THE MOMENT OF TRUTH: WTO Members confront the challenge of reconciling the WTO's trade paradigm with development goals

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The debate on food and livelihood security and rural development in the Doha negotiations on agriculture has come to a head. The debate was triggered by recent proposals from the U.S., Thailand and Malaysia, and a framework paper on special products (SPs) from the Chair of the agriculture talks, Ambassador Falconer of New Zealand. On May 11 the Group of 33 (G-33), also known as the Alliance on Special Products (SPs) and a Special Safeguard Mechanism (SSM), and comprising 42 WTO members, joined with the African Group, Least Developed Countries (LDCs) and the Africa-Caribbean-Pacific (ACP) group to voice their protest at what they saw to be a misrepresentation of the negotiations to date*. The Ambassadors of Indonesia and the Philippines issued a joint press statement to complain that the framework paper failed to capture the G-33's development concerns and seemed to prejudge the question of how many tariff lines might be needed to make SPs operational. The framework paper dismisses the G-33 proposal (of at least 20 percent of all agriculture tariff lines) as far too generous.

Ambassador Falconer's reference paper points to the difficulties and uncertainties of establishing indicators based on food and livelihood security, particularly given the diversity of situations both among and within WTO members. His paper instead encourages the debate to focus on numbers: how many tariff lines should get how much additional flexibility to maintain relatively higher tariffs. No doubt Ambassador Falconer sees this as a practical way of moving the debate forward. Yet his illustration of two (unnamed) developing countries that could use 20 percent of their tariff lines to in fact protect upwards of 94 percent of the value of their import trade in agriculture in fact is an illustration of how arbitrary the use of numbers of tariff lines is.

Logically, the same two countries could - if they chose - use 80 percent of their tariff lines to protect 6 percent or less of their import value. The point is surely that WTO members need to struggle with some qualitative measures, and not just numbers.

Falconer's shift to a numeric focus, clearly supported by a number of WTO members, while strongly resisted by the G-33 and others is a missed opportunity to show that the WTO really can accommodate development priorities. It is precisely the inability of the current trade rules to cope with qualitative differences - either within members' different economic sectors, or among developing countries as a group - that has done so much to damage the WTO's credibility in the eyes of the many civil society organizations and indeed the general public in a number of developing countries.

Since WTO members agreed to the Doha Agenda, at the fourth WTO Ministerial Conference in Doha, in November 2001, a number of developing countries (many of them now members of the G-33) have argued tirelessly for the inclusion of mechanisms that would allow developing countries the policy space to protect rural development priorities within the framework of the renegotiated Agreement on Agriculture. In July 2004, the G-33 successfully convinced the WTO membership to include SPs and the SSM in the "July Package," which ensured the mechanisms a place in the final agreement, with the details still to be worked out. Since then the G-33 have engaged in extensive work, both at the national level and in Geneva, to develop a set of indicators to determine which kinds of products should be eligible for "special" treatment, what that treatment should be. Similarly, they have worked to define rules for the operation of a new SSM.

At the sixth WTO Ministerial Conference, held in Hong Kong in December 2005, WTO members agreed that developing countries would be allowed to self-designate special products, with a ceiling established by a still to be defined percentage of all tariff lines. The designation is to be, "guided by indicators based on the criteria of food security, livelihood security and rural development". In addition, the G-33 succeeded in getting agreement for both a price and a volume trigger for the SSM, over the objections of many developed and some developing countries.

WTO members are now struggling to conclude the Doha Round (the agriculture and non-agricultural market access talks were due to be concluded on April 30th, but governments again failed to meet the deadline). WTO members have been discussing SPs and the SSM, alongside a number of other issues on the agriculture agenda. Several of the WTO members that are most skeptical of the mechanisms, such as the U.S., Malaysia and Thailand, have submitted contributions of their own. These contributions, particularly those from Malaysia and Thailand, shed light on just how difficult it is for trade negotiations framed by the Doha Agenda to properly take account of development concerns.

The U.S. proposal focuses on numbers rather than qualitative indicators.
The U.S. proposal establishes a target of 5 tariff lines (out of a rough average of (+/-) 2000 agricultural tariff lines notified per WTO member) and includes several criteria to limit the tariff lines eligible for SP treatment. Agricultural products are notified to the WTO at a detailed level, so for example, instead of notifying "dairy" as one product, a country will notify cream, skim milk powder, yellow cheese, white cheese, and so on, each as a separate tariff line.

The U.S. proposal shows it is not interested in accommodating the development needs outlined by the G-33 (and, indeed, by the Africa Group, LDCs, and ACP). To suggest five tariff lines at the detailed level used at the WTO could adequately address food and livelihood security and rural development concerns in developing countries is astonishing. The result of the proposal has been to worsen the already strained relations among negotiators; the G-33, together with many of the WTO's smallest and weakest members, are insulted, and with good reason. The U.S. proposal ignores the extensive range of proposals, submissions and Ministerial declarations made by the G-33 countries over the past few years on SPs and the SSM.

The proposals from Thailand and Malaysia focus on the challenge of how to deal with poor producers who are integrated into export agriculture production systems. Thailand gives the example of rice farmers, and Malaysia that of palm oil producers. 41 percent of Malaysian palm oil producers are small-scale farmers**. The Thai and Malaysian proposals claim the development of export markets for commodities such as rice and palm oil has made significant inroads against rural poverty in their countries. The claim is that these smallholders need exports to ensure their livelihoods, setting up a direct challenge to the G-33 argument that rural development priorities justify mechanisms to protect agriculture from imports.

Thailand and Malaysia are asking that the selection and treatment of SPs not undermine the food and livelihood security and rural development concerns of exporting developing countries. They propose some indicators
including: (1) where a developing country exports a product that constitutes more than 50 percent of world exports, it should not be eligible for SPs; and (2) where a developing country is importing more than 50 percent of a product from another developing country, then that product should not be eligible for SPs. In addition, the papers propose to limit the overall number of tariff lines eligible for SPs, and impose some minimum domestic use criteria (with hard numbers still to be determined), that an SP must account for more than a minimum percentage of agriculture GDP, must provide more than a minimum percentage of domestic use and contribute more than a minimum percentage of the population's total calorie needs.

The most recent trade policy technical note from the FAO*** discusses the different challenges that face different developing countries and the importance for some, especially the least developed, of using border protection to stimulate domestic production and to allow domestic processing industries a chance to get established. Not all developing countries are in this situation, but a number are, while still others might need to protect a few but not all agricultural sectors. The fundamental importance of SPs and the SSM are clear: (1) empirical evidence shows that not all countries at all times are better off with more open markets, especially when considering the history of very unequal trading relations between many developed and developing countries; and (2) there are significant differences among developing countries as to their domestic resources and ability to compensate losers.

Objectively speaking, very few countries can forgo trade opportunities altogether. Access to capital, technology and innovation through open markets delivers significant benefits - benefits that closed economies cannot match. However, without an appropriate framework, open markets cause a lot of harm. Without rules to regulate competition, for example, deregulated trade and capital markets combine to favour the emergence of excessive market power for transnational companies. This in turn creates barriers for new entrants to the market and disadvantages others, such as producers, who depend on processing, trading and retail firms for their final market.

Jacques-chai Chomtongdi from Focus on the Global South, conducted a study on the rice sector in Thailand which showed that the year that the rice export price was the highest was the year farmers had the lowest share of export value. He argues, "exporters, traders, and millers tend to benefit more from the rise in export price than the farmers." U.S. experience is similar: export expansion is poorly correlated to farm income. Chomtongdi concludes: "Thailand is known as one of the top food exporters in the world, particularly in rice. But a study on Thailand shows that while its rice exports are increasing, farmers do not benefit from this success. Farm-gate prices have not increased over the last decade. The stagnation in real income has been accompanied by a sharp rise in the debt burden of the rural households. In short, more export does not lead to an increase in farmers' welfare, or at least, not for Thai rice producers."****

Also important is to understand the conflicting demands of development objectives. If Thai rice exporters are benefiting from sales to Senegal, but Senegalese rice farmers, and farmers producing millet and other foods that compete with rice are losing, then is Senegal obliged to open its rice market for the sake of Thai producers? Surely Senegal has a prior obligation to its own farmers. This situation is especially true for countries with limited domestic resources, limited economic diversity, and who are least able to provide alternative livelihoods when workers are displaced.

There is no simple solution to these complex challenges, but a few things are clear. First, trade liberalization is not an end to be pursued without regard to other objectives. Trade is a tool and it needs a careful and pragmatic framework to work effectively. Second, South-South trade is an important and growing phenomenon. The challenge is to strive for its emergence along lines that best promote the welfare of the countries involved, and in particular the welfare of the poorest within those countries. Increased trade volumes are a poor indicator of the quality of trade taking place. Third, to address the enormous complexities and uncertainties of food security and rural livelihoods in a trade negotiation requires something less crude than a ceiling on the number of tariff lines. It requires strong, and respected, input from other multilateral agencies and government officials with the requisite expertise. If criteria are hard to determine and easy to hide behind, then WTO members must find some way of judging the criteria (and their application) with experts who know something about rural livelihoods and food security. This is not a task for trade lawyers alone.

Were the multilateral trade agenda properly integrated into the wider multilateral system of governance such an approach would be obvious.
Instead, WTO members have deliberately chosen to keep the WTO mandate outside the broader multilateral system and therefore strong social and economic policies do not find their place in the talks. The concept of food and livelihood security and rural development are now firmly in place in the Doha Round. How WTO Members decide to resolve the issues will test whether WTO Members can confront the challenge of reconciling the current trade paradigm with development goals.

DOCUMENTS

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Joint Communication from the G-33, African Group, ACP Group, and LDCs on Special Products and the Special Safeguard Mechanism
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G-33 Contribution on the Chairman's Reference Paper on Special Products
http://www.tradeobservatory.org/library.cfm?refid=80824

REFERENCES

* The framework paper can be found at the WTO website, at http://www.wto.org/english/tratop_e/agric_e/refpapers_apr06_e.htm. The G-33 and other responses are posted at www.tradeobservatory.org. Search the documents for "Special Products and Special Safeguard Mechanism."

** Arif Simeh and Tengku Mohd Ariff Tengku Ahmad, "Regional Workshop on Commodity Export Diversification and Poverty Reduction in South and South-East Asia: The Case Study on the Malaysian Palm Oil, April 2001."

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