



## WTO Agreement on Agriculture: Suitable Model for a Global Food System?

By Sophia Murphy, Institute for Agriculture and Trade Policy

The Agreement on Agriculture (AoA) is a product of the Uruguay Round of the General Agreement on Tariffs and Trade (GATT) negotiations (1986-94). GATT's Uruguay Round of trade talks led to the founding of the World Trade Organization (WTO). The AoA provides the rules governing international agricultural trade and, by extension, production. It bans the use of border measures other than tariffs, and it puts tariffs on a schedule of phased reduction. Under the AoA, domestic support programs are categorized as either acceptable or unacceptable, with the latter also scheduled for reduction, and export subsidies, while effectively legalized by the agreement, have also been disciplined and slated for reduction. The content of the AoA reflects the shared agenda of the U.S. negotiating team and the non-European Union (EU) grain exporting countries (known as the Cairns Group) to push for as much liberalization of agriculture as possible.

### Key Points

- The Agreement on Agriculture (AoA) is part of the document founding the World Trade Organization and provides international rules governing agricultural trade and production.
- The AoA permits countries some freedom in devising agricultural support programs, but this is circumscribed by the agreement's broader commitment to liberalization.
- Debates over the future of the AoA are between those who view agricultural trade as a means to food security and rural development and those who consider it an end in itself.

The AoA permits countries some leeway to determine the support measures they want for their agricultural sectors. Unlimited spending is allowed for programs that support low-income and resource-poor farmers in developing countries as well as for insurance programs, infrastructure provision, and public food stocks (at world prices) in all countries. Programs that link government payments to specific crops and production levels are permitted under the so-called Blue Box (Article 6.5 of the agreement), which allows rich countries to pay farmers to reduce production.

This policy space is circumscribed, however, by the AoA's broader framework, which promotes a liberalized and integrated world market in agriculture. Although the preamble of the AoA refers to food security, the agreement itself represents an inadequate framework for achieving that goal. The AoA is simply premised on the notion that the fewer trade barriers that exist, the easier it is for demand for food to be met. Export subsidies provide a perfect example. The AoA legalizes the use of export subsidies, but under Article 13, the agreement restricts governments from invoking the WTO rules designed to provide protection

from dumping (the sale of goods at less than cost-of-production prices) through the use of export subsidies. This places farmers at the mercy of international markets dominated by a few transnational corporations.

At the Doha Ministerial meeting in November 2001, WTO members agreed to launch a round of trade talks by linking a number of different negotiations, including those regarding agriculture, to a "single undertaking" or negotiating framework. The target date for completion of all talks is January 2005. The Committee on Agriculture at the WTO will meet in June 2002 in Geneva for the first actual negotiating meeting, which will focus on export support measures. Subsequent meetings will address market access and domestic support programs.

Preliminary negotiations reveal significant differences among groups of countries. The Cairns Group continues to push for the elimination of all forms of export subsidies, substantially improved market access (including deep tariff cuts), and major reductions in domestic support for trade and farm production. The Bush administration is sympathetic to the Cairns proposals but has continued to increase its domestic support levels, in defiance of the spirit of the AoA. The EU is willing to discuss these issues, but not to anything like the extent sought by the Cairns Group. The EU has also raised nontrade concerns, such as animal welfare and payments to farmers in recognition of the public services they provide that the market does not reward (known as multifunctional agriculture). Other proponents of these payments include Norway, South Korea, Japan, and Switzerland, none of which wishes to reduce support to its farmers.

Developing countries are divided. Some are major exporters and belong to the Cairns Group. (In fact, the majority of this 18-member group is from the South.) Others are net food importers that seek to ensure some measure of protection against fluctuating import costs, which can make supplies unpredictable and cause balance-of-payments difficulties. Most developing countries are neither net food importers nor large exporters. Many lobby for increased market access and reduced support payments in developed countries while seeking maximum flexibility for themselves, so as to protect the livelihoods of their farmers and to secure their exports in the world market. Least Developed Countries (LDCs) were exempt from many of the provisions of the AoA but are still bound by its general direction toward liberalization. The LDCs have not been very active in the negotiations to date.

## Problems with Current U.S. Policy

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There are three main problems with the AoA: it ignores the realities of global agricultural markets, it reinforces industrial agriculture at the expense of sustainable agriculture, and it fails to acknowledge the widely differing needs of countries at different levels of development.

The AoA embodies an approach to agriculture that ignores key elements of real world markets for agricultural goods. For example, it is expensive to move land into and out of production, especially in regions where highly specialized, technology-based production is the norm. Producers are many and relatively independent, obstructing coordinated efforts to reduce supply in the face of a glut. Demand for food is relatively inelastic—to get enough to eat, people will spend what money they have on food, because it is essential for their survival. However, you can only eat so much food. No matter how low prices fall, people do not significantly boost their consumption. The biggest determinants of agricultural commodity prices are the weather and whether harvests were good in certain countries. China, a huge producer and consumer of food, can dramatically affect prices of certain crops by entering the market as a buyer (as it did after bad harvests in 1995-96) or, as it has on other occasions, as an exporter. These conditions suggest that farmers need support and insurance programs to compensate for the fluctuations in production and to help dampen the boom and bust cycles common to agricultural commodities. Despite the leeway provided for different kinds of support programs in the AoA, the agreement does not allow for a national system to manage food supplies, which many believe is a necessary feature of an agricultural system that seeks to ensure that demand can be met through relatively stable prices.

Moreover, the AoA operates as if only governments affect international trade in agriculture. The power of transnational corporations is largely ignored. This bias is reinforced by Bush administration efforts to impose greater restrictions on state trading enterprises (STEs), even though a number of transnational corporations have greater capacity than STEs to exercise market power in trade distorting ways. For example, the markets for many commodities such as coffee, cocoa, and some grains are dominated by a small number of companies. Commodities in these markets do not respond to classic models of supply and demand—price increases are generally passed on to the final consumer, though declining prices in raw commodities seldom are. Although some countries have privately expressed concern about the difficulties of managing a market dominated by powerful companies, there has been no formal discussion on how best to regulate market power exercised by these private companies.

The AoA also reinforces export-based industrial agriculture, often with damaging ecological results. Industrial agriculture places enormous stress on the world's renewable resource base, including its water and soil. Research by agroecologists has demonstrated the resilience and productivity of many traditional agricultural practices and has documented the damage done by programs that replace small, diverse farms with larger monocultures, often oriented to export production. Although there is no necessary connection between export production

and large-scale intensive farming—witness the successful creation of markets for fair trade coffee—the demands of export markets often favor larger suppliers.

The debate over multifunctional agriculture (MFA) also reveals the narrowness of U.S. agricultural trade positions. MFA sets objectives for agriculture that go beyond increasing production to seek other social, ecological, and economic benefits by providing incentives to protect water quality, soil, and habitats for particular species. These services are seldom reflected in market prices for agricultural products and yet have public (and economic) value. In Europe the debate over MFA has led to important proposals for the reform of the EU's Common Agricultural Policy. Unfortunately, EU trade officials have used MFA to justify existing agricultural trade practices, despite the damage they inflict. In the U.S., trade officials have decided to ignore the domestic debate on MFA altogether and have joined others at the WTO in an effort to keep the concept off the agenda for negotiations.

Finally, the AoA ignores real differences among countries by suggesting that all nations can benefit from following varying degrees of the same liberalization policies. Worse, the agreement allows rich countries to buy themselves extraordinary exceptions to the rules, something developing countries cannot hope to do. This hypocrisy is perhaps most clear in the case of the United States. Although the U.S. Trade Representative office (USTR) continues to insist on a market-based agricultural trade system at the WTO's Committee on Agriculture, Congress has authorized billions of dollars for various kinds of domestic and export support programs in the last three years. At the WTO Committee on Agriculture, Washington tries to keep the debate focused on export subsidies—the support mechanism preferred by the EU—while avoiding discussion of U.S. domestic support programs. The end result of U.S. farm policy is that the market power of agribusiness firms is increased while farm numbers dwindle and production remains bloated.

In essence, the U.S. negotiating position claims the right to spend tens of billions of dollars on agriculture to compensate farmers for market failures rather than addressing those failures directly. U.S. policy promotes access to export markets as the solution to chronic overproduction and imbalances in market power, which have squeezed all the profit out of farming and into trading, processing, and retailing. At the same time, U.S. agriculture and trade policies encourage the use of soil, water, and carbon-based energy at levels that are unsustainable in the medium-term and are already a major source of ecological damage.

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### Key Problems

- The AoA ignores the reality of global agricultural markets, which behave differently than markets for other goods.
  - The AoA focus on increasing exports results in the promotion of unsustainable industrial agriculture at the expense of sustainable agriculture.
  - The U.S. and the EU practice double standards in their advocacy of liberalization for developing countries but increased protection for their own agricultural export sectors.
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# Toward a New Foreign Policy

The renegotiation of the AoA beginning in June 2002 offers a new opportunity to reorient global trade rules in a manner that promotes food security, resilient ecosystems, genetic diversity, and vibrant economies. Such a transformation would require rules that recognize how agricultural production and trade differ from the production and trade of other goods and services. It would also require rules that outlaw dumping and increase

transparency in world commodities markets. Finally, it would require a move away from "one size fits all" policies to rules that enable a diversity of agricultural trade policies to consider each country's level of development, degree of trade dependence, and agricultural production profile. The starting point has to be devising multi-lateral rules for agriculture that reflect the ecological and economic realities of agricultural production and markets: low elasticity of supply and demand, production levels that

are not closely linked to demand, political sensitivities related to ensuring an adequate food supply for each country's citizens, and production that is not dependent on ever increasing quantities of agrochemicals.

Developing countries in particular are dependent on agriculture as a major source of employment and foreign exchange, and AoA rules should be changed to allow these countries to nurture their domestic agricultural production and markets. Exemptions from tariff and domestic support reductions should be revised to take into account relative economic dependence and poverty rather than relying solely on the static and somewhat arbitrary country categories of developed, developing, and least developed. The differences among developing countries is widening by most indicators, and though such country categories still provide a useful basis for differential treatment, a more dynamic distinction would be more useful.

For example, Guyana relies on rice exports for 40% of its foreign exchange revenue. Its contribution to the world market, however, is marginal—if Guyana were to disappear from the world market, prices would hardly reflect the change. Thus Guyana is heavily dependent

on a market in which it exercises almost no influence. Were Guyana to receive preferential status as an exporter, to ensure its foreign exchange earnings, the volumes involved would not significantly affect larger exporters. Guyana could "graduate" out of this category of dependent countries as and when its dependence on rice evolved. Similarly, countries with a high dependence on agriculture as a source of employment, coupled with a low overall GDP, could be eligible for exemptions from government support limits and could be given more flexibility to use border protection to support their producers.

One clear goal for the AoA negotiations should be to outlaw all forms of agricultural dumping. For certain grains, prices both in the U.S. and overseas are below the cost of production. This distorts the market for food exporters who seek to access the U.S. market or who compete in other markets where U.S. grain is sold. It also distorts the market for domestic producers in countries that import U.S. grains, creating artificially low prices that deprive local farmers of their livelihoods.

A first step in ending dumping would be the publication of accurate and complete cost-of-production figures for all crops that each country wants to export, including the dollar value of domestic support measures. The prospective exporting country would then be required to impose an export tax—or a tariff could be levied by the importer—to ensure that the final sale price reflected both the cost of production and a reasonable profit. There could be a minimum threshold level exempting a country from this provision if it had a very small share of the world market—for example, 5% or less. In addition, the transparency measures required of state trading enterprises would need to be extended to include private companies with a similar or greater degree of market power.

These reforms would constitute the first step in efforts to shift agricultural policy from a narrow neoliberal framework toward embracing broader developmental policies and concerns. Under this new framework, agricultural trade would promote objectives such as full employment and sustainable development and would not be touted as an end in itself.

*Sophia Murphy <smurphy@iatp.org> writes for Foreign Policy In Focus <www.fpif.org> and is the director of the Institute for Agriculture and Trade Policy's trade program. Her work includes advocacy, research, and writing related to the World Trade Organization and the UN.*

## Key Recommendations

- The AoA must be reformed to allow developing countries flexibility to use a range of trade and domestic support programs.
- All export dumping must cease, and the prosecution of antitrust cases against transnational agribusiness firms must be allowed.
- The AoA must be reoriented toward governing agricultural trade in a way that enhances food security and sustainable rural livelihoods.

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**Issue Editor:** John Gershman

### Orders and subscription information:

**Mail:** PO Box 4506  
Albuquerque, New Mexico 87196-4506  
**Voice & Fax:** (505) 842-8288  
**Email:** [infocus@irc-online.org](mailto:infocus@irc-online.org)

### Editorial inquiries and information:

**IRC Editor**  
**Voice:** (505) 388-0208  
**Fax:** (505) 388-0619  
**Email:** [tom@irc-online.org](mailto:tom@irc-online.org)

**IPS Editor**  
**Voice:** (202) 234-9382/3 ext. 232  
**Fax:** (202) 387-7915  
**Email:** [martha@ips-dc.org](mailto:martha@ips-dc.org)

**Website:** <http://www.fpif.org/>

# Citizen-Based Agenda



Citizen movements organizing across national borders are increasingly a key factor in reshaping global affairs policy at both the national and international levels. To further its own mission to reform U.S. foreign policy—making it a more responsible global partner and global leader—Foreign Policy In Focus (FPIF) is committed to strengthening and advancing citizen movements concerned with global affairs. As part of that effort, we are drafting profiles of many of the most prominent citizen-based global affairs agendas.

Citizen groups working on agricultural trade and food security argue that current rules governing agricultural trade in the World Trade Organization that promote trade liberalization extend beyond trade to create incentives for ecologically and economically unsustainable forms of agriculture. They note that promoting trade liberalization exacerbates one of the key problems of global agricultural markets: agricultural overproduction, which leads to downward pressure on commodity prices and weakens the viability of family farming, and increased concentration of agricultural trade among a few large transnational corporations. The combination of greater liberalization and the increased market power of a few large transnational corporations has exacerbated trends toward input-intensive, industrial agriculture that has led to major ecological disruption, and contributed to recurring food safety crises such as the mad cow pandemic in Europe.

In contrast, citizen groups argue that the rules for governing agricultural trade—as well as agricultural policy as a whole—should be pursued within a framework that enhances food security and promotes sustainable agriculture. Citizen groups highlight that hunger is primarily caused by the lack of access to adequate food, and point to a number of food surplus countries (such as the U.S., India, and Brazil) that still have high rates of hunger as evidence that suggests that increased production alone, let alone greater trade in agricultural commodities, will not by itself lead to enhanced food security. As such, governments should be allowed the freedom to pursue demand- and supply-side policies that achieve such objectives. While policies and programs that promote exports and encourage dumping should be prohibited, countries should be allowed to pursue a diversity of supply-management and other programs to minimize dramatic price swings and mitigate the boom bust cycle in commodities markets. Third, as agriculture is a critical component of sustainable rural livelihoods, programs that recognize and reward farmers for the environmental services they provide should be strengthened. Finally, citizen groups advocate policies that would combat the market power of the large agribusiness trading companies through the use of anti-trust and anti-competition policies internationally.

Citizen groups differ on the degree to which export crops should be encouraged as part of an agricultural development strategy. Some advocates emphasize self-sufficiency in staple crops as a key development strategy, while other groups (such as fair trade groups in coffee and bananas) point to those areas as avenues whereby farm households can increase incomes and enhance their food security even though they may be producing primarily for export markets.

—FPIF Editors

## Sources for More Information

### Organizations

#### Food First/Institute for Food and Development Policy

398 60th Street  
Oakland, CA 94618  
Voice: (510) 654-4400  
Fax: (510) 654-4551  
Email: [foodfirst@foodfirst.org](mailto:foodfirst@foodfirst.org)  
Website: <http://www.foodfirst.org/>

#### Genetic Resources Action International (GRAIN)

Spain  
Voice: (3493) 301-1381  
Fax: (3493) 301-1627  
Email: [grain@grain.org](mailto:grain@grain.org)  
Website: <http://www.grain.org/about/index.cfm>

#### Institute for Agriculture and Trade Policy

2105 First Ave. S.  
Minneapolis, MN 55404  
Voice: (612) 870-0453  
Fax: (612) 870-4846  
Email: [iatp@iatp.org](mailto:iatp@iatp.org)  
Website: <http://www.iatp.org/>

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### Websites

#### Farming Solutions: Success Stories for the Future of Agriculture

<http://www.farmingsolutions.org/>

#### Institute for Agriculture and Trade Policy libraries

<http://www.tradeobservatory.org/>  
<http://www.agobservatory.org/>

#### International Fund for Agriculture and Development's Rural Poverty Report 2001

<http://www.ifad.org/poverty/index.htm>

#### UN Food and Agriculture Organization on trade

<http://www.fao.org/trade/index.asp?lang=en>

#### World Trade Organization on agriculture

[http://www.wto.org/english/tratop\\_e/agric\\_e/negs\\_bkgnd00\\_contents\\_e.htm](http://www.wto.org/english/tratop_e/agric_e/negs_bkgnd00_contents_e.htm)