The World Trade Organization and Agriculture

THE INSTITUTION

The World Trade Organization (WTO), established on January 1, 1995, is a multilateral institution charged with administering rules for trade among member countries. Currently, there are 146 official member countries. The United States and other countries participating in the Uruguay Round of Multilateral Trade Negotiations (1986-1994) called for the formation of the WTO to embody the new trade disciplines adopted during those negotiations.

The WTO functions as the principal international body concerned with multilateral negotiations on the reduction of trade barriers and other measures that distort competition. The WTO also serves as a platform for countries to raise their concerns regarding the trade policies of their trading partners. The basic aim of the WTO is to liberalize world trade and place it on a secure basis, thereby contributing to economic growth and development.

THE URUGUAY ROUND

Progress toward multilateral trade liberalization takes place through rounds of negotiations. Eight rounds have been completed since 1948. The ninth round was launched in Doha, Qatar, in November 2001. The eighth round, the Uruguay Round, began in Punta del Este, Uruguay, in September 1986 and concluded at Marrakech, Morocco, in April 1994. No previous round was as important to U.S. agriculture.

For many years, although agricultural trade grew, it remained in large part outside the General Agreement on Trade and Tariffs (GATT) process. From 1947, GATT member nations negotiated for decades to form a multilateral accord laying out rules for international trade. By the start of the Uruguay Round, the need for reform had become evident. Government support and protection for agriculture had been increasing globally, and all countries felt the consequences in terms of rising budget expenditures, depressed markets, trade frictions, and the overall drain on economic growth. International agricultural markets were distorted by the use of high price supports and restrictive import barriers, which protected domestic producers while denying competitive producers the opportunity to sell their products in these markets. High price supports in some countries led to surplus production that was dumped on world markets with the aid of export subsidies.

The growing impact of barriers and subsidies in agricultural trade resulted in increasing trade friction among countries. The GATT was ill equipped to deal with this situation because trade in agriculture was covered by a number of special provisions that made the GATT an ineffective forum for resolving agricultural trade disputes. Therefore, GATT members made reforming agricultural trade a central part of the Uruguay Round of trade negotiations.

THE AGREEMENT ON AGRICULTURE

During the Uruguay Round negotiations, countries agreed to the long-term objective to establish a more fair and market-oriented agricultural trading system. Countries also agreed to specific disciplines for agriculture in the areas of market access, export subsidies, and internal support. These areas are commonly referred to as the three pillars.

Market Access: The market access provisions of the Agreement on Agriculture required that non-tariff measures be replaced by tariffs. For example, quotas, variable levies, discretionary licensing, import bans, and other non-tariff barriers were no longer allowed. Thus, virtually all market access barriers are on a common standard -- tariffs -- that any exporter can readily measure, understand, and predict. All tariffs are bound. Once bound, a tariff cannot be increased without compensating other countries.

Export Subsidies: Under the WTO, export subsidies for agriculture were, for the first time, subject to effective rules. Member countries established maximum ceilings on the quantity and budgetary outlays for export subsidies on a product-specific basis, subject to reductions over time. Export subsidies include direct government or producer subsidies on exports, transportation, and freight; marketing; and the sale or disposal of government stocks below domestic prices. Export subsidies generally are the most trade distorting of government policies because they allow subsidizing countries to displace competitive producers in world markets.

Internal Support: Governments provide internal support to their producers in many ways. Some of these policies have significant consequences beyond a country's borders. Such policies can impose costs on other countries and world markets by encouraging overproduction or inducing production of specific commodities. Under the WTO, policies that seriously distorted trade were differentiated from those with minimal trade effects. The two respective categories were labeled "amber" and "green".

For amber policies, countries are not able to exceed the level of support to which they have agreed as measured by their Aggregate Measurement of Support (AMS). The AMS essentially totals, commodity by commodity, a country's support measures linked to production or prices. They include price supports, marketing loans, payments based on acreage or number of livestock, and certain subsidized loan programs.

Direct payments linked to certain production-limiting policies are also trade distorting, but are free from reduction requirements under the "blue" box exemption. No reduction requirements or restrictions are placed on green (permitted) policies. Generally, these are taxpayer-funded policies that do not involve transfers from consumers and do not have the effect of providing price support to producers. Examples include research, pest/disease control, extension services, inspection, marketing and promotion, crop insurance, natural disaster relief, and conservation programs.

As part of the Agreement on Agriculture, countries committed to continue the reform process begun in the Uruguay Round. These negotiations began in March 2000.

DOHA DEVELOPMENT AGENDA

In November 2001 at the 4th Ministerial in Doha, WTO Members launched new multilateral trade negotiations. While the agriculture negotiations had been progressing for the previous two years, the launch of a broad agenda added considerable impetus to the negotiations. For agriculture, the Doha Development Agenda Declaration calls for substantial improvements in market access, the reduction of, with a view to phasing out, all forms of export subsidies, and substantial reductions in trade-distorting domestic support. WTO Members also agreed that new reduction commitments (modalities) in the areas of market access, domestic support, and export competition were to be established by March 31, 2003. These modalities were to set the stage for negotiations at the 5th ministerial to be held in Cancún, Mexico, September 10-14, 2003.

Since this deadline was not met, the WTO Chairman put together a draft Cancún Ministerial Text, encompassing various proposals, that will serve as a starting point in negotiations.