



trade knowledge network

Agri-Environment and Rural Development in the Doha Round

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International Centre for Trade and Sustainable Development (ICTSD)

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As an independent non-profit and non-governmental organisation, ICTSD engages a broad range of actors in ongoing dialogue about trade and sustainable development. With a wide network of governmental, non-governmental and inter-governmental partners, ICTSD plays a unique systemic role as a provider of original, non-partisan reporting and facilitation services at the intersection of international trade and sustainable development.

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Executive Summary

Introduction

Aimed at shedding light at the possible options for developing countries to make use of agri-environmental and rural development measures within the framework of the World Trade Organization (WTO), this paper surveys those programs used in the Quad that are considered non- or minimally-trade distorting, non-discriminatory and otherwise consistent with current WTO rules. Furthermore, it tries to illustrate the possible outcomes of the ongoing negotiations in the WTO on the Agreement on Agriculture (AoA) from a developing country viewpoint, related to the types of mechanisms surveyed above.

The survey focuses on those measures, which have been notified by WTO Members under the so-called Green Box (Annex 2 of the AoA) as this is the AoA instrument that allows for unlimited spending on domestic support measures that are not more than minimally trade-distorting. Therefore, the notification practice of WTO Members is serving as starting points. Nevertheless, due to rather weak transparency and notification requirements, it is difficult to determine whether all notified Green Box measures are really “green.” The major stumbling block here is that there is no definition so far on what is “at most minimally trade-distorting.” Such a vague term would need to be defined by WTO dispute settlement panels, but there have been no related cases brought to the WTO yet.

In this survey, special attention is drawn on EU practice as the European trade bloc has established a separate “pillar” in its Common Agricultural Policy (CAP) which exclusively deals with rural development (RD) and agri-environment. In the case of the EU, the paper looks at the legal framework on RD and agri-environment at the EU level, while further taking four national/regional programs as examples for how EU Member States have been implementing the EU framework legislation on RD. The other Quad countries are addressed in the sequence (Canada, the U.S., and Japan) as this order reflects best the degree of engagement the individual countries have shown in agriculture-related conservation and rural development policies.

Sustainable agriculture practices in Quad countries

Within its Agenda 2000 reform package, the EU has introduced a new rural development policy that streamlines rural development measures implemented in its Member States. All measures falling under this pillar of the Common Agricultural Policy (CAP) are notified under the Green Box. These fall into two groups: first, the new “accompanying measures” of the 1992 “McSharry” reform, i.e., early retirement, agri-environment and afforestation, as well as the less-favoured areas (LFA) scheme; and, second, the measures to modernize and diversify agricultural holdings, which are: farm investment, setting-up young farmers, training, investment aid for processing and marketing facilities, additional assistance for forestry, and promotion and conversion of agriculture. The EU also provides finance for the new initiative for rural development, Leader+. This initiative aims to encourage and support a series of small-scale pilot approaches to integrated rural development at the local level in selected rural areas. Furthermore, in the course of the internal EU mid-term review of the current CAP, the European Commission has recently tabled a proposal suggesting an extension of the existing “accompanying measures” to better address concerns about food safety and quality, to help farmers to adapt to the introduction of demanding standards, and to promote animal welfare.

Trading partner Canada has established Canadian Adaptation and Rural Development (CARD), whose national and regional adaptation programs provide assistance to the sector in the area of research, innovation, capturing market opportunities, environmental sustainability, food safety and quality, human resource capacity building and rural development. Various initiatives are being implemented under the CARD program such as the Agricultural Environmental Stewardship Initiative (AESI), which helps the agricultural and agri-food sector to continue work on a number of priority environmental issues; or the Canadian Rural Partnership (CRP) initiative, which is a cross-sectoral initiative supporting community development in rural and remote Canada. Notified Green Box measures include investment and research programs, various measures encouraging natural resource conservation and environmentally sound farming practices.

Agricultural legislation in the U.S. is attaching high importance to environmental programs in agricultural policy, focusing on measures to convert highly erodible cropland to approved conservation uses (including long-term retirement), to re-convert farmland back into wetlands, and to encourage crop and livestock producers to adopt practices that reduce environmental problems, on a cost-sharing basis. Furthermore, research and advice have been increasingly focusing on promoting sustainable farming practices. Programs notified under AoA Annex 2 consist of several environmental measures supporting the protection of wetlands, grassland and wildlife habitat, as well as promoting the adoption of environmentally sound management practices.

For its part, Japan generally provides support for irrigation and drainage, and the readjustment of agricultural land. Agri-environmental programs are important aspects of agricultural policy and include measures to encourage farmers to adopt sustainable agricultural practices that reduce the amount of fertilizer and pesticide usage as well as improve the quality of soil with composting. Japan has notified under the Green Box, a program promoting the appropriate environmental management in dairy farming, and a direct payment scheme for farmers who continue farming activities in hilly and mountainous areas.

Possible impacts of the current agriculture negotiations

Developing countries have a set of WTO domestic support rules, which are outlined in this paper. According to the WTO Agreement on Agriculture (AoA), there are four different categories of domestic support measures: the so-called Amber Box (covering classical trade-distorting subsidies such as price interventions and coupled payments); the Blue Box (partly de-coupled payments under production-limiting programmes); the Special and Differential Treatment (S&D) Box (certain input and investment subsidies for developing countries only); and the Green Box (de-coupled payments which are at most minimally trade-distorting). It is the Green Box that expressly allows Members, for example, to pay their farmers compensation for income loss for producers located in disadvantaged regions, or for producers implementing environmental programs. Although it is commonly perceived that support provided through the trade-distorting Boxes (Amber, Blue, and S&D) can also serve environmental and rural development objectives, the Green Box is the tool provided in the AoA which can be used to address agri-environmental and rural development aspects in an only minimally trade-distorting manner. With respect to the accessibility to the Box, principally the same rules apply to both developed and developing countries. Therefore, it can be said that currently both developed and developing are on equal footing under AoA rules as far as not more than

minimally trade-distorting support pursuing conservation and rural development objectives is concerned.

Since early 2000, WTO Members have been negotiating at the Committee on Agriculture (CoA) on how to continue the “fundamental reform” program for the liberalization of the world's farming sector. With the newly launched Doha Round, Members agreed to negotiate “substantial improvements in market access; reductions of, with a view to phasing out, all forms of export subsidies; and substantial reductions in trade-distorting domestic support” in the field of agriculture. The negotiations are set to be concluded by the end of 2004, with negotiation modalities to be agreed by March 31, 2003.

In these ongoing negotiations, three main groupings have emerged: (1) a “cautious” group, consisting of European and other Northern countries, which promotes the maintenance of the current concept embodied in the AoA, and the consideration of non-trade concerns (NTCs) in the further liberalization process; (2) the “ambitious” camp of net-food exporters such as Cairns Group countries and the U.S. call for significant progress in market access and the elimination of both export subsidies and trade-distorting domestic support; and (3) the “special consideration” group of developing countries, e.g., from the Like-Minded and the African Group, as they demand further flexibility for developing countries to protect and support their markets so that they can achieve and/or maintain competitiveness.

Accordingly, the “ambitious” group demands transparent, criteria-based and reduced use of Green Box payments, while the “cautious” party intends to develop the Green Box to a flexible tool with which negative domestic non-trade effects of trade liberalization, e.g., on the environment, can be buffered and absorbed. The “special consideration” group also asserts such flexibility, but only for their particular domestic concerns such as food security and rural development, as well as reducing disparity in levels of domestic support among countries and easing the harm caused by developed country trade distortion. Also the “cautious” camp asserts rural development as a non-trade concern applying to all countries, but most other Members are rejecting this. In the environment debate, some Northern countries, such as Norway, believe that some environmental concerns also needed to be addressed outside the Green Box, whereas others such as Cairns Group members take the view only significant trade liberalization can help the environment. The main argument of countries like Norway, Japan, etc., is that agriculture has a multifunctional character as it not only has an economic function, but also addresses non-trade concerns such as environment, food security, rural development and poverty alleviation. The Cairns Group rejects such assertion.

Linked to the negotiations on the Green Box is the idea to inscribe a new Development Box in the AoA as proposed by the Like-Minded Group (LMG). This Box would target low-income and resource-poor (LI/RP) farmers and secure supplies of “food security crops” (FSCs) and should allow developing countries to exempt these FSCs from their reduction commitments and to maintain or renegotiate high tariffs on them. Furthermore, the LMG believes developing countries should be provided with a simplified safeguard mechanism so as to protect FSCs, with expanded domestic support provisions applying to LI/RP producers. Similar ideas were brought up when Members were reviewing the current S&D regime on domestic support anchored in the AoA. The “ambitious” group opposes this proposal, saying that a Development Box would impede “South-to-South” trade and would go against the spirit of the Doha mandate. For their part, promoters of agricultural “multifunctionality” indicate

that they should be provided with the same degree of flexibility to meet their own non-trade interests relating to the environment, rural development and food security.

The possible outcomes of the negotiations

Taking into account the very broad, and still rather general, discussion among Members on the points at issue, the paper is only making a very rough forecast and analysis on how the current situation could change from the perspective of developing countries. Nevertheless, when looking at the agriculture mandate for the current negotiations in the Doha Round, it appears that developing countries can make a strong argument that, while protection and support is further being dismantled through the reform process, they need to be able to gain—or at least maintain—sufficient flexibilities to address their “development needs” including food security and rural development. With respect to environmental objectives, it is rather the notion of non-trade concerns (NTCs), that could back up demands to provide room in the AoA for pursuing environmental goals. But in order to get a picture of how these broad negotiation guidelines could materialize into a concrete result, it is necessary to look at the different strategies pursued by the main negotiation groupings.

The members of the “cautious” group, which have traditionally been protecting and supporting their agriculture markets, want to make sure that, despite progressing liberalization, there will be enough room for them to continue providing farmers with larger sums of support. As a result, this group wants to retain an instrument (such as the Green Box) through which larger amounts of subsidies can be paid to their farming sector so as to sustain a minimum degree of farming activity.

On the other hand, it is the main goal of the “ambitious” group to achieve quick and “real” liberalization of international agriculture markets so that the Members can better exploit their competitive advantage in the farming sector. Besides abolishing the Amber Box and the Blue Box, they further want to limit Members’ overall Green Box spending as they take the view that any kind of support—even if de-coupled from production—has production-encouraging effects. Moreover, they want to strengthen the Green Box provisions to reduce and/or avoid trade-distorting effects of certain programs notified under the Box.

For its part, the “special consideration” camp’s objective is to level out certain imbalances in WTO agriculture rules while providing developing countries with significant flexibilities to address their development concerns. Industrialized countries, on the other hand, need to bring down their subsidies drastically so as to create a “level playing field,” they argue. With respect to the recognition of NTCs, this group is very skeptical as they consider NTCs just as another argument for industrialized countries to further protect and support their markets.

Trying to make a forecast on the possible outcomes of the negotiations, three scenarios seem likely:

- First, the “ambitious” and the “special consideration” camps could find common ground and push through a scenario under which Members’ general ability to support would be cut and narrowed significantly, with certain flexibilities tailored for developing countries only.

- Second, the “cautious” and the “special consideration” group could join forces and push for new flexibilities generously given to both developing and developed countries.
- Third, and most likely, would be a compromise between the key objectives of the three camps which would significantly cut Amber Box support, export subsidies and widely expand market access. The Green Box would largely remain un-capped, but be strengthened and clarified. Developing countries would gain more flexibility to address their particular concerns such as rural development and food security—either through expanding the Green Box, by setting up a Development Box or by widening the applicability of measures under the S&D Box. Such outcome seems to reflect best the priorities and objectives set out in the agricultural mandate of the Doha Declaration.

Assuming that the Green Box will be the main tool provided for addressing development and other non-trade objectives, it appears that a definition of what is only minimally trade-distorting will gain importance after the conclusion of the Doha Round. In the negotiations, more detailed provisions for the individual sub-categories of Green Box support could be developed. But in order to create general criteria for “minimal trade-distortiveness” it will be up to Members to initiate the creation of a body of case law on this issue by challenging AoA-inconsistent Green Box subsidies under the Dispute Settlement Mechanism (DSM).

Implications for the relevant measures in use

Looking at a recent Cairns Group proposal on domestic support, it can be seen that Cairns wants to strengthen the Green Box provision dealing with direct payments (including structural adjustment, environment, regional assistance) while capping overall spending on direct payments under the Green Box as well as to subject certain support sub-categories in the Box to reduction commitments. The Cairns Group paper further proposes to strengthen transparency, notification and review mechanisms to ensure programs meet the criteria set out in the Green Box. In terms of S&D, Cairns offer to retain access to the S&D Box for developing countries as well as to grant the current domestic support flexibilities to least-developed countries (LDCs).

In terms of detail, the Cairns Group *inter alia* demands that payments under environmental programs should be “less than the extra costs” involved in complying with such programs. A controversial point could be that the EU is offering in its environmental programs “income foregone,” “additional costs” as well as the “financial incentive” necessary to encourage farmers to make agri-environmental undertakings. The new suggestion brought forward by Cairns could thus be seen as an indicator that the Group is considering current practice—e.g., by the EU—as too generous what the amount of the overall compensation regards. Moreover, by calling for payments not to be “related or based on the volume of production,” the new Cairns Group proposal seems to target agri-environmental practices where farmers are required to grow and harvest certain crops to be eligible for the payment.

Looking at the issues from a developing country perspective, it seems likely that developing countries would be granted special and differential treatment. Here the rather weak Cairns Group S&D offer should not be used as the main indicator. It can be expected that the Like-Minded Group, the African Group, developing country “Friends of Multifunctionality” as well as Members in transition and newly acceded Members will be able to push the negotiations

more towards an outcome that would take better account of the needs and priorities of disadvantaged countries.

In summary, it appears that after the conclusion of the Doha Round and during its implementation, developing countries will be provided with at least the same degree of flexibility to use the Green Box as they currently enjoy. In fact, it seems likely that disadvantaged WTO Members will gain *further* policy spaces to pursue development objectives such as food security and rural development—either through an expanded Green Box, or through other instruments.

Conclusion

In terms of strategies for negotiations, developing countries should consider which of the three outlined outcome scenarios they would prefer:

- Under scenario one, developing countries would be provided with certain flexibilities to pursue their typical development objectives such as food security and rural development, but no further flexibility to pursue agri-environmental objectives could be achieved here.
- Turning to scenario two, such outcome would give developing countries a great amount of policy space to pursue their particular development goals as well as to address non-trade concerns such as environment in general, even outside the Green Box.
- An outcome in terms of scenario three would grant special and differential treatment to developing countries, which takes into account their specific development constraints. On the other hand, they would be allowed to address some of their non-trade concerns (NTCs) through support which has only a minimal effect on trade and production.

Therefore, the following negotiation positions could be recommendable for developing countries pursuing agri-environmental and rural development objectives:

- Create—as part of S&D—a new tool in the AoA for developing countries to be able to effectively address their particular developmental concerns such as food security and rural development.
- Maintain—at least for developing countries—the applicability of the Green Box as it stands now to allow Members to address rural development and agri-environmental objectives through targeted, transparent and only minimally trade-distorting measures. Here it would be desirable that detailed criteria be created determining when and to what extent a minimal link between support and production factors is tolerable.
- The *de minimis* threshold should be increased for developing countries.
- The peace clause should be renewed and modified for developing countries so as to exclude measures provided under the proposed Development Box as well as under the Green Box from actionability.

Addressing the options for domestic sustainable agriculture policies in developing countries, it is generally observed that the world's agriculture trade system is progressively moving towards an open-market system—a process which is desirable from both a trade as well as a sustainable development point of view. Transforming domestic support regimes towards decoupled and only minimally-trade distorting support schemes will have mostly positive effects as it will limit distortions but will still provide countries with flexibilities to pursue legitimate agri-environmental and rural development objectives. Nevertheless, while liberalizing national farming sectors it is further imperative that appropriate mechanisms are set up that provide competitively disadvantaged farmers with income and secure food conditions.

Against this background, there appear to be three possible options for developing countries to extend their domestic sustainable farming policies:

- Developing countries devote all their available capacities to safeguard their small and poor farmers from being sidelined by, for example, growing competition through efficient support measures. They use their flexibilities to provide production-linked support to the fullest extent as, on the one hand, such payments are easier to administer as they help create basic food security by increasing production of staples crops. Support to rural development in general and to the environment would be lower-ranking. This option could be recommendable for developing countries with very small financial resources, with large shares in rural low-income population, with highly insecure food conditions, but with only few environmentally sensitive areas.
- Developing countries take a systemic and long-term approach on agri-environment and rural development by developing comprehensive national, regional and local programs that promote agricultural conservation and a viable farming sector in a comprehensive, but production-decoupled manner. Hereby, developing countries could draw on the experiences made by developed countries when designing and implementing such policies. This approach should be taken by rather advanced developing countries with appropriate financial manoeuvrability.
- Combining both approaches outlined above, the developing country would direct a sufficient share of its available funding to those targets where the country has identified the highest degree of developmental importance (such as food security). To that end, the country makes full use of the flexibilities provided in the AoA. However, these measures are embedded in a broader rural development and agri-environmental strategy, and which are designed in a way so that they can be transformed to policies eligible under the Green Box as well. Those developing countries, that are expecting high growth rates; that have large incidence of rural population; and that contain large areas with high environmental importance, should consider this approach.