



Strengthening and modernizing the WTO to resolve agricultural negotiations¹

This technical note is addressed to the Ministers of Agriculture of the Americas and has the purpose of highlighting the importance of agriculture within the framework of multilateral trade negotiations, notably due to the fact that the Inter-American Institute of Cooperation on Agriculture (IICA), as an observer member of the Agriculture Committee and the Sanitary and Phytosanitary Measures Committee of the World

Trade Organization (WTO) promotes the effective participation of its member countries in this multilateral forum.

1. World Economic Situation

World economy has encountered difficulties in regaining the momentum it

GDP and World Trade trends in 2000-2019
(annual variation rates)



Source: IMF. World Economic Outlook. July 2019; April, January 2019; July, October 2018.

■ GDP ■ Internacional Trade

1. This technical note was drafted by Osvaldo Rosales, member of the advisory group of the Hemispheric Program on International Trade and Regional Integration of IICA.

had reached before the subprime crisis. Indeed, as the end of the decade draws near, Gross Domestic Product (GDP) and world trade are expanding at a rate of between 40% and 50% below the one observed before said crisis. The strong deceleration in the flow of traded goods is a particular cause for concern.

In 2017, when the European Union (EU) seemed to be finally recovering from the impacts of the subprime crisis, it appeared as if the engines of growth could become aligned. In fact, for the first time since 2008, the United States, China, Japan and the EU were showing growth rates that indicated a possible return to global growth rates of 4%.

Nevertheless, this process has been frustrated by the emergence of trade tensions between some of the main players in the world economy, as a result of geopolitical events and the potential effects of a no-deal Brexit on the European economy, Europe being a major player in world trade. This has led to increasing uncertainty and a reduced appetite for risk, which in turn affects investment and disturbs global supply chains and technologies. Within this context, global trade is strongly decelerating. After growing 5% annually in the first decade of the century, the end of the second decade shows an annual growth of less than 3%.²

Table 1. Average growth rates of world economy and trade

	2010-2019	2012-2019
GDP	3.7	3.5
World trade	4.6	2.7

Source: Calculations based on the IMF report. *Op.cit.*

A recent report issued by the International Monetary Fund (IMF) (July 2019) shows for the fourth time in 12 months a downward trend for world economic growth in 2019.

Going from nearly 4% forecasted 12 months ago, the current estimated growth for 2019 has dropped to 3.2%, the second lowest value in two decades³.

2. Table 1 shows an annual expansion of 4.6% for the 2010-2019 period. However, this value is strongly influenced by the high rates of 2010 and 2011, immediately after the subprime crisis, during which there were fiscal and monetary stimulus packages implemented by the economies of the G20. If we consider the 2012-2019 period, international trade grew only at 2.7% annually. In its World Economic Outlook report of July 2019, the IMF points out that in the first quarter of 2019, world trade grew only 0.5% in twelve months.

3. This value only exceeds that of 2001 with the dotcom crisis, when the United States grew 0.8% and world economy grew by 2.5% (IMF. 2007. World Economic Outlook. April).

Table 2. Fall in global economic growth projections (for 2019 and 2020).

Conducted in	July 2018	October 2018	January 2019	April 2019	July 2019
2019	3.9	3.7	3.5	3.3	3.2
2020	3.9	3.7	3.6	3.6	3.5

Source: IMF. World Economic Outlook. July 2019; April, January 2019; July, October 2018.

During the 2000-2016 period, agricultural trade grew at 6% annually, showing even more resilience than manufactures and other commodities. A significant change observed in agricultural markets was the growing participation of emerging economies, both for exports and imports.

Agriculture became part of the negotiations in 1995 at the Uruguay Round, when the GATT gave way to the WTO. The Agreement on Agriculture was thereby established, based on three pillars: i) market access; ii) export subsidies (called “export competition”) and other mechanisms that artificially raise the competitiveness of exports; and iii) domestic support, subsidies and other programs to secure prices for the producer and/or the income of farmers⁴.

2. Agriculture in the WTO

Agriculture still remains the “poor relative” in multilateral trade negotiations. Its inclusion in discussions has been sluggish and after decades of negotiations, progress remains modest. Although agriculture was part of the General Agreement on Trade and Tariffs (GATT) in 1947, in practice agricultural trade was subject to numerous exemptions from the agreed upon standards, such as export subsidies and quantitative restrictions to trade. Within that time period (1947-1995) there were no market access negotiations, and as a result, the main agricultural trade flows were never subject to the regulations set forth in the GATT.

The Doha Declaration, in paragraphs 13 and 14, set forth the objectives of each pillar: i) “substantial improvements in market access; ii) reductions of, with a view to phasing out, all forms of export subsidies; iii) substantial reductions in trade distorting domestic support”. It also established special and differentiated treatment for developing countries in each of these pillars, and added that the specific modalities for these three pillars had to be defined no later than the date of the Fifth Session of the Ministerial Conference in 2003. This requirement was not met.

4. Domestic support is classified into four categories called ‘compartments’, according to their level of distortion on production and trade.

In July 2004, the WTO General Council defined the “Doha Work Programme”, which included decisions on the three pillars but failed to define the parameters involved or the specific timeframes for their implementation. It did define, however, that in terms of domestic support, reductions would be enforced at the consolidated levels and not the applied ones, with which the negotiated reductions had to be sufficiently substantial in order to lower the effective levels of support. In the case of amber box support, for example, a definition was not found to determine a maximum level of support per product instead of an average, which would leave many relevant products unchanged. It also established, among other topics, that the aggregate consolidated measurement of the three main types of support (amber box, *de minimis* and blue box) should reflect a global reduction, indicating that countries with more domestic support should apply more significant reductions and that, from the moment the system is implemented, the sum of the three types of support should fall by at least 20%⁵.

The Bali and Nairobi Ministerial Conferences (2013 and 2015 respectively) indicated a certain level of progress. In Bali, issues of food security, tariff quotas and export subsidies were addressed, in an attempt to enforce these measures and improve transparency and surveillance. In Nairobi, all member countries committed to eliminate export subsidies for agricultural products. This

elimination was to take place gradually, based on the development level of each country: developed countries were to eliminate them immediately, whereas the least developed ones were to do so as of 2030. Other provisions were adopted, aimed at limiting the impact of other support measures for agricultural exports (loans, commercial State-owned companies and international food aid). In Nairobi, the negotiation agenda introduced new topics (public stocks for food security, the special safeguard for developing countries), establishing a preferential agreement on cotton that fostered market access and domestic support for less developed countries.

These developments, albeit important, are still limited. Export subsidies had been falling in the previous 15 years, and were almost non-existent in 2012 for the United States and, since 2013, for the EU⁶. The challenge remains how to enforce the measures, which have a similar effect on said subsidies. Issues of market access still fail to be addressed, while many distortive practices continue: relatively high tariffs; seasonal tariffs; tariff quotas; “tariff peaks” that make these products prohibitive; and tariff escalation that negatively affects the value added in exports from developing countries. In terms of domestic support, although the distortive aspects were reduced, the ceilings set remain very high and flexibilities persist (for instance, the *de minimis* clause), which, based on the size the vendors, can end up affecting

5. CEI (International Economy Center, Argentina). 2005. Trade negotiations. CEI Magazine, Foreign Trade and Integration. November.

6. ODEPA (Office of Agrarian Studies and Policies, Chile. 2017. Perspectives for Agriculture in the WTO. Santiago, Chile.

international prices⁷. At the Buenos Aires Ministerial Conference (2017), on the other hand, no progress was made on the agricultural issue.

3. Agriculture and other challenging issues for the WTO

In addition to the usual difficulties encountered when dealing with agricultural issues, other relevant and highly complex problems have emerged in the past two years. Apart from the traditional claims made by the US that the WTO litigates too much and negotiates too little, the country has further criticized the functioning of the Appellate Body of the WTO, claiming that it fails to comply with the 90 days established for reviewing appeals and that it allegedly exceeds its mandate, making legal interpretations that have not been negotiated, which, in practice, could lead to new commitments for the member countries. The United States has been blocking the appointment of new members to the Appellate Body, which could cease to operate due to lack of quorum as of next December 11⁸.

Within the context of the trade dispute with China, the United States claims that the

Asian country is failing to comply with the commitments it undertook upon entering the WTO, and that the organization is not acting diligently to enforce compliance on issues such as the role of State-owned companies in trade, industrial subsidies and the respect for intellectual property rights, among others⁹. On the other hand, several members of the WTO have expressed concern about the support programs that the United States has implemented for farmers affected by Chinese retaliation measures, and have requested information regarding whether these programs are in keeping with the commitments undertaken by the US within the WTO.

The EU was the first to react with specific proposals to address key thematic areas in the operation of the WTO. A document issued by the European Commission¹⁰ deals with industrial subsidies, the role of State-owned companies and barriers to services and investments, including forced technology transfers. The EU has also suggested different criteria to address flexibilities in the context of the developmental goals, proposing a more evidence-based, special and differentiated treatment. It also includes initiatives aimed at reinforcing the supervisory role of the WTO, improving transparency and notifications as well as specific reforms to the dispute settlement system.

7. INTAL connection. 2017. Negotiation trends on agricultural trade. Available at <https://conexionintal.iadb.org/2017/09/01/tendencias-en-las-negociaciones-sobre-el-comercio-agricola/>.

8. Senate Finance Committee. 2019. Lighthizer: Appellate Body blocks the only way to ensure reforms. In Inside U.S. Trade's, World Trade Online, March 12.

9. The arguments voiced by the United States can be found in the WTO document, "China's Trade-Disruptive Model" Communication from the United States, General Council. July 26-27, 2018, WT/GC/W/745. The Chinese response is included in the document "Statement by Ambassador Dr. Zhang Xiang chen at the WTO General Council Meeting", available at <http://wto2.mofcom.gov.cn/sys/print.shtml?chinaviewpoints/201807/20180702770676>

10. European Commission. 2018. European Commission presents comprehensive approach for the modernization of the WTO. Brussels, Belgium. September 18th.

Canada presented a similar document¹¹ with proposals to improve the supervisory function of the WTO and its dispute settlement system, and to modernize the rules of trade, by adapting them to the challenges of the 21st century. At the end of November 2018, the EU and 12 other countries submitted a proposal to the General Council of the WTO, aimed at reforming the Appellate Body, and which included the concerns voiced by the United States delegation¹². This proposal was rejected by the United States, claiming that it did not reflect these concerns, but without stating the specific reasons for this rejection¹³.

At the end of July 2019, the EU and Canada agreed to create an alternative arbitration mechanism as a substitute to the WTO Appellate Body, in the event that the court ceased to operate after December 10th. This would be an interim body, functioning while the Appellate Body is reestablished or another one is defined to replace it. This entity would work under the same rules of the current court to address potential trade disputes between Canada and the EU. To this end, it would resort to the same arbitrators who performed their duties within this Body¹⁴. If, by the end of December, no decision has been made on the continuity

of the Appellate Body, it is likely that other countries will gradually become part of this alternative system.

The US administration added new demands to change the functioning of the WTO, this time questioning the criteria applied for developing countries. In a memorandum dated late July, the White House questioned the fact that it was the same countries designating themselves as “developing countries”, with no agreed criteria on the matter¹⁵. This memorandum points out, for example, that 7 of the 10 wealthiest economies (according to the GDP per capita measurement on a PPP basis) have, on different occasions, claimed a developing country status within the WTO. From the point of view of the US, this allows them to avail themselves of flexibilities in WTO rules that do not match their higher level of relative development. This would also apply to several members of the G20, including China. Pursuant to the mentioned previously memorandum, the Office of the United States Trade Representative (USTR) shall, within 90 days of the date of the memorandum, and if substantial progress has not been made toward achieving the changes in the treaty, unilaterally cease to concede this preferential treatment on issues pertaining to the WTO.

11. “Strengthening and Modernizing the WTO”, Communication Document from Canada, WTO, JOB/GC/201. September 24, 2018.

12. European Commission. 2018. WTO Reform: EU proposes way forward on the functioning of the Appellate Body. European Commission Press Release, 26, November 2018. Available at http://europa.eu/rapid/press-release_IP-18-6529_en.htm. The other 12 countries were Australia, Canada, China, South Korea, India, Iceland, Mexico, New Zealand, Norway, Singapore and Switzerland.

13. Bloomberg. 2018. U.S. rejects the EU’s Trade Reform Proposal, Putting WTO at Risk. December 12. Available at <https://www.bloomberg.com/news/articles/2018-12-12/u-s-rejects-the-eu-s-trade-reform-proposal-putting-wto-at-risk>.

14. Financial Times. 2019. EU and Canada agree on interim alternative to appeal court”. July 25.

15. White House. 2019. Memorandum on Reforming Developing-Country Status in WTO. July 28. Available at <https://www.whitehouse.gov/presidential-actions/memorandum-reforming-developing-country-status-world-trade-organization/>.

This measure undoubtedly creates additional pressure to reform this and other aspects of the WTO. However, the preferential treatment that is being questioned has been the norm for years and responds to motions agreed upon by all members of the WTO. The Secretariat of the WTO does not have the power to modify the agreement, unless the entirety of its members unanimously approves such an amendment. The likelihood of this occurring before the end of October 2019 is quite low.

Therefore, if moving forward with agricultural negotiations was not challenging enough, today this complexity has increase because two major pillars of the WTO structure are at stake: its Appellate Body and the treatment given to developing countries. Since the WTO operates with the consensus of all its members, it does not seem likely that these two obstacles will be overcome in the short term.

4. Conclusions and proposal of key actions

Given the scenario described, the governments of the region and agricultural companies could become active participants in ongoing actions aimed at strengthening and modernizing the WTO in all its functions. The time to criticize the functioning of the WTO seems to be coming to an end, to make way for finding solutions and building partnerships to strengthen and modernize the organization. For instance, there seems to be a critical mass with sufficient weight to move forward within a reasonable timeframe to resolve conflicts

regarding the dispute settlement and supervisory functions.

Adapting the WTO standards to the challenges of the 21st century has become a complex task that should be addressed with steadfastness, yet with full awareness that goals will not be met in the short term. It does not seem adequate to tackle the problems of this century without having solved those of the previous one, particularly those pertaining to agriculture. The governments of the region and private agricultural organizations could strengthen their bonds with their peers within the region and in other regions in the future, aiming at a hemispheric and later global alliance that can contribute to perfect and renew the multilateral regulations that will govern trade in the decades to come. This seems to be the most urgent challenge. The more specific agricultural negotiation issues will probably only be dealt with after this reform process is completed. In November, in Beijing, a mini-ministerial meeting of the WTO will be held to address these challenges. The region must look for ways to ensure a strong presence in the meeting and hopefully submit proposals that will facilitate consensus on certain points. IICA could make a strong contribution in this regard.

Finally, it is important to mention that the WTO makes an annual request to international inter-governmental organizations that have been granted observer status in the Agriculture Committee to draft a technical note on the actions they are carrying out with respect to trade and food security. These actions are reported back to the member countries of the WTO, within the framework of the Marrakesh Decision for Net-Food-Importing Developing Countries. This

information is compiled in a technical document presented every year during the last meeting of the Committee. IICA has drafted eight technical notes requested by the WTO within the framework of the existing partnership between both institutions since 2010¹⁶.

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16. WTO (World Trade Organization, Switzerland). 2018. Marrakesh Decision and food security: Contribution of the Inter-American Institute for Cooperation on Agriculture in Latin America and the Caribbean (on-line). Geneva, Switzerland. Consulted on March 28, 2019. Available at <http://stat.wto.org/StatisticalProgram/WSDBStatProgramHome.aspx?Language=E>.



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