MIT MUNC

World Trade Organization (WTO)

Background Guide

On the Question of The Doha Agenda: Topics in Agriculture

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1. Background

Until the Uruguay Round negotiations (1986-1994), the GATT was mostly ineffective in dealing with many important facets of international agricultural trade. Many countries established export subsidies as well as import restrictions such as tariffs. This unbalanced trade ran the risk of creating a volatile market, the crash of which could send many countries into famine. One of the first significant steps of the WTO was to curtail these import restrictions and export subsidies in order to create a more balanced global agricultural market.

With even this brief background knowledge, it is easy to see from where the conflict arises. Governments in general aim to support their domestic growers by providing farmer subsidies. This allows for greater crop production and lower prices. In some cases, subsidies lead to excess, which is then sold on international markets. The government subsidies, therefore, can, to some degree, be used to control the availability of staple crops in international trade. In addition to domestic subsidies, governments can also establish export provisions, whereby the exporting of goods is not taxed or only leniently taxed. The danger comes from the ever-present threat of governments revoking these subsidies. Should they do so, the worldwide supply of food would plummet, prices would skyrocket, and mass famine could result. Thus, one of the ongoing goals of the WTO is to reduce reliance on governmental subsidies in the international agricultural marketplace.

There are further benefits to decreasing government subsidies. Export incentives distort trade by allowing government-modulated prices to rule the market. For example, if one relatively rich government can provide greater subsidies than a relatively poor government, the farmers of the richer country profit not only from the subsidies but also from the increased demand for their inherently cheaper subsidized crop. This reinforces the imbalance between nations, as there is now effectively an export barrier to agricultural products from the poorer government which is unable to match the richer government's subsidies. This has major implications for developing nations that are trying to pull themselves out poverty. The playing field must be level in order for them to compete.

Subsidies may also lead to a reduction in quality of crop. Export incentives skew competition in the international market to be based on subsidies alone. The nation with the government that provides larger subsidies puts more crops on the market. These crops are not necessarily the best quality—they are only the cheapest. This prevents competition based on the fair factors of open-market price and quality and instead leads to competition based on the sizes of government subsidies and the artificially deflated prices they commission. Not only does this continue to reinforce the stratification of nations, but it also decreases the overall quality of crops on the market.

The debate on export subsidies continues. Some countries such as India argue that states should be allowed to increase subsidies on one particular type of product as long as they make an equal reduction in subsidies for other goods. Many developing countries argue that subsidies should be abolished altogether, since the artificially depressed prices of richer nations make it harder for their farmers to compete on the international market. These same countries would also like for certain loopholes in export subsidy reduction commitments to be closed; for example, the developed world's widespread use of food aid to help balance the subsidies they provide. However, this too draws criticism as it reduces the incentive of developed nations to give such aid.

Some of the more extreme proposals under current debate include the immediate reduction of all export subsidies by 50%. An even more extreme consideration is legislation to ban all subsidies outright and immediately for all WTO member states. In any event, general consensus is that export subsidies must somehow be reduced.

In addition to export subsidies, market access is a major concern in international trade of agricultural products. Just as subsidies help artificially drive down the prices of a country's goods on the international market, import tariffs increase the prices of foreign goods. Tariffs, like subsidies, also help protect domestic farmers at the expense of foreign producers.

There are two types of tariffs, applied and bound. A bound rate is the negotiated highest-possible tariff rate a country can set on the import of a product. The applied rate is the actual rate levied. By definition, it must be less than or equal to the bound rate. Most negotiations thus far have occurred on a product-by-product basis (or a product type-by-product type basis) since, despite the inefficiency and increase bureaucracy of the system, countries desire the flexibility it affords. Many developing countries advocate the total elimination of import tariffs on their exported goods. It is clear that special and differential treatment for these countries will make a great impact on the way developed nations handle their negotiations. Recently admitted members to the WTO were already required to reduce their import tariffs, so their ambassadors have expressed the sentiment that they should not be required to further decrease their import tax rates.

Two main overarching proposals have come about regarding reducing trade tariffs. One calls for a net lowering of rates on all products, with some flexibility on a product-by-product basis as long as the minimum average reduction is met. This is a simple but controversial strategy. The other proposal would make use of a flat-rate percentage reduction for every product with additional considerations for increased reductions on disproportionately high existing tariffs, increasing import quotas, and giving special and differential treatment to developing countries. Indeed, it is not only developing countries that require special (though not necessarily favorable) provisions. Countries that are new WTO member states as well as countries currently transitioning to market from barter economies all need special consideration in all trade legislation.

Another topic to be discussed is the use of special agricultural safeguards. These are "contingency restrictions on imports taken temporarily to deal with special circumstances such as a sudden surge in imports. " These safeguards have only been used in rare cases, but it is necessary to review and alter the current rules so that in the event of a crisis they may be used efficiently and effectively. High safeguard duties are allowed to come into effect automatically when the market is flooded with goods or if the prices of certain goods fall below a set price floor. The purpose of safeguards is to keep supply below a critical amount so that even in the event of a flooded market, the prices do not drop to such a degree that they would cause the collapse of a country's industry for that product.

There have been a few overarching proposals debated already in regard to safeguards. Developed nations would like the current rules changed such that only they would be allowed to use safeguards. Some countries would like safeguards to only be applied to perishable or seasonal goods. The logic behind this proposal is that if the market is flooded with a nonperishable, non-seasonable good, the excess supply can be kept off the market in storage until the price for the product can return to normal. This technique for price modulation cannot be done with perishable or seasonal goods. Other proposals center around further specification of which goods can have special safeguards applied to them.

2. Goals

The goal of the debates over agricultural issues should be, simply, to reduce inefficiency and increase equality between nations while paying special attention to countries' different needs. The current tariffs system is a hodgepodge of two-party, single-good negotiations; the safeguard system needs to be overhauled; and the WTO needs to establish concrete, binding, and global rules regarding export subsidies. All negotiations must be multilateral, as they must take into account the vastly differing needs and abilities of each member nation. Additionally, developing nations who are relatively new to the international trade of agricultural goods—that is, countries which have only recently begun producing domestic surpluses and are newly able to export their excess supplies—need special attention from the WTO in helping to forge trade agreements with other nations. There must be a support network for helping these countries negotiate and draft export, import, and safeguard agreements favorable to their needs. This framework must prevent predatory, manipulative, and exploitive negotiations with other countries to ensure that no trade relations shall ever occur again that even minutely resemble those found in disbanded colonialism ties.

3. Conclusion

As in the previous topic, countries will most likely settle into blocs according to their status on the developing—developed spectrum. However, for this topic there will be the added complication of overlapping blocs. The group of nations recently admitted to the WTO will have sentiments regarding restrictions on their trade agreements different from those of nations who have been GATT states since that Agreement's inception. The lines between these blocs will be blurred: some recent members will be developed nations, others will be developing.

Each position paper should clearly identify the country's stance as far as agricultural trade negotiations are concerned. Every nation will have different goals and needs with regard to agricultural trade, and each delegate must be well-versed in his or her country's position in order to have an informed and productive debate. By nature of the topic, trade agreements are highly country-specific, so a knowledge of the country's needs is absolutely imperative. The delegate should come prepared with an idea of what his or her country would like to gain from negotiations and what that country is willing to sacrifice for the overall health of the global market.

4. References

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