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**Australian Centre for  
International Agricultural Research**

# Final report

*project*

## **Viability of alternative frameworks for agricultural trade negotiations**

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## 2 Executive summary

This research project was undertaken in an effort to identify a better way to conduct international trade negotiations aimed at liberalizing and reforming agricultural trade. In the last round of multilateral trade negotiations (the Uruguay Round – 1986 to 1993) disagreement over the treatment of agriculture delayed the conclusion of the talks by several years. Today, the current round of WTO negotiations (the Doha Round) is more than six years late in producing intended results – again, largely because of serious disagreement among WTO Members over how to proceed with agricultural reform and liberalization. The world clearly needs a more efficient and effective approach to dealing with this important sector of the global economy.

The primary focus of the research project was to test the viability – from a political economy standpoint – of what is called the “critical mass” approach to trade negotiations for trade negotiations addressed to agriculture. Under the critical mass approach, only those countries that account for the most significant trade shares of covered products participate in the negotiation and implementation of a deal. For example, a negotiation addressed to trade in wheat, soybeans, maize and barley would need just 53 of WTO’s 153 Members to cover more than 90 percent of global trade in these products. The benefit of the critical mass approach is that small countries with a small interest in trade need not be involved so that the negotiation is less complicated and can therefore be concluded more rapidly with fewer concessions to special sensitivities.

In the first phase of the project – which benefited from ACIAR funding – we developed some options for a critical mass approach whose viability was tested by research collaborators in India, China, Brazil and Indonesia with industry groups, government officials and commentators in those economies. The findings of these contributors and the broad hypothesis of the principal researchers were then submitted to examination at a conference of experts held in Adelaide in late 2008. In broad terms, while most of those involved in the project think it would not be possible to introduce critical mass into the Doha Round at this late stage, there is considerable support for experimenting with the critical mass approach for agriculture negotiations in the future.

In the second phase of the project – ongoing with financial support from RIRDC – we are conducting a statistical and economic modelling exercise that will help us to understand the impacts of different options for a critical mass agreement on different economies, regions and country income groups. We also plan to compare the critical mass approach the current approach in the Doha Round if it is ever un-blocked. The results of this modelling of critical mass ‘packages’ will be further tested in exchanges with experts and government negotiators later this year.

If the project can prove the “workability” of the critical mass approach for agriculture, it can have an important positive impact on the way in which future negotiations are conducted. More rapid and effective negotiations to liberalize and reform agricultural trade will produce important welfare gains for farmers and consumers in both agricultural exporting countries and in countries that depend on imports to satisfy their food needs.

Because this project is not completed at the time this “final report” is being prepared for ACIAR, the co-authors would appreciate the opportunity to update this report at a later date when the final findings and conclusions are available to us.

### 3 Background

This research project has been undertaken as part of a co-investment framework, with both ACIAR and the Rural Industries Research and Development Corporation (RIRDC) providing financial contributions toward the delivery of the overall project objectives. Because ACIAR is funding only the initial phase of the research project, this “final report” to ACIAR is in effect an interim report on the overall project funded by ACIAR and RIRDC.

As a starting point, the principal researchers in this project came to the view that the economic and development interests of Australia and key developing countries have not been well-served by the current WTO framework for multilateral negotiations designed to reform and liberalize global trade in agriculture. In a flawed process that is now more than six years behind schedule, the framework’s failure to deliver results has reduced farm incomes, aggravated problems of rural development and had negative spill-over effects on international trade and political cooperation.

In addition to the problems caused by the impasse in the negotiations and delayed timetable, objective measures suggest that the Doha Round proposals will fail to meet the objectives set in 2001. The current proposals, based on a complex tiered tariff cut offset by ‘special’ and ‘sensitive’ product exceptions and a range of categorical exceptions for groups of participating countries, will produce small, not ‘substantial’, access improvements (Anderson and Winters (2008); Huang, Yang, Rozelle, and Martin (2008)). The cuts in domestic supports will be mostly theoretical (Blandford and Josling (2008)); an artifact of the high ‘baseline’ set by the 1994 commitments of the biggest subsidizers and re-definition of the subsidies. The projected net welfare benefits for most developing countries, especially, will be non-existent.

Conversely, it has been shown (Anderson and Winters (2008)) that substantial trade liberalization would benefit the developing countries more, in relation to their economic size, than the rest of the world. Moreover the benefits would be due overwhelmingly to cuts in market access barriers—including their own—rather than to cuts in the subsidies offered by developed economies to their farmers and exporters.

Despite these shortcomings, there is no question that the WTO must complete the Doha round as soon as possible. Abandoning the effort would damage the very asset that WTO is intended to secure: the credibility of Members’ trade policies. But we guess that the earliest we can now expect a result in the Doha negotiations will be sometime in 2010. There is considerable uncertainty about the trade policies of newly elected governments in some key countries. Another factor that may slow progress toward a final deal is the intention of many governments to develop expansionary fiscal policies in support of earlier economic recovery. They will be cautious about market opening that could see expenditure ‘leak’ to imports (although in the case of several Asian economies this is precisely the sort of expansion that would contribute to earlier global recovery). Under these conditions, we think that Member governments may have to abandon the current framework in order to reach a consensus by late 2009 and, furthermore, that they should abandon it because several aspects of the current modalities including the elaborate provisions for sensitive and special product exceptions are prejudicial to the future achievement of ‘substantial improvements’ in market access (Gallagher and Stoler, 2008b).

Some governments, including the Australian government, believe that Doha could be completed on the basis of the current modalities; they consider agreement was ‘at hand’ in Geneva in July 2008 and that some further ‘tweaking’ of the package on the table then would still lead to a consensus on Agriculture. But not even the Chairman of the Agriculture negotiations seemed to believe that further ‘tweaking’ would have worked in July and it seems even less likely now, after a ‘cooling off’ period of several months during which global stock-markets collapsed and uncertainty started to choke real markets.

Under these circumstances, the researchers argued at the start of this project that attempts to fix the problem should be given a high priority. In a collaborative effort with other expert researchers in Australia and selected key developing countries, we proposed a project that was designed to look seriously at the viability of alternative frameworks for agricultural trade liberalization.

In collaboration with our international partner institutions in Indonesia, India, China and Brazil the project has made an important first step in identifying the reasons for the poor prospects for the Doha Round. The initial 'working' hypothesis was that the most important reason is the reluctance of a number of influential developing countries to reduce import protection in the agriculture sector in any time frame that would impact on current economic planning or the current domestic political settlement. Benefiting from the country analyses produced by our research partners so far and looking to additional research we will be commissioning in the final stages of the project, it is our intention that the project will identify the reasons for this reluctance. The initial hypothesis included reasoning that several key developing country Members—despite the nominally ambitious terms of the Declaration at Doha—are unwilling to concede any policy autonomy in the politically sensitive agricultural sector and are not motivated by the (statically) projected gains from their own liberalization. Much of this has now been verified by the work of our international partners.

The second 'working' hypothesis—which is still being tested both with our international partners and also with a wider community of trade officials, industry leaders and expert analysts around the world—is that there is a number of countries, covering a high proportion of agricultural trade, that would be willing to reach an agreement with the characteristics outlined above and that there is a point (determined by trade coverage) at which they would find it mutually advantageous to reach such an agreement among themselves. In other words, we consider that it would be possible to find the basis for one (or more) agreements of the kind described in the recent "Warwick Commission" report on The Way Forward for WTO as 'critical mass' agreements in agriculture.

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## 4 Objectives

Recognizing that there was considerable additional work needed to liberalize and reform agricultural markets, the drafters of the Uruguay Round results mandated new multilateral negotiations on agricultural trade as from early 2000. The hope was that WTO Members might be able to liberalize and reform agriculture outside the context of another large “Round” of negotiations. That proved to be politically impossible and the Geneva process went nowhere until the launch of the Doha Round negotiations in November 2001. The Doha Round mandate called for the completion of trade negotiations by the end of 2004. In May 2009, the negotiations are more than six years late in producing results (agriculture negotiating modalities that were due to be agreed in March 2003 are still not agreed).

The research team behind this project believes that a flawed process is largely to blame for the impasse in Geneva and that a better approach must be found if agricultural trade is to be reformed and liberalized in a more productive and results-oriented process.

As a result, this project has as its objective, the identification and examination of new options for the negotiation of agreements on agriculture within the WTO that would

- Be within the ‘precincts’ of WTO but outside the ‘single undertaking’ of Members
- Be more ambitious than the agreements proposed in the Doha Round
- Cover a large proportion of the effective global agricultural market without a priori exceptions
- Introduce progressive, sustained reform of all markets with no more than marginal differentiation to account for specific adjustment problems (i.e. identified positive special and differential treatment)
- Be based on reciprocal and enforceable obligations possibly enforced through the WTO dispute settlement mechanism or a procedure aligned to the WTO dispute settlement procedures
- Include, potentially, agreements on any identified impediment to trade exchange including ‘trade facilitation’ impediments
- Not discriminate with respect to non-Members of the agreement possibly or, at a minimum, guarantee ‘no adverse impact’ on current rights for non-Members.

By the time it is completed, the project will analyse the state of agreement in the Doha Round, comparing the (prospective) outcome to the opportunity that peer-reviewed economic models show would be available from a more ambitious opening of world agricultural markets.

The final project will research, in conjunction with the international partners and with other collaborators, whether a program to reach (at least one) ‘critical mass’ agreement in Agriculture may be adopted only if there are similar, parallel, negotiations in other trade sectors (non-agricultural products and services, especially). It has been understood from the start that there are legal and governance problems with ‘critical mass’ agreements that must be addressed before they could be considered a viable contribution to the multilateral trading system.

Expected final outcomes of this project depend on the time frame and the strength of adoption of project recommendations. Not all outcomes can be ‘expected’ with the same degree of probability. The assessment of these probabilities will necessarily change in the course of the final phase of the research.

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## 5 Methodology

As noted already, this research project is incomplete at the time of the filing of this final report to ACIAR. Where work is ongoing or planned, we describe the intended methodologies for the future.

The focus of this research project has been on identifying viable alternative frameworks for negotiations to liberalise and reform agricultural trade - as well as their applicability to negotiations in other sectors as well. This suggested that the research papers to be undertaken in this project, the nature of the interviews conducted with policy-makers, the themes of the seminars and conferences, and the final report will all be structured with a practical focus on the following:

- What are the identifiable problems associated with the current framework?
- What is the alternative framework being suggested and how does it differ from the current approach?
- What are the pros and cons of the alternative approach in terms of the results it is most likely to produce in comparison with the current approach?
- Is the alternative approach viable from a political economy standpoint in key countries now involved in the Doha Round negotiations and if there are countries where the new approach won't fly, why is this the case?
- Would the suggested framework work without the participation and/or endorsement of those countries where it is not "sellable"? What would be the consequences?
- What steps would be required to bring about the adoption and implementation of the alternative framework under discussion?

We reasoned that, In this way, the outputs of this research project could be expected to have a real-life practical value to the target audience - in particular to government policy-makers and negotiators as well as to industry stakeholders.

Our approach to the project argued for a multi-stage process with research input from a range of relevant sources. We determined that the main methodological steps would be the following:

- Select high-quality (well-informed, analytically capable, well-connected) inputs that cover relevant considerations in proportion to their significance for the expected output
- Develop and publish hypotheses that are testable using these inputs
- Conduct transparent, peer-reviewed analysis, testing preliminary evaluations of the hypotheses against a 'control' (e.g. baseline or 'business as usual' outlook)
- Publish and defend a thesis based on the tested hypotheses in a public forum
- Revise the thesis as necessary, develop plausible mechanisms for implementation of recommendations and identify means of evaluating the recommendations in practice
- Disseminate results (recommendations and evaluation methods)

### ***Step 1 – Development of High Quality Inputs***

Working in Australia at the University of Adelaide and in Melbourne, the joint project managers – both of whom are experienced and highly qualified analysts with practical experience in trade negotiations and the management of the WTO system – developed an initial hypothesis. This hypothesis asserted that much of the current difficulty experienced in multilateral trade negotiations stems from the problems created by the WTO's so-called



single undertaking, wherein all WTO Members are obligated to participate in all of the negotiations and accept the resulting obligations. We argued in the hypothesis that the critical mass (CM) approach to trade negotiations, which had been successfully employed in other WTO negotiating contexts, should also work for negotiations on agricultural trade.

To ensure that this idea could be tested reliably not only in the developed world but also in the developing world, we enlisted the involvement in the project of highly qualified researchers in India, Indonesia, China and Brazil, as well as expert commentators in Europe, North America, South America and Australia. Research on attitudes toward agricultural trade liberalization and reform and the potential suitability of the CM approach was commissioned from the Indian Council for Research on International Economic Relations (ICRIER) in New Delhi; the Centre for Chinese Agricultural Policy at the Chinese Academy of Sciences in Beijing; the Strategic Asia research group in Jakarta; and the Institute for International Trade Negotiations (ICONE) in Sao Paulo, Brazil. We also secured the involvement in the project of academic and trade policy experts located in the United States, UK, Brussels, Switzerland, Uruguay and Australia.

### ***Step 2 – Develop initial Testable Hypothesis***

In the second phase of the project, our collaborators in India, China, Indonesia and Brazil were asked to prepare papers examining policy positions in their countries and the attitudes and suitability of CM agreements for agriculture. When the first drafts of these papers were ready, they were disseminated – together with our initial hypothesis – to our individual expert collaborators in other parts of the world, who were asked to prepare short input papers incorporating their own reactions to the ideas and findings in the hypothesis and in the country studies

### ***Step 3 – Peer Review of the Hypothesis***

In the third phase of the project, a conference was organized and held in Adelaide in December 2008, where participants were informed by the principal researchers of the results of their research to date and given an opportunity to comment on the papers presented. The preponderance of views expressed at the conference suggested that it was too late to consider introducing CM agreements in agriculture as a way of saving the Doha Round but that there were interesting ways in which the approach might be a viable framework for future negotiations. As CM agreements now appeared to be potentially acceptable in the future from a political economy standpoint, but practicalities and operational impacts needed to be worked out, the joint research managers were given some guidance as to the direction of the next phase of the work.

### ***Step 4 – Revise, Publish and Defend the Tested Hypothesis – as Refined and Revised***

In stage four of the project – which is ongoing at the time this report is being written – the joint research managers are attempting to design combinations of product coverage and country participation that might be offered as viable CM agreements. Apart from statistical analysis, we are also involved in economic modeling of the anticipated welfare effects of these combinations. We are also preparing to test expert opinion with a second poll of experts aimed at soliciting their views as to the likely viability of these potential CM agreements from a negotiating and political economy standpoint. When the results of this part of the work are ready, our hypothesis as refined and revised will be circulated to government and expert commentators who will be invited to an international “results” conference to be organized in Canberra in the second half of 2009.

***Step 5 – Finalise the Thesis, Describe the Outcome of the Project and Disseminate Plausible Recommendations***

The results of the ongoing work, together with the peer review undertaken at the Canberra conference, will enable us to move to the final phase of the project where we will once again refine and revise the thesis and prepare a report documenting the outcome of the project which we hope to publish and disseminate together with the plausible recommendations for policy that emanate from the work.

## 6 Achievements against activities and outputs/milestones

This section of this report is necessarily incomplete as the project is ongoing and will not be completed until early in 2010. Future outputs and milestones are shown in italicised text.

### **Objective 1: To Successfully Initiate Project**

no.	activity	outputs/ milestones	completion date	comments
1.	Phase 1 of Project	The output was to develop a testable hypothesis and write an initial article to be published in a Journal detailing the hypothesis to be tested in the research project. The hypothesis was also to be shared with international research collaborators at this time.	By mid-June 2008 (within 6 weeks of project launch)	This output was achieved in the requisite timeframe. The initial journal article was submitted on time and is due to be published in the UK-based journal "Global Governance" in the first half of 2009.

PC = partner country, A = Australia

### **Objective 2: To Organize Peer Review of Initial Research Papers**

no.	activity	outputs/ milestones	completion date	comments
2.	Phase 2 of Project	The output was to organize a peer review of the hypothesis in the form of papers provided by international collaborators and expert commentators that would be the subject of discussion and debate at the initial project conference in Adelaide.	By 30 April 2009 (within 12 months of project launch)	This output was achieved well in advance of the outer timeframe provided in the project. The discussions and papers presented at the conference have significantly influenced and informed the current phase of work in the research project.

PC = partner country, A = Australia

### **Milestone 3 – By 31 July 2009 (within 15 months of project launch)**

Work is currently in progress toward this milestone.

A detailed summary of the Adelaide Conference, a statement of work in progress and revised papers from contributors will be prepared and combined with the results of modelling and opinion polling in support of a revised and refined thesis as basic input for the second peer review conference foreseen in Canberra in the second half of 2009.

### **Milestone 4 – By 31 October 2009 (within 18 months of project launch)**

Plausible recommendations will be developed for evaluation and adoption. These and materials prepared in the previous period – as refined – will be circulated in advance of a conference which will be organized and held in Canberra prior to 31 October.

***Milestone 5 – By 31 December 2009 (within 2 months of the Canberra Conference)***

The joint project managers will prepare a journal article for publication in a high quality journal describing the outcome of the project with details and results and recommendations as developed at the Canberra Conference.

***Milestone 6 – By 30 April 2010 (within 24 months of the launch of the project)***

A monograph prepared on the basis of written contributions from selected international collaborators and our collaborating institutions, with contributions from the joint project managers, will be prepared for publication in the period following the Canberra Conference.

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## 7 Key results and discussion

Through this project, we are looking for a better way to reach WTO agreements on opening agricultural markets. The lack of agreement in the Doha Round after seven years of negotiations and the complexity and retrograde character of some of the proposals now on the table suggest that WTO Members should take a different approach to achieve the goals of ‘substantial improvements’ in market access and ‘substantial reductions’ in trade-distorting domestic supports.

In an earlier paper (Gallagher and Stoler (2008b)) we observed that the giant emerging developing economies have apparently not been convinced that these opportunities are as valuable as claimed; at least in relation to the costs that they perceive to their current growth or distributive strategies. Analysis subsequently contributed to this project by our collaborators in China, India and Indonesia detailed a variety of reasons—ranging from an implicit cost/benefit assessment of further tariff reductions in China, through political and institutional barriers in India to a state of disarray in Indonesian agricultural policies—for this reluctance to pursue the modality most likely to deliver the biggest gains from the Doha negotiations. They also suggested that these policies are unlikely to change in the near future; in the time-frame in which Member governments will want to conclude the Doha negotiations.

We blamed the ‘single undertaking’ of WTO for the mess that the Doha round negotiations has become. First sketched in a deal cut at the Montreal Ministerial Conference in 1988, the single undertaking (effected through consensus decision-making) can now only lead to ‘lowest common denominator’ agreements, including the regressive ‘exceptions’ in Doha’s proposed agriculture modalities, that will impede the opening of global markets in the future. We argued that, freed from the shackles of the single undertaking, negotiations would have revealed the private objectives and valuations of the Members more quickly. Those members that wanted to pursue ambitious goals and those that did not may have found some common ground but otherwise could have pursued separate paths that could have seen more ambitious goals embodied in plurilateral agreements, attached (via an MFN provision) to the multilateral framework.

We were optimistic in our earlier paper that objective of substantial liberalization of agricultural markets, adopted in 2001 at Doha, would again become a widely-shared goal. We noted that even a conservative welfare function that resists the redistribution of economic resources created by protection is ‘essentially dynamic’ and that no country ever sustained growth by insulating large parts of its economy from global integration. Now that the outlook for global recession is confirmed and the growth expectations for even the most successful trading economies, such as China, are affected we could also add that estimated growth benefits from agricultural trade liberalization (Anderson and Winters, 2008) will start to look more attractive when compared with the overall macroeconomic growth outlook.

With the benefit of advice from our collaborators, expert commentators and the results of polling—both globally and in the emerging economies—we are now able to extend our exploration of the options for better frameworks for agreements to open agricultural markets.

We found general agreement that the ‘single undertaking’ was a problem, but no determination to abandon it in the context of Doha because it also offers some benefits to developing countries (see also Gallagher and Stoler (2008a)). There was interest in the idea of ‘critical mass’ (CM) agreements as first proposed by the Warwick Commission (2007), especially from commercial ‘stakeholders’, but most commentators were skeptical that commodity-specific CM agreements would offer a significant opportunity for market liberalization. Some developing country respondents fear they would be used to deny opportunities for new market entrants.

Like Evenett (2007), we think that the case for economic 'multi-polarity' in the trading system is incomplete because the trade profiles of several of the new 'poles' show them still to be satellites of the current 'poles' (Europe & USA). But the need to plan for a multi-polar governance framework has already arrived in WTO. Absent the single undertaking, the contractual relations each Member has with other Members has always allowed considerable room for policy independence: WTO has no policy 'recipes'. What India and Brazil may have lacked in the 1980s when they sought, with some success, to shape the agenda for the Uruguay Round is the relative economic weight that they and (especially) China now bring to the table.

WTO Members would be unwise, in our view, to confront the differences in national objectives and priorities that our collaborators describe (and that we can see, in any case, in the recent dynamics of Doha) for the sake of validating the single-undertaking's twenty-year old framework in which nothing is agreed until everyone agrees on everything. We suggest a different approach to completing the Doha round in the next year (or so) that will lead to less frustration with the system and fewer 'regressions' in the rules. But beyond the completion of Doha, we think it likely that opportunities to pursue gains from agricultural trade in WTO's reciprocal global framework will mean a different framework for WTO itself.

In our running summation of work accomplished so far in the project, we revisit our hypothesis that CMs and other 'non-single-undertaking' agreements offer a faster way to reach more robust ('feasible', 'worthwhile', 'durable') agreements. Although our collaborators and commentators confirm that product-specific CMs will be a limited framework, at best, for liberalization of agricultural markets, we believe that trends in intra-industry trade in food products (primary, intermediate and final) encourage the idea. We agree with the contributors to the project who point out that there are still better prospects for CM agreements that address policies on an 'instrumental' basis; the elimination of all forms of trade-distorting domestic support, for example, or agreements on sectoral trade facilitation.

The initial analyses we received from our collaborators point to strong political and 'stakeholder' support for the current resistance of India and Indonesia to additional market access concessions and for the relative disengagement of China. The anonymous Global Trade Opinion Poll that the Institute conducted in September 2008 indicates that a majority of expert observers (including almost 60% of those located in Geneva) believed there were other issues, not considered in detail in July, that would have led to a breakdown in negotiations even if the contention over a special safeguard mechanism (SSM) had been resolved. Although we did not ask them to specify the 'other issues', many of them would no doubt have nominated the 'cotton' subsidy and market access initiative, the 'balance' of NAMA and Agriculture objectives, 'geographical indications', tariff simplification, creation of new tariff quotas and, especially, the USA's offer on domestic supports following the passage of the 2008 Farm Bill. The respondents to local polls conducted by our collaborators in Brazil, China, India and Indonesia reiterated the view of the global poll respondents on this question.

To succeed in a fourth attempt to reach agreement on the current Doha agriculture modalities Members would likely need to further 'rebalance' the objectives of the market-access and subsidy 'pillars'. But fears about the impact of the coming economic recession, uncertainties about the detail of policies in the USA, and the commitments of the Indian Congress party to farmer groups as the 2009 elections approach, point to still more conservative approaches on access and possibly to further elaboration of the exceptions, compensations and offsets that already complicate the proposed agreements. Considering that the Agriculture modalities already comprise nearly 120 pages of such complications it is disturbing to think how turgid the final package could be and that many Ministers will be asked to sign an agreement that will be a 'black box' to them.

As a short-term alternative framework for agricultural liberalization, and recognizing that WTO Members are probably not in a position to introduce a critical mass at this stage of

the negotiations, we suggest a different route to consensus in Doha: early agreement on the reapplication of the market access and domestic support modalities of the Uruguay Round. This would not be a 'substantial' improvement in market access or domestic support levels and for that reason, if for no other, might be quickly agreed. It would also have two other virtues as an 'interim' agreement that would allow WTO Members to put the Doha Round—and the wrangling over an increasingly byzantine set of modalities for agriculture—behind them. The first virtue is that, despite promising little real reductions in applied access barriers, the Uruguay Round modalities would cut the substantial 'overhang' of current bound rates so that the next WTO negotiations would be better set-up to achieve meaningful progress on market access. A similar argument could be made in favor of re-applying Uruguay Round cuts to domestic support levels. The second virtue of this proposed 'back to the future' approach is that the relatively uncomplicated modalities of the Uruguay Round would not hobble a future multilateral framework with the many categorical and country exceptions that were built into the proposals on the table in July 2008.

The papers from our collaborating institutions summarizing agricultural trade policies and stakeholder opinions in four economies that produced almost 40% of the world's food (but accounted in total for only 11% of imports and 5% of exports in 2005) show:

Wide differences in the international market orientation of their national agricultural economies but, except for Brazil, small participation in trade relative to their share of world food production

Diverse objectives for the Doha round negotiations on agriculture but, except for Brazil, much stronger 'defensive' than 'offensive' objectives

Somewhat different priorities among the 'pillars' but almost uniform focus on the impact of developed country production and export subsidies as the key distortion to global trade (that World Bank analysis (Anderson and Winters, 2008) suggests accounts for only 7% of the welfare foregone due to current global market distortions).

## China

China accounted for about 4% of world agricultural exports and less than 1% of world imports in 2005 but an astonishing 24% of world food commodity production in that year. But our research collaborators in the Centre for Chinese Agricultural Policy (Jikun Huang and Jun Yang) argue that the potential benefits for China of a successful Doha agreement on agriculture are too small and uncertain, relative to other opportunities, to warrant a more ambitious involvement on the part of China. The net gains would be focused in agricultural sector where China has seen substantial structural change in the past twenty years and where the trade regime is already more liberal on average than in many of its trading partners. The net benefits in agriculture are relatively less important to China on account of the domestic reforms already achieved in the sector, on account of agriculture's smaller share of overall economic output and because the net gains disguise a number of negative 'poverty and equity' impacts in sensitive sectors and regions.

As a consequence there is almost no interest in the details of the negotiations on agriculture among 'stakeholders', who believe that, following the restructuring of the sector, 'trade is happening on its own'. Furthermore, the subject on which China is most likely to have an 'offensive' trade negotiating interest—the reduction or elimination of SPS barrier to Chinese food exports—is not on the Doha agenda. Government policies on the negotiations are, therefore, conservative and relatively defensive: developed countries should substantially reduce domestic supports and improve market access and eliminate export subsidies. Chinese agriculture should benefit from 'special' and 'sensitive' product protections where necessary.

Chinese opinion about the negotiations reflects a lack of interest in the potential benefits of the Doha round for China's agricultural sector. There is some acceptance that agricultural modalities are necessarily complex and a surprisingly strong support for



plurilateral and CM agreements. But, according to our Chinese collaborators, there is less support for a CM approach among agricultural trade negotiators who discount the potential for actual CM agreements involving China and its major agricultural export partners (Japan, ROK, EC) considering that the trade with these countries is predominantly an export trade, while Chinese imports are chiefly from USA, Brazil, Australia and S.E. Asia (the EC is a major supplier of ethanol).

The Chinese paper and presentation at the conference in Adelaide demonstrate that China does not need an agreement with 152 other WTO Members in order to safeguard its interests in agricultural trade. In fact, the vast bulk of China's agricultural exports are destined for just nineteen export markets and (coincidentally) nineteen supplier countries account for most of Chinese imports of agricultural products. From a commodity coverage standpoint, fifteen commodities (at four-digit HS level) account for 75 percent of Chinese agricultural imports and thirty-seven agricultural exports (again at 4-digit HS level) make up 75 percent of China's export trade.

Is China potentially interested in a critical mass approach to agriculture? The Chinese actors consulted by our international collaborators agreed that some consideration of an alternative approach to the single undertaking is necessary and desirable given the difficulty of reaching a consensus in the negotiations on that basis. Although many trade experts considered that a critical mass approach might well work for agriculture, government trade officials took a different view on the topic. Part of the problem is that trade in many of the commodities traded into and out of China takes the form of a one-way flow, making it hard to balance the interests of different groups. China, for example, has big "offensive interests" in the Japanese and Korean markets but little to give in product-specific critical mass agreements with these or other countries.

Another issue is that China's major preoccupation in international trade in agricultural products is in connection with sanitary and phytosanitary (SPS) questions. The question posed in discussions at the Adelaide workshop is whether SPS issues are more easily addressed in a broad multilateral negotiating framework or in some narrower (critical mass or regional trade agreement) context.

Finally, if we were to envisage a situation where India might stand back from a critical mass negotiation because its defined interests are only defensive (with no matching offensive interests that would produce a reciprocal exchange) – see discussion below – would China, too, stand back on the grounds that it is largely self-sufficient in food?

### **Brazil**

Brazil is an agricultural trade 'powerhouse'. It produced 5% of the world's food in 2005 and accounted for 4.2% of world agricultural exports and 3.2% of world imports in that year. Accordingly, the Doha round is seen in very different light in Brazil than in either of its major G-20 partners, India and China. It has a strongly 'offensive' strategy on cuts to industrialized country production subsidies and improved market access, giving the same priority, in principle, to both objectives. Brazil has, however, tempered its ambitions on market access to maintain a united front with its G-20 partners. Brazil has little reason to support 'special' or 'sensitive' products (it has few TRQs) and has effectively split with India on the degree of protection that should be available through an SSM.

Brazilian agriculture is characterized by a sharp division between the large, globally competitive agricultural enterprises and the small landowners (and landless farm workers). Trade policies serve the interests of the former with relatively little engagement from the small-scale farming sector that, if anything, considers itself threatened by the prospect of trade liberalization. Given broad self-sufficiency in food commodities other than grains, consumers are not paying much attention to the negotiations and the industrial sector is apparently willing to see the proposed NAMA formula adopted.

Brazil's negotiating objectives and strategies are set largely by government elites, particularly in the Ministry of Foreign Affairs, that have been accused of paying too little



attention to the interests of the commercial sector, often pursuing political strategies in line with the governing party's broader goals. There has been little involvement on the part of the Congress (although this may be changing).

In Brazil, trade policy experts and some stakeholders are interested in the potential for CM agreements. The soybean industry, for example, has previously supported the proposals for potential CMs in the oilseeds sector. But experts caution that, although CMs appear to offer an efficient route to sectoral liberalization by focusing on those economies that are pre-disposed to liberalization, they seem to be ineffective in motivating economies that have a defensive attitude to market barriers. In other words, the most feasible CMs are likely to be the least valuable from a market-expansion viewpoint.

At the December conference, our international research collaborator from ICONE (Saulo Nogueira) addressed the question of whether a critical mass framework for agricultural negotiations might be a viable alternative for Brazil, referring to the paper he authored with ICONE's Director, Andre Nasser. From a technical standpoint, Brazil's trading patterns would seem conducive to the critical mass approach. Seventy-five percent of the country's agricultural exports are concentrated in five broad product categories (soybeans, meats, sugar, coffee and oranges), and the addition of four more broad categories (tobacco, maize, ethanol and cotton) raises the percentage of covered agricultural exports to ninety percent. Similarly, on the import side, six product categories make up seventy-five percent of imports and another nine product categories raises the percentage of covered imports to ninety percent.

Brazil exports agricultural commodities to fifty of WTO's 153 Member countries. However, ninety percent of all agricultural imports originate in just ten of Brazil's trading partners. Notwithstanding the technical possibilities for critical mass agreements, the ICONE researchers, like our Chinese collaborators, found attitudes toward critical mass to be very different in government and non-government circles. The government's official stance is against using the critical mass approach in the Doha Round because it might upset the current proposals on the table and require renewed and costly efforts. Some outside of the government (in the policy elite) are more open to the idea of critical mass and see it as an option with considerable commercial potential in some sectors (for example, in oilseeds).

The ICONE paper speculates that current Brazilian policy-makers are generally happy with their leadership situation at the head of the G-20 and are willing to accept a shortfall in the economic benefits of the negotiations in return for international political gain. Whether this attitude will prevail over the longer term remains to be seen and the ICONE researchers conclude that due to the offensive interests of Brazilian agriculture, attempting to liberalize trade through a possible critical mass agreement could be an acceptable alternative framework for Brazil – whether the idea meets with initial acceptance or not. From a Brazilian perspective, a critical mass agreement would need to address both market access issues and subsidies to agriculture. ICONE researchers consider that although it might be necessary to stick with the single undertaking through the Doha Round, conditions could be favourable for applying the critical mass approach in the next negotiating round.

## **India**

India's objective for the Doha round on agriculture is to maximize the reduction in developed country subsidies to production and exports while minimizing the impact of market access cuts on Indian import protection. India is one of the world's largest food producers after China, producing about 10% of the world's food. It is playing a central role in the negotiations on future world markets although India's trade in agriculture and food is a small and declining share of total Indian trade (10.7 percent). India accounts for only 1.25% of world agricultural exports and 0.5% of imports (2005).

The Indian agricultural sector employs nearly 60 percent of the labour force in India and is consequently of enormous significance to the country's economy; however, the sector's contribution to economic growth has been on the decline. The share of agriculture in India's GDP has fallen from 48.7 percent in 1950 to 24.4 percent in 1996-97 and to just 18.7 percent in 2007. Investment in the sector is stagnating.

Our international research collaborator from India's ICRIER (Surabhi Mittal), reports skepticism among Indian analysts that the Doha round would benefit India's poor. Even if developed countries were to cut production and export subsidies, boosting world agricultural prices, they argue that impediments to price transmission in Indian agriculture would prevent the benefits reaching small farmers. Yet despite this apparent insulation from world-market price rises, the Indian agricultural sector considers itself very vulnerable to price falls that would result from any reduction in India's high applied rates of import protection (a trade-weighted average duty of 42%).

India's frankly protectionist stand on Agriculture, characterized by support for the broadest 'special product' exceptions and potentially very high levels of easily-triggered SSM protection (duties up to 30 percent in excess of India's already astronomical bound rates triggered by 10% increases in import volumes) is of concern to other less protected sectors, including Indian services exporters, but the Indian approach in the Doha negotiations has strong support across all political parties and from effective farmer lobby groups.

Indian respondents had little interest in alternatives to the existing multilateral framework. They acknowledged that the Doha negotiations had become extremely complex and were 'stuck', possibly because of the single undertaking and because Doha had become a 'market access round' rather than a 'development round'. Indian respondents were skeptical about the prospects for more ambitious plurilateral agreements and favored, instead, a revision of the Doha objectives where they would want to take into account the current state of global agriculture situation of crisis and financial crisis. Indians believe that developing economies should be granted the needed flexibility as it is crucial to them for the sustaining their agriculture sector.

For the reasons explained in greater detail in Dr. Mittal's paper and presentation at the conference, India has little commercial interest in an ambitious outcome to the current Doha Round negotiations on trade in agriculture. Indian policy-makers seem to believe that the country's low level of participation in international trade in agriculture is related to the problem of finding "exportable surpluses" that can be addressed only once an industry is commercially competitive. (We find that this is a peculiar way to look at trade since commercial firms do not trade "surpluses" but grow and ship for commercial sale whether on the domestic or export markets).

From a technical standpoint, India could, if it were so inclined, participate in a rather narrow set of critical mass agreements on trade in agriculture. More than seventy-one percent of the country's agricultural exports are concentrated in just six broad product categories (rice, sugar, onions, uncooked pasta, maize and mango pulp), while more than seventy-eight percent of imports are accounted for by wheat, crude palm oil, peas and crude soybean oil. Most of India's imports of agricultural products come from just seven sources.

But, on account of its very limited participation in international agricultural trade and low level of imports relative to domestic consumption and international trade, India is likely to remain outside of a critical mass negotiating framework for agriculture. We do not see how India could block recourse to a critical mass approach provided that the participants can structure an outcome that does not involve changes in the systemic rules and can be implemented through changes to their own domestic schedules of concessions,.

## Indonesia

Indonesian agriculture accounts for a declining share of GDP (15%) and only 8% of current exports but remains the principal employment sector, accounting for more than 40% of total employment in the past decade. Indonesia has a positive trade balance in agriculture (\$US8.5 billion in 2007, ITC Trade Map data, HS chapters 1-24) but is a 'food' deficit country, to the extent of about \$US2 billion, relying on imports of grains, soybean and sugar.

According to our research collaborators from Strategic Asia in Jakarta (M. Husein Sawit and Prabowo), democracy has brought disarray, so far, to Indonesian trade policies with the result that it tends to rely even more than in the past on cooperation among the developing countries as the source of ideas and support for its participation in WTO. A populist, inward-looking and relatively uninformed economic dialog among stakeholders is sustained by memories of the impact of the sudden liberalization of rice as part of the IMF's assistance package in the late 1990s. It explains Indonesia's defensive posture on market access—including taking a leading role in the G-33's support for extensive 'special product' provisions—and surprising support (given its food import dependency) for the G-20's primary focus on the damage done by developed country production and export subsidies.

Indonesia produced 2% of the world's food in 2005 while accounting for 0.6% of world imports and 1.4% of world exports of agriculture.

Indonesian respondents considered the single undertaking an 'absolute necessity' for a 'balanced and fair' agreement but were open to 'pragmatic' limits on the reach of the single undertaking if it relieved pressure on developing countries. They expressed 'serious concern' that a CM modality would ignore rural and agricultural development issues and could lead to the 'decoupling' of NAMA and Agriculture which they considered offered protection for developing country interests.

According to our international collaborator, Strategic Asia, Indonesia is currently in a poor position to evaluate where its own strategic interests lie in the ongoing agricultural negotiations. To a considerable degree, the country's position is dictated by considerations of developing country solidarity and the idea that the political clout which developing countries have been able to build in the Doha Round – in part due to the single undertaking – should not be jeopardized. From a practical standpoint, policy-making in Indonesia is hobbled by a weak Presidency, an inward-looking view of political parties, and a bureaucracy that lacks the indigenous analytical capacity to evaluate the country's economic interests.

Once again, from a technical standpoint, Indonesia would seem to be well-placed to benefit from the critical mass approach. Four products account for 75 percent of the country's exports and just 12 products make up ninety percent of all agricultural exports. Imports are similarly concentrated: six broad product categories make up 75 percent of imports and 18 product categories account for 90 percent of imported agricultural products.

Among the concerns expressed in Indonesia in relationship to the critical mass approach is a feeling that the modality would not adequately address rural and agricultural development problems; that it would "decouple" agriculture from the NAMA and other negotiations and that somehow, in the end, the negotiation could be more complicated than the existing single undertaking approach.

Although Indonesia is almost a \$1 trillion economy on the basis of PPP exchange rates, it accounts for only 0.6 percent of world imports and 1.4 percent of world exports with ?? . It would obviously be preferable to find terms on which the 20 percent of Indonesia's exports (and 11% of imports) that comprise agricultural products could benefit from CM liberalization. But Indonesia's participation would not necessarily be essential to the success of the CM approach.

### **Other views on CM Agreements in Agriculture**

Our collaborators and commentators have a wider range of views of the feasibility and value of CM agreements for the agriculture sector. None considers that they offer a guarantee of successful liberalization although some are much cooler on the prospects than others. If there is a ‘central tendency’ in our sample of opinion it is that it would be easier to imagine CMs that focused on aspects of the WTO rules or instruments—such as the rules on the use of domestic supports or the administration of tariffs or tariff-quotas—than CMs that sought to balance mercantilist goals in a sector- or product-specific negotiation.

Most of our expert commentators considered CMs at least a theoretical possibility for agriculture agreements but with likely narrow range and benefits and at best an extension of a multilateral agreement that alone could deliver results on issues such as subsidies. Several of them (e.g. Perez del Castillo, Josling, Sally and Zahrnt) pointed out that negotiating within a sector—even one as broad as ‘agriculture’—was a recipe for limited results since the potential for reciprocal ‘balance’ was smaller than a cross-sector negotiation.

At the Adelaide conference, Ann Capling presented the views of the Warwick Commission and sought to clarify the Commission view on critical mass agreements. In the view of the Commission, critical mass agreements were seen as acceptable only to the extent that there is no other more appropriate forum for the agreement under consideration and have the promise of being clearly welfare enhancing – a concept with the Commission defined as resulting in pareto-optimal welfare benefits and which Peter Lloyd argued is next to impossible to meet in this context. More generally, Capling wondered whether it would not be a big problem for governments to move in the direction of CMAs without appearing to throw in the towel on Doha. She also raised the question of what would motivate a “free-rider” to even consider joining in a CMA at some later stage.

One self-confessed ‘opponent’ of the CM route, Carlos Perez del Castillo, argues that the ‘voluntary’ nature of CMs would defy high ambitions for liberalization and threatened the ‘marginalization’ of non-participating developing economies within the WTO system. He is especially concerned that the priority issue, in his view, of trade distorting subsidies to production and exports cannot be tackled in a plurilateral CM framework, which is both too narrow in scope (if product-oriented) and voluntary in nature. Perez del Castillo acknowledges that the single undertaking has problems, but his criticism is that, although “[t]heoretically it made sense”, in practice the single undertaking allows members to look for sectoral balance in individual sectors (agriculture, NAMA) under negotiation. He recommends that instead of attempting to replace the single undertaking with narrowly CMs, WTO Members should return to the idea of WTO being a forum for “permanent negotiations” on a sector-wide basis; possibly on the basis of step-wise progression starting, for example with the elimination of all forms of trade-distorting domestic support (amber, blue, and de-minimis). He foresees fragmentation and high costs will result from an alternative approach focused on CMs:

Evoking a ‘strategic’ slogan, Sallie James of the Cato Institute allows that “An ‘agreement of the willing’ may offer an alternative way of leveraging export interests to counter political pressures against reductions in trade barriers if mercantilism cannot be abandoned.” She considers that the single undertaking has failed as a negotiating mechanism. James suggests that the emerging economies—who would prefer, on balance, to keep the SU, according to our collaborators—could benefit from a CM approach that allowed them to focus on their ‘offensive’ interests in trade liberalization rather than on the ‘defensive’ positions that have absorbed so much rhetorical energy in the Doha negotiations. She suggests that what matters to commercial interests in the design of a sectoral CM is less the absolute trade coverage of the Membership (proportion of world trade) but the relative coverage (share) of imports and exports in each of the participants’ markets.

Razeen Sally and Valentin Zahrnt argue that CMs would be infeasible for Europe from an internal coordination view-point given the heterogeneity of EC member-state production profiles. Differences in member-states' interests would see the mercantilist gains and losses on product specific CMs would likely be distributed in such a way that at least one member-state would oppose EC membership of any potential CM. Furthermore, CMs would not address the EC's 'offensive' objectives for the sector, including the maintenance of a level of protection that ensured the continuing 'multi-functionality' of agriculture and the expansion of the system of GI protection. Although non-agricultural interests are interested in a reduction of EC protection for the sector, their primary objective is not to use liberalization as a bargaining tool for their own objectives e.g. NAMA or Services market access. CM agreements that mediated agriculture-for-agriculture liberalization would deny them this opportunity. Sally and Zahrnt see much better prospects for MFN-compliant CM agreements on an instrumental basis; for example:

*(As part of a package that included liberalization of selected services sectors and trade facilitation) ... a scaled-back agreement on agriculture that simplifies tariffs, removes nuisance tariffs below a threshold (say of 5%), locks in already decided domestic subsidy reforms, and applies the Hong Kong declaration on the removal of export subsidies and duty-free, quota-free access for least developed countries.*

They also speculate that non-MFN-compliant CMs might be seen as acceptable if they have significant spillover benefits for non-participants. Furthermore, they claim, any trade-diversion from non-signatories to signatories would pose much less of a burden on business than the trade diversion due to regional trade agreements.

Tim Josling, too, considers the best prospects for CM agreements are to be found in agreements with objectives other than market access, such as on export subsidies or trade-distorting domestic subsidies (with the caveat that this issue has become 'overloaded' in the Doha debates by both the U.S. and developing countries attaching too high a value to cuts). One idea he explores is a CM limiting (or prohibiting?) the use of export restrictions; an idea also canvassed by Sally and Vahrnt. The difficulty of aligning mercantilist interests in a sectoral CM gives Josling little hope that they represent a way forward for agriculture negotiations, although he can see some potential in CMs on e.g. tropical products that are, effectively, international commodity agreements (ICAs) benefiting chiefly the developing producers. He acknowledges that the opportunities for CMs will be expanded if Doha fails and speculates that WTO Ministers could, in that event, establish working groups to explore CMs with a view to 'owning' the process.

Alan Winters would like to see WTO 'experiment' with plurilateral agreements as a means of re-invigorating trade liberalization in WTO. He suggests 'criteria' for critical mass agreements that would be permitted under the WTO's rules—analogueous to the criteria specified in Article XXIV as the basis for an MFN exception—such as, by way of example, an 80% coverage of trade in a sector and at least one-third of Members adhering. We have worked on the premise that CM's will be 'self-selecting' as to trade coverage and membership and constrained mostly by an MFN discipline to comply with WTO objectives. Winters says that self-selection could see CMs created that might be harmful to the interests of the majority: "For example, a TRIPS-type agreement by 30 rich countries would not be an appropriate use of WTO structures". He would also require MFN compliance to safeguard against WTO becoming an "enforcement mechanism for discriminatory agreements".

Peter Lloyd, who believes there is a "strong case for abolishing the single undertaking", considers the potential benefits of CMs in the broader context of the development of 'variable geometries': he concludes that they offer some potential for progress but will not resolve a more fundamental weakness in WTO's constitution. Variable geometries in WTO include not only the—now mostly defunct—plurilateral annexes to the Marrakesh agreement but also 'opt-in, standalone' agreements within WTO's precinct that are binding only on signatories such as the ITA, the Agreement on Basic Telecommunications and,

the Agreement on Financial Services. He argues in favor of an MFN condition for CMs and summarizes the other characteristics that are said (including by us) to be desirable:

CM agreements should require a “sufficient” number of countries, be open to all Members both at the time of negotiation and subsequently for non-signatories to join, non-discriminatory, subject to standard WTO dispute settlement procedures, tariff-based and should provide technical assistance and aid-for-trade for those Developing Countries who participate

But Lloyd is more interested in whether such variable geometry agreements are intended to be permanent or a temporary step toward a universal change in the regime: as is explicitly the case with, for example, EU ‘variable geometries’ such as the Schengen Agreement on immigration and the European Monetary Union (EMU). He argues that the character of variable geometries is determined by their relation to the objectives of the regime. The EMU, for example, is one of the objectives of the Union so that a temporary variable geometry en route to this objective looks to be consistent with the regime. Lloyd regrets, however, that WTO “...lacks a clear objective and, because of this, it lacks a vision of where it is heading.”

### ***Next Steps in the Research Project***

We indicated in our earlier paper on alternative frameworks for agriculture negotiations (Gallagher and Stoler (2008b)) the initiative for product-oriented CMs would probably come from commercial sources because such agreements inevitably have a mercantilist cast. We showed from direction-of-trade data that there appear to be feasible concentrations of trade—where a relatively small number of markets represents a high proportion of imports and exports of an agricultural product—that would meet the requirement for a sufficient number of participants in a CM negotiation. But we thought the challenge would be to find feasible opportunities that offered worth while results for the participants. The mercantilist market access interests of exporters and importers are diametrically opposed; they are not likely to complement each other in an agreement on a single product or even a narrow range of products. Requests are likely to be one-sided and unreciprocated.

We pointed to the potential for ‘clusters’ of products that could provide the broader base of a reciprocal agreement to be found within the data that we collected at the 4-6-digit level of the Harmonized System (HS). Within ‘cheese’ (for example), a category dominated by a small number of exporters and a large number of importers, there is a wide variety of distinguishable products (‘hard’, ‘grating’, ‘soft’, cheddar, and ‘artisanal’) that reveal a much more diverse network of exchanges. The same economy could find itself on the export side of one cheese trade and the import side of another (as Australia does with ‘cheddar’ style and soft cheeses, for example).

Our model for this suggestion is the existing, successful, CM agreements in WTO to which Peter Lloyd (and others) refer. The ITA and the Services CMs have been constructed on top of a rich network of intra-industry exchange where economies find themselves on both the export and import side of trades in the same four- or even six-digit sector of the HS. The significant contribution that intra-industry trade (I-IT) brings to trade volumes, output and, investment growth, and to the opportunities for entrepreneurs to benefit from knowledge spillovers (spreading innovation) explains the longstanding attention of analysts.

I-IT does not require a trade agreement, of course, but we think CM might be valuable in an agricultural industry where there is the potential for higher levels of intra-industry trade. A CM can be adapted to aligning the reduction of formal trade barriers on both the import and export side of an exchange (as Tim Josling suggests) and can provide the basis for joint action to facilitate trade through co-operative measures on e.g. customs formalities and standards.



Typically, primary products exhibit a low rate of intra-industry trade for obvious reasons: there is simply no point in trade within simple product group in which products have no 'intermediate' components. However, simply and elaborately processed primary products do undergo intra-industry trade and the intensity of this trade is increasing rapidly, especially in the food sector, according to a survey conducted for the World Bank's World Development Report, 2009.

"Proportionally the largest rise in IIT is observed in the "Food and Live Animals" sector (SITC sector 0), which exhibits a nine-fold rise from a GL index of 0.02 in 1962 to a GL index of 0.17 in 2006. Clearly, with the increasing sophistication and differentiation of food products, even agricultural goods are now subject to considerable IIT." (Brulhart, 2008)

At the Adelaide conference, our panel of contributors discussed the potential for critical mass agreements in current and future negotiations on trade in agriculture. The Department of Foreign Affairs and Trade's negotiator, Carolyn Irving, acknowledged that it is difficult to focus on alternatives when one is mired in the swamp of the negotiations. She was not, in any event, convinced that the current approach would fail and she argued that there are many things of value on the table in Geneva.. She judged the sticking points in the negotiations as not being insurmountable. Our Brazilian collaborator, Saulo Nogueira, said his own view on the potential utility of the critical mass approach was evolving and that he now saw CMAs as applicable to more than simple market access agreements. He thought that CMAs might be used on some fronts in Doha ahead of others and speculated that participation in a CMA might enable a country to "buy" benefits elsewhere in a broader negotiation.

CRIER's Surabhi Mittal expressed the view that CMAs could be even more complicated in practice than the modalities on the table in Geneva and that we would most likely need to leave CMAs in agriculture on the sidelines until after the end of the Doha negotiations. To be eventually workable, she thought CMAs would need to encompass some minimum percent of trade in the covered products as well as some defined percentage of WTO members. Our Indonesian colleague, Prabowo, said he believes that the Doha Round needs to be completed on the basis of a single undertaking approach, but that possible alternatives like CMAs should be fully debated and assessed as to their merits for the future.

Following the December Adelaide Symposium, we had an opportunity to discuss the alternative frameworks project with representatives of the American "Farm Foundation" group at their semi-annual roundtable meeting in Hawaii. In the course of our presentation, we suggested that the Farm Foundation might want to take advantage of the likely slow-down in U.S. Government negotiating activity at the start of the new Obama administration to evaluate whether it might find the critical mass approach to be of some interest.

As noted above, there is at least one other framework beside the CMA idea that might serve as an alternative to the current Doha Round approach: completing the negotiations on the basis of the Uruguay Round's more flexible formula. Not much work needs to go into testing the viability of that approach as we know it works.

As for critical mass as an approach for agriculture negotiations, there is little enthusiasm at this stage for turning the Doha Round on its head with a radically different approach. That said, most of those we have been working with have expressed some interest in the prospect of using critical mass in future negotiations. The challenge for us at this stage in the project is to describe a practical proposal for a CM agreement and a combination of potential participating countries that would make this approach economically interesting and politically viable.

### ***Current Work: Modelling Practical Approaches and Testing Opinion***

Over the period April – July 2009, the principal researchers are employing statistical analysis and economic modeling techniques to develop potential critical mass packages

that can be tested for their welfare effects and political “saleability”. Identified welfare effects will be compared with those that might be expected under plausible Doha Round scenarios. Initial results that appear promising will be tested in planned exchanges with negotiators from key WTO Member countries and in a survey of international experts planned for September 2009.

Following further refinements to our hypothesis and recommendations, the final research product will be subjected to a public peer review at a results conference envisaged for Canberra in October or November 2009. The post-Canberra product will be widely disseminated in an effort to maximize its impact.



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## 8 Impacts

Because this project will not be finalised and fully tested for some time to come, the researchers can only speculate at this stage on the anticipated impacts of a successful research project.

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### 8.1 Scientific impacts – now and in 5 years

Not applicable.

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### 8.2 Capacity impacts – now and in 5 years

Not applicable.

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### 8.3 Community impacts – now and in 5 years

If this research is successful in identifying viable alternative frameworks for trade liberalisation in agriculture and other sectors and if an alternative framework can be adopted and successfully implemented by Australia and key trading partners, the process of agricultural trade liberalisation will be greatly accelerated with significant economic benefits for the agricultural sector in Australia.

This also has significant importance for the wider community because if we can identify an alternative framework for agriculture liberalisation, that framework will likely be applicable to other sectors (services, industrial products, etc.) as well -- speeding trade liberalisation across-the-board with consequent economic benefits to the entire community. Millions of Australians are employed in industries that directly or indirectly depend on revenues from our \$210 billion in annual export sales.

#### 8.3.1 Economic impacts

Because they are further from markets than their competitors, Australian rural industries are especially vulnerable to the configuration and efficiency of the trading system. This is reflected in the unusually large scale of Australia's potential gains from effective multilateral trade liberalization.

The difference between the most effective Doha round and the one we are likely to have (if any) has been valued for Australia/New Zealand at \$US5 billion (2001 dollars) annually from 2015; a difference in output of an order of magnitude. More than 90% of the income gains in each scenario is due to changes in rural/agricultural trade factors with approximately 60% of the gain due to changes in the terms of trade for Australian rural exports.

Taking this as the range of potential outcomes from multilateral trade liberalization, our objective is to find technologies (of organization and methods of collaboration including multilateral negotiation) that will produce feasible outcomes for Australia that are at the top, rather than at the bottom, end of the scale.

Competitive terms for Australian access to export markets sustains approximately two-thirds of the annual value of rural production.

With only one half of one percent of the world's population, Australian producers will always find the majority of their customers in export markets and an increasing proportion of the value of sales offshore.

The economic stakes for Australia's farmers are too great to permit continued reliance on approaches to reform and liberalization that are evidently incapable of producing outcomes we need.

**The Multiplier Effect:** In analysing the economic benefits of an approach that successfully unblocks negotiations on agricultural liberalisation, there is also an important multiplier effect that needs to be taken into account. First, the benefits realised by Australian farmers will be shared by the developing countries that are our allies in the Cairns Group. A higher level of farm income in these countries due to the pricing of their production at full market value and to increased access to export markets and fairer international competition will contribute to the reduction of poverty and make these countries more attractive markets for Australian exporters of agricultural products and other goods as well. In addition, there is a second important effect. A higher level of satisfaction with the outcome of negotiations on agricultural trade issues will make the governments of these countries more likely to agree to liberalisation of trade in services and reduced tariffs and non-tariff barriers affecting trade in industrial products. The potential global economic benefits are enormous: the World Bank estimates that full merchandise trade liberalisation could boost global income levels by US\$ 287 billion in 2015. Even if the gains from trade liberalisation are only a fraction of that amount, they are far too significant to ignore.

### **8.3.2 Social impacts**

International trade, like any business activity, grows through the development of commercial relationships. These, in turn, become the focus of policy interest and shape trade relations at even the highest level. In other words, the 'cash value' of closer economic integration with the Asia-Pacific region that will remain the focus of our agricultural trade is tens of thousands of business relationships that reach back, directly, into rural communities and businesses around Australia. If our trade opportunities narrow, those communities as well as those businesses will be directly impacted.

The research could also, through its contribution to more successful negotiating processes and outcomes, produce important social benefits in developing countries in the region - in particular in our Cairns Group developing country partners. For example, agricultural trade liberalisation may have an important social impact in terms of its contribution to gender equality in developing countries. The liberalisation of agricultural trade can lead to increased production of cash crops which may divert limited resources away from subsistence crop production. There are both positive and negative effects on women in that (a) household income may increase by more than the cost of food required to replace the subsistence crops but (b) welfare will depend on the cost of inputs and the price of the cash crops. Furthermore, women may have less control of both the choice of crop and the income derived from cash crops than they do of subsistence crops.

### **8.3.3 Environmental impacts**

Sustainable environmental management and productive agriculture (or fisheries or forestry) go hand-in-hand. The best guarantee of the resource-flows needed to sustain high environmental values — particularly under foreseeable conditions of growing climatic stress — is the wealth that comes from trade.

Reform and/or liberalization of global agricultural policies through successful multilateral trade negotiations can also directly improve environmental outcomes. One example is the channelling of farm supports (subsidies) into "green" programs rather than those that distort trade patterns. Another example is the increased and enhanced international cooperation on sanitary and phytosanitary matters made possible through the greater exposure of government officials, often in developing countries, to more sophisticated ways and means of preventing the spread of animal and plant diseases.

Where the multilateral negotiations of the WTO have ground to a halt, this cooperation risks being frozen at 1994 levels that are inadequate to the continuing challenges of

sustainable environmental management. Certainly the stalled WTO talks (which were originally due for have made no contribution to the reduction of subsidies that damage the environment by supporting marginal farming operations.

Turning to future challenges, improved technologies for managing trade frameworks could offer valuable models for future multilateral collaboration on climate change, especially where these are mediated by exchange ('emissions trading') or contain trade sanctions. There is evidence that climate change-related issues may spill over into the trade arena and there is therefore a growing need to reach international agreement on how certain issues are to be addressed before a potential conflict arises between climate change and trade goals. The French President has, for example, called for taxes on goods imported from non-Kyoto Protocol countries and NGOs in some European countries in particular have made much of the so-called "food miles" issue. If our research can contribute to more successful negotiating processes and outcomes, it could lead to important benefits in this environmental context.

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## **8.4 Communication and dissemination activities**

### **8.4.1 Adelaide Conference**

The Adelaide Conference in December 2008 and the involvement in its preparation by experts from around the world successfully disseminated the early results of the research program both through the involvement of conference participants and the sharing of conference papers with government officials and other policy experts in Australia and overseas.

### **8.4.2 Farm Foundation (USA) Speech**

The project was described in considerable detail to a semi-annual "roundtable" meeting of the American Farm Foundation group through a speech delivered to the group by joint research director Stoler in January 2009.

### **8.4.3 Initial Journal Article (Global Governance)**

Our initial thesis is detailed in an article to be published in the UK-based journal "Global Governance" in mid-2009.

### **8.4.4 Canberra Conference**

The anticipated Canberra Conference in the second half of 2009 will involve not only government and policy experts but also industry representatives and members of foreign embassies in Canberra.

### **8.4.5 Post-Canberra Journal Article**

A second journal article in a high-quality trade/economic journal is forecast for the post Canberra Conference period.

### **8.4.6 End of Project Monograph**

The final results of the project – together with recommendations for policy makers – will be published and disseminated at the end of the project period.

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## 9 Conclusions and recommendations

As noted earlier, this project will not be completed until early 2010 when its final results are expected to be published in a journal article and in a monograph that will group together all the research findings produced in the project. At that point, the co-authors would appreciate an opportunity to update this report to ACIAR.

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### 9.1 Conclusions

Our preliminary conclusion is that the research project is likely to support our hypothesis that the Doha Round agricultural trade negotiations have been unnecessarily and perhaps fatally flawed by the application to the negotiating modalities of the “single undertaking” concept wherein all WTO Members are mandated to participate in all aspects of the negotiation and in the implementation of the results.

We believe that future negotiations can be more successful if they are based on the critical mass approach where – in broad terms – only a third or fewer of WTO Members will need to be involved in a negotiation that would produce a result of significant benefit to all WTO Members. We expect to be in a position to recommend this approach to policy-makers.

ACIAR could contribute to ensuring that the research project produces its desired impact by assisting in the dissemination of the projects findings and recommendations – in particular to those with responsibility for agricultural trade policy in developing countries.

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### 9.2 Recommendations

To be provided at the conclusion of this project.

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## 10 References

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### 10.2 List of publications produced by project

To be provided at the conclusion of the project.