Chapter II

The Politics of Agriculture Negotiations: Developed vs. Developing Countries

Introduction

The negotiation in international agriculture trade has remained the most prominent and acrimonious issue. A solution to some of these controversies, particularly those surrounding agricultural export subsidies and related domestic measures (such as price supports and production quotas) was crucial to the successful conclusion of the Uruguay Round of GATT negotiations. Protectionism has been pervasive in the agricultural sector in Canada, the US, the EU and Japan. Prior to the Uruguay round Final Act, the GATT itself placed fewer strictures on agricultural protection than was the case with most other sectors. Moreover a number of the major exporting states had come close to ignoring GATT requirements altogether even to the point of refusing to implement GATT panel decisions. The IMF has estimated the costs of agricultural protection to taxpayers and consumers in the OECD countries alone amounts to US$300 billion each year. The IMF has also found that liberalisation of this sector involving both trade and domestic policy reforms in these countries would result in gains to consumers and taxpayers far outweighing losses to agricultural producers.¹ Despite the economic welfare case for liberalising trade in agriculture, a number of rationales are still often involved for treating the agricultural sector as a special case. These rationales include: supposedly exceptional price and income stability; the importance to national security of agricultural self-sufficiency; and the cultural and social value of preserving rural lifestyles (Trebilcock & Howse, 1999). Thus it

becomes a sensitive sector both politically and economically in both
developed and developing countries. In developing countries it is an
economically sensitive sector on account of a high share of the population in
these countries depends on the agricultural sector. And agriculture differs from
that of the developed countries since it cannot just be traded as any other good
and is the basis for survival. Furthermore, it is argued that agriculture is
multifunctional, i.e. it is not just about producing food but is linked to other
issues such as livelihood security, rural development and landscape, to the
point of tourism. Others maintain, however, that liberalizing agricultural trade
offers great potential for efficiency gains as well as distribution benefits for
the poorest members of our societies. This make the negotiations in agriculture
far are complex and have been very difficult.

The Ministerial Declaration launching the Uruguay Round (UR) observed that
there was an ‘urgent need to bring more discipline and predictability to world
agricultural trade by correcting and preventing restrictions and distortions
including those related to structural surpluses so as to reduce the uncertainty,
imbalance and instability in world agricultural markets’. This concern was not
misplaced as, prior to the World Trade Organisation (WTO) agriculture was
among the most distorted sectors in international trade. The principal source of
these distortions (which were in addition to those resulting from international
market concentration) was the co-existence of a very high level of domestic
and export subsidies and almost impenetrable import barriers for agricultural
goods in developed countries. Farm subsidies distorted the production
structure of a country by raising crop prices in a country’s internal market.
Higher prices induce overproduction of the subsidised crop. Most agricultural
goods are priced and income-inelastic in nature and therefore, high-income
countries tend to have a stagnant demand for such commodities. Over-
production and stagnant demand for agricultural goods lead to a ‘structural
surplus’ in these countries. This surplus not only squeezes out imports in the
already restricted domestic markets, it is also dumped in the international
market at a cheaper rate. This leads to price suppression of that commodity in

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2 WTO/GATT Ministerial Declaration on the Uruguay Round (Declaration of 20 September 1986).
the international market. Export subsidies are used to cover the price difference between high domestic prices and lower international prices.

Domestic support in developed countries thus leads to low international commodity prices that presently have forced many developing countries out of the farm trade. Though many developing countries are low-cost producers of agricultural goods, they have not been able to compete with the artificially cheap exports from developed countries. UR AoA tried to discipline the farming sector by imposing restrictions and reduction commitments on domestic and export subsidies. It was expected that the integration of agriculture in the multilateral system would reduce distortions in the international agricultural trade and would benefit the developing countries.

In more than ten years since the UR AoA was implemented, the experience has been that domestic subsidy reduction commitments turned out to be the least reliable. Farm support given by Organisation for Economic Co-operation and Development (OECD) countries still amounts to more than US$ 300 billion a year, that is about half the total value of international trade in agricultural goods, which in 2003 was around US$ 674 billion. This was despite resolve during the early round of negotiation the case for removing agricultural protection was a strong one where both US and the EU accepted the removal of the subsidies as the basic goal of the Uruguay round negotiation (A.J. Rayner, Ingersent, & Hine, 1993).

Even in the subsequent review, it was expected that the current round of WTO negotiations on agriculture will effectively reduce of domestic farm subsidies. Not surprisingly, the Doha Ministerial Declaration, launching the Doha Development Round called for ‘substantial reductions in trade-distorting domestic support’. However, the progress of the Doha Round of negotiations has still remained elusive. The failure of different Ministerial Meeting like the

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3 Anne O. Krueger, Moving on from Cancun: Agricultural Trade and the Poor, First Deputy Managing Director, IMF, Agricultural Trade Policy Workshop, 3 November 2003, Washington D.C.

4 Paragraph 13, Doha Ministerial Declaration, WTO document number WT/MIN(01)/DEC/1, 20 November 2001.
Cancun was the sheer lack of equity prevailing in agriculture in the WTO. The best progress is the breakthrough in July 2004 when all members reached an agreement on a set of broad guidelines for the current round of negotiations. The text of this agreement is known as the ‘July Package’ or the ‘July Framework’. It reaffirmed that the “special and differential treatment for developing countries shall be an integral part of all elements of the negotiations on agriculture”. Special and differential (S&D) treatment for developing countries has been existent as a principle in the General Agreement on Tariffs and Trade (GATT) since the 1960s and to date had taken two main forms: the granting of preferential access to developed country markets and exemption from disciplines applying to the protection of domestic industries under particular conditions. Preferential market access was justified as a means to encourage export diversification by developing countries in order to escape the ongoing decline in their terms of trade. Exemptions from the disciplines on the use of protective measures were justified by arguments that the trade policies appropriate to developing countries are different to those required in developed countries, that the developed countries themselves used selective protection in earlier periods, and thus that the policy disciplines which apply to the latter should not apply to the former. The meaning of S&D treatment changed during the Uruguay Round. Developing countries (apart from the least developed countries) were expected to assume the general obligations of membership. Instead, the focus shifted to one of responding to the special adjustment difficulties in developing countries which might stem from their implementation of WTO decisions (Whalley, 1999). This included a lower level of obligations and longer implementation periods, as well as technical assistance for capacity building.

5 The July Framework is officially called ‘Doha Work Programme: Decision Adopted by the General Council on 1 August 2004’.
Special and Differential Treatment: The Political Reality

The Havana Charter and GATT 1947

From the time initial negotiations were held to develop multilateral rules to govern international trade in the post war world the attempt of the developing countries was to obtain greater flexibility in the use of trade policy measures to enable them to implement their programme of economic development. Their initiatives were founded on the belief that they needed greater space for manoeuvre in shaping their economic policies in order to foster their development. The Havana Charter for an International Trade Organisation, which was signed by 54 countries on 24 March 1948, contained a provision titled “Government Assistance to Economic Development and Reconstruction”. It allowed the use of any protective measure, otherwise in conflict with the obligations of the Charter, to promote the establishment, development or reconstruction of particular industries or branches of agriculture, provided prior permission was obtained from the body representing the full membership before applying the measure. This provision, which was carried over *mutatis mutandis* into the General Agreement on Tariffs and Trade in 1948, can be said to contain S&D treatment in its embryonic form.

Revision of GATT 1947

In 1954-55 this provision was thoroughly overhauled and some additional flexibility was given to the developing countries in what became Article XVIII of GATT, titled “Government Assistance to Economic Development”. With regard to the adoption of measures deviating from GATT obligations for the promotion of industry, the requirement of prior sanction by the full membership was relaxed to some extent. Prior consultation with affected governments and adherence to time limits after notifying the intention to introduce the measure was still required. Additionally, the use of quantitative restrictions for balance-of-payments purposes, already allowed for all members, was made easier for developing countries. Developing countries
maintaining such restrictions needed to hold consultations with the rest of the membership only once in two years as against every year for other countries.

**The addition of Part IV:** In the years that followed the revamping of Article XVIII, the attention of developing countries turned toward improving conditions of access for their products in the developed countries. A series of initiatives by them resulted in the addition of Part IV of GATT on trade and development. The new Part contained three articles, titled “Principles and Objectives”, “Commitments” and “Joint Action”. The Part exhorted members to improve access to world markets for primary, processed and manufactured products of interest to developing countries. The core of this Part was the article on commitments, which sought to impose obligations on developed countries not to raise barriers to trade on products of interest to developing countries and instead to reduce these barriers. However, the language of the commitments of Part IV gave them the nature of guidelines rather than of legally enforceable commitments. It was not cast in the contractual mould, unlike the other Parts of GATT. The situation has not changed with the coming into force of the WTO Agreement, and Part IV has been carried forward into that Agreement in its original form.

**Non-reciprocity in trade negotiations:** The only meaningful benefit that was provided to the developing countries in Part IV was the enunciation of the concept of non-reciprocity in trade negotiations between developed and developing countries. Reciprocity in trade negotiations was a fundamental principle of GATT from the outset, and trading partners generally exchanged concessions that were balanced, taking into account the depth of tariff cut and the trade coverage. In the early rounds of tariff negotiations, developing countries participated in the exchange of tariff concessions as equal partners, giving as much as they were getting. Subsequently, however, these countries found themselves unable to engage in negotiations that entailed reduction of tariffs. They needed to maintain tariffs not only to afford protection to infant industry but also to provide resources for financing economic development. In many developing countries the lack of a sufficiently broad tax base made taxation of international trade the principal means of raising revenue. The
operative provision on non-reciprocity in Article XXXVI provided that “[t]he developing contracting parties do not expect reciprocity for commitments made by them in trade negotiations to reduce or remove tariffs and other barriers to the trade of less-developed contracting parties”. An interpretative note clarified that the phrase “do not expect reciprocity” means that the developing countries should not be expected, in the course of trade negotiations, “to make contributions which are inconsistent with their individual development, financial and trade needs, taking into consideration past trade developments.”

**Preferential treatment of developing countries:** The principle of equality of treatment of all participating nations in all matters connected with foreign trade in merchandise, embodied in its Article I (the MFN clause), was the cornerstone of GATT. During the discussions for the addition of Part IV to GATT developing countries made a strong attempt to secure a departure from the MFN principle so as to make it possible to accord preferential treatment to products originating in developing countries. Despite these attempts, Part IV steered clear of the question of preferences. The move gathered strength outside the GATT during the deliberations of the United Nations Conference on Trade and Development (UNCTAD). The economic rationale was found by extending the application of the infant industry argument from the domestic to the foreign market (Prebisch, 1964). In 1968 the UNCTAD Resolution 21 (II) finally recognised “the unanimous agreement in favour of the early establishment of a mutually acceptable system of generalised, non-reciprocal and non-discriminatory preferences which would be beneficial to the developing countries”. This led to steps by the developed countries to establish schemes according preferential treatment to developing country exports under what came to be known as the Generalised System of Preferences (GSP). Conformity with the GATT was obtained through the mechanism of waiver. The GATT membership (Contracting Parties) decided that “the provisions of Article I shall be waived for a period of ten years to the extent necessary to permit developed contracting parties….to accord preferential treatment to products originating in developing countries and territories”( GATT, BISD 18/S).
**The Enabling Clause:** Although preferential schemes became operational in several industrialised countries developing countries were still dissatisfied on account of the requirement of waiver from the obligation of Article I of GATT. Moreover, differential treatment was limited to tariffs only. They sought a fundamental change in the GATT so that not only tariff preferences but also differential treatment in all trade rules became an element of its rights and obligations. Their argument was that equal treatment was inappropriate for dealing with unequal entities. Economic inequality could not be corrected by the application of equal measures, “but rather through the adoption of a treatment which, by favouring some nations, would eventually lead to an effective and certain equalization” (Espiekk, 1974). Changes in the GATT framework to accommodate the above demands of the developing countries was at the centre of the north-south debate in the Tokyo Round of multilateral trade negotiations (1973-79). From these debates emerged the Enabling Clause, which was adopted as a Decision by the GATT membership on 28 November 1979. The full title of the Decision was “Differential and More Favourable Treatment, Reciprocity and Fuller Participation of Developing Countries” (GATT, BISD 26/S). The ideas incorporated in the Decision are over time come to be referred to as special and differential (S&D) treatment rather than differential and more favourable treatment. The Enabling Clause established a general basis for S&D treatment of developing countries in matters relating to trade in goods. Not only could the developed countries grant preferences to the developing countries, but the developing countries could also enter into regional or global agreements granting tariff and non-tariff preferences to each other. Equally importantly the Decision provided for S&D treatment in multilaterally negotiated agreements on non-tariff measures. The Decision had some other important features. Special treatment was envisaged for the least developed countries (LDCs), “in the context of any general or specific measures in favour of developing countries”. The notion of non-reciprocity in trade negotiations between developed and developing countries as already incorporated in Part IV of GATT was reiterated. The developed countries had sought recognition of the concept of “graduation” of the developing countries as a price for agreeing to S&D treatment. The concept had two facets. The developed countries called for “not only the
phasing out of more favourable treatment in the markets of developed countries but also the phasing in the LDC compliance with the generally prevailing rules of the international trading system based on a balance of rights and obligations” (Frank, 1979). Their efforts resulted in very limited success. The Decision mentions only that the developing countries expect their capacity to make contributions or negotiated concessions to improve with the progressive development of their economies and improvement of their trade situation and that they would accordingly expect to participate more fully in the framework of rights and obligations of GATT.

S&D provisions in agreements on non-tariff measures: Pursuant to the provision in the Enabling Clause regarding differential and more favourable treatment in non-tariff measure agreements, many of the agreements negotiated during the Tokyo Round included extensive provisions granting additional benefits to developing countries, some more significant than others. In the Agreement on Subsidies and Countervailing Measures, developing countries were exempted from the prohibition on the use of export subsidies on manufactured products, which applied only to the developed countries. In the Agreement on Customs Valuation, which imposed the general obligation to adopt transaction value as the basis of valuation for customs purposes, they were given the right to delay the application of all the provisions by a period not exceeding five years and of some of the provisions by a further period of three years. They were allowed to adhere to the Agreement on Government Procurement on the basis of less than full reciprocity. The list of entities in respect of which they were required to extend equal treatment to domestic and foreign suppliers could be smaller and in addition they were permitted to make agreed exclusions of products. The S&D provisions in some other Agreements were somewhat less meaningful. In the Agreement on Anti-dumping developed countries were required to explore the possibilities of “constructive remedies” provided for by the Agreement before applying anti-dumping duties that affected the interests of developing countries. In the Agreement on Technical Barriers to Trade the benefits took the form mainly of technical assistance. In some of these Agreements additional benefits were granted to the least developed countries.
Changes were also made in some of the other pre-existing provisions on S&D treatment. The Decision on Safeguard Action for Development Purposes, which was one of the decisions of the Tokyo Round, addressed once again the issue of measures deviating from the provisions of GATT, which were needed to promote the establishment of a particular industry and waived the “requirements regarding prior consultation with contracting parties, prior concurrence of the Contracting Parties and adherence to time limits in urgent cases” (Hoda, 1987). In the Declaration on Trade Measures taken for Balance-of-Payment Purposes adopted in 1979, the developed countries renounced the use of trade measures (including quantitative restrictions) for safeguarding the balance of payments, while developing countries retained the full right to use such measures. By the end of the Seventies, S&D treatment of developing countries, which began with the efforts of developing countries to secure some flexibility in the use of trade policy instruments, had become an all-pervading concept, encompassing non-reciprocity, preferences, technical assistance and an overall philosophy that equal treatment of unequal countries was inequitable. Differentiation inter se among developing countries was explicitly recognised only in respect of the least developed countries.

**S&D provisions in the WTO Agreement:** The Ministerial Declaration that launched the Uruguay Round in September 1986 recognized the S&D treatment of developing countries as one of the principles governing the negotiations on trade in goods. The concept of non-reciprocity had been specifically reiterated. In actual fact S&D treatment did not remain confined to trade in goods alone and was sought and secured by developing countries in the negotiations in the areas of trade in services as well as in trade related aspects of intellectual property rights. The Uruguay Round negotiations resulted in a new body of comprehensive rules encompassing goods, services and intellectual property rights, which were embodied in the WTO Agreement. S&D treatment is extensively embedded in these rules. In the WTO Agreement members have also undertaken specific commitments in respect of tariffs and non-tariff measures on non-agricultural products, market access, domestic support and export subsidies on agricultural products and four modes of supply on trade in services. Pursuant to the concept of non-reciprocity the
rules and modalities adopted during the round allowed developing countries to limit the coverage of their specific commitments in all the areas.

As mentioned earlier the S&D provisions in the WTO Agreement are broadly of two types: those that give flexibility to developing countries in undertaking commitments and those that require the developed country trading partners to accord special or preferential treatment to the developing countries to enhance and not limit their trade opportunities.

Special and differential treatment is provided for developing countries in three main ways under the AoA. First, there are lower reduction percentages and longer implementation periods for the main commitments entered into. Second, there is greater flexibility in the use of certain policy instruments such as investment subsidies and export subsidies. Third, special commitments were entered into for net food-importing developing countries and least developed countries, known as the Decision on Measures Concerning the Possible Negative Effects of the Reform Programme on Least-Developed and Net Food-Importing Developing Countries.

Developing countries were asked to take on reduction commitments two-thirds those of developed countries with respect to cuts in tariffs, domestic and export subsidies. In the case of market access, they could opt to use ceiling bindings to establish their initial tariff levels in the case of products where tariff levels were not bound. Few developing countries had bound their agricultural tariffs, and they were allowed to choose whatever initial level of tariffs they wanted from which to make reductions for these products. The tariff reductions for developing countries were 24 per cent over a ten year period beginning in 1995, compared to the 36 per cent average over six years for developed countries beginning in the same year. Least-developed countries were not required to undertake any reduction commitments, though they were expected to bind tariff and domestic support levels. Developing countries could also make use of a time-limited special treatment provision to exempt their staple food crop from the tariffication requirement, provided they provided some minimum level of market access (set at 4 per cent of domestic
consumption in the base year by the end of the tenth year of implementation). Continuation of this exemption beyond the tenth year would have to be negotiated and accompanied by additional and acceptable concessions as determined in that negotiation.

**S&D provisions in the Agreement on Agriculture**

The WTO Agreement on Agriculture contains a number of provisions on S&D treatment of the developing countries. In addition, for undertaking specific commitments the countries participating in the Uruguay Round had before them a document on “modalities” of the negotiations, which was used as a basis of the negotiations, although it was never formally adopted by them. The term “modalities” embraces a number of elements of the process by which the participating governments conduct negotiations for reduction of trade barriers. It includes the product coverage, the negotiating tool (request offer, formula or any other approach), the extent of reduction, the base level taken into consideration for applying the reduction, the period of implementation of agreed reductions, the manner of application of S&D treatment etc.

The Preamble to the Agreement on Agriculture recognises S&D treatment to be an integral element of the negotiations and mentions the need for the developed country members to provide for a greater improvement of opportunities and terms of access for agricultural products of particular interest to developing country members, including the fullest liberalisation of trade in tropical agricultural products. Consequently, in the post-WTO world the comparative cost advantage of developing nations in labour intensive goods will enable them to export agricultural products to the markets of developed nations and could help the poor nations reduce poverty (Bhagwati & Srinivasan, 2002). The principle is reflected in many of the specific provisions of the Agreement and particularly in the rules relating to domestic support and export competition. The paper on modalities (GATT Document MTN.GNG/MA/W/24), which was used as a basis for the negotiation of reduction commitments during the Round, also contained significant provisions for S&D treatment.
Developing countries were required to undertake reduction commitments that were only two-thirds of the general level of reduction. The least-developed countries were exempted altogether from the obligation to make reduction commitments. They were, however, not exempted from the need to bind all their agricultural tariffs.

**S&D treatment and rules on market access:** All forms for restrictions like the quantitative import restrictions, variable import levies, minimum import prices, discretionary import licensing, no-tariff measures maintained through state trading enterprises, voluntary export restraints, and similar border measures other than ordinary customs duties. All these measures had to be converted to tariffs and then subjected to binding and/or reduction. However, measures maintained under the balance-of-payments provisions of GATT 1994 or other multilateral agreements in the area of trade in goods were not brought within the purview of tariffication requirement. The modalities required the ordinary customs duties including those resulting from tariffication to be reduced on a simple average basis by 36 per cent, with a minimum reduction of 15 per cent for each tariff line. The reductions were to be carried out in equal instalments over a period of six years. Developing countries were given the flexibility of offering ceiling bindings in respect of products subject to unbound ordinary customs duties. For products which had already been bound in earlier negotiations, the modalities required reduction of tariffs by 24 percentages on a simple average basis subject to a minimum of 10 per cent on each tariff line, to be implemented over 10 years. Since a large majority of developing countries had not bound their agricultural tariffs in earlier negotiations to any substantial extent, if at all, many of them made use of the possibility in the modalities of making ceiling bindings. In fact even the requirement of reduction in respect of tariffs that had been bound earlier was not strictly enforced and some developing countries merely incorporated their earlier commitments in the Uruguay Round schedules. During the Uruguay Round it was recognised that the tariffication process could result in the tariff levels being prohibitive. The modalities therefore stipulated that where there were no significant imports, minimum access opportunities must be provided. Such access opportunities had to be in the form of a tariff quota, starting with
three per cent of the corresponding domestic consumption in the first year of
the implementation period and rising to five per cent in the last year. If current
access opportunities were already in excess of five per cent they were required
to be maintained. There was no provision for S&D treatment, but developing
countries that maintained quantitative restrictions for balance-of-payments
reasons were exempted from the tariffication requirement and consequently
from the need to provide minimum and current access.

Another feature of the Agreement on Agriculture was the special safeguard
provision. WTO members that had tariffied non-tariff measures could reserve
the right to invoke special safeguards in respect of these products. Where such
a right has been reserved, members are entitled to impose additional duty on a
product in any year when either the volume of imports exceeds or the price of
imports falls below the designated trigger levels. Unlike in the GATT 1994
provision on emergency safeguard action and the WTO Agreement on
Safeguards there is no requirement to prove serious injury to domestic
agriculture and additional duties can be imposed once the designated trigger
levels are crossed. There is no S&D treatment envisaged in the special
safeguard provision. The tariffication requirement extends to all agricultural
products. A time-limited exception to the tariffication rule was made to enable
Japan to take into account the political problem it had in implementing the rule
in respect of rice. The relevant provision allowed exception to be made in
respect of a primary product where imports comprised less than three per cent
of the domestic consumption, no export subsidies were granted and effective
production-restricting measures were applied. However a condition was
imposed that enhanced minimum access opportunities would be provided,
beginning with four per cent of the base period domestic consumption each
year, until the end of the implementation period of six years. The exception
was extended to developing countries with additional flexibility. The only pre-
condition for them was that the product must be the predominant staple in the
traditional diet of the population. Further a lower minimum access
requirement was applied, of one per cent of the domestic consumption in the
first year rising to two per cent in the fifth and further to four per cent in the
ten year. Korea and the Philippines have taken recourse to the special
S&D treatment and rules on domestic support: The Agreement on Agriculture targeted practices that cause the most distortion to trade and production, capped them and sought to bring about a substantial reduction in the use of these practices. These practices constitute what has come to be known as Amber Box. It identified the practices that were considered to have no, or at most minimal, distorting effects on trade and production and exempted them from reduction commitments. These practices have come to be known as Green Box measures and are enumerated in an annex to the Agreement. Separately it also exempted direct payments under production limiting programmes, which has come to be known as the Blue Box. The measures were considered to be less distorting than measures that did not envisage any limitation on production. S&D treatment was provided in the disciplines on Green Box and Amber Box measures, but not for Blue Box measures.

The listed Green Box measures include general services (e.g. research, extension, capital works for infrastructure services), buffer stocks for food security purposes, domestic food aid, direct payments to producers, decoupled income support, government participation in income insurance and income safety net programmes, payment for relief from natural disasters, structural adjustment assistance, and payment under environmental and regional assistance programmes. In order to benefit from the exemption the listed measures had to conform to certain general and specific criteria that were designed to ensure that the exempted measures caused no more than minimum economic distortions.

The specific criteria have been relaxed somewhat for the developing countries in respect of two of the Green Box measures viz., public stockholding for food security purposes and domestic food aid. Food purchases either for buffer stocks or for domestic food aid purposes have to be made by the governments at current market prices, and sales of buffer stocks have to be at no less than
the current domestic market price. These conditions do not apply to the
developing countries, although it is provided that in the case of purchases for
buffer stocks the difference between the acquisition price and the external
reference price must be accounted for in the measurement of Amber Box
measures. Notifications made to the WTO show that in the period 1995-98, 11
developing country members (Brazil, Costa Rica, Cyprus, India, Indonesia,
Israel, Kenya, Korea, Pakistan, Philippines and Sri Lanka) had buffer-stocking
programmes in position and 10 (Brazil, Cuba, Guyana, Indonesia, Korea,
Morocco, Paraguay, Sri Lanka, Thailand and Venezuela) were operating
domestic food aid programmes (Source: WTO Document S/AG/NG/S/2). The
notifications do not provide enough information for determining how many of
them needed the additional flexibility extended to the developing countries by
way of S&D treatment.

The most significant element of S&D treatment in the Agreement on
Agriculture is the exemption from reduction commitments of the following
measures required to encourage agricultural and rural development:

1. investment subsidies, which are generally available to agriculture;
2. agricultural input subsidies generally available to low-income and
   resource-poor farmers; and
3. support to producers to encourage diversification from growing illicit
   narcotics crops.

These exemptions are not included in the annex listing the Green Box
measures but are separately provided for in the text of the Agreement. The
relevant provision stipulates some conditions that govern the exemption. In
respect of investment subsidies and agricultural input subsidies a prerequisite
is that the subsidy must be generally available and not targeted at particular
products. During the period 1995-98, 25 developing countries (Bahrain,
Brazil, Chile, Colombia, Costa Rica, Cyprus, Egypt, Fiji, Honduras, India,
Korea, Malaysia, Maldives, Mexico, Morocco, Namibia, Pakistan Paraguay,
Philippines, Sri Lanka, Thailand, Tunisia, Turkey, Uruguay and Venezuela)
notified to the WTO that they had schemes in operation that qualified for this exemption (Source: WTO Documents G/AG/NG/S/2 and G/AG/NG/S/12/ Rev.1).

The measures not included in the Green and Blue Boxes were subject to reduction commitments. The modalities required governments first to compute, in accordance with a methodology that was prescribed, the Aggregate Measurement of Support (AMS). The AMS was the annual level of support, expressed in monetary terms, provided for an agricultural product in favour of the producers of the basic agricultural product or non-product-specific support provided in favour of the agricultural producers in general. The calculation of product-specific AMS had to be made separately for each product benefiting from market price support, non-exempt direct payments and any other non-exempt policies. Support that was non-product specific was required to be aggregated into one non-product-specific AMS. There was no requirement to undertake reduction commitments if the product-specific AMS expressed as a percentage of the value of the production of the relevant product and non-product-specific AMS expressed as a percentage of the value of the entire agricultural production came to less than the *de minimis* value of five per cent. The *de minimis* level for developing countries was set at 10 per cent.

Reduction commitments had to be undertaken on the basis of the Total AMS, which was the sum of the product-specific AMS, non-product-specific AMS and the Equivalent Measurement of Support calculated for products benefiting from measures for which it was not practicable to make calculations in accordance with the AMS methodology. The base level AMS was to be calculated on the basis of support provided in the years 1986-88. The modalities required Members to reduce the base level AMS by 20 per cent over a period of six years. For developing countries the reduction commitment was lower (13.33 per cent) and the implementation period was longer (10 years). Least-developed country members were exempted from the requirement to undertake reduction commitments on domestic support. Only 15 developing countries (Argentina, Brazil, Colombia, Costa Rica, Cyprus, Israel, Jordan, Korea, Mexico, Morocco, Papua New Guinea, South Africa,
Thailand, Tunisia and Venezuela) undertook reduction commitments in the Uruguay Round or in the course of their subsequent accession (Source: WTO Document G/AG/NG/S/2).

**S&D treatment and rules on export subsidies:** The Agreement mandated members to undertake reduction commitments in respect of six main types of export subsidy practices that were prevalent at that time and incorporate them in their schedules of specific commitments. These were direct subsidies on exports, sale for export by government of non-commercial stocks at a lower price than for buyers in the domestic market, payments on export financed by virtue of governmental action such as levy, subsidies for reducing the cost of marketing exports, including the costs of international transport and freight, concessional internal transport and freight charges on export shipments and subsidies on agricultural products contingent on their incorporation in exported products. Members were required to undertake commitments for reduction of the level of subsidies prevailing in the 19986-90 both on budgetary outlay and export quantity. The budgetary outlay and export quantities were to be reduced by 36 per cent and 21 per cent respectively over the implementation period of six years.

As a measure of S&D treatment the developing countries were required to undertake lower reduction commitments i.e. 24 per cent for budgetary outlays and 14 per cent for exported quantities, and implement them over a longer period of 10 years. More importantly these countries were exempted from the requirement to undertake reduction commitments in respect of two of the listed practices, viz., subsidies for reducing the cost of marketing exports and concessional internal transport and freight charges on export shipments. All 12 developing country members (Brazil, Colombia, Costa Rica, Cyprus, Indonesia, Israel, Mexico, Romania, South Africa, Turkey, Uruguay and Venezuela) that have made export subsidy reduction commitments have availed of the flexibility to apply a lower rate of reduction.

Even though several Special and Differential Provision on the three components- market access, domestic support and export subsidies were
provided- in the AoA it affected the prospects of export-oriented agricultural growth in developing countries that relied on the production of primary products not only for their own domestic food security but also for their export (Rosen & Maberry, 2001). The Third World countries were not as much "underdeveloped" as they were "badly developed". Raul Prebisch argued that international trade reinforced this "bad development" path. To him, the developing countries due to their national institutions and economic structures were forced to develop a relationship of "dependency" with the developed nations. They became the producers of raw material for the First World eventually leading to a "centre-periphery" relationship. The WTO hammered out an Agreement on Agriculture and attempted to correct these trade distortions; but it turned out to be meaningless due to the conditions attached to the three components of AoA. The reliance of developing countries on export-oriented growth based on agricultural products in a WTO regulated world was constrained by conditionalities. Thus WTO’s Preamble to make “substantial progressive reductions in agricultural support and protection sustained over an agreed period of time, resulting in correcting and preventing restrictions and distortions in world agricultural markets” remained a mirage even after thirteen years!

**Agricultural Subsidies**

During the Uruguay Round negotiations it was explicitly recognized that domestic support distorts trade and that it is necessary to impose restrictions on it. As mentioned before, domestic support encourages overproduction, which in turn increases supplies in world markets (by reducing import demand or increasing export supply) and depresses world prices.

The Uruguay Round AoA distinguishes between support programmes that directly stimulate production and trade, and those that are considered to have no direct effect. AoA does not impose restrictions on the latter category. Support measures that are exempt from reduction commitments are categorized as 'Blue Box' and 'Green Box' subsidies. Production and trade-distorting subsidies are classified as 'Amber Box' subsidies, and are subject to
reduction commitments. Amber Box subsidies are measured by Aggregate Measure of Support or AMS.

WTO agreement envisages two kinds of support to agriculture, viz. domestic support and export subsidies (Box 1). The domestic support is further classified into five categories: (a) aggregate measure of support (AMS) which includes product specific and non-product specific support (b) green box support (c) blue box support (d) de minimus support and (e) special and differential (S&D) treatment box. Out of these, WTO agreement requires reduction only in AMS and export subsidies, whereas, support under all other heads is exempted. The non-exempt support can be further grouped into two types, one representing commitment of a country to WTO and the second showing actual levels of AMS and export subsidy provided by the member countries.

**Box 1 Support Structure in AoA**

AoA allows developed countries to have Amber Box subsidies up to 5 per cent of the value of agricultural production. This is called the ‘de minimis’ level. Amber Box subsidies above the *de minimis* level come under reduction commitments. It was stipulated that developed countries should reduce their
Amber Box subsidies from the base period level (1986-88) over a period of five years (1999-2000) by 20 per cent.

Empirical evidences show that though most WTO Member countries have fulfilled their AoA commitments and have reduced their AMS, total support given to agriculture in developed countries has not declined. However, Organisation for Economic Co-operation and Development (OECD) statistics report a different farm support estimates for its member countries. Among them, Producer Support Estimate (PSE) and Total Support Estimates (TSE) provide good idea about farm support levels in these countries. PSE is an indicator of the annual monetary value of gross transfers from consumers and taxpayers to agricultural producers, measured at the farm-gate level, arising from policy measures that support agriculture, regardless of their nature, objectives or impacts on farm production or income. It is notable here that Market Price Support (MPS) is a part of PSE. MPS is likely to have production enhancing impact and calculations show that about 60 percentage of PSE is accounted for by MPS.

Another measure which provides a wider definition of farm subsidies is the Total Support Estimate or the TSE. TSE an indicator of the annual monetary value of all gross transfers from taxpayers and consumers arising from policy measures that support agriculture, net of the associated budgetary receipts, regardless of their objectives and impacts on farm production and income, or consumption of farm products. TSE can be thought of as an indicator total amount of support given to the farm sector in the OECD countries.

Aggregate data for OECD countries show that both PSE and TSE were actually higher in 2003 as compared to the corresponding figures in 1986-88 (Fig 1). The figure further shows that in the last few years there has been an increase in the amount of farm support provided to the OECD countries. However, when one looks at the PSE and TSE figures as a percentage of total value of agricultural production, they show that there has been a slight decline in the levels of support. Between 1986-88 and 2003, TSE as a percentage of total value of agricultural production has declined from about 51 percentage to
about 49 percentage. Over the same period, PSE as a percentage of total value of agricultural production has declined from 40.4 percentage to 36 percentage.

Figure 1 OECD Support given to Agriculture


These data show that in spite of the disciplines introduced in the UR AoA, the total amount of support extended to the farm sector in developed countries has not shown any significant decline. This large scale subsidization of the agricultural sector in developed countries has continued to have a considerable impact on agricultural market.

WTO Annual Report of 2003 also reveals that, contrary to popular belief, subsidies in most developed countries are not targeted towards the poor farmers. In fact, in most OECD countries, a very high proportion of subsidies go to the top 25 percentage of farmers. Quoting an OECD study, the report highlights that in EU, USA, Canada and Japan top 25 percentages of farmers receive 70 percentages, 89 percentages, 75 percentages and 68 percentages of total agricultural subsidies respectively.

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6 WTO Annual Report 2003, Page 21
OECD data also highlight that these countries still provide high levels market distorting subsidies like market price support. OECD statistics show that for the year 2004, Market Price Support (MPS) accounted for about 60 percentage of total PSE. The high level of MPS is directly reflected in the producer Nominal Protection Coefficient (NPC)\(^7\) of OECD countries. The NPC shows that the prices received by the OECD farmers were 31-33 percentages higher than international prices during 2002-04. On this, the WTO Annual Report 2003 comments:

‘... the continued dominance of the most distortive forms of support means that farmers in many OECD countries remain largely insulated from world market signals. They also constrain agricultural growth and development opportunities in non-OECD countries’. WTO Annual Report 2003, Page 22

Recent domestic policies undertaken in most OECD countries suggest that high subsidization of agriculture is going to continue. The proposed reform of Common Agricultural Policy (CAP) of EU has run into problems in countries like France and it is not yet certain whether and when the CAP reforms will be eventually implemented. Secondly, USA, through its Farm Security and Rural Investment Act of 2002, has proposed to increase its agricultural subsidies significantly. Under this law, federal spending on US agriculture is slated to increase by US$ 82.6 billion over the next ten years. This will be in addition to US$ 100 billion which the US Government was already set to give farmers (TSE). This increase in US farm is reflected in the increased PSE for the 2004. OECD statistics show that between 2003 and 2004, PSE of USA has increased from US$ 35618 million to US$ 46504 million, a jump of about 30 percentages. The WTO Annual Report 2003 indicated that this huge increase in subsidies primarily would be in production enhancing subsidies. It says:

\(^7\) For a commodity, Nominal Protection Coefficient (NPC) is defined as the ratio of domestic prices and international prices. An NPC of 1.3 indicates that domestic price is 30 percentages higher than international prices.
‘several of the subsidies contained in the bill would provide incentives to boost production. This is particularly true of "counter-cyclical payments", under which growers of wheat, corn, rice, soybeans, and cotton will be guaranteed a certain price irrespective of market conditions, thereby distorting both production and trade; in the event that prices fall further, such subsidies will rise accordingly, although a "circuit breaker" built into the legislation is designed to keep spending within the WTO ceiling’. (WTO Annual Report 2003, Page 22)

This large increase in production enhancing subsidies in the US is likely to exacerbate the distortions present in global agricultural trade.

The entire US farm bill marked shift in the negotiating position of USA in the current round of agricultural negotiations. During the earlier stages of negotiations, USA was arguing for sharp reduction in domestic subsidies while the EU was arguing for a more conservative approach. But, given the new US farm bill, it is almost certain that USA will no longer push for a large reduction in domestic subsidies in the current round of negotiations. This has changed the balance of negotiations completely and there is currently an apprehension among developing countries that reluctance of these two major players to reduce domestic subsidies will practically pre-empt any move by other WTO Member countries to achieve higher reduction in domestic subsidies in the next agreement on agriculture. Any negotiations on domestic subsidies should keep this changed scenario in mind.

Although the framework for international trade does not guide the work of poverty reduction, it can provide opportunities or put a brake on its efforts, depending on how it is applied. The current framework is inequitable for developing countries and for small farmers. Essentially, the framework was created by the US and the EU, and developing countries accepted it for many reasons. A number of significant problems emerged when the framework was implemented, among them domestic support through the issue of subsidies, which governments of developing countries provide when they can afford to. The vast part of these subsidies goes to big farmers, who are prominent in
international competition. The small farmers from developing countries are not able to compete in the international market with this type of competition. Moreover, the subsidies are immune from any reduction. In fact, they have increased over the past ten years. Obligations of subsidy reduction in agriculture have been implemented in letter but fully violated in spirit, because the subsidies are increased through other means. These subsidies protect the farmer and provide an incentive to the farmer to continue with unviable farming and production\(^8\).

For many developing countries, investment in agriculture has been declining since the eighties. External assistance to agriculture has also been declining, as have government expenditures in developing countries. However, the reverse is true for OECD countries, which has spent US$ 6.5 trillion on agriculture since 1980. This huge excess has created the off-loading of surplus products on the world market and the consequent decline in international prices for most agricultural products since the Sixties. At the same time, since the Seventies, the least developed countries have switched from being net exporters to net importers of agricultural products\(^9\).

This serious point of imbalance must be addressed. The prevailing high levels of domestic support must be removed. This can be done in part through solidarity and mobilization of the international civil society, which has become all too aware of the negative impact of agricultural subsidies on developing country farmers. In addition, the G-20 has a role to play, particularly since it is a central player in agriculture negotiations as well as a microcosm of developing country membership. Although there are some divergent interests within the G-20, members are unanimous in recognizing that the most undesirable outcome is one in which developing countries can be

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\(^8\) Mexico is one of the most well-known cases in which the impact of NAFTA has been increasingly evident. An analysis by an NGO called IHCP showed in 2001 that corn cost an average of US$ 3.41 a bushel to produce in the US and sold on the world market at US$ 2.28 a bushel. Mexican farmers are not able to compete with grain sold at less than US production costs. They lack the credit, the economies of scale and the other crucial government support that was removed because of IMF prescriptions.

required to open their markets while developed countries retain their subsidies\textsuperscript{10}.

**Export Subsidies**

If subsidies were given for domestic consumption and the subsistence of farmers in developed countries, they could be tolerated. However, about US$ 6 to 7 billion are used as export subsidies, and most of this is given to one economic group - the EU. These export subsidies not only enable the large farmers to remain in agriculture, they also enable them to drive out the agricultural production of small farmers in developing countries. This is uneconomical and highly unethical.\textsuperscript{11}

Instead of cutting subsidies, both the EU and US are merely shifting subsidies into categories of subsidies - "boxes" - that are not subject to WTO reduction commitments. These include blue-box subsidies, which are only permitted under schemes that attempt to limit production and are considered partially trade distorting; and green-box subsidies, which are deemed not to distort trade or at most cause minimal distortion. The common parlance is that these are decoupled subsidies. After the CAP final agreement of 2003, the EU will further shift subsidies from the blue box to the green box. NGOs do not accept the EU’s arguments that such reforms will reduce the CAP's negative impact on developing countries, since post-reform payments will still be partially coupled to present or future production. Moreover, payments which are partially decoupled in this way will lead to increased production, even according to the EC’s own estimates. Besides, CAP reform in the European Union came late. It was incomplete. For example, some very important sectors

\textsuperscript{10} Under pressure from the IMF, the Honduran government abolished the system of import controls and threw the rice market wide open. At the time, Honduras was meeting 100 percentages of its local needs for rice and even had surpluses for export. However, because of liberalization and the opening up.

\textsuperscript{11} Farmers in Ghana produce tomatoes, which are then processed into tomato paste. However, the government-supported tomato canneries had to be closed down as a result of structural adjustment reforms. The closure of the canneries created a surge in imports of subsidized Italian tomato paste. Many tomato growers are now constrained to dispose of their tomatoes on the roadside, selling them at whatever price they can get.
for developing countries - for example, sugar, tobacco, cotton and olive oil - were omitted. The reform is also extremely confusing, and the consequences of its implementation are not understood\(^\text{12}\).

As early as in 1958, the Haberler report stated that the agricultural protection in the highly industrialised nations was extremely high and their net agricultural imports were marginal vis-à-vis the total domestic production and consumption of these products (GATT: 1958). In 1976, this statement was reiterated by Warley when he said, “Agriculture trade liberalisation is an area in which GATT has had meagre success” not because GATT was not inclined to dismantle agricultural protectionism through its legal discipline, but because of the disinclination of the important contracting parties to allow agricultural goods at par with industrial products. (Shonfield, et al: 1976). To ensure the constructive integration of India and other developing nations into the global agricultural market, they should be convinced of the gains from trade (Anderson and Yao: 2002). For this rules of trade should be fair and equitable.

However, the developing countries themselves too are, to a great extent, responsible for the present state of agricultural protectionism in developed nations. As Martin Wolf (1984) succinctly puts it: “Heedless of latter danger, creation of rules by developed countries for their own advantage, however, developing countries have left to industrial countries the responsibility for the order for as a whole, demanding only exemptions, privileges and derogations from themselves.” The dangers for the developing countries included exemption of agriculture and textiles from GATT agreement. Instead of actively participating in the GATT, they were busy with clamouring for Special and Differential Treatment and derogations from the basic principles of GATT. The SDT provisions did not grant any real advantage of developing countries’ expectation. This cost them dearly in an area where they had

\(^{12}\) Many urban consumers in Africa are abandoning traditional food items because of cheap imports arriving from developed countries. Imports of rice, wheat and milk, for example, are being purchased instead of the locally produced sorghum, millet and cassava.
competitive advantage—textiles and agriculture—because in both these areas trade was ‘qualified’ and not free\textsuperscript{13}.

**Failures in Agricultural Negotiations**

Effectively exempted from the General Agreement on Tariffs and Trade (GATT) in practice, agriculture was formally brought under GATT/WTO rules with the completion of the 1986-94 Uruguay Round. This inclusion was spurred by escalating agricultural trade protectionism in the 1980s, which became costly for the USA, EU and Japan to support. This high level of agricultural protectionism in industrialised countries had especially harmful effects in the global South. High levels of subsidies drove down commodity prices for basic staples like rice, maize and wheat, out-competing local production in developing countries, threatening local livelihoods and harming export income. High industrial country tariffs on developing country products kept their goods out of Northern markets (Clapp, 2006).

The agreement was largely a disappointment, as in practice it altered little (Ritchie, 1996) (Watkins, 1996). The primary reason for this disappointment result of some important qualifications to the rules which have profoundly influenced the impact. The prime negotiation took place between the US and the EU as part of what is now referred to as the 'Blair House accord', a bilateral agreement between the USA and EU in 1992 which was seen to have broken the impasse between these major players and allowed for the completion of the AoA (Jawara & Kwa, 2003).

The main other main qualification to the agreement has to do with the way that domestic subsidies were categorised into different 'boxes' according to their potential to distort trade. Those in the 'Amber Box' according to their potential to distort trade. Those in the 'Amber Box' 

were seen to be highly trade distorting because their level varied with production (such as price supports). These subsidies were subject to reduction under the agreement, but countries were allowed to exempt *de minimis* amounts of them, up to 5% of total agricultural production value and up to 5% of the value of each supported product for industrialised countries (10% of each for developing countries). The 'Green Box' was another category of domestic subsidies which were deemed to have no or minimal distortions to trade (such as research and extension expenditures and income supports), and were exempted from the required cuts entirely, with no limits placed on them. A 'Blue Box' was also created, which included subsidies that normally would be in the Amber Box, but because they require farmers to limit production, they were seen as less trade-distorting and were not subject to cuts.

Other important qualifications included a 'Peace Clause', which the USA and EU insisted upon, under which no challenges to subsidies levels could be made until 1 January 2004. In addition, although there were minimum tariff cuts, the reductions were averaged. This meant that tariffs on some key products were reduced by very little in practice, especially on products with high tariff peaks. Further, the base period for the reduction of export and domestic support subsidies was set at 1986-90 and 1986-88, respectively, periods of historically high levels of subsidies. This meant that the cuts would only bring subsidy levels down minimally and in fact to levels that were higher than they were in the 1960s and 1970s. Finally, food aid was exempt from discipline. These various caveats to the deal created some significant loopholes in the agreement. Agricultural subsidies in OECD countries rose from US$271.2 billion in 1986-88 to $330.6 billion in 1998-2000 (Diakosawas, 2001), which is not surprising since around 60% of OECD subsidies were exempt from cuts, and box-shifting became apparent (OECD, 2001). Green Box subsidies more than doubled between 1986 – 88 and 1995 - 98. In 2003 US agricultural exports sold for anywhere between 10% and 50% below the cost of production (Murphy, Lilliston, & Lake, WTO Agreement on Agriculture: A Decade of Dumping, 2005). The EU similarly exports key commodities for less than the cost of production (Oxfam, 2002). In 2001
prices received by OECD farmers were some 30% above world prices. At the same time that subsidies rose in industrialised countries, developing countries continued to face market access barriers. Their share of agricultural exports to industrialised countries remained at 22.4% between 1990-91 and 2000-01 (Aksoy, 2005). This was attributed to industrialised countries able to continue to practice tariff peaks and tariff escalation. Developing countries also experienced surges of imports of cheap, subsidised products from industrialised countries, which caused havoc in local markets (FAO, 2003). Rather than level the playing field, the AoA made it more steeply stacked against developing countries. The effects on small peasant farmers, whose very livelihoods have been threatened by competition from cheap subsidised imports, have been particularly serious.

Negotiators of the 1994 AoA did recognise its weaknesses, and included a provision for the agreement to be renegotiated starting in 2000. Revisions to the AoA were to include further liberalisation in each of the three pillars: export subsidies, market access and domestic support. The negotiations on the modalities, or broad parameters for the specific types of commitments to be made, were to be completed by March 2003 and adopted at the Fifth Ministerial meeting, to be held in Cancun in September 2003. Neither of these deadlines was met, and the talks were plagued with disagreements over both content and process, with much discontent from the developing countries. Scant progress was made on the talks in the first year, because of wide differences in views among the WTO membership. The main concern of developing countries was the incorporation of special measures to enable them to protect rural livelihoods and food security. Early on proposals were put forward for a 'Development Box' or 'Food Security Box', to counter the Green and Blue Boxes to which industrialised countries had access (Murphy & Suppan, Introduction to the Development Box, 2003). These concepts were later replaced with the idea of allowing developing countries to designate 'special products' that were important for food security or rural livelihood reasons which could be exempted from tariff cuts, as well as a Special Safeguard Mechanism (SSM) to help protect their economies from import surges. Developing countries also wanted to see meaningful reductions in both
domestic and export subsidies in the industrialised countries. The USA, for its part, was focused on improvements to market access, in the form of tariff reduction, as well as a reduction of export subsidies. The main concerns of the EU were to see reductions in levels of domestic support, which forms the bulk of US subsidies, as well as a widening of the pillar of 'export subsidies' to 'export competition', to incorporate what it considered to be hidden export subsidies in the form of export credits and food aid.

Given the members' differing emphases for the round, Stuart Harbinson, the chair of the agriculture committee, tabled a draft modalities text in February 2003. The text, which contained a formula for tariff reductions and schedules for subsidy reductions, was an attempt to arrive at a compromise which could be approved in time for the 31 March deadline. The text was submitted in Harbinson's personal capacity, as he had emphasised that the gulf between the members was too wide and he had received very little guidance. The text, however, received wide criticism. Developing countries felt that it was heavily biased toward the concerns of the rich countries. The USA felt that it did not go far enough with respect to tariff cuts and export subsidies, while the EU and Japan felt that the proposals did not do enough to put disciplines on export credits and food aid. Needless to say, the deadline was missed. The chair vowed to continue to work towards an agreement in the run up to Cancun in September 2003, but it had become clear that the talks were in jeopardy. Given their inability to come to agreement on the concrete modalities on agriculture, members decided to work toward a 'framework' for the modalities (i.e. general goals without specific numbers) as a first step (ICTSD, 2003).

As the overall talks stalled, a specific initiative on cotton from a group of West African countries—Benin, Burkina Faso, Chad and Mali—was submitted to the WTO in May 2003. The group's paper called attention to the impact of industrialised-country cotton subsidies on West African cotton farmers, and proposed cotton as a special product for developing countries, as well as a complete phase-out of all rich-country cotton subsidies and financial compensation for the LDCs during the transition phase. There was no precedent for a serious paper of this sort emanating from a group of least
developed countries. While the WTO members were forced to take note of this paper, little concrete action was taken. Although the Cancun Ministerial Meeting was fast approaching, it was only in August 2003 that concrete measures were taken to revitalise the agriculture talks. The USA and the EU met privately at this time and put forward a joint text which proposed continued subsidies in the form of an amended Blue Box (rather than its elimination), as well as a 'blended formula' for tariff reductions. A blended formula would combine different approaches to tariff cuts in different bands, some being linear cuts and some being cut under a more drastic 'Swiss formula', although which tariffs would fall into which bands was to be self-selected. The proposals were reductions, rather than eliminations, of de minimis spending for the Amber Box, as well as an extension of the Peace Clause. The document contained little language on special and differential treatment for developing countries, and noted that sectoral issues (such as cotton) were 'of interest but not agreed. Developing countries were very disappointed with the US-EU proposal. At this time a group of developing countries, led by Brazil, India and China formed a new coalition, the G-20 Group on Agriculture, as a counter-force to the USA and the EU. The G-20 brought together developing countries with different sets of interests with respect to agriculture, making it a wider ranging coalition than, for example, the Cairns Group (which largely represents agricultural exporters). The G-20 included some developing country members from the Cairns group, such as Brazil, Argentina and Thailand, which have interests in improving market access for their own agricultural exports. But it also included other developing countries, such as India, Mexico, Bolivia and Ecuador, which are mainly concerned about defending their own domestic markets from import surges (Narlikar & Wilkinson, Collapse at the WTO: A Cancun Post Mortem, 2004).

With the passage of time many countries had started understanding the nuances of agricultural negotiation. In an attempt to avoid another 'Blair House Accord' emerging between the USA and the EU, the G-20 put forward its own proposal. The G-20 text highlighted special and differential treatment for developing countries, and called for further subsidy cuts in industrialised countries. The tariff reduction formula was also substantially modified to
better take into account different tariff structures in developing countries. The formula as proposed by the USA and the EU would allow industrialised countries to maintain high tariffs on certain products, because they already had excessively high tariff peaks and would simply choose to apply a small linear cut rather than the steeper cut to those products. At the same time, because developing countries had a more homogeneous tariff structure, their cuts would be deeper on average than in the industrialised countries. The G-20 thus proposed a formula that would result in meaningful tariff cuts in the industrialised countries, comprised of linear cuts in different bands, with higher cuts at higher tariff levels. It further called for the identification of special products for developing countries, which would be exempt from tariff cuts, and an SSM for protection against import surges. Instead of an amendment to the Blue Box, it called for its elimination, as well as spending caps to be placed on the Green Box. The G-20 proposal was substantial and, coming from a group representing over two-thirds of the world's population and led by three key emerging economies—Brazil, India and China—it was clear that this group was an important force that the USA and the EU could not ignore (Narlikar & Tussie, The G-20 at the Cancun Ministerial: Developing countries and their evolving coalitions in the WTO, 2004). Other developing country proposals also emerged around this time, echoing and supporting the G-20 proposal. The Dominican Republic, Kenya, Honduras, Nicaragua, Panama and Sri Lanka submitted a joint text which focused on special products and an SSM for developing countries and called for further special and differential treatment for developing countries to be an integral part of the agreement. This group came to be known as the 'SP and SSM Alliance' and at times the 'Friends of the Special Safeguard Mechanism' and later the Group of 33, because it had a membership of 33 (which has since grown to 4427). The African Union (Au)/Africa, Caribbean and the Pacific (ACP)/LDC grouping (also sometimes referred to as the Group of 90) also put forward a proposal highlighting the importance of special and differential treatment for developing countries, particularly the LDCS. In particular it called for measures to address the problems of tariff peaks and tariff escalation and also called for protection of existing trade preferences for these countries under other agreements (e.g. the Cotonou Agreement) or at the very least some sort
of compensatory mechanism. The main concern here was that, if market access provisions required drastic cuts to tariffs, the special trade preferences they currently received, particularly from the EU, would be eroded. Although the draft Ministerial Declaration for Cancun attempted to incorporate these various positions, it was highly controversial and criticised for not taking developing country concerns adequately into account. Those supporting the initiative on cotton were upset that the draft Ministerial Declaration called only for further study on the impact of cotton subsidies and made no steps toward endorsing the proposal of the West African countries (ICTSD, 2003, p. 29).

The Cancun Ministerial ended abruptly, ahead of schedule, because of deep divisions among the membership. Disagreement over the inclusion of the Singapore Issues (regarding investment, competition policy, trade facilitation and transparency in government procurement) was the formal issue that led to the collapse at Cancun, but it was widely seen that agriculture was just as contentious, even though the agricultural modalities were not formally discussed. The global South was energised by the emergence of the developing country groupings, particularly the G-20. As Brazil’s foreign minister, Celso Amorim, stated in his speech at Cancun, G-20’s aim was to ‘bring it [the world trading system] closer to the needs and aspirations of those who have been at its margins—indeed the vast majority those who have not had the chance to reap the fruit of their toils. It is high time to change this reality. And that reality did begin to change. One of the first signs of that change, and perhaps one of the more important outcomes of the failed Cancun talks with respect to agriculture, was the expiry of the Peace Clause on 31 December 2003. Following the failure at Cancun, the USA attempted to place the blame on the G-20. It went on to pressure a number of the G-20 members to leave the group or forfeit the opportunity to engage in bilateral trade talks with the USA. As a result, five of the G-20 members—Columbia, Peru, Guatemala, El Salvador and Costa Rica—dropped out of the group in autumn 2003. The G-20, however, vowed to continue the negotiations despite losing some of its members (its membership has since grown). Throughout this early phase of the talks, developing countries were frustrated with both the process and content of the talks, which prompted their organisation into key groupings to
voice their concerns. Solidarity among the various developing country groups—the G-20, the G-33 and the AU//ACP/LDC group was high at Cancun, but this cohesion was fragile, as became apparent in the next phase of the talks (Bello & Kwa, 2004).

The July 2004 Framework

In the second phase of the talks, post-Cancun, developing countries worked to consolidate their positions. There was a growing acceptance in this phase of the talks that the dynamics of the negotiations had to change to take developing country concerns, in terms of both process and content, into account. It took some months following the collapse at Cancun for the talks to begin again in earnest. In early 2004 the USA was anxious to relaunch the negotiations, and the then US Trade Representative, Robert Zoellick, travelled to the key developing countries in an attempt to win their support. Under a new chair of the Agriculture committee, Tim Groser, the talks were formally resumed in March 2004. Although it was clear that the members were still far apart, particularly on market access, a 31 July 2004 deadline was set for an agreement on a framework for agriculture. The process for negotiating an agreed text also changed at this time. Instead of having the members present texts to the chair, and having the chair draft a compromise text, the new chair of the talks had the various members and coalitions meet together in pairs as well as in larger groups to come up with a text that was widely agreed upon. It was out of this process that a new negotiating group emerged—which has come to be known as the Five Interested Parties (the FIPS). This group included the USA and the EU, as key players, along with Brazil and India, representing the G-20, and Australia, representing the Cairns Group. Bringing these key countries together, and attempting to reach a compromise among them, was seen to be vital in reinvigorating the talks. Following intense negotiations in the month of July a consensus on the Framework was eventually reached in the early hours of 1 August 2004. On export competition the debates were not so much over whether to phase out export subsidies, a goal which was widely agreed upon. The EU, however, wanted to ensure that the USA reduced the subsidy element of its export credits and food aid in parallel with EU
reductions in more direct export subsidies. The EU also wanted food aid to be disciplined in other ways as well, such as being given only in grant form, preferably in the form of cash. The USA agreed to eliminate the subsidy element of food aid programmes, but would not commit to removing in-kind food aid. Developing countries wanted to see all forms of export subsidies eliminated, but saw a need for the special conditions and needs of the net food importing developing countries (NFIDCs) and LDCS to be taken into account when disciplining export credits and food aid. In the end it was agreed that export subsidies would be eliminated on a 'credible' schedule, with parallel elimination of export credit and export guarantee and insurance programmes that had a repayment period of over 180 days. It was also agreed that food aid would be disciplined, with the aim of preventing commercial displacement. Consideration is to be given to reforming food aid to be on a fully grant basis only. New disciplines are also to be placed on the export subsidy elements of state trading enterprises. Developing countries are to be given a longer period to phase out export subsidies, and special attention is to be paid to the impact of the reforms on the LDCs and NFIDCS. With respect to domestic support, the USA and the EU debated specific rules on an amended Blue Box and reductions to de minimis spending in the Amber Box, while the G-20 wanted to see both the Blue Box and de minimis spending in industrialised countries eliminated entirely. The G-20 eventually gave in to the amendments to the Blue Box, provided there were disciplines placed on its use. There was immediate criticism of this concession, even from within Brazil. The framework document called for an overall reduction of domestic support via a tiered approach, which would lead to steeper cuts for those countries that subsidise the most, with specific caps and cuts in each area. Major subsidisers were asked to make immediate cut in domestic support as a 'down-payment'. The Blue Box was to be redefined to include 'direct payments that do not require production', although other new criteria will be added to prevent box shifting. Blue Box spending will also be capped at 5% of total agricultural production. De minimis spending under the Amber Box was also to be reduced for industrialised countries, and developing countries who allocate their de minimis spending to programmes for subsistence farmers are exempt from this provision. There is also to be a review of the Green Box to ensure
that it remains non-trade-distorting. The most controversial discussions were on market access, with wide disagreement over the type of tariff reduction formula to adopt. The USA and the EU continued to endorse the idea of a 'blended' formula for reducing tariffs, but the G-20 would not accept this approach because it did not take into account the different tariff structures in developed and developing countries. The G-20 favoured the tiered approach it had proposed before Cancun, which called for more meaningful cuts in industrialised countries, with smaller cuts for developing countries. The G-33 and the G-20 also pressed for special product designation (exempt from tariff cuts) for developing countries, and an SSM to help prevent import surges. The EU would only accept this if it, too, could identify 'sensitive products' which would allow some flexibility on tariff reductions and make use of the SSM. In the end, a tiered, progressive approach was adopted, based largely on the G-20 proposal, and the developing countries were to have some sort of special treatment, most probably as a percentage cut of the industrialised countries, with the least developed countries exempt from these cuts. A specific formula on how to achieve the tariff cuts, however, was not articulated in the framework. All countries can identify an appropriate number of sensitive products, although the number and how they will be chosen has not been specified. Developing countries, however, are to be given more flexibility in terms of identifying special products based on livelihood and food security considerations as well as rural development needs, and they will be allowed to use an SSM. It was a major accomplishment to reach agreement on the July Framework, but specifics of the commitments and how they are to be achieved were left to be hammered out in subsequent negotiations. The aim was to negotiate full modalities on each of the three pillars before the Hong Kong Ministerial in 2005. In the July Framework process developing countries were able to secure agreement on some of the issues of importance to them, such as an SSM and special products for the developing countries, a tiered formula for tariff reductions, lower cuts and a longer time frame to cut their own tariffs, and the ability to keep de minimis spending for developing countries that was earmarked to support subsistence farmers. But they also made a major concession, which was to give in to the revised Blue Box. This bargain may come back to haunt the developing countries. Some critics have complained that India
and Brazil were co-opted by the USA and the EU, being brought into the FIPS only to be neutralised. The acceptance of the Framework deal on the part of these countries, then, could serve to drive a wedge between the G-20 and other developing country groups (Bello & Kwa, 2004).

**The Hong Kong Ministerial**

Following the adoption of the July 2004 Framework, remarkably little in terms of concrete progress on defining the modalities was made until just a few months before the December 2005 Hong Kong Ministerial, and even then it was largely seen to be too little, too late. The G-20 restated its preferences, but waited for specific proposals from the USA and the EU, as it felt that it was up to these players to make the first move. But the USA and the EU were still far apart from each other, particularly on market access. In addition, a new chair of the agriculture talks, Crawford Falconer, was brought in at this time. As a result, little headway was made and the target for the first approximations of the modalities was not met. The EU put forward its proposal first, in late September 2005, in an attempt to guide the negotiations.

The EU text called for cuts to domestic support in four tiers, according to a country's level of subsidisation, with cuts ranging from 30% to 65%. On market access, it offered tariff cuts between 20% and 50% in four bands, with a cap on tariffs of 100% for developed countries. Under this formula developing countries would have two-thirds of the developed country cuts, and a cap on tariffs of 150%. It also asked for 10% of its tariff lines to be designated as sensitive products to be subject to reduced tariff cuts. The EU committed to the elimination of export subsidies, but did not specify a date. Disappointed with the EU proposal, the USA tabled a text which called for the elimination of export subsidies by 2010, as well as elimination of trade-distorting domestic support by 2023. Cuts to domestic support were proposed in three tiers, ranging from 37% to 83% cuts. A cap on support under the Blue Box of 2.5% (lower than what was agreed in the July Framework), and a 50% reduction of the *de minimis* cap to 2.5% were also proposed. The USA also inserted a request for a new Peace Clause. These measures were made conditional on significant tariff cuts, between 55% and 90%, in four bands,
with sensitive products being only 1% of tariff lines. Both the EU and US proposals were a disappointment to developing countries. The G-20 claimed that the US proposal with respect to domestic support was merely box-shifting, and that spending under its proposal could actually increase. It was also not happy with the suggestion of a new Peace Clause. On the EU proposal the G-20's view was that the designation of 10% of tariff lines as sensitive was far too high, and that the proposed tariff cuts were too low. In its own proposals the G-20 called for additional disciplines on the Blue Box (beyond the cap on support of 2.5%), such as product specific caps. The G-20 proposal on tariffs called for cuts in industrialised countries of between 45% and 75% across four bands, with a maximum tariff of 100%. Developing countries would face tariff cuts of between 25% and 45% and lower thresholds on the tiers, and a maximum tariff of 150%. The G-20 also proposed that developed countries could only designate 1% of their tariff lines as sensitive products, while for developing countries it would be 1.5%. Further, it wanted to see steeper overall cuts to domestic support than offered by either the USA or the EU. Other developing country groupings, including the G-33 and the ACP group, reiterated their concerns on special products, an SSM and special and differential treatment. The ACP countries again expressed concern about preference erosion, and as such this group was not particularly critical of the EU’s lack of commitment to steeper tariff cuts. Taking this position put the ACP group in direct conflict with the G-20 position on market access.

These proposals and statements were issued in a very short period of time, but it was immediately seen that the EU’s position was the biggest stumbling block that would prevent any meaningful deal from being reached in Hong Kong. With threats in late October that the Hong Kong Ministerial might be cancelled if the EU did not come up with a better offer on agriculture, the latter put forward a revised proposal. But this ‘revised’ proposal was not well received. It hardly made any movement on market access. On export competition it called for a gradual move to untied and cash-only food aid. And while it called for slightly more of a cut to domestic support than it had earlier, there was a significant catch. The EU tied its new proposal to
developing country concessions in other areas in the trade talks, specifically non-agricultural market access (NAMA) and goods and services. The USA, the G-20 and most developing countries were highly disappointed with the EU's new offer. The developing countries in particular resented having the proposal on agriculture tied to the non-agricultural talks, especially because the cuts to tariffs that the EU demanded developing countries make on NAMA were much deeper than the EU was willing to make itself on agriculture. It was widely seen that the EU had made this move in order not to be blamed if the agriculture talks failed. There was a 'recalibration' of expectations for Hong Kong following the EU's revised proposal, as it became clear that full agreement on agriculture modalities would not be possible in such a short time. Several high-level meetings of ministers, including those from India, Brazil, the USA and the EU, were held in November, but these talks yielded little agreement. Going into Hong Kong, there was virtually no change in the various groups' positions. It became clear that the one area where some agreement on agriculture might be possible was to set an end-date for agricultural export subsidies. But throughout the week in Hong Kong little progress was made even on this issue. The EU indicated that it would prefer 2015, while the USA and the G-20 pressed for an end-date of 2010. But the EU held out for the later date. The lack of real progress on development issues, especially in agriculture, prompted the various developing country groups to hold a joint press conference in Hong Kong, with India and Brazil taking key roles. The meeting was dubbed 'historic' by many, being the first joint meeting of the ministers from the G-20, G-33, the G-90 and the Small Economies (all the groups were collectively dubbed the G-110). At the press conference the various ministers emphasised their solidarity on key issues, including the 2010 end-date for export subsidies, helping to ease the adjustment of those countries affected by preference erosion, support for duty-free and quota-free market access for the LDCS, and the need to address the cotton issue. Although the developing country groups had some differences among themselves in terms of which issues they saw as most important, they were able to reach agreement on supporting each other's goals at this stage.
In the final hours of the Ministerial, the EU finally gave in to a slightly earlier end-date for export subsidies, 2013, following long negotiating sessions. This was accepted by the other members, as it was clear that it was as far as the EU would move. The main reason the EU could bring the end date up to 2013 is that the 2003 reform of its Common Agricultural Policy would see the end of most export subsidies by that date in any case. The Ministerial Declaration that was adopted the following day calls for efforts to ensure that the bulk of the export subsidy reductions be completed within the first few years of its implementation, with the 2013 date as the final end-date. The Declaration also set 30 April 2006 as a deadline for completing the modalities on the other aspects of the agriculture agreement, which was ultimately not met. It reiterated many of the points in the July Framework, such as working toward disciplines on in-kind food aid, although it also added provisions for the creation of a 'safe box' to ensure that there were no constraints on genuine food aid in emergency situations. With respect to domestic support, in order to cut down on the opportunities for box-shifting, the Declaration calls for cuts in this area to be at least as large as the total sum of reductions in all the boxes and *de minimis* levels. But the Declaration did not place any specific constraints on the Blue Box. Although the WTO and the media portrayed the decision on the end-date to export subsidies as major progress made at Hong Kong, in reality it was only a small accomplishment, and there is still a long list of details on other agriculture modalities yet to be decided. The impact will only be fully understood when final details are hammered out and agreed upon. Analysis of some groups on the various proposals on the table shows that in practice there will not be much change even if they are agreed upon. On domestic support it looks as if the redefinition of the Blue Box will enable the USA to immediately shift some $10 billion into it, subsidies that are currently in its Amber Box. Meanwhile, the EU is also shifting major portions of its Blue and Amber Box payments into the Green Box. According to Oxfam, the EU and the USA will be able to increase their trade-distorting domestic support by $35 billion and $7.9 billion, respectively, by the end of the implementation period. At the same time there is also scope for both the USA and the EU to increase their export subsidies before they are eventually
eliminated. Moreover, the sensitive products designation for the industrialised countries could make the tariff reduction provisions ineffective.

Ever since the Hong Kong Ministerial many mini-ministerial meeting have been held. In total, seventeen papers have been circulated since the negotiations began following the suspension of the Doha round in July 2006. The draft modalities paper, circulated in July, was followed by a final corrected version in August 2006. Talks further intensified culminating in the mini-ministerial meetings between the five interested parties but sharp differences led to the suspension of the talks. All the differences have arisen on account of the differences on agricultural subsidies and will continue to dog reforms in agricultural trade as long as real removal of distortion are really made (Philip & Gautam, 2008).

**Future of Agricultural Subsidies**

Supporters of the multilateral system governing world trade breathed a collective sigh of relief when negotiators signed the ministerial declaration in Doha. There was skepticism that WTO couldn’t weather another failure like Seattle. A host of regional trade agreements wait in the wings, ready to fill the void if multilateral efforts falter. Even with negotiations moving forward, however, the stakes continue to be very high. More than ever, the key to the success and legitimacy of the rules-based system governing world trade will be its responsiveness to the demands of developing countries. The membership structure of the WTO means that progress will come only if developing countries reap some of the benefits of globalization. Nowhere are the stakes higher than agriculture, both in terms of poor countries’ economic development and in terms of feeding the world’s hungry. Developing countries are already demonstrating far more involvement and cooperation among themselves than in previous trade rounds. Their hands will be greatly strengthened if China, new to the WTO, becomes an ally. It is unclear, however, whether China will align itself with developing countries. Indeed, its entry requirements are a compromise between developed and developing country status. But if China throws in its lot with other large developing
countries, such as India, this bloc will be much harder to ignore. Just prior to the Doha Ministerial, China may have signalled its allegiance by joining the developing country “Group of 77” in issuing a set of demands for the upcoming negotiations, including reforms of developed countries’ agricultural subsidy programs. Pressure on developed countries to come to some sort of agreement on agriculture goes beyond an interest in maintaining the legitimacy of the WTO. They fear the expiration, in 2003, of the peace clause, which has protected the United States and the European Union, in particular, from many challenges to their large domestic support policies. The Cairns Group has said it will not agree to extend the peace clause without firm commitments from other members to reform, and they see it as an important tool for wringing concessions from the United States and the European Union.

Fiscal policy may also pressure the United States and the European Union to make concessions on agriculture. Historically, the principal domestic policy pressures for agricultural liberalization have come from tight fiscal budgets when countries simply can’t, or won’t, support the high costs of farm subsidies and other programs.

An economic downturn, increased military domestic security spending, and the fiscal reforms will put pressure on policy makers to be rationale on the way subsidies will be used in the future. In the European Union, the accession of additional countries is already creating pressure to cut agricultural outlays and CAP reforms is putting pressure on many countries to be in business without support. Agricultural trade liberalization may get a boost from agricultural markets as well. Trade reform is typically easier when commodity prices are high, because support programs play less of a role in farm incomes and in the present turn around the price movement will remain critical in both measuring the subsidies but also reduce the fiscal burden on subsidies. These reforms will have a strong bearing on aid receiving countries whose debt servicing loans are primarily met on meeting the food needs and subsidies will play a critical role.
In all countries the opinion on liberalisation and WTO has been low especially in both the United States and the European Union face low public opinion about trade liberalization and globalization generally. Protests at the Seattle Ministerial, meetings of the IMF and the World Bank, meetings of the Free Trade Area of the Americas, the G8 summit, and elsewhere all signal a growing social backlash against globalization. Food safety scares involving mad cow disease, foot-and-mouth disease, and genetically modified organisms have cast a pall over the wisdom of unrestricted agricultural flows across borders. If countries remain in recession, the perception that liberalization sends jobs overseas will only grow stronger. Substantial liberalization by the United States and the European Union would take some preparation of domestic constituencies on these issues.

Receiving far more public support than trade liberalization are environmental and other social programs that the European Union and others use as arguments against further liberalization. There is broad support in Europe for agriculture policy as a vehicle for promoting multifunctionality in a wide range of areas. Similar support can be seen in the United States, at least in terms of environmental programs. Those issues will play out as negotiations progress, and the ultimate agreement is likely to be as complex as that reached in the Uruguay Round. However, two simple scenarios illustrate the different directions the trade talks could take, with dramatically different results. First is the liberalization scenario, in which countries agree to stringent reductions in tariffs, export subsidies, and domestic support. Such an agreement would gradually eliminate trade distortions and make world agricultural markets more competitive. A simple reading of the Doha Ministerial text would suggest that all countries agree to the inevitability of this scenario. Second, and opposite, is a deliberalization scenario—one that might be labelled “the big green box.” To accommodate E.U. demands for multifunctionality and the United States’ domestic commitment to continued farm payments, countries may simply agree to expand the green box to exempt a much broader range of trade-distorting and non-trade-distorting domestic policies and it happening as shown in the recent papers submitted by the chair. In exchange for forgoing their demands for more open export markets, developing countries would get
much more liberal use of the green box as well, or perhaps their own “development” and “food security” boxes. They might also get a new economic development and food security funding mechanism. The package could be accompanied by symbolic but non-constraining reductions in tariffs, export subsidies, and amber box payments. If history is any guide, it is at least as likely that negotiations will head toward the “big green box” scenario as toward the liberalization scenario. There appears to be very little appetite for reducing farm support programs in the United States or the European Union, and developing countries are understandably reluctant to risk their own economic development and food security by leading the way. The URAA—with its extensive commitments that didn’t actually compel policy change—is in fact a very appropriate model for creating the illusion of trade liberalization without actual reform.

The WTO centred trading system is coming under increasing strain and is becoming less able to advance its core business of trade liberalisation. This is not to say that its members no longer think that it is useful; its growing membership shows that states continue to feel it is a club in which they wish to participate and all agree that its dispute resolution mechanism is vital. But its success has created significant technical and political problems which show little sign of abating. There are three core problems. First, the size of the membership has made decision making extra-ordinarily difficult as the members have widely diverging interest and requirements. Moreover the institutional structures cannot adapt themselves to effective decision making under such conditions. After the debacle at Cancun Pascal Lamy, DG of the WTO, described its procedures as medieval. Serious reforms of organisational decision making and its relationship to members priorities is required if the current round of negotiations is to overcome its current stasis (see (S.Ostry, 2003)). Second the current round of negotiations is in abeyance. This derives from the first problem but also from its expansion of the agenda to include not only the higher profile matters of development but also new trade related issues such as government procurement, environment and competition policy. These are seen to be far more intrusive than the traditional focus of tariffs and hence subject to much greater member state sensitivity. The success of the
system in the longer run has derived from its capacity to deliver results and this is growing harder and harder to achieve. Third trade is more politically sensitive than even before and elite have greater incentive to protect some aspects while at the same time trying to open up other markets. This is leading many in the developed world to focus on other means to advance their trade aims because WTO as seen as unable to deliver the goods or might be the source of less desired outcomes. The most obvious consequence of this has been the rapid growth in PTAs which have become the focus for many developed and developing states trade liberalisation agencies. Rather than globalisation driving a global opening of markets via the WTO globalisation is increasingly encouraging a rise of preferential trade and seizing up the multilateral system and subsidies will remain irrelevant if otherwise the resource use constrains in the environment debate pushes it back into the global scenario.

Further looking back at the WTO ministerial negotiation and debate, the friction over agricultural subsidies suggests that the major disagreements at play are not really about alternative visions to the existing agriculture trade system. It appears that the subsidy debate reflects an intensification of the neo-liberal policy paradigm instead of constituting a challenge to it. The agenda and support around eliminating subsidies suits middle-income developing countries like Brazil and Argentina who have powerful domestic farm oligopolies, international organizations such as the WTO, IMF, and World Bank. They unquestionably believe in the benefits of trade liberalization for the South, and even NGOs that see subsidies as manifestations of inequality and injustice in the global trading system. While the position taken on subsidies by these diverse actors meets a variety of strategic objectives, in the end it supports the status quo of neo-liberal economic globalization by promoting free-market ideals. Despite the time, energy, and political will expended in order to achieve the objective of reducing Northern subsidies, it seems unlikely to result in radical improvements to the livelihoods of hundreds of millions poor farmers in the developing world (Matias E. Margulus, 2008).