*UNCTAD Discussion Paper**
22 September 2014

The post-2008 global context of agricultural trade: key issues for developing countries and WTO negotiations

The objective of this note is describing the changes that have occurred since 2008 in the global context of agricultural trade and of agriculture-related policies and assessing what these changes mean for some issues under negotiation in the Doha Round, particularly from the perspective of Net-Food Importing Developing Countries (NFIDCs).

1. The post-2008 global context regarding trade in agricultural goods

Since 2008, the global context of agricultural trade and agricultural-related policies has witnessed the following changes: higher food prices and increased volatility, continued incidence of import surges and price depression; greening of domestic support in developed countries and increased interest in developing countries to resort to support policies for food security and increased productivity.

1.1. Higher (food) prices and increased volatility

Food prices in the 2000-2014 period have been higher than prices observed in the 80s and 90s. On the other hand, prices in the 2008-2014 period have been higher than prices observed in the 2000-2008 one. In addition to this long-term and durable price increase trend, prices have also become more volatile, i.e. they show more short-term variability in most commodities.

* This draft text is not an official final version and is being circulated unedited.

Figure 1.
FAO Food Price Index 1961-2014, in nominal and real terms

Source: FAO

These trends pose several policy challenges to developing countries, as illustrated in the table below:

Table 1.
Policy challenges to developing countries

Policy action sphere	*Challenges and concerns*
Food security	• Increasing import bills and food import dependence • Ensuring availability of food at affordable prices • Ensuring stability and predictability in the supply of food
Productivity deficiencies	• Enhancing productivity is key to improve food security in many developing countries • Perceiving agriculture as a highly risky activity due to price/market volatility. This acts as a disincentive to invest in agricultural market development
Maximizing the contribution of agriculture to development and trade	• Declines in farm incomes and rural poverty are observed • Net exporters and importers are differently positioned to use trade as a tool to achieve development and to integrate global value chains (and benefit from increased trade opening)

These challenges and concerns have led to an increased interest in developing countries, and particularly food-importing ones, to resort to policies aimed at productivity increases and self-sufficiency. According to FAO, different stages of agricultural development require different policies and types of support. Therefore, ensuring that a menu of policy tools is available for developing countries is important

Table 2.*

Policy phases to support agricultural transformation

Phase	*Main objective*	*Policy tools needed*
1) "Establishing the basics"	Promoting investment in early stages	Primacy of Green Box, development programmes (AoA art. 6.2)
2) "Kick-starting markets"	Providing a stable and remunerative environment for private sector investment in market development	Development programmes, product-specific support and border policies
3) "State withdrawal from markets"	Preventing short-term disruption to domestic sectors with limited access to risk management instruments	Green box, safeguards, variable level of border protection (e.g. Special Safeguard Mechanism, SSM)

Source: Dorward et al (2004), cited by FAO in 2014.

1.2. Incidence of import surges and price depression

Box.1. Defining import surges

The term "import surge" identifies two types of potential shocks to domestic agriculture which may arise from increased openness to trade (i) increases in volumes of imports from one year to the next and (ii) depression to domestic market prices that may result from increased connectivity to global market prices.

Source: FAO (2014) Trade Policy Technical Note No. 15 "Import surges and the Special Safeguard Mechanism revisited"

In contrast with the situation that prevailed in the pre-2000 period, the post 2000s era is characterized by increased import volumes by developing countries with simultaneous high prices. Recent studies[1] for different countries and commodities have found that in the post-2008 era, import surges continue to affect all commodity groups and the highest incidence is observed in meat, dairy and oilseeds. These studies also found that some countries present a higher incidence of import surges in the 1984-2013 period.[2]

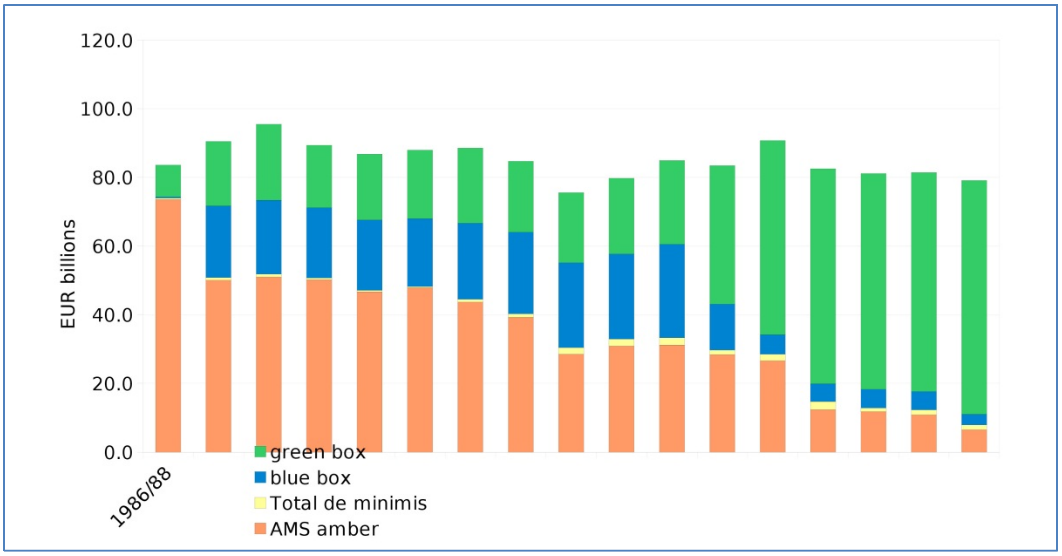
[1] FAO (2014). Op. cit.

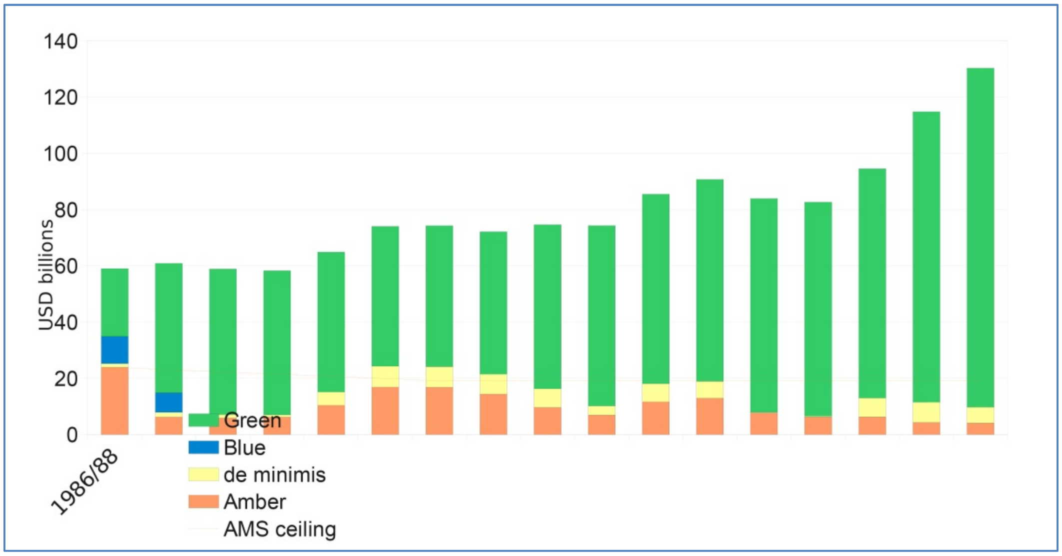
[2] India, China, Zimbabwe, Ecuador, Kenya, Nigeria, Pakistan, Uganda, Tanzania, Venezuela, Malawi, Nicaragua, Benin, Ghana, Mali, Zambia, Madagascar, Bangladesh, Rwanda and Togo.

1.3. Greening domestic support in developed countries

The main feature related to the evolution of farm policy support in developed countries is the increased use of Green Box (GB) support, combined with the lower use of blue box and amber box (AMS). The following 2 graphs illustrate the phenomenon of "greening domestic support" in the European Union (EU) and in the United States (US).

Figure 1.
Challenges and concerns related to agricultural policy of developing countries in the post-2008 context





Source: ICTSD, 2014

Empirical studies have shown that the increase in use in GB measures "more than compensates" the reduction in the other types of domestic support. This trend has raised doubts about whether, even if GB support measures are supposed to be non-trade distortive, this is the case.

A 2014 UNCTAD study[3] revealed that the use of green box measures has led to increases in productivity and technical efficiency in the EU and US. The study estimated that GB subsidies increased agricultural productivity by around 60% in EU and 51% in US in the 1995-2007 period. The study also found that the impact of reducing or capping GB expenditures would lead to major restructuring of agricultural production and international trade, which could benefit developing countries. For instance, this analysis indicates that:

- A cut of 40% and 50% in GB subsidies of US and EU can lead to import volumes of agricultural products rising substantially in EU (35%) and US (67%) with an increase of 17% in export revenue of developing countries.
- LDCs gain in terms of rise in export volume and revenues and a fall in their import costs.
- NFIDCs also gain in terms of exports with no rise in their import costs.
- Capping of GB subsidies at the 2001 level can lead to substantial gains to developing countries as their export revenues increase by 55%. LDCs and NFIDCs increase their production of agricultural products (not necessary food) while their import costs decline.

This analysis suggests that real domestic support levels in developed countries are not going to be subject to significant change as a result of the Doha Round, based on the Rev. 4 modalities scenario.

1.4. Increased interest in developing countries to resort to agricultural support policies

Another main feature related to the evolution of agricultural policies in the current context is the increased trend for subsidies provided by some developing countries, motivated by the reasons explained in section 1.1).

A study by Lars Brink (2014, ICTSD) notes a converging trend between developed and developing countries non-green domestic support levels. In this sense Brink estimated that non-green domestic support (measured in terms of percent of value of production) for Japan, EU, Russia and US shows a declining trend, with ranges between 5% and 10% while Brazil, China and Indonesia show an increasing trend, with ranges between 1% and 4%.

This trend has led to concerns among WTO members about possible breaching of their Amber box (*de minimis*) commitments. In spite of this trend, there is a significant difference between current levels of domestic support by developing countries and by developed countries. This is illustrated by the analysis submitted by the CAIRNS group in the WTO, which analysed trends in domestic support of 10 global traders of agricultural products in 2012[4], finding that:

- The combined amount of domestic support (all types) in developed countries is twice as large as the support of the developing countries.
- The total support compared to the value of production, corresponds to an average of 21% in the case of developed countries and 11% in the case of the developing countries.

[3] Banga, Rashmi (2014). Impact of Green box subsidies on agricultural productivity, production and international trade. United Nations.
[4] European Union, the United States, China, Brazil, Canada, Japan, India, the Russian Federation, Indonesia and Australia

- On average, the gross level AMS support (i.e. the sum of product specific and non-product specific AMS, without excluding de minimis support.) as a percentage of value of production in developed countries is more than four times the level in developing countries.

2. The broader negotiating scenario in the WTO

In the current context, diverging views persist among agricultural exporters and importers on what should be the basis for decisions in the agriculture negotiations.

According to some developed members, the Rev. 4 text is not an appropriate framework to pursue the negotiations because the world has changed since 2001, when the Doha Round was launched. Therefore the negotiations outcome should reflect these new realities. This means that new elements could be incorporated in the Rev. 4 text and some of its elements might be revised

In domestic support, the fact that China, India and other developing countries have increased levels of domestic support since 2004-2005, has been identified, as one of the ‘new realities' that need to be incorporated in negotiations outcomes, according to this group of members, suggesting the need for enhanced disciplines or additional cuts in domestic support by developing countries. On agricultural market access, some exporters, including developing countries, continue to have concerns over the prevailing high import tariffs in several developing countries as well as over the "generous flexibilities" envisaged for developing countries under Special Products (SPs) and SSM.

On the other hand, many countries prefer to continue work with the latest modalities text. For many developing countries, Special and Differential Treatment (SDT) provisions included in the Rev. 4 text should be preserved, to ensure that all countries can participate fully in the growth of agricultural trade.

Box 2. SDT provisions and flexibilities provided for in the Rev.4 Modalities

- Differentiated (tariff) reduction, which means lower tariff reductions, less tariff-rate quota expansion, longer implementation periods and flexibility to designate SPs
- Establishment of an SSM for developing countries, i.e. adopting a safeguard mechanism to counter import surges and price declines
- Treatment of concerns related to preference erosion for countries that are heavily dependent on unilateral preference schemes
- Accelerated market access for tropical products and alternatives to narcotic products
- Sensitive products
- Reducing tariff escalation in products of export interest to developing countries, namely processed products
- Expanded Green Box to include new measures undertaken by Governments aimed at agricultural and rural development
- Exempting from Amber Box reduction commitments measures to supporting subsistence farmers and resource-poor producers.
- Exempting NFIDCs from Amber Box reduction commitments
- Promoting a more ambitious Doha outcome for cotton in terms of the 3 pillars of the agriculture negotiations and improved supply capacities

For these countries, under existing agricultural disciplines, domestic support rules appear to be of benefit to few members. In addition, existing modalities allow for carving out real reductions by them in levels of some types of domestic support and maintaining overall levels of support through box-shifting among support programmes. Therefore requiring more effort from them in the market access pillar does not appear to be an acceptable deal.

Overcoming these diverging views might imply working on the "exchange rate" between the level of ambition in the market access and in the domestic support pillars. In his sense, some informal proposals have been floated seeking to re-balance the agricultural outcome of the Doha Round for instance, revisiting the numbers related to Sensitive products, SPs and SSM.

3. Contentious issues regarding Special Products (SPs) and Special Safeguard Mechanism (SSM)

3.1. Special Products (SPs)

For many developing countries, the experience with trade liberalization in agriculture has been associated with increased income inequality, deterioration of rural poverty, increased import food dependence, marginalization of small farmers, and deterioration of the food security situation, especially among the poor. Cognizant of this, many developing country governments insist that WTO agriculture negotiations should incorporate concrete, operational and effective provisions that would allow developing members to take into account concerns of food security, livelihood security and development more broadly.

Imports can contribute to food security but as a complement to domestic production, at an adequate combination to be decided by each particular country based on its own circumstances. Cheap imports can be good for consumers. Still, for the rural poor who depend on agriculture production for its own consumption and basic income, by trading in the local market, cheap imports constitute a source of concern. If as is the case in most developing countries, the large majority of the population depend on agriculture and live in the rural areas under severe poverty, protecting and expanding the livelihood strategies of the rural poor based in agriculture production and trading constitutes the only means to improve the living standards of the population and guarantee food security. Further, small open economies, lacking economies of scale and vulnerable to natural disasters and shocks, cannot entirely rely on imports to meet the food needs of its population. These countries have insisted on the need to maintain a minimum level of domestic food production.

This proposal was originally put forward by the G-33, and supported by the African Group, ACP and LDCs. WTO members agreed[5] that developing members will have the flexibility to designate an appropriate number of SPs based on criteria of food security, livelihood security and rural development needs. These products will be subject to more flexible treatment in terms of tariff reduction.

Concerns raised by other members in connection with SP provisions related to the:

- Use of indicators to designate a product as SP
- Impact on global trade flows and commitments of developing countries to opening agricultural markets in the Doha round
- Impact on South-South Trade
- Impact on the welfare of agricultural exporters.

[5] Framework agreement of 2004.

Members voicing these concerns articulated several proposals aimed at limiting the number of tariff lines eligible to be SPs; avoiding exemptions from tariff reduction commitments; and establishing criteria to limit the designation of SPs, such as using percentages on the volume of import of a product using trade-related indicators to exclude some products.

The current scenarios are provided for in the Rev 4 modalities can be summarized as follows:

Scenario 1: Developing countries	*Scenario 2: SVEs*	*Scenario 3: RAMs:*
• Apply tiered formula and in that context may: • Self-designate SPs based on food security, livelihood security and rural development criteria • Maximum of 12% of tariff lines • 5% may have no cut but subject to an overall average cut of 11%	• SVEs may choose among: Scenario 1 (developing countries) or • Scenario 2: Overall average cut of 24% + No limit to number of lines chosen as SPs (SP designation irrespective of indicators)	• Maximum of 13% of tariff lines, with an overall reduction of 10%

The SP text has no brackets but contains a note that reads "*A number of developing country Members have expressed reservations concerning the numbers specified in this paragraph, noting also that this may be affected by what is decided in other areas of the text.*"

Using SP criteria and indicators, some of the products that are likely to be designated as SPs include:

Caloric Intake	*Production value*	*Production over consumption*	*Import tariff revenue*
Wheat, rice, maize, sugar, milk (whole fresh), soybeans	Milk (whole fresh), pig meat, sugar, cassava, coconuts, vegetables	Birds eggs, cucumber and gherkins, fruits, sweet potatoes, starchy roots, cassava, sugar, bananas, pumpkins, cabbages, guavas, chilies and peppers	Alcoholic beverages and tobacco products, cereals (rice, wheat and meslin flour), fats and oils, sugar, apples and meat

3.2. Special Safeguard Mechanism (SSM)

Agricultural markets are volatile and unstable. Price fluctuations create uncertainty and act as a disincentive for producers to invest in agriculture development, in any country. Developed countries however, have at their disposal a variety of measures to create a more stable conducive environment for agriculture production, have good rural infrastructure, highly developed financial markets and technology, as well as budgetary resources to provide eventually direct income support to their farmers. The agriculture population in the developed world represents no more than 3% of the economically active population.

The situation facing developing country governments and producers is very different. The agriculture sector is highly underdeveloped (with the exception of certain countries and specific sectors in Latin America and Asia, and South Africa) and infrastructure in the rural areas is poor. Financial markets are incipient and governments lack the financial strength to provide direct income support to their agriculture population which represent in certain cases, as much as 70% of the economically active population. Therefore, developing countries are ill-equipped to address import surges and price depression yet they are the most vulnerable to these events due to the importance of agriculture for their economies.

The experience of developing countries with trade liberalization in agriculture shows that these countries have faced instances of import surge and price depression with severe social and economic consequences such as displacement of domestic producers and lower income in rural areas already plague by high poverty levels. Cheap imports are the result, many times, of subsidies provided by trading partners in the North. On other occasions, competitive developing countries are able to produce at very low prices including matching the subsidized prices of produces in the industrialized world, outcompeting local producers.

During the Uruguay Round, members agreed to adopt a Special Safeguard (SSG) to prevent risks of import surges in sectors where non-tariff measures were eliminated. This process was called tariffication. Most developed countries made use of this facility and inscribed in their Schedule of commitments the right to have recourse to the SSG for a large number of products. The large majority of developing countries, on the other hand, had unilaterally tariffied before the Uruguay Round Agreements entered into force. Thus since access to the SSG was linked to the tariffication process, they were did not have access to this mechanism[6]. The General Safeguard measure under article XIX of GATT 1994 is available to all members but is difficult to use by developing countries, especially with respect to agricultural products, since it requires prove of injury to the domestic industry.

The G33 led by Indonesia, have made a number of contributions to the process including a legal draft of a new article on the SSM for the revised agreement on agriculture. Key features of the proposal include: the possibility to have recourse to the SSM for all agricultural tariff lines; the ability to respond to situations of price depression and import surge by incorporating both price and volume triggers; remedy measures will take the form of additional duties and should be proportionate to the problem at hand: the deeper the import surge and the lower the import price, the higher the additional duty. The Hong Kong Ministerial Declaration established that developing country Members will have the right to have recourse to an SSM based on import quantity and price triggers, with precise arrangements to be further defined.

The opponents to the SSM support restricting the scope and functioning of the SSM. In the current context they advocate for:

- Preserving the current tariff bindings (previous to the implementation period of the Doha Round), by introducing caps to remedies. This issue is particularly problematic for countries that have low bound tariffs
- Limiting the extent to which countries can exceed this cap, by limiting narrowly such circumstances

[6] http://www.wto.org/english/tratop_e/agric_e/ag_intro02_access_e.htm

- Increasing the level of triggers, thus requiring a higher level of imports to invoke the mechanism
- Suggesting that instance of import surges have to happen simultaneously with price depression in order to invoke the mechanism.

In the current context of increased volatility of agricultural markets, having access to an instrument to cope with import surges and price depression appears as important. This due to the fact that processes of domestic agricultural market development, governments may need recourse to instruments with which to mitigate the extent of risks associated with greater openness to trade, such that private sectors actors are prepared to make the investments in market development that, in turn, will reduce their exposure to risk.

4. Concluding remarks

The agricultural trading environment has changed since 2001. Key problematic issues for developing countries, and particularly for NFIDCs, in this new context include:

(i) Increased large durable price increases and increased volatility, leading to food security concerns related to imports; and
(ii) Increased interest about agricultural production and awareness about the need to address challenges associated with low farm productivity and the consequences of historical under-investment in agriculture.

In the context of WTO ongoing negotiations, concerns voiced by exporting countries over increased levels of support in some developing countries, SP and SSM, suggest potential new disciplines may be crafted as a result of the Doha Round, which may have an impact on the future capacity of developing countries to provide support to strengthen subsistence and commercial agricultural production.

From the perspective of crafting future trade disciplines, further understanding the interface between food security and trade rules as well the trade impact of different categories of GB support could be very relevant. In the shorter term, there might also be a need to assess alternative scenarios linking the tariff reduction formula to other provisions impacting tariff liberalization, as well as other pillars of the agricultural negotiations.