Oxfam Briefing Paper

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Boxing match in agricultural trade

Will WTO negotiations knock out the world's poorest farmers?

Agricultural trade could play a key role in the fight against poverty. But in practice the rules which govern world agricultural trade benefit the rich rather than the poor. Rich countries spend vast sums of money protecting the interests of their producers, while at the same time forcing poor countries to open their markets to subsidised imports. Achieving an equitable outcome from the WTO agricultural negotiations will be a litmus test of the so-called Doha Development Round. Developing countries should not sign a new agricultural agreement if their vital development needs are not adequately addressed.

MAKE TRADE FAIR

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Summary

Ninety-six per cent of the world's farmers live in developing countries, where agriculture provides the main source of income for some 2.5 billion people. Despite growing urbanisation, two-thirds of the world's poor still live in rural areas and nearly three-quarters of the workforce of the Least Developed Countries (LDCs) are employed in agriculture. While the demand for food continues to grow in developing countries, 17 per cent of their populations are already undernourished.

The agricultural sector in developing countries is, in other words, critical to food security, poverty reduction, and economic growth. It is therefore crucial that agricultural trade rules are designed to foster agricultural growth in these countries. However, the system which governs world agricultural trade, in the form of the Uruguay Round Agreement on Agriculture (AoA), is inherently unjust. It legalises unfair trading practices by rich countries, thereby denying poorer countries the chance to benefit from their share of the wealth generated by global trade.

The Agreement's main flaw is that it allows rich countries to dump their subsidy-driven surpluses on world markets, depressing prices to levels at which local producers can no longer compete. Developing-country domestic markets are thus undermined, their import dependence increased, and export opportunities denied. US subsidies on cotton, for example, have stimulated overproduction, leading to a slump in cotton prices on the world market. As a consequence, cotton exporting countries in sub-Saharan Africa lost an estimated $301m in export earnings in the 2001/02 season alone. Millions of African cotton farmers now see their livelihoods under threat.

What makes it worse – and illustrates the spectacular double standards at play – is that rich-country members of the WTO, while protecting and subsidising their own domestic producers, have at the same time been forcing developing countries to open their markets. Haiti, for example, is now one of the most open economies in the world. Under pressure from the IMF and the US, it cut its tariff on rice to a mere 3 per cent. As a result, rice imports – mostly subsidised rice from the US – increased thirty-fold. The price of rice in Haiti has hardly fallen, and malnutrition now affects 62 per cent of the population, up from 48 per cent in the early 1980s. Big rice traders and American rice farmers have emerged as the winners of this process.

At the same time, high tariffs in rich countries continue to limit marketing and diversification opportunities for developing countries. As a result, the liberalisation of agricultural markets has mainly benefited the few transnational companies that dominate agricultural trade, and a tiny minority of wealthy landowners in developed countries. Farmers in developing countries captured only 35 per cent of world agricultural exports in 2001 – down from 40 per cent in 1961, as a result of falling commodity prices and high trade barriers.

Rich countries have clearly stacked the advantages of the AoA in their own favour. Tailoring the rules to their specific situations, they have secured the right to subsidise their own farmers at almost unlimited levels. Since the introduction of the Agreement on Agriculture in 1995, domestic subsidies in the OECD countries have not fallen but actually increased.

Many developing countries, which have limited funds to subsidise agricultural development, see domestic market protection as the major policy instrument to support their agricultural sectors and secure the livelihoods of their rural poor. The AoA, however, has considerably reduced the flexibility they have to protect their agricultural markets. Future negotiations threaten to reduce that room for manoeuvre even more.

WTO negotiations for a new agricultural agreement are due to be concluded in 2005 but are now reaching a critical phase where the basic rules are being redefined. Instead of working towards rebalancing the current agreement, rich countries are fighting to protect their privileges, and completely failing to register the very specific needs of developing countries. Achieving an equitable outcome from the WTO agricultural negotiations will be a litmus test of the so-called Doha Development Round. Developing countries should not sign a new agreement that condones export dumping and prevents the protection of rural livelihoods and food security.

Oxfam is therefore recommending that the Agreement on Agriculture under negotiation be accompanied by an interpretative note establishing members' rights to take necessary measures to protect the livelihoods and food security of all their citizens. In addition, the Agreement should be amended in order to:

1. End all forms of dumping of agricultural products. This entails:

- A binding timetable to eliminate all export subsidies, including the subsidy element of export credits;
- Stronger disciplines on domestic subsidies that facilitate export dumping (exporting products at prices below their production cost)
- Stronger disciplines on food aid;
- The right for developing countries to apply additional tariff duties while phasing out trade-distorting support.

2. Recognise the special position of developing countries by providing meaningful Special and Differential Treatment, such as:

- Lower reduction commitments for developing countries on tariffs, internal support and export subsidies, with no commitments for LDCs;
- Timeframes for liberalisation based on development indicators;
- Market access under Tariff Rate Quotas preferentially allocated to developing countries;
- A renewed 'Decision on Measures Concerning the Possible Negative Effects of the Reform Programme in Least-Developed and Net Food-Importing Countries'.

3. Provide developing countries with sufficient flexibility to achieve their food security and development objectives. To that end introduce a Development Box which, among other things, includes:

- Basic food security crops in developing countries exempt from reduction commitments on tariffs;
- The right to renegotiate excessively low tariff bindings for food security crops;
- A new Special Safeguard Mechanism available to all developing countries.

4. Improve market access conditions for developing countries.

Glossary

Amber box: In the vocabulary of the WTO Agreement on Agriculture, domestic subsidies are divided into three boxes: **amber**, **green,** and **blue**. The amber box contains domestic support measures considered to distort production and trade, such as price support measures, or other subsidies that are linked to production levels. Amber box subsidies must be reduced by 20 per cent for developed countries and 13 per cent for developing countries. Domestic support is permitted equivalent to a maximum of five per cent of total production value for developed countries and 10 per cent for developing countries. These 'de minimis' levels are free from reduction commitments.

Applied tariff: This is the tariff rate effectively applied to an imported product when it enters a country. Countries are free to decide the level of their applied tariffs as long as these are lower than the **bound tariffs** that they committed to respect. Unilateral liberalisation as part of IMF or World Bank programmes has often led to low applied tariffs.

Blue box: Subsidies that are linked to production, but that are part of production limiting schemes such as quota systems or set-aside, fall not under the amber but under the blue box. These subsidies are considered less **trade distorting**, and therefore no limits have been set on blue box spending.

Bound tariff: Under WTO rules, tariffs are bound or fixed at a certain level. This level provides the tariff ceiling that WTO members must respect as part of their commitments. Countries may apply lower tariffs in practice if that suits their economic needs.

Development box: In an analogy with the **green, blue, and amber boxes** that cover industrialised-country interests, a number of developing countries have proposed to introduce a development box into the Agreement on Agriculture. The development box is meant to increase developing countries' flexibility in adopting domestic policies that are geared to enhance production and protect rural livelihoods. Measures proposed for this box are specifically targeted at low-income/resource-poor farmers, and include for example the right to renegotiate low tariff binding for food security crops and a **special safeguard** to deal with import surges. They also include additional flexibility in the use of subsidies to further rural development and food-security goals.

Dispute settlement system: The WTO has a system designed to resolve trade quarrels and enforce the agreed rules. When a Member of the WTO considers that his rights are impaired by measures taken by another WTO Member, it can invoke this dispute settlement system.

Export dumping: Export dumping is defined by economists as the sale of products below costs of production. In the Agreement on Agriculture, however, dumping is defined as the export of products at prices below those charged in the domestic market.

Food security: Food security exists when everyone has at all times access to and control over sufficient quantities of good quality food for an active and healthy life.

Green box: Green box subsidies are those considered non- or minimally trade distorting. They include environmental protection and regional development programmes, and direct income support to farmers that is not related to current production levels or prices. Green box subsidies are therefore allowed without limits, provided that they comply with the policy-specific criteria set out in the Agreement’s Annex 2.

Marrakesh Decision: During the Uruguay Round negotiations, the members laid down a ‘Decision on Measures Concerning the Possible Negative Effects of the Reform Programme on Least Developed and Net-Food Importing Countries'. This so-called Marrakesh Decision was meant to protect net-food-importing countries from the rise in world prices expected to result from liberalisation. To date, it has not been operationalised.

Modalities: The period from March 2002 to March 2003 is one of the most critical stages of the agriculture negotiations. It sets ‘modalities’ for achieving the objectives set out in the Doha Ministerial Declaration: ‘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’. The modalities form the basis of a new agreement, laying down, for example, reduction formulas.

Non-tariff barriers: Non-tariff barriers are all obstacles to trade apart from tariffs that are either quantitative (quotas, and import or export bans) or technical (such as sanitary barriers).

Non-trade concerns: A number of countries argue that the agricultural sector warrants specific treatment under the WTO because of its multi-functional role in society. ‘Non-trade concerns’ include among others food security, food safety, and the labeling of products.

Peace clause: Contained in Article 13 of the Agreement on Agriculture, the Peace Clause restricts members' rights to retaliate against other members' subsidies as long as those subsidies remain within committed levels.

Special and differential treatment: In its preamble, the Agreement Establishing the World Trade Organization cites sustainable economic development as one of the objectives of the WTO. It also specifies that international trade should benefit the economic development of developing and least-developed countries. This is the basis for a number of special and differential treatment provisions, which are meant to adapt WTO rules to take into account the specific needs and constraints of developing countries.

Special safeguard: Safeguards are contingency restrictions on imports taken temporarily to deal with special circumstances, such as a sudden surge in imports. The special safeguards provisions for agriculture allow member countries to raise tariffs when import volumes rise above a certain level, or if prices fall below a certain level. They can only be used on **tariffied** products, and when governments have reserved the right to do so. As a consequence, very few developing countries have access to them.

Swiss formula: A few countries are proposing to use a Swiss formula for the reduction of tariffs. This mathematical formula *(final tariff = (initial tariff x* *a)/(initial tariff + a), where the coefficient a is, for example, 25)* reduces high tariffs with higher cuts than low tariffs.

Tariffication: An objective of the Uruguay Round was to convert all non-tariff barriers, such as quotas, into tariffs. So far, 20 per cent of agricultural products have been tariffied.

Tariff rate quotas: During the Uruguay round it was agreed that the members would change their non-trade barriers into tariff equivalents. As resulting tariffs were in some cases too high to allow any imports, at the same time a system of tariff rate quotas was designed to maintain existing access levels, and provide minimum access opportunities. Within these import quotas, lower tariff rates are applied.

Trade-distorting support: Trade-distorting support refers to subsidies that provide direct or indirect financial support to the production and export of specific agricultural goods and that therefore have an effect on production levels and international trade flows. Non trade-distorting subsidies are not linked with production or exports and are unspecific. For instance, subsidies to encourage environmentally friendly practices are typically thought of as non- or minimally trade-distorting measures.

Source: *www.wto.org and the texts of GATT and the Uruguay Round Agreement on Agriculture.*

Introduction

Ninety-six per cent of the world's farmers – approximately 1.3 billion people – live in developing countries. [1]In the rural areas of the developing world, close to 900 million people live on less than $1 a day.[2] The agricultural sector is crucial for their survival and could be a major trigger for rural development. But this potential is being undermined by unfair trading practices in the developed world. The multilateral trading system should provide fair trade rules, but in practice, the rules are stacked against the interests of the poor.

The Uruguay Round Agreement on Agriculture (AoA) allows the world's richest governments to pour vast sums of money into agriculture and compete unfairly on the world's markets by dumping their export surpluses, while at the same time pushing developing countries to open their markets. The set of colourful boxes (amber, blue, and green),[3] which allows a few industrial countries to continue increasing agricultural subsidies and dumping surpluses, is a clear illustration of the double standards at play.

With the negotiations on a new agricultural agreement reaching a critical phase, rich countries must put an end to this unjust and absurd situation. If they do not, developing countries should not agree to sign a new agreement, since this would bring no benefits to the vast majority of the world's farmers.

Developing countries have special needs in the agricultural sector...

For developing countries, agriculture is not just one sector among many. It is the main source of income for 2.5 billion people, including farmers and their dependants. Some 73 per cent of the workforce in the Least Developed Countries (LDCs), and 59 per cent in all developing countries, are employed in agriculture. Despite growing urbanisation, two-thirds of the world's poor live in rural areas.

Malnutrition and hunger still blight the developing world. The Food and Agriculture Organisation (FAO) estimates that approximately 777 million people in developing countries, or an average of 17 per cent of their populations, are undernourished.[4] And with populations still growing, the demand for food will increase. The agricultural sectors in these countries have a major role to play in meeting this growing demand, and in providing the income to fuel further development.

Export revenues from agriculture represent 27 per cent of total export earnings for developing countries, and 34 per cent for the LDCs.[5] Moreover, evidence suggests that agricultural growth has a stronger impact on poverty alleviation than growth in other sectors, and that rural growth reduces both urban and rural poverty.[6]

Developing countries therefore have special needs with regard to the development of their agricultural sectors, such as secure access to affordable food for their poorest citizens, sustainable rural livelihoods for their farmers, and greater foreign exchange revenues from their agricultural exports. At the recent Review of the World Food Summit, the world's governments – most of them members of the WTO – acknowledged these special needs by reaffirming 'the fundamental importance of national production and distribution of food, sustainable agriculture and rural development in achieving food security'.[7]

But contrary to their support for such grand statements, donors have neglected the agricultural sector during the last 20 years – total agricultural ODA has decreased by 50 per cent – and shown complete inertia in the face of plummeting primary commodity prices.[8] Worse still, many institutions in developing countries in charge of agricultural policies, such as marketing boards, have been dismantled with no alternative systems put in place.

World trade rules have an important and specific role to play in helping developing countries achieve food security and sustainable livelihoods for their farmers. Most countries are currently strapped for cash because of debt and structural adjustment. Many do not have the capacity to implement safety-net measures for farmers in need. Nor are there private insurance schemes to smooth out the price shocks caused by variability or delays in production. This is why trade instruments such as tariffs, quantitative restrictions, and safeguards, or the right to use subsidies to foster rural development, are crucial for the development of the agricultural sector in developing countries.

... but liberalisation is not the answer

However, the main preoccupation of donors – in particular the IMF and the World Bank, on whose policies rich countries have a major influence – and of many rich-country members of the WTO has been to try and remove these critical trade instruments by pushing poor countries to liberalise their agricultural markets. This is supposedly in the belief that liberalisation has a direct positive impact on development and poverty reduction. As a result of these donor policies, Bangladesh, for example, cut its average tariff from 102 per cent to 27 per cent between 1988 and 1996; Ghana, Kenya and Tanzania cut tariff rates by one-half or more during the 1990s; Peru's average tariff in 1991 was one-third of its level in 1989.[9]

This faith in the virtues of liberalisation rests on very strict assumptions regarding macroeconomic stability in developing countries (including stability of exchange rates and export revenues), internal redistribution mechanisms (such as safety nets), and efficient market structures (such as competition, credit, and infrastructure). In reality, these conditions are rarely present, especially among the LDCs.

In fact, country-level evidence shows that there is no direct and simple correlation between trade liberalisation, growth, and poverty reduction. Several strong trade liberalisers, such as Haiti, Zambia, and the Philippines, have demonstrated poor economic performance in terms of per capita GDP.[10] Others, such as Costa Rica, Brazil, Argentina, and Mexico, have been unable to reduce poverty and are confronted by a widening gap between rich and poor.

Poor farmers are being wiped out…

In many developing countries where liberalisation has proceeded at breakneck speed, small farmers have been wiped out and entire sectors have disappeared.

Mexico, for example, saw its agricultural exports grow considerably after it joined NAFTA and opened its agricultural markets. However, it was the large commercial firms that reaped most benefit from the new opportunities. The rural poor, growing maize for subsistence, saw their livelihoods destroyed by a flood of cheap US imports.

Many similar cases of small farmers suddenly losing their livelihoods have been documented. Haiti is one of the countries where poverty and malnutrition have increased dramatically during a period of rapid market liberalisation. Imports of subsidised US rice have displaced local production, leaving no winners but the large American traders (**Box 1**). In Jamaica, dairy producers face an unprecedented crisis, after markets opened and subsidised European milk powder started flooding in.[11] In Guyana, imports of poultry meat from the US rose by a factor of 50 between 1985 and 1998, almost wiping out the domestic sector.[12] In the Philippines, poverty among the millions of rice and maize farmers has risen steadily since the government deregulated the market.[13] More recently, we have seen how a policy of agricultural liberalisation and deregulation has contributed to the unprecedented hunger crisis in Southern Africa.[14]

Box 1 Booming imports and rising malnutrition

With its per capita income of $556, Haiti is the poorest country in the Western Hemisphere. Two-thirds of its people live in rural areas; 80 per cent of them are poor. Nearly half the population consumes less than 75 per cent of the recommended intake of food energy. Rice is a major staple in the Haitian diet, and is mainly produced by small farmers. Twenty per cent of people depend on rice cultivation for their livelihoods. Moreover, the rice sector has a major economic spin-off, with thousands of agricultural labourers, traders, and millers also earning their living from it.

In recent years Haiti has undergone rapid trade liberalisation, and is now one of the most open economies in the world. Liberalisation of the rice market started in the 1980s, but the final stroke came in 1994/95 when, under pressure from the international community (most notably the IMF and the US), the tariff on rice was cut from 35 per cent to a mere 3 per cent.

Rice producers reported that prices fell by 50 per cent during 1986-7, after the first wave of liberalisation. In 1995, local production fell by 27 per cent. Rice imports increased 30 times between 1985 and 1999 as a result of the market slump. Food aid in rice surged from zero in 1994 to 16,000 tonnes in 1999. Most rice imports are of subsidised US rice.

These trends have severely undermined the livelihoods of more than 50,000 rice-farming families and led to a rural exodus. While cheap imports initially benefited poor consumers, in recent years these benefits have vanished. The prices of local and imported rice are now converging, due mainly to the depreciation of the national currency and to cartel activities by rice importers. According to the FAO, overall malnutrition has increased since the start of trade liberalisation, affecting 48 per cent of the population in 1979-1981 and 62 per cent in 1996-98. Almost half of Haiti's food needs are now met by imports. With further depreciation of the national currency and an ongoing world economic recession, Haiti's difficulties in feeding its people and providing secure livelihoods to its rural population may further deteriorate.[15]

A major cause of lost livelihoods is continued dumping by rich countries – i.e. the export of products below the costs of production – which creates unfair competition for local producers. But problems have also been caused by unsubsidised trade, for instance between developing countries.

South-South trade represents approximately 50 per cent of total trade for developing countries. Without export dumping, regional trade between relatively similar economies could provide more opportunities for farmers to compete, find new market outlets, and reach economies of scale. Nevertheless, sharp differences in productivity can still lead to import surges and high adjustment costs that need to be adequately taken into account at the WTO and in regional trade agreements if development disasters are to be prevented.

Senegal provides a good example of the difficulties caused by such import surges. With 75 per cent of its population working in the agricultural sector, sustainable livelihoods for its farmers are critical. Since 1995, when tariffs on rice were lowered to 10 per cent, imports (mainly from Thailand) have almost doubled. Senegalese producers cannot compete with the higher yields and bigger farms of Thai farmers. This import surge has caused severe distress in the domestic rice sector, forcing the government to apply a 20 per cent surcharge in order to avoid worsening poverty in rice-producing areas.[16] On the other hand, the government needs to secure reasonably low cereal prices for the poor, given that 30 per cent of its population is undernourished. But depending entirely on the world rice market, which is extremely volatile, would not guarantee access to affordable food for all. Moreover, Senegal has limited ability to finance rising food imports. For all these reasons, Senegal needs to retain the flexibility to use tariffs and other border measures to meet its vital development needs.

… and food insecurity is rising

As a result of import liberalisation and other factors, such as insufficient public investment in agriculture, growth in food production in developing countries has been insufficient to meet the needs of a growing population. In fact, 24 LDCs saw their per capita food production fall between 1990 and 1999.[17]

To fill this glaring gap, many developing countries have become net food-importing countries. Contrary to neo-liberal theories, this has not necessarily led to lower prices for consumers and higher levels of nutrition. More than 20 per cent of the total population of some strong trade liberalisers, such as Bolivia, Nepal, and Mali, are undernourished. In Zambia and Haiti this figure rises to at least 35 per cent. In all these cases, despite import liberalisation which supposedly leads to lower food prices, there has been no significant change in the incidence of malnutrition between 1990/92 and 1997/99. [18]

At the same time, the commodity crisis has caused many developing countries to fall into an export trap. Countries that have developed their capacity to produce and export cash crops in order to generate higher export revenues are confronted with continuously falling prices due to chronic world overproduction. Worse, they are barred from diversifying into the export of other crops, especially those with higher value-added, because of tariff escalation or tariff peaks and the growing market power of TNCs.

Hence, some countries have become very food insecure, facing a combination of chronic poverty, dependence on low-priced and price-fluctuating exports, high levels of food imports, and low levels of domestic supply of essential food crops, such as cereals. On the basis of evidence from 14 developing countries, the FAO has concluded that most countries have seen their food imports rise rapidly since the implementation of the Uruguay Round Agreement on Agriculture. Brazil and India's import bill more than doubled; in Thailand, Peru, Pakistan, Morocco, and Bangladesh it grew by more than 50 per cent. For many African countries, the cost of food imports represents more than 30 per cent of all export earnings.[19]

Within this context, some economists argue that dumping food into the developing world is beneficial, because it lowers the cost to these countries of food imports. This echoes the concerns of some net food-importing countries, worried about the adverse impact that any decrease in overall agricultural support in OECD countries might have on their capacity to import. However, many of these subsidies do not necessarily benefit the poorest consumers. While urban populations sometimes benefit from lower import prices of staple foods, the poorest households, often located in rural areas, do not enjoy lower prices of any significance because of in-country transportation costs and the actions of importers' or traders' cartels. Moreover, subsidies often rob developing countries of opportunities in third markets. This is the case for American subsidies on cotton (**Box 3**) and for most export credits. Between 1995 and 1998, less than 10 per cent of export credits provided by developed countries were directed at net food-importing countries.[20]

High levels of dependence on food imports are dangerous for several reasons. Notwithstanding low prices, a country might not be able to generate sufficient export revenue to finance these imports, as the example of Haiti clearly shows. Moreover, relying on the ability of OECD countries to continue subsidisation in order to secure the food security of one's population is a very risky strategy in the long-term.

Finally, the expected increase in cereal prices as a result of dismantling subsidies might not be as high as the cost of remaining in a grossly distorted system, even for net food-importing countries. Existing estimates from the OECD and the IMF do not forecast substantial price increases in the case of cereals. Moreover, any price increases would probably be temporary, as efficient producers would react by increasing production. That being said, for individual countries the effects of liberalisation could still be relatively large. An increase of five per cent on the world market price for wheat in 2000 for some net food-importing developing countries such as Egypt and Pakistan would have increased their import bill by some $35m and $7m respectively. (Egypt's maize import bill would have risen by a similar amount).[21] This additional financial burden would need to be addressed by appropriate international financing mechanisms for countries in need, such as a revolving fund.[22]

Agricultural rules are rigged in favour of the rich…

The WTO Agreement on Agriculture (AoA) is inherently unfair. Its unbalanced provisions and implementation contradict the very premise of the Uruguay Round Agreement, the objective of which was to raise the standard of living for all, and to provide developing countries with a share in the growth of international trade commensurate with their development needs.

The main flaw in the Agreement is that it legalises the unfair agricultural policies and trading practices of developed countries, and therefore works in favour of the few TNCs that dominate agricultural trade and a tiny minority of wealthy landowners in the US, the EU, and Japan.

As a result, developing countries are largely excluded from the wealth generated by world trade. The share of world agricultural exports for the 96 per cent of farmers in developing countries in 2001 was only 35 per cent, compared with 40 per cent in 1961.[23] Subsidised rich-country exports have been a double whammy: on the one hand undercutting domestic markets and increasing import dependence in developing countries, and on the other, depressing world market prices and undermining developing-country export opportunities. Other reasons for the declining market share of developing countries include the fall in primary commodity prices[24] and the high barriers they face when entering the fastest-growing segment of world agricultural trade, i.e. highly processed food products. Processed food exports from developing countries amount to less than three per cent of consumption in the so-called Quad countries.[25]

The AoA lays down liberalisation commitments under three major headings: export competition, domestic support, and market access. Developing countries are severely handicapped in all three areas – but the fact that developed countries are still allowed to dump their surpluses is the Agreement's most flagrant shortcoming.

Export competition

Under the AoA, export subsidies were to be reduced by 36 per cent, and the volume of exports covered by subsidies by 21 per cent. But subsidised exports continue to put considerable pressure on world prices and undermine local markets in developing countries.

The EU has a staggering €3.4bn budget for export restitution.[26] €1.6bn is used to export sugar only, allowing the EU to be by far the biggest exporter of white sugar, despite its production costs being double those of countries such as Brazil, Thailand, or Mozambique (**Box 2**).[27]

Box 2 Not as sweet as it tastes

The EU sugar regime has three elements: price support (high guaranteed prices for producers and processors), production control (quotas), and trade measures (export refunds, import levies, and preferential agreements). The price support element is extremely "effective": EU processors receive a guaranteed price three times that on the world market: €632 per tonne, compared with a world price of €184 in mid-2002. The weakest element is production control. Production and preferential imports together exceed domestic consumption in the EU by more than one-third. Due to high internal prices, excess quota production and preferential sugar imports from ACP countries can only be exported with export subsidies. EU taxpayers and consumers have to foot the €1.6bn bill.

The greatest costs, however, are borne by sugar-producing developing countries. Many of them are low-cost producers but, as a result of the EU sugar regime, they face depressed world market prices, reduced access to the EU and other export markets, increased price volatility, and heavy competition for their confectionery industries. Small farmers and agricultural labourers bear the brunt of these costs.

One country that suffers is Mozambique. With an average per capita income of €235, and 70 per cent of its people living below the poverty line, Mozambique is among the poorest countries of the world. Close to 80 per cent of its population live in rural areas, where agriculture is the sole source of employment. Sugar is a high-potential export crop and a possible motor for development. It is the single largest source of employment in the country, and important in diversifying and stabilising household incomes. Production costs in Mozambique are less than €286 per tonne, which makes it one of the world's most efficient producers. Reviving the sugar industry has therefore been a priority since the end of the civil war.

However, the country faces many obstacles in its attempts to achieve this. Until this year, Mozambique was completely blocked out of the European market. And as Europe dumps its surplus overseas, it depresses other export opportunities. With a market share of 40 per cent for white sugar, the EU is definitely a price setter: a World Bank study estimated that world market prices fell by 17 per cent as a consequence of the EU sugar regime.[28] Moreover, Mozambique can hardly compete in third markets. In 2001, Europe exported 770,000 tonnes of white sugar to Algeria and 150,000 tonnes to Nigeria, both of them natural export markets for competitive producers such as Mozambique.[29]

However, simple export restitution is not the only means to subsidise exports. The US, for example, has its 'Step 2' subsidies, which are meant to compensate US exporters and processors for the differences between internal and international prices. The US insists that these subsidies are not export subsidies, as they do not discriminate between exporters and domestic processors. But they have exactly the same effect.

This is also true of the system of export credits used by the US. Under the Export Credit Guarantee Programme: importers of US products can borrow dollars at US interest rates, while the banks lending to them have these loans guaranteed by the US government. This gives American exporters a huge advantage over their competitors in importing countries with hard currency shortages and high interest rates.[30]

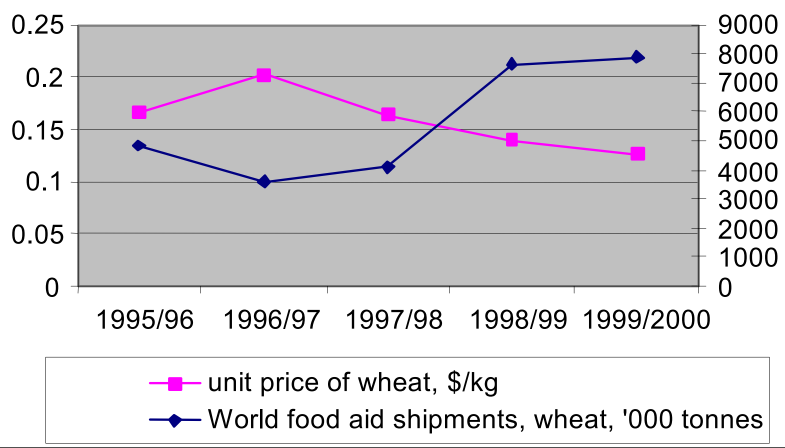
Moreover, evidence suggests that a number of countries dump their surpluses on developing-country markets under the guise of food aid. World Food Programme figures show that food aid has peaked in the years when world cereal prices were low and stocks particularly high.[31] Food aid – which is in the order of $2.5bn annually – is not strictly regulated under the Uruguay Round.[32] It is this absence of WTO disciplines that has allowed donor countries to use food aid to dispose of surplus stocks when commodity prices are low. Food aid is the most important of all green box measures, most of it provided by the US through its PL-480 programme. In 1998, 75 per cent of green box measures notified by the US were for food aid.[33] The PL 480 programme has been widely criticised for being used to pursue the commercial interests of US exporters in international markets. For instance, when the US suddenly doubled its food aid to Jamaica in 2000, Guyanese producers saw their rice exports plummet because of this unfair competition.

The ironic consequence of this practice is that food aid shipments have dried up when countries needed them most, i.e. when world supplies were low and prices high. Between 1995-97, when food import bills for the LDCs and non food-importing countries increased by 49 per cent, food aid in wheat fell (**Figure 1**).

As a result of the Agreement on Agriculture, export subsidies have been reduced to a ceiling of $14bn. The level of dumping, however, has no such limit. First, effective dumping practices such as the US Step 2 subsidies or export credits were not addressed by the Agreement. Second, creative bookkeeping made possible a shift away from subsidies on prices and exports towards subsidies given directly to farmers. In the EU, for example, prices for a number of products were reduced to world market levels, making export subsidies superfluous. However, farmers were compensated for these price cuts with direct subsidies, which cover part of their fixed costs and enable EU industries to continue exporting at low prices.

Figure 1: food aid and world prices

The example of wheat (1995-1999)



Source: FAOSTAT

Current WTO rules permit this new-style dumping. In fact, dumping is defined as the export of products at prices below those charged in the domestic market.[34] However, to estimate the extent of dumping one should take as the starting point not the price level in domestic markets but the cost price of products. Often, domestic prices are below the costs of production because of government intervention.

Oxfam has developed a dumping indicator which assesses precisely this – i.e. the gap between export prices and production costs. In a number of cases the gap is stunningly large – true for products benefiting from export subsidies (such as EU sugar) as well as products that have undergone a shift to income support (such as EU wheat). This situation was made possible by inventive rule-making under the domestic support pillar.

- The US and the EU account for half of all wheat exports. Their export prices are respectively 46 per cent and 34 per cent below the costs of production.
- The US accounts for more than half of all maize exports, and exports at prices one-fifth below the costs of production.
- The EU is the largest exporter of skimmed-milk powder, and exports at prices approximately half the cost of production.
- The EU is the world's largest exporter of white sugar. Export prices are only one-quarter of production costs.[35]

Domestic support measures

The AoA requires that domestic support be reduced, but it also sets out a number of exemptions to that rule, which conform perfectly with Western practice. All domestic support is divided across a set of coloured 'boxes'.

- The agreement's amber box contains all domestic support that is considered trade distorting. It was agreed that these subsidies should be reduced by 20 per cent - which leaves 80 per cent of all internal subsidies that distort trade untouched.
- A blue box exempts direct payments under production-limiting programmes from reduction commitments, assuming that such payments are minimally trade-distorting. The EU, among others, increasingly uses such payments. Reform of the EU Common Agricultural Policy has led to a shift from price support towards direct support measures, which in 1999 amounted to more than €28bn, or 72 per cent of the farm budget. However, these payments have proved to be far from minimally trade distorting. Wheat production, for example, has grown considerably after the shift from price to income support.[36] The so-called production-limiting programmes have been wholly ineffective.
- The green box contains payments that are said to have no, or at most minimal, trade-distorting effects or effects on production. They are therefore not subject to reduction commitments. They include a wide range of agricultural support measures, such as payments for research and development, infrastructure, pest and disease control, and domestic food aid. Both developing and developed countries make use of such payments, although the latter do so at much higher levels. The US even claims that its direct payments to farmers fall under the green box because they are based on production levels and values of previous periods, and are therefore 'decoupled'.

The consequence of these arrangements has been that domestic subsidies in OECD countries have not fallen but rather increased, peaking in 1997 as a result of moving payments from the amber box to the blue or green boxes. According to the OECD, over 60 per cent of domestic agricultural support in OECD countries is exempt from domestic reduction commitments. The US recently added to the growing amount of money spent on agriculture by adopting a Farm Bill that increases the agricultural budget by $18bn annually for the next 10 years.

Market access

During the Uruguay round, the stakes were high in the negotiations under the market access pillar. On the one hand, market-access instruments were and are still the major policy tools that developing countries have at their disposal to support their agricultural sectors. On the other, developing countries expected considerable income gains from improved access to wealthier markets.

Under the AoA all non-tariff barriers were to be converted into tariffs, and these tariffs were to be reduced by 36 per cent. This tariffication, combined with a careful choice of the base period, has allowed many developed countries to bind their tariffs at extremely high levels. Tariff peaks and tariff escalation continue to limit marketing and diversification opportunities for developing countries. As a result, market access to rich countries has not met the expectations of many poorer countries.

- Agricultural tariffs are significantly higher for products of particular export interest to developing countries, such as staple foods, sugar, tobacco, and fruit juices. For example, the EU MFN tariff on meat products is 250 per cent, while the US and Canada apply MFN tariffs on groundnuts exceeding 120 per cent.
- As a consequence, when developing countries export to world markets, they face import barriers that are, on average, four times higher than those faced by rich-country exporters.[37]
- Developing countries have a comparative advantage in many agricultural sectors, but they have been unable to increase their market share. Developing countries' share in world agricultural exports in 2001 was 35 per cent – down from 40 per cent in 1961.[38]

And while developing countries are disappointed by the progress made on their access to developed countries' markets, they also complain that they cannot support and protect their own agricultural sectors properly. They have insufficient funds to subsidise their farmers, as rich countries do. For many, market protection through tariffs is the most attainable and adequate way to secure reasonable prices, enhance agricultural production, and protect vulnerable groups. Their situation is also aggravated by the fact that they regularly have to cope with imports of subsidised produce.

More specifically, the AoA offers developing countries no tools to protect themselves adequately against sudden import surges and price shocks on the one hand, or against structural subsidised imports on the other:

- Only a very few developing countries have access to Special Safeguard Measures.[39] Safeguard duties can be triggered automatically with sudden import surges or imports priced below a certain reference level, without the obligation to prove that serious injury is being caused to domestic agriculture.
- Countervailing Measures or anti-dumping actions are sometimes proposed as an alternative to Special Safeguard Measures. Both propositions offer no solution. First, the measures serve different purposes: Special Safeguard Measures iron out temporary fluctuations, while countervailing and anti-dumping measures deal with structural distortions. Second, most developing countries lack the legal expertise and institutional capacity to start the costly legal processes associated with anti-dumping or countervailing measures. It is practically impossible for them to prove injury in the way it is currently required. Third, countervailing or anti-dumping measures cannot be used against import surges that are not subsidised but still threaten local farmers. Fourth, these measures can only be used against a limited set of dumping practices, because developed countries have negotiated a number of exceptions to the rule, including the Peace Clause (see below).

For some developing countries, the gap between bound and applied tariff levels may now provide some scope to increase tariffs when needed, but this scope may be reduced in the current negotiations. Moreover, flexibility is further constrained for those countries dependent on IMF/World Bank financing. Countries that have already unilaterally liberalised their markets under structural adjustment programmes have limited room within which to negotiate.

Special and Differential Treatment

During the Uruguay Round negotiations there was little support for a significant Special and Differential Treatment (SDT). This resulted in a weak set of instruments compared with earlier agreements.[40]

Under the AoA, SDT entails that developing-country commitments to reduce export subsidies, internal support, and tariffs are lower, and that they have a longer time within which to achieve these reductions; the LDCs have no reduction commitments in these three areas. Under the domestic support pillar, developing countries have higher *de minimis* levels – which means that a budget equivalent to 10 per cent of their production value is free from reduction commitments, compared with five per cent for developed countries. In addition, a number of investment measures targeted at low-income and resource-poor farmers or at strengthening food security are exempt from liberalisation.

Finally, the members laid down a 'Decision on Measures Concerning the Possible Negative Effects of the Reform Programme on Least Developed and Net-Food Importing Countries'. This so-called Marrakesh Decision was meant to protect net food-importing countries from the rise in world prices expected to result from liberalisation.

It is fair to conclude that the benefits of Special and Differential Treatment for developing countries are dwarfed by the treatment enjoyed by developed countries under the blue and green boxes:

- While developing countries have a few years longer for their reduction commitments, these timeframes are the result of political bargaining rather than a rational approach based on need. These countries will be helped not by arbitrary deadlines but by an approach that links reduction commitments to relevant development indicators.
- Lower reduction commitments for export subsidies and internal support are fine for the few developing countries with the budget to make use of such measures. However, the overwhelming majority do not. Nor have higher *de minimis* levels benefited many countries: most do not even have sufficient budget to fund support equal to five per cent of the value of production.
- Despite price increases in 1995-96, the Marrakesh Decision was never implemented.[41] The decision was not legally enforceable, and no mechanism was established to give it teeth. When prices rose, there was no agreement that this was the result of liberalisation under the AoA. As a consequence, the costs of

liberalisation have been borne by poor, net food-importing countries.

The peace clause

As if the AoA did not provide sufficient advantageous treatment for developed countries, a peace clause was also introduced. This protects big subsidy users from most retaliatory actions by other members against their practices during the AoA's implementation period to the end of 2003. In practice, this has allowed the EU and the US to circumvent some of their obligations under the AOA without fear of legal challenges from their trading partners.

But Brazil has recently challenged this status quo by initiating cases at the Dispute Settlement System of the WTO against the inadequate implementation of commitments to reduce subsidies by the EU (on sugar) and the US (on cotton). (**Box 3**)

…and current negotiations are far from promising

As negotiations on the Agreement on Agriculture reach a critical phase, the significance of the words 'development round' seems more strained than ever. Even though the vast majority of farmers live in the South, amazingly little attention is being paid to development issues. Once again, developing countries are being squeezed between the market-access-chasers and the status-quo-defenders. Some of the proposals so far put forward are so unrealistic that not even their proponents could fully implement them. Most completely fail to register the obvious specificity of developing-country needs.

Box 3 US cotton subsidies: dressed to kill

When Brazil challenged US cotton subsidies, it made a move that may benefit many developing countries – and the millions of poor farmers that try to make a living out of cotton. These people have seen their livelihoods threatened by the chronic price depression that now dominates the international cotton market. With 2001/02 prices at around 42 cents per pound, even the most efficient producers are operating at a loss.

Not the US cotton farmers, however. Even though their cost price is three times the average in Burkina Faso, and despite a price fall of 54 per cent since the mid-1990s, American farmers have been able to expand production. Since 1998 US exports have almost doubled; US market share has risen from 16 per cent in the early 1990s to more than 20 per cent at the end of the decade.

The absurdity that the US could expand its market share to the detriment of much more efficient producers has been made possible by huge subsidisation programmes. During the 2000/01 season the 25,000 American cotton producers together received a staggering $3.9bn in subsidies. Under the 2002 Farm Bill they will receive a price some 73 per cent above world market levels. Such extraordinary support has enabled farmers to ignore market signals and has stimulated overproduction. As such, it has been one of the main causes of the slump in world prices.

Joint research by the FAO and the International Cotton Advisory Committee has found that the withdrawal of subsidies would lead to a 10 per cent decline in US production, resulting in a 26 per cent rise in world market price.

Oxfam has calculated that in Mali alone, some $43m in export earnings were lost as a result of US subsidies, equivalent to 1.7 per cent of GDP. Burkina Faso lost 12 per cent of export earnings, equivalent to one per cent of GDP. The losses sustained by Benin are equivalent to twice the US aid budget to that country. In total, exporting countries in sub-Saharan Africa lost $301m as a direct consequence of US cotton subsidies. Millions of farmers have seen their livelihoods threatened.

The US acts the innocent. It claims that part of the subsidies is decoupled from production and therefore eligible for the green box. Moreover, it refuses to notify Step 2 subsidies and export credits as export subsidies. Both claims are hard to substantiate in reality.[42]

The US proposal

While the dust of its 2002 Farm Bill was not yet settled, the US put forward a negotiation proposal that totally fails to address development needs. It proposes to reduce amber box subsidies to five per cent of the total value of agricultural production and to maintain the green box in its current form, which would leave most of the US subsidies untouched. It proposes to eliminate all export subsidies, but fails to introduce disciplines on food aid and export credits. On market access, the US is demanding tariff cuts to a maximum level of 25 per cent, with a Swiss formula (reducing high tariffs at a faster pace than low ones), and starting not from bound but from applied rates.[43] Tariff reductions would be applied over a five-year period. On top of that, the US proposes to eliminate the Special Safeguard Mechanism.

The proposal lacks any reference to Special and Differential Treatment. Reducing tariffs by one steep formula for all member states runs even counter to the Doha text, which says that developing countries should make less than reciprocal market access concessions. Moreover, reducing tariffs on the basis of applied rates instead of WTO bound rates penalises those countries that have already unilaterally liberalised. The proposed elimination of special safeguards is a slap in the face for developing countries, which would like to see a new special safeguard, reserved for the South.

Overall, the proposal lacks credibility. The US government itself would probably be politically incapable of fulfilling its own market access objectives for products such as groundnuts, which currently have a peak tariff of 125 per cent. But this approach would certainly serve the interest of major multinationals, which see market access into big developing countries such as China and India as the equivalent of paradise (box 4).

Box 4 An 'open' world food system: the dream of food giants

The food industry has continued to become more concentrated during the last decade. A few traders, processors, and retailers now control substantial shares of national or international markets:

- The world's top ten food and beverage companies had annual sales of \$220bn in 1999, while the top ten global grocery retailers' sales reached \$557bn.This is larger than the value of total agricultural trade, estimated at \$460bn (average 1966-99).
- In the US, three companies (Cargill, ADM, and Zen Noh) control 65 per cent and 81 per cent of soybean and corn exports respectively. The four biggest beef packers control 81 per cent of the total market.

Transnational companies in the food sector have a keen interest in ensuring that world trade rules place no obstacles on their further expansion. In fact, it was former Cargill Vice-President, Dan Amstutz, who drafted the original text of the current Agreement on Agriculture. The food industry is also taking a proactive stance in the current negotiations to ensure the free movement of their products and investments around the globe:

'The Grocery Manufacturers of America 's primary objective is to improve market access for processed food products and primary agricultural products through reduced tariffs and the elimination or further liberalisation of TRQs…We recommend that export subsidies be eliminated…..GMA also supports a comprehensive high standards agreement on investment, including disciplines for investors' protection, removal of barriers to entry and non-discrimination.'

Major companies, like Cargill, are particularly keen on opening Southern markets, irrespective of the effects on rural livelihoods and food security: '*Over half of population growth by 2008 will happen in Asia as well as 30 percent of the world income growth in the next decade... People in India and Vietnam spend more than half their incomes on food, while the Chinese spend more than a third. If better food could be delivered more efficiently, more income would be freed up to spend on other things like motorbikes, cellular phones, even computers…A global open food system would be the one where the regions that grow food best are linked through with regions that need food most… That system describes a region where the best areas for growing food – the Americas – are linked through trade with the areas where food is needed the most, Asia.'* (Cargill)

Source: *Grocery Manufacturers of America's submission to USTR, May 10, 2001; Cargill: Fritz Corrigan, Open trade: The key to future prosperity for US Agrifood Businesses, December 2,* *1999; Scott Portnoy, testimony before Ways and Means committee, May 14, 2001; FAOSTAT; Hendrickson and Hefferman. 2002. Concentration of Agricultural markets; Sophia Murphy. 2002. Managing the invisible hand.*

The Cairns Group proposal

Although it incorporates more SDT elements than the US proposal, the proposal from the Cairns Group of net food-exporting countries[44] still fails to address the major problems faced by developing countries. While recognising that developing countries cannot possibly liberalise their imports at the same rate as the Quad countries, the Cairns countries still demand improved access through steep tariff cuts and an increase in Tariff Rate Quotas (access quotas with low tariffs) by adding a volume equivalent to 14 per cent of domestic consumption. These are substantial concessions, even over a nine-year implementation period.

While the proposal establishes the need for a special safeguard for developing countries, it would also restrict the range of circumstances under which this instrument could be used. The Cairns Group’s argument is that an extended use of safeguard measures would kill South-South trade. Apart from the fact that there is no such evidence to that effect, failure to provide measures to deal with import shocks between Southern countries is a recipe for disaster, and could provoke heightened economic and political tensions between Southern trading partners.

The EU

The EU's overall approach to the negotiations has so far been exclusively focused on the narrow interests of European agribusiness (**Box 4**) and wealthy farmers. The Union is fighting to defend its own agricultural model by stressing the sector's 'multifunctional role' in society. In its view, progress in the negotiations is only possible if ‘non-trade concerns’ such as food safety or geographical indications are taken into account. In reality, the EU just wants to protect its markets from import competition.

At the same time, the EU pushes for greater market opportunities in developing countries, especially those with large populations and growing markets such as China and India. This is why it has proposed special and differential treatment provisions for developing countries, which are very limited in scope regarding market access.[45]

Moreover, the EU wants to continue 'dumping' as usual. It refuses to curb export dumping at the source, strongly defending the use of export subsidies and green and blue box subsidies as well as the renewal of the peace clause.

Developing countries

Given that developing countries represent two thirds of the WTO's membership, most of the undernourished population of the world, and 96 per cent of its farmers, their proposals – rather than the commercial interests of developed countries and multinational corporations – should be the linchpin of the new agreement.

There are of course differences between developing-country positions depending on the size of their agricultural sector, their level of competitiveness, and their import needs. But all developing-country proposals clearly emphasise the need for adequate and operational special and differential treatment provisions to further policy objectives in terms of food security and poverty reduction.

If the WTO is indeed a member-driven organisation, no new agricultural agreement should be concluded without responding to these legitimate concerns.

A number of countries have proposed bringing all measures directed at food security together in a 'development box', analogous with the blue and green boxes that cover industrialised-country interests.[46] The purpose of the development box would be to increase developing countries' flexibility to enhance production for domestic consumption and protect the livelihoods of low-income farmers. Specific elements of such a development box include:

- the exemption of food-security crops from tariff reduction commitments;
- the renegotiation of too-low tariff bindings for these products;
- the design of a new Special Safeguard Mechanism for developing countries;
- the exemption of all domestic support measures for food-security goals from reduction commitments.

The other consensus position among developing countries is to stop the dumping of agricultural products into developing countries at source, but also to counter its current effects. Some proposals are focusing on instruments designed to counter the negative impact of dumping on the farming sector. Mercosur countries emphasize the importance of countervailing duties. The Philippines proposed to balance the Agreement by linking tariff reductions in developing countries to reductions in export subsidies and domestic support in developed countries. This would enable developing countries to apply additional duties, equivalent to the level of dumping of the imported products.[47]

Finally, net food-importing countries, with the support of other developing countries, have insisted on making the Marrakech Decision effective and operational. Their objective is to make sure that the elimination of export subsidies will not result in a costly increase of food import bills for them.

Achieving fair agricultural trade rules by 2005: what needs to be done

Agricultural trade could play a major role in the fight against poverty and food insecurity. In practice, it does not fulfil that promise. Changing unfair agricultural trade rules at the WTO and in regional agreements is one of the major challenges facing the multilateral trading system.

The basis of these changes should be the recognition that a New Agreement on Agriculture should not and will not be an obstacle to the right to sustainable livelihoods for all. More specifically, the AoA must be amended in order to:

- End all forms of dumping of agricultural products;
- Recognise the special position of developing countries and provide a meaningful Special and Differential Treatment;
- Provide developing countries with sufficient flexibility to achieve their food security and national development objectives.
- Improve market access for developing countries to developed countries' markets.

Recognising the right to sustainable livelihoods

The Doha Declaration put development at the heart of the trade agenda. It was agreed that an Agreement on Agriculture should enable developing countries to 'take account of their development needs, including food security and rural development'.[48] To clarify this basic premise, the AoA should be accompanied by an interpretative note, which establishes that the Agreement should not prevent members from taking measures to protect the right to sustainable livelihoods and food security of all their citizens. Such a note could be based on the Doha Declaration on the TRIPS Agreement and Public Health.

Stop the dumping

A balanced agreement will prevent industrialised countries from dumping their subsidised surpluses, depressing world market prices, and undermining local and third markets. In order to prevent dumping, the agreement needs to contain the following elements:

- A binding timetable to eliminate all export subsidies, including Step 2 subsidies and any subsidy component of export credits.
- Stronger disciplines on the use of food aid through more specific guidelines for WTO compliance and reinforced monitoring capacities of the UN Food and Agricultural Organisation.
- Strong disciplines regarding domestic subsidies that have an effect on production and international trade. As a rule, subsidised products should not be exported, unless subsidies are minimally trade distorting. This rule entails:
    - that blue box subsidies are only available for non-exported products;
    - that the criteria of green box subsidies be tightened, resulting in a box of measures that are not related in any way to production and do not distort trade;
    - support to supply management systems (quota, set-aside, etc.) as long as they are designed to support small farmers and minimise trade distortions.
- Until trade-distorting support is effectively eliminated, developing countries should have the right to use additional duties equivalent to the dumping level in the imported products.

Establishing a meaningful Special and Differential Treatment

It is clear that a one-size-fits-all approach to agricultural trade will put developing countries further behind and endanger poor people's livelihoods in the South. In order to achieve a level playing field, effective Special and Differential Treatment provisions are needed. These must include the following elements:

- Lower reduction commitments for developing countries on the three pillars: domestic support, export competition, and (especially) market access, which is the major policy instrument available to developing countries.
- Least Developed Countries remain free from reduction commitments.

- The implementation schedule of reduction commitments based not on politically negotiated and arbitrary timeframes, but on development indicators.
- Market access under tariff rate quotas preferentially allocated to developing countries.
- A renewed 'Decision on Measures Concerning the Possible Negative Effects of the Reform Programme on Least Developed and Net Food-Importing Countries'. The renewed Decision should be legally enforceable and accompanied by the creation of a revolving fund placed under the aegis of the FAO. This fund will be used to compensate developing countries that are negatively affected by any increase in their food import bills associated with liberalisation under the AoA.
- Rules for using countervailing duties or safeguards modified to address the specific administrative constraints faced by developing countries.

Providing flexibility to achieve food security objectives

Developing countries need more flexibility to achieve their food security objectives. To that end a development box should be introduced in the AoA, which will have at least the following elements and characteristics:

On market access

- Basic food security crops in developing countries exempt from reductions in tariffs;
- The right to renegotiate tariffs of food security crops that were bound at too low levels under the Uruguay Round;
- All developing countries having access to a new Special Safeguard Mechanism to respond to import surges.

On domestic support

- All domestic support measures taken by developing countries for food security, rural development, rural employment, and poverty alleviation exempt from reduction commitments.
- Article 6.2 of the AoA, which provides some flexibility in this field, expanded to include:
    - support directed towards low-income and resource-poor farmers;

- measures to support domestic production of staple crops;
- transportation costs for food security crops from food-surplus to food-deficit parts of a country.

- If provided for food security purposes, support should be allowed to exceed existing *de minimis* levels.

Improving market access conditions for developing-country products

Negotiations should allow developing countries to secure a share in agricultural trade commensurate with their development needs. Priority areas are products of interest to developing countries covered by tariff peaks and tariff escalation. Non-tariff barriers such as sanitary and phytosanitary rules, technical barriers to trade, or rules of origin should not be designed or used in a way that prevents the growth of developing-country exports.

In addition to WTO negotiation processes, other key reforms include:

- Resolving the commodity crisis affecting many developing countries and farmers by reintroducing international mechanisms to deal with chronic crises of oversupply.
- Addressing the problems caused for farmers in developed and developing countries by excessive corporate concentration in the agricultural sector. Competition authorities in countries where major agribusiness firms originate should strengthen monitoring of, and sanctions against, monopolies, cartels, and other anti-competitive practices in the food sector.
- Improving domestic policies to address inequalities in access to productive resources such as land, credit, and infrastructure.

Notes

[1] There are 1.3 billion farmers in developing countries. But there are 2.5 billion people depending on agriculture for their main source of income in developing countries, including all persons actively engaged in agriculture and their non-working dependants.

[2] FAOSTAT 2000 on agricultural population and total labour force.

[3] In WTO terminology, subsidies are identified by 'boxes' which are given different colours depending on how much they distort trade flows, from green (least distorting) to amber (most distorting). For details, see glossary.

[4] FAO statistics for the world food summit.

[5] IMF. 2002. Market access for developing country exports. Selected issues.

[6] FAO 2002. FAO papers on selected issues relating to WTO negotiations on agriculture. p.30.

[7] Declaration of the World Food Summit: five years later, June 2002, FAO, Rome.

[8] Tickell, S. (2002) 'Mugged: Poverty in Your Coffee Cup', Oxford: Oxfam www.maketradefair.com/assets/english/mugged.pdf (last checked November 2002); Raworth, K. (2002) 'The Great EU Sugar Scam', Oxford: Oxfam www.oxfam.org/eng/pdfs/pr022508_eu_sugar_scam.pdf (last checked November 2002); Watkins, K. (2002) 'Cultivating Poverty: the Impact of US Cotton Subsidies on Africa', Oxford: Oxfam www.oxfam.org/eng/pdfs/pp020925_cotton.pdf (last checked November 2002)

[9] Watkins, K. (2002) 'Rigged Rules and Double Standards: trade, globalisation and the fight against poverty', Oxford: Oxfam www.maketradefair.com/stylesheet.asp?file=26032002105549 (last checked November 2002)

[10] Defined by the speed and depth of import liberalisation reforms in the 1990's. Source: Watkins, K. (2002) 'Rigged Rules and Double Standards: trade, globalisation and the fight against poverty', Oxford: Oxfam www.maketradefair.com/stylesheet.asp?file=26032002105549 (last checked November 2002)

[11] Watkins, K. (2002) 'Rigged Rules and Double Standards: trade, globalisation and the fight against poverty', Oxford: Oxfam www.maketradefair.com/stylesheet.asp?file=26032002105549 (last checked November 2002)

[12] FAO (2002) 'Agriculture, Trade and Food Security, Country Case Studies

[13] Watkins, K. (2002) 'Rigged Rules and Double Standards: trade, globalisation and the fight against poverty', Oxford: Oxfam www.maketradefair.com/stylesheet.asp?file=26032002105549 (last checked November 2002)

[14] Lawson, M. (2002) 'Death on the Doorstep of the Summit', Oxford: Oxfam www.oxfam.org/eng/pdfs/pr020829_doorstep.pdf (last checked November 2002)

[15] Sources: Oxfam International. 2002. Rice dumping in Haiti and the Development Box Proposal; Jean Marie Robert Chery. 2001. Etude de l'impact de la libéralisation commerciale dans le secteur rizicole,. Study produced for Oxfam GB.

[16] Riz et Politiques Commerciales au Senegal. Memorandum written by El Hadji Alioune Diouf for Oxfam in 2002 and FAO (2002) 'Agriculture, Trade and Food Security', Country Case Studies, p.285.

[17] UNCTAD (2002) 'Least Developed Country Report 2002' p.250 www.unctad.org/en/pub/ps1ldc02.en.htm (last checked November 2002)

[18] Comparing trade liberalisation data from trade report and FAO data from the State of Food insecurity in the World 2001, p.3.

[19] FAO (2002) 'Agriculture, Trade and Food Security', Chapter 1 and FAO (2002) 'FAO Papers on Selected Issues Relating to WTO Negotiations on Agriculture' p.13-17.

[20] FAO (2002) 'FAO Papers on Selected Issues Relating to WTO Negotiations on Agriculture' p.87

[21] Internal note written by Tim Rice from Action Aid based on OECD statistics and Action Aid research on the Marrakesh decision.

[22] During the Urguuay Round, members committed to protect net-food-importing countries from the rise in world prices expected to result from liberalisation. See page 16 for details.

[23] WTO (2002) International Trade Statistics 2002 and UNCTAD (1999) 'Agricultural Trade Barriers, Trade Negotiations and Interests of Developing Countries' TD9X)/RT.1/8.

[24] Real non-fuel commodity prices declined by 50% between 1980 and 2002. UNCTAD. 2002. Escaping the poverty trap. p.138.

[25] World Bank (2001) Global Economic Prospects p. 22. The Quad countries consist of Japan, the EU, the US and Canada.

[26] Budget 2001, website DG AG.

[27] Raworth, K. (2002) 'The Great EU Sugar Scam', Oxford: Oxfam www.oxfam.org/eng/pdfs/pr022508_eu_sugar_scam.pdf (last checked November 2002).

[28] Hazeleger, B. (2001) *EU sugar policy, assessment of current impact and future reform*, Netherlands: Agrapen.

[29] Sources: Hazeleger (2001) and Oxfam (2002).

[30] Raworth, K. (2002) 'The Great EU Sugar Scam', Oxford: Oxfam www.oxfam.org/eng/pdfs/pr022508_eu_sugar_scam.pdf (last checked November 2002).

[31] WFP (May 2001) The Food Aid Monitor – 2000 Food Aid Flows, Rome.

[32] Article 10 of the AOA sets a few conditions including avoidance of tied aid, high degree of concessionality and respect for the FAO principles of surplus disposal and consultative obligations of the FAO. Food aid is also mentioned in the Marrakesh decision on NFIDCs.

[33] Majda Petschen (WTO secretariat). Les filets de sécurité du revenu agricole dans le cadre de l'accord sur l'agriculture. Intervention au Club Demeter. Paris, 3 juillet 2001.

[34] See article IV of GATT. Costs of production are taken into account to assess dumping only if the product is not sold on the domestic market.

[35] Watkins, K. (2002) 'Rigged Rules and Double Standards: trade, globalisation and the fight against poverty', Oxford: Oxfam www.maketradefair.com/stylesheet.asp?file=26032002105549 (last checked November 2002).

[36] Godfrey, C. (2002) 'Stop the dumping! How EU agricultural subsidies are damaging livelihoods in the developing world', Oxford: Oxfam.

[37] Watkins, K. (2002) 'Rigged Rules and Double Standards: trade, globalisation and the fight against poverty', Oxford: Oxfam www.maketradefair.com/stylesheet.asp?file=26032002105549 (last checked November 2002)

[38] WTO. 2002. International Trade Statistics and FAO statistical database (FAOSTAT agriculture).

[39] Special safeguards can only be used on products that were tariffied. Moreover, only 39 WTO members have currently reserved the right to make use of this measure.

[40] Stevens, C. (2002), Extending Special and Differential Treatment (SDT) in Agriculture for Developing Countries, Discussion Paper No.1, presented to FAO Round Table, Geneva 1 February 2002.

[41] Priyadarshi, S, (2002) 'Reforming Global Trade in Agriculture: a developing country perspective', Carnegie Endowment for International Peace: Trade, Environment and Development, Issue 2.

[42] Watkins, K. (2002) 'Cultivating Poverty: the Impact of US Cotton Subsidies on Africa', Oxford: Oxfam www.oxfam.org/eng/pdfs/pp020925_cotton.pdf (last checked November 2002).

[43] In the Uruguay Round members fixed their tariffs at so called 'bound rates', which provided the basis for reduction commitments. The bound tariffs are the maximum tariffs countries may apply; in reality they often charge lower rates: the applied tariffs.

[44] The Cairns Group consists of Argentina, Australia, Bolivia, Brazil, Chile, Colombia, Cost Rica, Guatemala, New Zealand, Paraguay, Philippines, South Africa, Thailand and Uruguay.

[45] Commission speaking points for the meeting of the Committee on Agriculture (2-5 September 2002)

[46] Cuba, Dominican Republic, Honduras, Kenya, Nicaragua, Pakistan, Sri Lanka, Zimbabwe.

[47] Proposal made on September 12, 2002.

[48] WTO (2001) 'Ministerial declaration', Doha, WT/MIN(01)/DECW/1.

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Oxfam International Advocacy Office, 1112 16th St., NW, Ste. 600, Washington, DC 20036 Tel: 1.202.496.1170, E-mail: advocacy@oxfaminternational.org, www.oxfam.org
Oxfam International Office in Brussels, 22 rue de Commerce, 1000 Brussels
Tel: 322.502.0391
Oxfam International Office in Geneva, 15 rue des Savoises, 1205 Geneva
Tel: 41.22.321.2371
Oxfam International Office in New York, 355 Lexington Avenue, 3rd Floor, New York, NY 10017 Tel: 1.212.687.2091

Oxfam Germany
Greifswalder Str. 33a
10405 Berlin, Germany
Tel: 49.30.428.50621
E-mail: info@oxfam.de
www.oxfam.de

Oxfam-in-Belgium
Rue des Quatre Vents 60
1080 Burxelles, Belgium
Tel: 32.2.501.6700
E-mail: oxfamsol@oxfamsol.be
www.oxfamsol.be

Oxfam Community Aid Abroad
National & Victorian Offices
156 George St. (Corner Webb Street)
Fitzroy, Victoria, Australia 3065
Tel: 61.3.9289.9444
E-mail: enquire@caa.org.au
www.caa.org.au

Oxfam GB
274 Banbury Road, Oxford
England OX2 7DZ
Tel: 44.1865.311.311
E-mail: oxfam@oxfam.org.uk
www.oxfam.org.uk

Oxfam New Zealand
Level 1, 62 Aitken Terrace
Kingsland, Auckland
New Zealand
PO Box for all Mail: PO Box 68 357
Auckland 1032
New Zealand
Tel: 64.9.355.6500
E-mail: oxfam@oxfam.org.nz
www.oxfam.org.nz

Intermón Oxfam
Roger de Lluria 15
08010, Barcelona, Spain
Tel: 34.93.482.0700
E-mail: intermon@intermon.org
www.intermon.org

Oxfam America
26 West St.
Boston, MA 02111-1206
Tel: 1.617.482.1211
E-mail: info@oxfamamerica.org
www.oxfamamerica.org

Oxfam Canada
Suite 300-294 Albert St.
Ottawa, Ontario, Canada K1P 6E6
Tel: 1.613.237.5236
E-mail: enquire@oxfam.ca
www.oxfam.ca

Oxfam Hong Kong
17/F, China United Centre
28 Marble Road, North Point
Hong Kong
Tel: 852.2520.2525
E-Mail: info@oxfam.org.hk
www.oxfam.org.hk

Oxfam Quebec
2330 rue Notre-Dame Quest
Bureau 200, Montreal, Quebec
Canada H3J 2Y2
Tel: 1.514.937.1614 www.oxfam.qc.ca
E-mail: info@oxfam.qc.ca

Oxfam Ireland
9 Burgh Quay, Dublin 2, Ireland
353.1.672.7662 (ph)
E-mail: oxireland@oxfam.ie
52-54 Dublin Road,
Belfast BT2 7HN
Tel: 44.289.0023.0220
E-mail: oxfam@oxfamni.org.uk
www.oxfamireland.org

Novib
Mauritskade 9
2514 HD. The Hague, The Netherlands
Tel: 31.70.342.1621
E-mail: info@novib.nl
www.novib.nl