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Outside View: WTO -- The dope trick

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After a "truly historic" agreement, it is now an embarrassing wake-up call for the developing countries. The big boys have done it again. This time, they have successfully managed to apply the dope trick on the developing countries - putting them in a hall of shame for letting the rich and industrialized countries not only walk away with all the trade-distorting farm subsidies but also allowing them to throw a still protective ring around agriculture.

It is now official. The United States will not be reducing its huge financial support to farmers (and agribusiness companies) even after the 20 percent cut in trade-distorting subsidies promised in the first year of implementation. The European Union too has got a waiver. It does not need to make any cut in agricultural subsidies from the existing level. Nor will the export subsidies be removed for another 10 years or so. All that the developing countries have got in return is a lollipop - some imports to be protected under the category of "special products."

The July 31 WTO framework agreement, agreed upon by 147 members after a five-day grueling exercise in Geneva, has drawn a structure that needs to be implemented for furthering the Doha Development Agenda. The WTO director general had therefore hailed the framework agreement as "historic" and the developing countries - G-20 and G-33 (and the least developing countries under the banner of G-90) had returned claiming "victory." No sooner than the details began to be analyzed, it became clear that the developing countries had not only been duped but also robbed in broad daylight.

"The new global trade agreement protects U.S. farm subsidies when prices for wheat, corn or soybeans drop," U.S. Trade Representative Robert Zoellick was quoted as saying in a news report. "A pledge by the U.S. to reduce farm subsidies by 20 percent won't undercut payments Congress promised in a $125 billion bill in 2002," he added. He was replying to a letter that Senate Minority Leader Tom Daschle, Democrat of South Dakota, had written to President George Bush. "This reduction will not weaken our ability to support our farmers, as you erroneously claim," Zoellick said.

Zoellick's colleague and the chief U.S. agriculture negotiator, Allen Johnson, told reporters: "The United States succeeded in shifting farm subsidies to a new WTO category (read 'blue box,' a code for subsidies tied to programs that limit production) to avoid actual reductions." Accordingly, the American government has paid its farmers about $23 billion annually over the last three years. Under the current WTO rules, the maximum annual subsidy is $49 billion, meaning the United States could lower that cap without actually having to cut the payments. The 20 percent reduction will not have any impact on U.S. subsidies since it would be from an "authorized" ceiling, not the actual payments.

The chairman of the U.S. Senate Finance Committee, Charles Grassley, Republican of Iowa, has reassured American farmers, saying that the framework agreement entails only shifting of subsidies of the "amber box" of trade-distorting supports to the "blue box" of subsidies that are decoupled from production and are considered less trade-distorting.

No wonder the WTO framework has been welcomed by 53 American groups and companies, including Monsanto. As a result, U.S. President George Bush does not face any political embarrassment from the powerful farmers' lobby in the run-up for the presidential election slated for November.

While the framework provides a cushion to the U.S./EU to raise farm subsidies from the existing level, it has for the first time turned the tables shrewdly against the developing countries. Except for supporting the resource-poor farmers, developing countries too will have to reduce their subsidies. Interestingly, developing countries are being asked to cut domestic support for agriculture at a time when a majority of the 3 billion farmers in the majority world earn less than half of what a European or American cow gets as subsidy - $3 a day. It is also widely accepted that developing countries do not have the means to provide direct farm support to farmers. It is therefore not only amazing but also shocking beyond belief to see the way the developing country negotiators goofed up.

If you read the draft carefully, it becomes obvious that the first installment of a cut in subsidies by 20 percent is not based on the present level of subsidies but on a much higher level that has been now authorized based on the three components -- the final bound total AMS, plus permitted de minimis, plus the Blue Box. For the EU, this should come to 101.6 billion euros, and after applying the first cut, the subsidies that can be retained will be 81.3 billion euros. I had earlier worked out the actual reduction that the EU will have to bring about, which in essence means it gets a leverage to further increase the subsidies.

The sigh of relief being expressed over the elimination of export subsidies is also likely to be brief. Export subsidies have always been considered to be trade distorting, and except for the talk of reducing these, no definite time schedule had ever been spelled out.

The July 31 framework also reiterates the same old position without making any definite commitment. French Agriculture Minister Herve Gaymard has made this abundantly clear when he informed the media that it would not be before 2015 or 2017 when export subsidies are completely eliminated. By the time these subsidies are actually removed, developing countries would have become an open dump for the cheap and highly subsidized agricultural imports, thereby destroying millions of livelihoods and further marginalizing the farming communities.

The framework also provides more protection measures for the rich and industrialized countries. Special and differential treatment, special safeguard measures and on top of it the provision for designating some of the key products under the category of "sensitive" products makes the domestic market security more solid. Jim Grueff, assistant deputy administrator for trade policy in the U.S. Department of Agriculture, has already assured the American Sugar Alliance that the United States is "very likely" to designate sugar as a "sensitive" product. Despite an interim WTO ruling against the European Union for subsidizing its sugar producers at levels far in excess of what the EU had committed to provide as part of the Uruguay Round, the EU too is likely to follow the same path. This makes a mockery of the ruling handed in a petition filed by

Australia, Brazil and Thailand against EU sugar subsidies.

For the developing countries, the blame would rest mainly with the big two - Brazil and India - that were part of the NG-5 (comprising the United States, the EU, Australia, Brazil and India). They behaved like the big boys, bullying their way and showing utmost contempt to the positions taken by the other developing countries, including the least developing nations. They were part of the compromise that forced the rest of the developing world to remain quiet at the faulty framework being imposed. While the United States, the EU and Australia have walked back with the cake, Brazil and India have only lost their credibility and will no longer be trusted by the developing world. They deserve the brickbats. And rightly so.

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