations' Position of the Main trading partners and their Rationale (not published working paper)*, NAPC, 2005.