Domestic Farm Policies and the WTO Negotiations on Domestic Support

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The Uruguay Round was the first multilateral negotiation on domestic agricultural policy. Not that the responsibility for formulating such was ceded to the World trade Organization (WTO); any such suggestion would have been rejected out of hand. But the Uruguay Round Agreement on Agriculture (URAA) provided a negotiated framework into which domestic farm policies must fit if conflicts are to be avoided and penalties are not to be assessed. At first this framework appeared rather permissive, requiring few changes by individual countries. Over time the noose has tightened somewhat. The current agricultural trade negotiations, as they relate to domestic support, are to decide in essence whether to continue this process or to loosen the constraints to allow countries more flexibility to pursue domestic objectives.

Domestic policies toward other sectors are disciplined in a different way. Subsidies are constrained by the Agreement on Subsidies and Countervailing Measure (SCM Agreement) also negotiated in the Uruguay Round. Agricultural programs that grant subsidies are sheltered from this discipline by the Peace Clause (Article 13 of the URAA). Unless renewed, the protection afforded by the Peace Clause will lapse at the end of 2003. This opens up an interesting set of issues related to the compatibility of domestic farm policies with these different, and in many respects more strict disciplines. The reconciliation of any conflicts may end up being determined by decisions of the Dispute Settlement Body (DSB) as it considers and enforces the reports of dispute settlement panels.

This paper discusses the experience with the WTO constraints on domestic farm policies over the past eight years; the proposals under discussion in the Doha Round; the parallel process of regulation of domestic programs for non-agricultural goods; the significance of the Peace Clause and its expiry; and the implications for domestic farm policy of the Canadian Dairy case and those of US cotton and EU sugar. In brief, the paper describes, contrasts and analyses both the legislative and the judicial avenues that are currently being pursued to discipline domestic farm programs.

The Uruguay Round of trade negotiations has been described elsewhere as a contest between two “paradigms” of agricultural policy: one resting on the principle that the sector is chronically uncompetitive and dependent on government support to survive, the other based on the premise that agriculture can be competitive both at home and abroad if only governments would quit distorting incentives. The rules in the URAA clearly favor the “competitive” paradigm and were a setback to the “dependent” agriculture paradigm that required a “hands off” approach to trade disciplines on agricultural policies. But agriculture’s dependence on government support lived on as a result of the high levels of tariffs, persistent export subsidies and barely-constrained domestic support.

The current negotiations were designed originally to continue that struggle. However, so much has changed in the world in which agricultural policies exist that the contest is no longer just about the removal of agricultural protection to expand trade. A second paradigm clash is emerging in the Doha Round between the “competitive” paradigm and a new “multifunctional” paradigm that sees agriculture as a provider of public goods and hence in need of subsidies to allow it to contribute in full to those social objectives. Regardless of the merits of the argument, the political reality is that trade rules must either provide shelter for both notions of agriculture or be able to resolve the conflicts between them.

One solution to resolving the tensions between these various paradigms would be an attempt to liberalize world trade in farm products by moving towards the eventual elimination of tariffs and the removal of export subsidies. This would put the entire burden of current farm programs on domestic support measures, primarily on direct payments decoupled from production and prices.

The resolution to the dilemma surrounding further constraints on domestic support will only be found in a package of measures that satisfy the “bottom line” requirements of the major participants. The search for a political solution is at the core of the negotiating process. The resort to the legal process of the WTO has its attractions but it also carries with it dangers of moving outside the political bargains struck by countries in the legislative process. This could seriously compromise the political acceptance of the multilateral trade rules and institutions. In other words, it may be useful to expose domestic support to the rigors of judicial decision, but only if at the same time the political process accepts the need for restrictive trade rules and adjusts domestic policies accordingly. If that political acceptance is missing, then the attempts to restrict domestic farm policy within the WTO may lead to continued conflict and ultimately failure.