

This paper is one in a series of briefing papers by the International Institute for Sustainable Development. Each of the papers focuses on an issue of particular importance for sustainable development in the South in the WTO's current round of negotiations—the so-called Doha Development Agenda. The aim of the series is to set out, in brief and uncomplicated style, what is at stake in those negotiations for those concerned with international development and the environment. The full set of papers, and more information about IISD's work on trade and sustainable development, can be accessed on IISD's Web site at <http://www.iisd.org/trade>.

Prepared by IISD for the Swiss Agency for Development and Cooperation (SDC)

Non-Trade Concerns in the Agricultural Negotiations of the World Trade Organization

1. What is the issue?

During the final stages of the Uruguay Round of multilateral trade negotiations (1986–94), some developed countries argued that the negotiations on agriculture must take into account certain concerns that do not relate directly to the liberalization of trade in agricultural products. In recognition of this position, Article 20 of the Agreement on Agriculture (adopted at the close of the Uruguay Round in 1994) specifies that “non-trade concerns” (NTCs) should be taken into account when the process of continuing reform is resumed. This position was further emphasized in the Ministerial Declaration adopted by the WTO in Doha (November 2001), which confirmed “that non-trade concerns will be taken into account in the negotiations as provided for in the Agreement on Agriculture.”¹

Those countries that have insisted on the importance of NTCs in the agricultural negotiations argue that agriculture is more than food production and, that done properly, it also produces a number of other important social benefits. While neither Article 20 nor the Doha Declaration actually defines what is included under “non-trade concerns,” the major elements on the lists of the demandeurs include:

- the environmental role of agriculture, particularly in relation to biodiversity and the preservation of environmental integrity;
- agriculture's role in assuring food security;
- agriculture's contribution to rural development and viability of rural communities; and
- agriculture's contribution to preserving material heritage (landscapes, buildings) and immaterial heritage (know-how).

Most countries accept that agriculture is not only about producing food and raw materials—that it is multifunctional in that it can serve a number of different social objectives. The

basic question, though, is whether countries should be allowed to pursue such objectives even if in doing so they distort trade, harming the interests of their trading partners. Certain types of non-trade-distorting (or minimally trade-distorting) measures are currently allowed under the Agreement on Agriculture, Annex 2 of which creates a category of allowed support measures falling into what is called the “Green Box.”

This set of allowed measures would seem to give governments a fair amount of policy space for pursuing NTCs such as rural development, environmental protection and food security. However, a summary of the various negotiating positions shows that the debate is far from straightforward.

The Green Box

“Green Box” measures are exempt from the reduction commitments made in the Uruguay Round with respect to agricultural support. They are supposed to be non-trade-distorting or, at most, minimally trade-distorting. Specifically, to fulfil this requirement any support must be provided through a publicly-funded government program rather than through transfers from consumers, and must not have the effect of providing price support to producers. The measures included in the Green Box include:

- general services (not in the form of direct payments) to the agricultural community, such as research, pest management efforts and services such as training, extension, inspection services, marketing, promotion and infrastructure;
- measures to build and hold stocks for food security purposes;
- measures related to domestic food aid;
- direct income support, not based on volumes or type of production, nor on price levels, nor in fact on a requirement to produce at all (this is called “decoupled” support);

- government involvement in insurance, disaster relief and income safety-net programs. Like income support, these programs must be decoupled from actual production;
- government involvement in various forms of structural adjustment and retirement programs;
- payments covering the costs incurred for participation in environmental and conservation programs; and
- payments under regional assistance programs for economically disadvantaged areas. Again, such payments must be decoupled from actual production.

2. What are the different positions on non-trade concerns?

There are three main positions at this preliminary stage of the negotiations:

1. The so-called “friends of multifunctionality,” (mostly developed countries such as the EC, Norway, Japan, Switzerland and South Korea) who support the authorization of additional Green Box measures to address NTCs in all countries. Some of them also promote maintaining certain measures outside the Green Box to address their NTCs (e.g., high tariffs, production-linked subsidies, export subsidies) even if this would further distort trade.
2. A grouping of developed and developing countries (including the U.S. and many of the 17-member Cairns Group (including Canada, Australia, South Africa, and various Latin American and South-East-Asian countries) keen on agricultural liberalization, who oppose the use of trade-distorting domestic support that would damage their export prospects, or compete with their domestic production.
3. A number of developing countries (including India, Pakistan and many African countries) that favour the use of measures to address NTCs in developing countries, but who argue against the use of any trade-distorting measures in the developed countries.

The first group of countries argues that agriculture is unlike other traded goods, and deserves special treatment in part because of its multifunctional character. They favour retaining and expanding the Green Box exemptions, but some argue that these are not enough to allow them to address their NTCs.

A number of the benefits these countries seek are said to be dependent on agricultural production actually taking place. The viability of rural communities, for example, cannot be assured by direct payments to farmers who then cease to farm,

since many communities are based on linkages to the productive activities of the farms. Similarly, it is argued, some forms of biodiversity can only be preserved by continued farming activity. In those countries that are particularly inefficient producers, decoupled Green Box payments would not be enough to address NTCs, since they do not ensure continued farming activity. Paying non-farmers also fails to guarantee preservation of material and immaterial heritage. And if domestic production is an important element of a country’s food security program, payments to non-farmers clearly do not help achieve this objective.

Some friends of multifunctionality such as Japan and Norway argue that this means that the Green Box exemptions are not enough, and that they should be allowed to provide domestic support that is actually linked to production (and is therefore trade-distorting) in addressing their NTCs.

The second group agrees that agriculture can serve many objectives, some non-trade related. But it is opposed to using trade-distorting measures to achieve those objectives, arguing that this would make other countries pay for the supporting country’s priorities. That is, other producing nations would lose the opportunity to export to the supporting country, and would lose market share in third countries to which the supporting country exported. Further, the supporting country would harm all other producers by lowering the price of the agricultural goods in question through overproduction. These trade distortions caused by OECD tariffs and subsidies, they argue, would result in more rural poverty and unemployment in developing countries and, moreover, would force their producers to employ environmentally-unsustainable farming practices as a “compromise between reaping short-term benefits and investing for the future.”² Finally, they maintain that the best way to achieve human welfare (and thereby, to address many NTCs) is through the economic benefits that would flow from undistorted agricultural trade. Accordingly, this group argues for domestic support to be limited to what can fit into the Green Box.

They also argue that in some cases, particularly in developed countries, the interpretation of what fits in the Green Box is very permissive, making it possible for some trade-distorting support to be justified as the pursuit of legitimate NTC objectives. Therefore, they propose a review of the provisions of Annex 2 in order to tighten disciplines and to ensure they meet the fundamental objective of non-trade distortion. Moreover, they propose to put a ceiling on any country’s overall Green Box spending since, as in the case of some OECD countries, Green Box support may be more than “minimally trade-distorting” due to its sheer volume.

The developing countries in the third group also see agriculture as multifunctional, but see a fundamental difference between the NTCs faced by developed and developing countries. They argue that developing country NTCs—primarily food security, sustainable rural development and poverty alleviation—are a higher order of concern than those pursued by developed countries. Farmers, usually rural poor, make up a much higher percentage of the population in developing countries than do farmers in the North. And in most developing countries the agricultural sector is central to food security, poverty reduction and economic growth.³

Like those in the second group, these countries are opposed to the use of trade-distorting support measures by the friends of multifunctionality, suspecting that these would simply be used to avoid any real reform of the existing measures of support. They also protest that even the existing Green Box measures amount to special and differential treatment for the rich, since only the rich have the fiscal wherewithal to employ the types of support allowed, and that further leeway for support would simply be more of the same.⁴

Unlike the second group, however, they advocate special and differential treatment for poor countries that might permit trade-distorting measures of agricultural support.⁵ The most prominent of these arguments are encapsulated in the calls for a “Development Box” of allowable developing country measures. These would address food security by protecting and enhancing the capacity for domestic food production, particularly in key staples. They would also promote poverty reduction, by protecting the low-income farmers from price fluctuations resulting from cheap or unfairly subsidized imports, and by providing employment opportunities for rural poor. The promotion of improved in-country movement of surplus production would also help fight hunger.

In their opinion, the credibility of the reform process hinges on how far the developed countries go in trying to reduce the imbalances and inequities of the current international agricultural trade system rather than seeking reciprocity from developing countries. They believe that it is not possible to promote rural development and to protect farmers in developing countries from unfair competition unless developed countries with high levels of subsidies and protection make clear commitments to eliminate or substantially reduce them.

The arguments of these three groups make it clear that the NTCs debates will not be easily resolved. In the first place, there are a number of questions whose answers we do not know with certainty about the actual effects of liberalization. For example, would abandonment of farmed land in rich

countries in fact lead to environmental damage? And what would be the full effects in developing countries of liberalized markets? Would the rural poor in fact derive much increased income, or would they be subject to crippling price volatility, or forced off the land by an economies-of-scale-driven concentration of land ownership?⁶

Atop this uncertain foundation lies another layer of questions that are quasi-moral in nature. Is it right to support rural communities in rich countries at the expense of the rural poor in poor countries? Does the answer change if the products of that support are not exported? Perhaps most difficult is weighing rich country support for environmental or cultural objectives against the overwhelming human needs in poor countries.

3. What are the implications for developing countries?

Many developing countries are heavily dependent on agriculture and most have vast rural populations. The tariffs and subsidies provided by developed countries distort world markets with negative impacts on those in developing countries who are exposed to them. In 1999, for example, OECD countries spent a record of over US\$361 billion to support their agriculture with an estimated cost to developing countries of US\$20 billion per year in potential exports.⁷

It was in the hope that this type of heavy support could be reduced that many developing countries entered into the Uruguay Round negotiations. In retrospect, many now believe that they paid with costly concessions (such as in the TRIPs and TRIMs areas) to achieve very little. In the Doha negotiations, many suspect that they face the same sort of prospect; they see NTCs as a loophole for rich countries: a shelter from the hardships of real reform of their agricultural support systems.

If, however, developing countries are to successfully press for the flexibility to address their own NTCs—and their arguments for that flexibility are compelling—they will need at some point to concede ground to those who are demanding the same sort of flexibility for rich countries. Provided there is scope for limiting the economic damage done by such support (for example, strengthened Green Box criteria), such a deal would arguably put the developing countries ahead of where they would be in a completely liberalized market. It was noted above that such markets are not always kind to poor rural primary producers. The current crisis in the coffee sector is testimony to that truth. The coffee sector—one of the most liberalized in the world market—can also indicate how much the rural poor actually benefit from developing countries’ access to

non-subsidized OECD markets if no flanking measures (addressing e.g., rural development, food security, stable commodity prices, concentration of buyers' market power, etc.) have been implemented.

This debate also does not address the issue of processing agricultural products and the ability of developing countries to capture a greater portion of the resources available in agricultural product chains. Escalating tariff rates are a particular problem because profit margins are often modest in early stages of processing. Even tariff rates that appear to be quite modest can have prohibitive impacts.

Endnotes

- 1 It is interesting and probably significant that mention of NTCs in the Doha mandate is located in a subordinate position in the paragraph when compared with its position in Article 20.
- 2 Technical Submission by Argentina, WTO document no. G/AG/NG/W/88.
- 3 "Boxing match in agricultural trade: Will WTO negotiations knock out the world's poorest farmers?" Oxfam Briefing Paper, Oxfam International, November 2002.
- 4 In fact, many developing countries' aggregate measurement of support—a calculation of the total support given to the agriculture sector—is actually *negative*, the result of policies that subsidize urban consumers of agricultural products.
- 5 See Shishir Priyadarshi, "Reforming Global Trade in Agriculture: A Developing-Country Perspective," Trade, Environment, and Development, Carnegie Endowment for International Peace, September 2002.
- 6 There is reason to believe that, in some cases, liberalization will lead to concentration of the industry, with subsequent concentration of wealth and urban migration problems. See Runnalls *et al.*, Trade and Sustainability: Challenges and Opportunities for China as a WTO Member, IISD, 2002. (<http://www.iisd.org/publications/publication.asp?pno=486>).
- 7 OECD Agricultural Policies in Emerging and Transition Economies, 2000.

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