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The Agriculture Framework Agreement in the WTO Doha Round

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Summary

WTO member countries reached agreement on July 31, 2004 on a framework for concluding agriculture negotiations in the multilateral trade round known as the Doha Development Agenda (DDA). The framework, part of a work program for all negotiating issues in the DDA (non-agricultural market access, services, trade facilitation, etc.), sets the stage for a next phase of agricultural negotiations which will determine specific targets for curbing trade-distorting domestic support, reducing trade barriers and eliminating export subsidies. The work program establishes no deadline for completing the DDA, but does schedule a Ministerial Conference for December 2005, although negotiations could extend beyond that date into 2006. In the meantime, trade promotion authority procedures (fast-track) for considering legislation to implement trade agreements will expire on June 1, 2005, but can be renewed for two years if Congress does not disapprove. DDA negotiations, which could affect farm programs and spending levels authorized in the 2002 farm bill, could be wrapping up as Congress begins considering the next farm bill. This report will be updated as events warrant.

Introduction

Member countries of the World Trade Organization (WTO) adopted on July 31, 2004 a work program for completing multilateral trade negotiations in the Doha Development Agenda (DDA).[1] The work program includes an overall decision to complete the negotiations launched in Doha, Qatar in November 2001 with annexes that lay out negotiating frameworks for agriculture and other DDA issues. WTO member countries failed to reach such an agreement at their Fifth Ministerial Conference in Cancun, Mexico in September 2003. Agreement now means that negotiations will continue into a next phase. Failure to agree on a framework would have created uncertainty about prospects for concluding the DDA and about the viability of the WTO

[1] The framework agreement known as the *Doha Work Programme: Decision Adopted by the General Council* on August 1, 2004 can be viewed at [http://www.wto.org/english/tratop_e/dda_e/ddadraft_31jul04_e.pdf].

as a global forum for negotiating further trade liberalization. According to several economic analyses, failure to further liberalize world trade would mean foregone opportunities for economic gains for developing and developed countries alike.[2] Other analysis suggests, however, that trade liberalization also would impose adjustment burdens on many agricultural sectors, including some commodity sectors in developed countries.[3]

The Agriculture Framework

The agriculture framework (Annex A of the July 31 Decision) addresses the three "pillars" of agricultural trade liberalization identified in the 2001 Doha Ministerial Declaration: substantial reductions in trade-distorting domestic support; the phase-out, with a view to total elimination, of all export subsidies; and substantial improvements in market access.[4] The framework now becomes the basis for establishing specific formulas, schedules, end dates and other parameters for achieving those objectives during the next phase of negotiations.

Domestic Support

The framework agreement provides that reductions in overall trade-distorting support will be accomplished using a "tiered" or "banded" approach. The tiered formula will be applied to achieve "harmonization" in the levels of support, i.e., the WTO member countries having higher levels of trade-distorting domestic support will make greater overall reductions. As a "down payment" on the overall cut, the framework calls for a 20% reduction from bound (maximum permitted) levels of support in the first year after negotiations are completed.

Not only will member countries make an overall reduction in support, but separate reduction commitments will be made for the components of trade-distorting support, i.e., amber box (most trade-distorting), *de minimis* (a category of spending now exempted from cuts if it accounts for less than 5% of the value of production), and blue box (payments based on fixed areas and yields; a fixed level of production or a fixed number

[2] World Bank, *Global Economic Prospects: Realizing the Development Promise of the Doha Agenda, 2004*. This World Bank study estimates that "a deal to lower global trade barriers could add more than $500 billion a year to global incomes by 2015"; it can be viewed at [http://www.worldbank.org/prospects/gep2004/full.pdf.]; University of Michigan, School of Public Policy, *CGE Modeling and Analysis of Multilateral and Regional Negotiating Options*, January 23, 2001. This study estimates that world welfare would increase by $613 billion with reductions in world agricultural, industrial and service barriers (available at [http://www.spp.umich.edu/rsie/workingpapers/wp.html]. Such analyses illustrate the potential impacts of trade liberalization; real outcomes may not match the studies' results if their assumptions are not matched by the reductions in barriers in the negotiated agreements.

[3] Daryll E. Ray, "World Bank Study: Trade liberalization would shut down two-thirds of EU's grain and oilseed production," AgDM Newsletter, January 2004, viewed at [http://www.extension.iastate.edu/agdm/articles/others/RayJano4.htm].

[4] The Ministerial Declaration launching the DDA negotiations can be viewed at [http://www.wto.org/english/tratop_e/dda_e/dda_e.htm#dohadeclaration].

of livestock). Member countries may make greater than negotiated reductions in each component of support in order to achieve the overall required cut in trade distorting-support.

Amber box support will be reduced using a "tiered" or "banded" approach in which countries with higher amber box subsidies will make greater reductions. Product specific amber box support will be capped at average levels according to a methodology to be negotiated. The definition of the blue box will be modified to include direct payments that do not require production (e.g., U.S. counter-cyclical support), and capped at 5% of a member country's average total value of agricultural production during an historical period. The framework says that additional blue box disciplines will be negotiated. *De minimis* spending also will be reduced according to a formula to be negotiated. Non-trade distorting measures (green box) will be reviewed to ensure that they have no, or at most minimal, trade distorting effects or effects on production. Developing countries will receive special and differential treatment for all types of trade-distorting support in the form of longer implementation periods and lower reduction commitments.

The harmonizing approach in the agriculture framework suggests that others, notably the European Union (EU), would have to cut trade-distorting support more than would the United States. In the EU case, its bound level of amber box support is currently (depending on exchange rates) around $80 billion while the U.S. bound level is $19 billion. According to U.S. trade negotiators, the United States likely should have no difficulty in meeting the aim of cutting the sum of trade-distorting support levels by 20% in the first year as reductions would be made from "bound", or permitted, rather than "applied", or actual, levels.[5] The U.S. Dept. of Agriculture (USDA) estimates that the U.S. bound level of domestic support could be as high as $49 billion (the current U.S. bound level of support for amber box spending plus estimates of the future bound levels of *de minimis* and blue box spending), while actual spending could be considerably less, rendering the 20% cut in the first year meaningless for the United States. However, depending on the outcome of the negotiations, future cuts could be higher, provided that other countries also substantially reduce their trade-distorting support and tariffs. Some in Congress have expressed opposition to cuts in "safety-net programs" put in place by the 2002 farm bill, as would be required by the agriculture framework agreement.[6]

Export Competition

The agriculture framework stipulates that by "the end date" to be negotiated, WTO member countries will eliminate: export subsidies; export credits, credit guarantees or insurance programs with repayment periods beyond 180 days; terms and conditions for export credits ... not in accordance with disciplines to be agreed including, *inter alia*, interest payments, minimum interest rates, and minimum premium requirements; trade distorting practices of exporting State Trading Enterprises (STEs); and provision of food

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[5] See for example "Draft Ag Trade Framework Provides Solid Opportunity for Ambitious Reform", Press release, International Food and Agricultural Trade Policy Council, July 30, 2004; and "Differing Views on Domestic Support Cuts in WTO Framework Deal", by Jim Weisemeyer, viewed at [http://www.agweb.com].

[6] See for example, "Bush Administration's Trade Negotiations Hurt Family Farms," press release dated August 3, 2004, Sen. Tom Daschle.

aid not in conformity with disciplines to be agreed, including disciplines to prevent commercial displacement.

Developing country WTO members will benefit from longer implementation periods for phasing out export subsidies. Furthermore, WTO member countries will ensure that export credits, credit guarantees, or insurance programs appropriately provide for differential treatment in favor of least-developed and net food-importing countries. STEs in developing countries which enjoy special privileges to preserve domestic price stability and ensure food security will receive special consideration for maintaining monopoly status.

The elimination of EU export subsidies has been a longstanding objective of U.S. agricultural trade policy as has requiring greater transparency in STEs such as the Canadian Wheat Board. Pressure from U.S. and developing country WTO members plus successive reforms of the EU's Common Agricultural Policy (CAP), which has reduced its reliance on export subsidies, led the EU to offer to eliminate them by a date certain. In exchange, however, the EU countered that all forms of export subsidies, including U.S. export credit guarantees and food aid, should be eliminated. This trade-off between export subsidies and export credit and food aid programs is reflected in the framework agreement. USDA's export credit guarantee programs, which have provided guarantees for about $4 billion of agricultural exports annually in recent years, would be substantially altered by the agreement. As presently constituted, these programs can provide credit guarantees from 180 days to 10 years.[7]

U.S. food aid for humanitarian relief and development projects (e.g., P.L. 480 Title II donations) which meet the criterion of not displacing commercial sales appear to be unaffected by the framework agreement. Earlier versions of the framework implied that commodity food aid would be eliminated in favor of cash grants. However, the framework does indicate that "...(t)he question of providing food aid exclusively in fully grant form" will be addressed in the negotiations. The role of international organizations vis-a-vis WTO member countries' food aid programs will also be addressed in the negotiations.

Market Access

The agriculture framework calls for all WTO member countries (except the least developed countries–LDCs) to reduce import tariffs using a tiered formula. Harmonization of tariff levels will be achieved through deeper cuts in higher tariffs. Tariff reductions will be made from bound, not applied, rates; higher tariffs will be subject to deeper cuts with some flexibility for "import-sensitive" products. The number of tiers (bands) and the tariff reduction for each band remain to be negotiated. WTO countries may designate a number (to be negotiated) of sensitive products for which "substantial improvement" in market access must be achieved through a combination of tariff quota increases and tariff reductions applied to each product. Developing countries will be able to designate a number of products as "special products," based on criteria of "food security, livelihood security, and rural development needs." These special products will be eligible for more flexible treatment as regards market access. A Special Safeguard

[7] Details on USDA's export credit guarantee programs are at [http://www.fas.usda.gov/excredits].

Mechanism (SSM) will be established for developing countries, while a Special Agricultural Safeguard (SSG) for developed countries (as currently provided for in the Uruguay Round Agreement) remains under negotiation. (Safeguards permit reversion to previous tariff levels if imports surge.)

Other market access issues to be addressed in negotiations include tariff escalation (where value-added products from developing countries receive higher tariffs than unprocessed products), tariff simplification (generally, conversion of specific to *ad valorem* tariffs), and the erosion or loss of trade preferences by developing countries. The framework declares that developed countries, and developing countries in a position to do so, should provide duty-free and quota free market access for products of the LDCs.

Although the agreement is less specific on market access than on the two other pillars, the United States succeeded in getting a number of important principles into the agriculture framework. These include harmonization of tariffs (deeper cuts in higher tariffs), a single approach to improving market access for both developed and developing countries alike, and applying the principle of "substantial improvement" to all, including sensitive, products. However, the United States had to yield greater flexibility to the EU and to a group of developed/industrialized countries (e.g., Japan, Switzerland, Norway, South Korea) in their selection of import-sensitive products. The treatment of special products from developing countries with respect to market access also remain under negotiation. Some maintain that the market access provisions are not as ambitious as proposed by the United States in its comprehensive negotiating proposal, but others maintain that the framework's approach to tariff cuts and market opening is stronger than the proposal that was under consideration during the Cancun Ministerial Conference.[8]

Cotton

Cotton was not mentioned in the 2001 Doha Ministerial Declaration. However, a number of African cotton producing and exporting countries made a proposal for a Sectoral Initiative on Cotton that called for eliminating all trade-distorting cotton subsidies and providing compensation for economic losses of African cotton producers while subsidies were phased out.[9] The United States, while not agreeing with the African proposal, worked with the African countries on a formulation in the framework to address the cotton initiative. The work program stresses the importance of the Sectoral Initiative on Cotton while the agriculture framework (Annex A) provides that work on cotton will be carried out under all three pillars and that the DDA will work to achieve "ambitious results expeditiously."

Cotton is the only commodity specifically mentioned in the framework. Singling out cotton is an indication of the crucial role developing countries played in the framework negotiations. As the WTO operates on the basis of consensus, each of its 147 member

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[8] Draft Cancun Ministerial Declaration is at [http://www.wto.org/english/thewto_e/minist_e/min03_e/draft_decl_rev2_e.htm].

[9] See Poverty Reduction: Sectoral Initiative in favour of Cotton: Joint Proposal of Benin, Burkina Faso, Chad, and Mali (TN/AG/GEN/4, May 16, 2003) at [http://docsonline.wto.org/DDFDocuments/t/tn/ag/GEN4.doc].

countries had to agree to the framework before it could be adopted. Disagreement over cotton could have jeopardized agreement on the entire framework. Ultimately, the Africans agreed to keep negotiations on cotton within the agriculture negotiations, while the United States committed "to achieve ambitious results expeditiously." And both endorsed the framework with these provisions. Special attention to cotton is problematic for U.S. cotton producers who maintain that cotton should not receive special mention in the agreement or in the ensuing negotiations.[10]

Other Issues

The framework states that "particular concerns of recently acceded countries will be effectively addressed through specific flexibility provisions." This provision is viewed as a concession to China who argued that it had already made substantial commitments in all three pillars in its accession negotiations. Sectoral initiatives (e.g., a proposal for zero-for-zero tariffs in oilseeds advanced earlier by the United States), differential export taxes (as employed by Argentina), and geographical indications (GIs, protection for products with geographical names, an important issue for the EU and some other countries) remain "issues of interest but not agreed." Disciplines on export prohibitions and restrictions will be strengthened. Rules on agricultural trade policy monitoring and surveillance will be enhanced so as to ensure transparency, including "through timely and complete notifications" with respect to commitments in the three pillars.

Conclusion: Next Steps

The work program does not establish a new deadline for completing the DDA round, but states that WTO member countries will continue the negotiations beyond the original deadline of January 1, 2005 established in the Doha Ministerial Declaration. The work program schedules the meeting of the Sixth WTO Ministerial Conference, to be held in Hong Kong, for December 2005, but does not detail an agenda for that meeting. Negotiations in the next phase, which could be no less difficult than the one just completed on a framework, could continue into 2006 or later.

If DDA negotiations result in a trade agreement, then Congress could presumably take up legislation to implement it under trade promotion authority (TPA), or fast-track, procedures (Title XXI of P.L. 107-210). Under fast-track, if the President meets the trade negotiating objectives and satisfies consultation and notification requirements in the legislation, then Congress would consider legislation to implement a trade agreement with limited debate, no amendments, and with an up or down vote. TPA, however, covers trade agreements signed by June 1, 2005. A two-year extension is possible if requested by the President and Congress does not disapprove. If a two year extension is permitted, then the effective deadline for U.S. participation in the DDA round and for congressional consideration of implementing legislation becomes June 2007. That time-frame also coincides with the expiration of the 2002 farm bill in 2007. Farm bill changes may be needed to meet U.S. commitments in a final DDA agreement on agriculture.

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[10] The reaction of the National Cotton Council is at [http://www.cotton.org/news/2004/WTORESPONSE.cfm].