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This paper is one in a series of briefing papers by the International Institute for Sustainable Development. Each of the papers focuses on an issue of particular importance for sustainable development in the South in the WTO's current round of negotiations—the so-called Doha Development Agenda. The aim of the series is to set out, in brief and uncomplicated style, what is at stake in those negotiations for those concerned with international development and the environment. The full set of papers, and more information about IISD's work on trade and sustainable development, can be accessed on IISD's Web site at http://www.iisd.org/trade.

Prepared by IISD for the Swiss Agency for Development and Cooperation (SDC)

The Development Box

1. What is the Development Box?

"Boxes" have traditionally been used in the multilateral trading system—principally in relation to agriculture—to register agreed exceptions to the liberalization disciplines otherwise imposed on World Trade Organization (WTO) Members. The Development Box (DB) now under consideration is being proposed by a number of developing country governments as a mechanism to register a set of enhanced special and differential treatment (S&D) measures aimed at enabling them better to deal with the negative outcomes of the WTO's Agreement on Agriculture (AoA).[1]

Proponents of the DB consider that, within the AoA, five areas need to be addressed:

1. protecting and enhancing domestic food production, particularly in key staple crops;
2. sustaining and enhancing the employment, food security and livelihood opportunities of the rural poor;
3. allowing developing country governments more flexibility to support small farmers;
4. protecting poor farmers from the dumping of subsidised imports from richer countries and from damaging fluctuations in import prices and quantities; and
5. promoting improved in-country movement and international sales of surplus production.

The significance of the DB, however, goes beyond the adoption of agreed exceptions. Indeed, it represents a fundamental shift in the approach to designing trade rules, in that it proposes placing food security and development needs, particularly those of poor farmers, at the heart of the negotiating process. The vehicle for this shift is a rethinking of S&D which, in the Uruguay Round, was watered down until it meant little more than longer implementation times and exemptions for the poorest countries. In the DB approach:

- S&D and graduation from it should be determined by development benchmarks, not arbitrary timetables;
- S&D should be a permanent and integral feature of WTO rules, not an "exception" to the Most Favoured Nation principle; and
- Trade rules should be redesigned to distinguish between social groups, not just between countries.

2. Significance for the Doha Round

The negotiations on agriculture are considered by many observers as key to the WTO's Doha Development Agenda, especially for developing countries. Not only is agricultural production an area where developing countries possess some comparative advantage, but anger and frustration are widespread over the way the developed countries have implemented the AoA since its adoption as part of the Uruguay Round. Many developing countries feel that the AoA essentially sanctioned a series of trade-distorting measures, in effect setting up a series of S&D measures for the *richer* countries. Indeed, the Green and Blue Boxes[2] have benefited the richer countries, and are broadly unavailable to the developing countries, who cannot afford to use them. Developing countries point to rising domestic support, tariff peaks, tariff escalation, anti-competitive practices and the failure to implement the Marrakech decision (a pledge to assist poor food-importing countries in the face of AoA-caused rising prices) as factors preventing them from reaping the promised rewards from the limited liberalization that has taken place under the AoA. This frustration has been heightened by the recent U.S. farm bill (which significantly boosted support for U.S. farmers), and by the snail's pace of reform of the European Common Agricultural Policy. Moreover, developing country agricultural liberalization has, in a number of cases, led to surges of "dumped" northern products, causing widespread damage to small farmers' livelihoods.

The notion of a DB first appeared as a "Bread Box" in proposals from NGOs, and later from FAO, that go back at least to the 1996 World Food Summit, many backed by solid empirical work. The Friends of the Development Box (FDB) group, chaired by Pakistan, was set up just before the Doha

Ministerial Conference, and organized a highly successful seminar during the meeting. Although unsuccessful in its immediate objective of securing mention of the DB in the ministerial declaration, the FDB significantly raised the profile of the issues surrounding the development impact of agricultural liberalization and, in February 2002, won agreement for the first ever discussion of the DB as an explicit agenda item at the Committee on Agriculture special session. According to the EC agriculture negotiator in Geneva, the DB is now "one of the main elements in the [agriculture] negotiations."

This raises both opportunities and threats for the DB proposal. At the Mexico ministerial in late 2003, it could acquire the kind of iconic status that the TRIPS declaration enjoyed in Doha, making some kind of endorsement by the membership an essential test in demonstrating that the Doha round really does follow a "development agenda." However, some NGOs fear that if developing countries become too concerned with "winning" a Development Box in name, even if it contains few real benefits, they might in exchange be pressured into further concessions, for example allowing the inclusion of the so-called "Singapore Issues" (trade facilitation, competition, investment and transparency in government procurement) in the negotiations.

3. What do the proponents argue?

The Like-Minded Group (LMG),[3] which has driven the proposal with the support of the Geneva-based South Centre, and provides the core of the FDB, argued in its February 2002 submission that:

> What is required is greater flexibility for developing countries in adopting domestic agriculture policies so as to ensure improved productivity, higher income levels and reduced vulnerability to price fluctuations. Developing countries require this flexibility in order to pursue their food security goals; in safeguarding the livelihoods of their rural communities; and in preserving food and agriculture traditions.[4]

The LMG submission stated that they were seeking to "suggest specific provisions which are at best minimally trade distorting and yet are able to provide developing countries the flexibility they need to pursue policies aimed at reducing poverty and achieving sustainable development." They stressed a number of key points relating to the DB proposal:

1. it applies to developing countries only because, with respect to developed countries, agriculture plays a very different, and much more fundamental, role in developing country economies;
2. it aims to enhance flexibility, not prescribe specific policies;
3. within developing countries, the main focus is on low income and resource-poor (LI/RP) farmers; and
4. the main focus is food security.

The LMG is also exploring a GATS-like approach to "positive listing," in which the entire agricultural sector of developing countries would be removed from WTO disciplines, except those products which a country might put forward. Although the LMG has led the work, it is important to note that India has made a very similar proposal for a Food Security Box in the AoA, and supports the DB proposal, as does China. The active support of the world's two most populous nations has undoubtedly added considerable force to the DB proposal within the WTO.

4. How do the opponents respond?

The most commonly-raised objection is that the DB proposes a "two track AoA," i.e., it allows more than one road towards liberalization, rather than insisting that all take the same road, albeit at different speeds. There is a genuine fear that accepting different obligations for different groups of countries in respect of agriculture could open the door to a fundamental redefinition of the principles of the trading system. The rejection of a "two-track" system rules out any permanent exemptions for developing countries, but leaves open the possibility for an enhanced role for special safeguards[5] for food security crops[6]—an issue that is rapidly emerging as widely-shared common ground among all sides in the DB debate. Implicit in this position is a rejection of the LMG view that agriculture plays a fundamentally different role in developed and developing countries, and that the rules governing agricultural trade should reflect this difference. Indeed, countries like Japan place a high priority on food security considerations, despite their high level of development. Nor is there anything close to an agreement on which developing countries should be eligible for DB exceptions, and under what circumstances.

Other frequently raised objections are:

1. the DB is just an excuse for countries to exercise ill-advised protection of their farm lobbies. Liberalization is good for developed and developing countries alike, and the pace of adjustment should not be significantly slowed;
2. the developing countries already have sufficient flexibility in the AoA to protect small farmers, but in many cases fail to use it;
3. the DB could have an adverse impact on South-South trade; and

4. a DB would raise prices to consumers in developing countries and thereby hurt the poor.

The most vocal opponents of the DB proposal to date have been the U.S., and Latin American Cairns Group[7] members such as Chile and Argentina. Interestingly, other developing country members of the Cairns Group, such as Indonesia, are sympathetic to the proposal.

5. What assessments have been made of the proposal?

One of the most comprehensive studies of the DB proposal to date is the Oxford Policy Management study,[8] commissioned by the U.K. Department for International Development, which has in the past been hostile to the DB proposal. The OPM study, which runs to 100 pages and includes four country case studies, concurs in the need for a series of new S&D instruments that should be provided to all developing country members in a new AoA, in addition to maintaining many of those provided for in the existing AoA. They include:

- an S&D safeguard instrument for food security crops;
- a slower rate of tariff reductions for food security crops than for other products;
- considering the possibility of offsetting negative product-specific support against positive non-product specific support;[9]
- safeguarding from challenge any support conforming to specific Green Box requirements;[10]
- allowing countries to take account of currency fluctuations and inflation in their calculation of domestic support; and
- allowing for the short-term stockpiling of commodities by developing countries during times of low world prices.

6. Development implications

It is important for developing countries to ensure a high level of coherence between the flexibilities that could be offered through the Development Box, and domestic policies in the field of agriculture and food security. Without such coherence, developing countries' ability to benefit from the DB could be very limited. Further, DB measures must be transparent and easy to apply for eligible countries.

Least-Developed Countries (LDCs): LDCs are currently exempt from reduction commitments under the AoA. The main impact of the DB would be:

1. to enable them to raise tariffs and domestic support above bound rates in the circumstances specified by the DB proposal; and
2. to safeguard them from any pressure to make reduction commitments on food security crops in any new AoA.

Middle-Income Countries: The OPM study concluded that these countries would be the main beneficiaries of the DB, since they would be "most able to use the flexibilities" provided. In particular, a DB would enable governments to better protect small farmers during painful adjustment processes, and shield them from the impact of dumped products from heavily subsidizing producers in the EU and U.S.

These are also the countries that, in some cases, have the most to lose—for example, countries that trade heavily with their neighbours, South-South. These may well see a need for a DB for domestic purposes, but remain skeptical as far as their export interests are concerned.

Transition Economies: These countries joined the WTO with developed country status and so would not be eligible for the DB provisions.

7. Conclusions

There appears to be a clear justification for a series of S&D measures to be included in a new AoA. And, with the backing of the LMG, China and India, the DB proposal has genuine momentum within the WTO.

However, it is important not to underestimate the legal and political obstacles that would have to be surmounted if a DB were to be included in a new AoA. Any significant measure of success in agreeing such a range of S&D measures will require a level of political solidarity among developing countries that has, to date, proved difficult to muster. The difficulties could increase if, as suggested above, it is discovered that development box measures might cause serious distortions to trade among developing countries and regions. As such, it will be important to carry out research that tries to identify the most pro-poor elements of the DB, and to address some of the development concerns (for example the impact on South-South trade, or the impact of liberalization on consumers) surrounding the DB proposal.

It will also be important to ensure that any DB agreed in the WTO is reflected in other arenas, such as Poverty Reduction Strategy Paper processes,[11] and bilateral aid programs. It is vital that any flexibility won at the WTO is not foreclosed through a lack of coherence with other rule-setting or governance frameworks. Of particular urgency are measures to support infrastructure and small farmer productivity; the DB can then ensure that trade policy is compatible with those aims.

Endnotes

1 A rich source of statements and analyses on the subject of the Development Box is the specialized DB Web site of the Institute for Agriculture and Trade Policy, at http://www.iatp.org/tradeobservatory/library/index.cfm?c_id=42.

2 Blue Box measures are agricultural support payments that are partly de-coupled from production, and which are designed to limit production. They are allowed for the time being, but are under attack in the current negotiations. Green Box measures, which are not subject to any reduction commitments, should be fully de-coupled, and must be at most minimally trade-distorting. They include payments linked to environmental programs, pest and disease control, infrastructure development and domestic food aid.

3 An informal grouping of some developing country WTO Members that are most skeptical about the free trade agenda. The LMG includes India, Indonesia, Kenya and Pakistan.

4 "Non-Paper on 'The Development Box," Dominican Republic, Kenya, Pakistan and Sri Lanka, for the WTO Special Session of the Committee on Agriculture February 4–8, 2002.

5 Article 5 of the AoA specifies that countries that at the outset converted non-tariff measures into tariffs ("tariffied") for each crop could reserve the right to apply safeguard tariffs to protect against sudden import surges or falls in world prices for a limited time, to protect their domestic industry. The DB argues for a greater role for special safeguards to deal with import surges.

6 Crops that are either staple foods in the country concerned, or are the main sources of livelihood for low-income and resource-poor (LI/RP) farmers.

7 A group of agricultural exporting nations lobbying for liberalization of agricultural trade.

8 Ruffer, Tim, with Stephen Jones and Stephen Akroyd, Oxford Policy Management Development Box Proposals and Their Potential Effect on Developing Countries, Volume 1: Main Report; Volume 2: Country Case Studies, April 2002.

9 Some countries fix the price of basic foodstuffs at artificially low levels. This results in a calculated support level that is actually negative. This proposal would see that negative product-specific support be used to give more flexibility than currently allowed for *non*-product-specific support (such as subsidies for agricultural inputs, etc.), which is currently capped at 10 per cent of the value of total agricultural production.

10 This proposal is intended to safeguard measures that meet the specific Green Box criteria—for example, expenditures on infrastructure—but which may in the future be challenged as failing to meet the general requirement of non-trade distortion. This has not been an issue to date with any notified Green Box measures.

11 PRSPs are a new process for obtaining IMF/World Bank loans in low-income countries.

The International Institute for Sustainable Development contributes to sustainable development by advancing policy recommendations on international trade and investment, economic policy, climate change, measurement and indicators, and natural resource management. By using Internet communications, we report on international negotiations and broker knowledge gained through collaborative projects with global partners, resulting in more rigorous research, capacity building in developing countries and better dialogue between North and South.

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