

**ETHIOPIA'S ACCESSION TO THE WTO: IMPLICATIONS FOR THE  
AGRICULTURAL SECTOR**

*A Research Paper Submitted in Partial Fulfillment of the Requirements for  
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## Declaration

I declare that, “**Ethiopia’s Accession to the WTO: Implications for the Agricultural Sector**” is my own work, that it has not been submitted before for any degree or examination in any other university, and that all the sources I have used or quoted have been indicated and acknowledged as complete references.

Gashahun Lemessa Fura

Signed: .....



31 May 2007

Amsterdam

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## **Key Words**

Aggregate Measure of Support (AMS)- Agreement on Agriculture (AoA)- Agricultural Development Led Industrialization (ADLI) -Domestic Support - Export Subsidy - Least Developed Countries (LDCs)-Market Access -Special and Differential Treatment (SDT) - Trade Liberalization- WTO Accession - World Trade Organization (WTO)



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## Abbreviations and Acronyms

- ACP- African, the Caribbean and Pacific
- ADLI - Agricultural Development Led Industrialization
- AGOA - African Growth Opportunity Act
- TVET- Agricultural Technical and Vocational Education Training
- AoA - Agreement on Agriculture
- AMS- Aggregate Measure of Support
- CAP- Common Agricultural Policy
- CSA- Central Statistics Authority
- EC - European Communities
- EEA- Ethiopian Economic Association
- EMFTR- Ethiopian Memorandum on Foreign Trade Regime
- GATT- General Agreement on Tariffs and Trade
- ITO- International Trade Organization
- LDCs- Least Developed Countries
- NFIDC- Net Food Importing Developing Countries
- OECD - Organization for Economic Cooperation and Development
- PADETS- Participatory Demonstration and Training System
- RAMS- Recently Acceded Members
- SDT- Special and Differential Treatment
- SAP- Structural Adjustment Program
- SPS- Sanitary and Phytosanitary
- UNCTAD- United Nations Conference on Trade and Development
- WTO- World Trade Organization

# Chapter I -General Introduction

## 1.1. Background

It is widely recognized that increased participation in international trade and investment can serve as an engine for economic growth and development.<sup>1</sup> Implicit in international trade is the principle of comparative advantage that generally provides that states should trade with each other because they are better off by maximizing their production potential for some products and, through trade, obtain products they do not have or produce with less efficiency.<sup>2</sup> Such comparative advantage, *inter alia*, presupposes a well-regulated trading system. Though attempts have been made to regulate the multilateral trading system by the GATT 1947 which was but meant to form only part of an agreement on the stillborn International Trade Organization (ITO), the first rule based World Trade Organization (WTO) was established only in 1995 and a number of countries have acceded to it thence.<sup>3</sup>

While there is no consensus on whether developing countries in general and the least developed countries (LDC s)<sup>4</sup> in particular are beneficiaries of the system<sup>5</sup>, some

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<sup>1</sup> Historically, developing countries, which followed more liberal trade policies of 'export promotion', have experienced accelerated economic growth compared to those countries that followed more restrictive trade policies of 'import substitution'. See Jessen (2005) 77f. The majority of 'emerging' developing countries have grown rapidly over time under open trade policies or declining trade protection. See also Oyejide(2000)113-117.

<sup>2</sup> Jackson, et el, (2002) 7

<sup>3</sup> Since the establishment of the WTO in 1995 by 75 GATT members and the European Communities, 52 GATT members and more than 20 non-GATT members have acceded to the organization. See, WTO " WTO accessions" <[http://www.wto.org/English/thewto\\_e/acc\\_e/a1\\_ethiopia\\_e.htm](http://www.wto.org/English/thewto_e/acc_e/a1_ethiopia_e.htm) > [last accessed on 31March, 2007]

<sup>4</sup> Note that the WTO applies a system of self-selection to the categorization of members as developing countries. The sub-category of least-developed countries (LDCs) is, on the other hand, determined by means of the LDC list maintained and updated by the United Nations Conference on Trade and Development. Ethiopia is one of the LDCs according to this list. See, UNCTAD, "The UN list of LDCs after the 2006 triennial review" <<http://www.unctad.org/Templates/Page.asp?intItemID=3641&lang=1>> [accessed on 31March 2007]

<sup>5</sup>It has now been established that trade liberalization efforts by a developing country are themselves insufficient to combat poverty. See Jessen(2005)78 ff. See also The International Development Research Center, "WTO accession: tough love or a heavy hand?"<[http://www.crdi.ca/reports/ev-91906-201-1-DO\\_TOPIC.html](http://www.crdi.ca/reports/ev-91906-201-1-DO_TOPIC.html)> [last accessed on 31 March, 2007]



countries have embarked on the accession process.<sup>6</sup> Ethiopia is one such country. Although Ethiopia had observer status at the WTO since 1997, a formal request for accession was circulated to WTO members only on 13 January 2003 and a working party for Ethiopia's accession was established on 10 February 2003.<sup>7</sup> The country has recently submitted the Memorandum of her Foreign Trade Regime to the WTO<sup>8</sup>. In fact, some WTO members have already started scrutinizing the same.<sup>9</sup>

Presently, as always, agricultural trade negotiation under the WTO is quite controversial.<sup>10</sup> While WTO members want a better concession in the multilateral trade negotiations in their favour, they rarely show willingness to forgo the protection they extend to agriculture. In fact, disagreement over some of the agricultural trade issues is one of the principal reasons behind the current Doha deadlock. In the WTO Director- General, Pascal Lamy's own words:

*'It is fair to note that in the current deadlock the main actors are the US on domestic subsidies, the EU on agricultural tariffs and emerging economies like India on market access also. Africa has maintained a very offensive position in the agriculture negotiations, because as you know for Africa, like other developing countries, agriculture holds a great growth potential because of its centrality to its economies.'*<sup>11</sup>

Thus, it is at the time when the incumbent members are grappling with the issues surrounding agricultural trade that Ethiopia, whose Economy predominantly relies on agriculture,<sup>12</sup> is queuing to join the WTO. The decision is no doubt a critical policy step for a tough journey on a rough road.

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<sup>6</sup> Currently about 27 countries are negotiating WTO membership. See WTO "Understanding WTO Membership," <[http://www.wto.org/English/thewto\\_e/whatis\\_e/tif\\_e/org6\\_e.htm](http://www.wto.org/English/thewto_e/whatis_e/tif_e/org6_e.htm)> [last accessed on 31 March 2007]

<sup>7</sup> See WTO, "Accessions: Ethiopia" < [http://www.wto.org/English/thewto\\_e/acc\\_e/a1\\_ethiopia\\_e.htm](http://www.wto.org/English/thewto_e/acc_e/a1_ethiopia_e.htm)> [last accessed on March 31, 2007].

<sup>8</sup> Ibid

<sup>9</sup> See, for instance, AllAfrica "WTO members begin grilling Ethiopia" <<http://allafrica.com/stories/200703200314.html>> [last accessed on 31 March 2007]

<sup>10</sup> See WTO, "Agriculture: negotiations" < [http://www.wto.org/english/tratop\\_e/agric\\_e/chair\\_texts07\\_e.htm](http://www.wto.org/english/tratop_e/agric_e/chair_texts07_e.htm)> [last accessed on 27 May 2007]. See also generally Tangermann (2005) .

<sup>11</sup> Statement by WTO Director General, Pascal Lamy at the Africa Investment Forum 2006, Johannesburg, 9-11 October 2006. See also, WTO "Africa's agriculture, intra-trade to benefit from the Doha talks" < [http://www.wto.org/english/news\\_e/sppl\\_e/sppl42\\_e.htm](http://www.wto.org/english/news_e/sppl_e/sppl42_e.htm)> [last accessed on 31 March 2007]

<sup>12</sup> See, for instance, EEA (2005) *Report on the Ethiopian Economy*, Vol. IV (Addis Ababa, EEA) p.150.

## 1.2. Objectives of the Research

The general objective of this study is to assess the possible implications of Ethiopia's accession to the WTO for the agricultural sector in particular. In this light, the study has the following specific objectives: briefly discussing the arguments for and against accession to the WTO, examining agricultural trade liberalization under the GATT 1947 and the WTO, assessing the future of agricultural trade negotiations within the WTO, analyzing the possible implications of such agricultural trade liberalization in the Ethiopian context, and drawing some conclusions and recommendations on possible measures to be taken.

## 1.3. Research Questions

The main questions this thesis seeks to answer are:

1. As to whether the existing Ethiopian laws and policies on agriculture are compatible with the WTO laws; and
2. What possible opportunities and challenges will the accession bring about for the Ethiopian agriculture?

## 1.4. Significance of the Research

Agriculture is a key economic sector for most African countries. For Ethiopia, the sector, although principally subsistence, accounts for about 45 percent of the GDP, 87 percent of export trade and employs over 85 percent of the population.<sup>13</sup> Cognizant of this fact, the government has adopted an economic policy that puts a high premium on agriculture. The policy is formally known as Agricultural Development Led Industrialization (ADLI); and it is premised on the agricultural sector's leading role towards industrialization, *inter alia*, by providing domestic market and also accumulating capital through export trade.<sup>14</sup>

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<sup>13</sup> EMFTR (2007) 4

<sup>14</sup> See EEA (2004) 264

Given the sensitive nature of agriculture, agricultural trade liberalization has, almost always, been approached with a rather slow and skeptic pace.<sup>15</sup> In fact, divergence on some key issues relating to agriculture is one of the principal factors behind the suspension of the current Doha Round Trade Negotiations.<sup>16</sup> When Ethiopia accedes to the WTO, therefore, she is expected to commit herself to liberalize trade in agriculture. Exploring the WTO rules on Agriculture and the possible implications of such rules for Ethiopia is, therefore, a worthwhile and timely pursuit, as Ethiopia is currently negotiating WTO accession. Apart from contributing to the literature on the subject, the work is thought to stimulate further thinking and research among policy makers and other stakeholders alike.

### **1.5. Scope of the Research**

A detailed assessment and discussion of the implications of Ethiopia's accession to the WTO on the agricultural sector can hardly be achieved in this thesis owing to the time and space limitations. This study neither extends to a commodity- by- commodity analysis nor purports to quantify the possible costs and benefits of the accession. It is, therefore, limited to the general implications of the accession for the sector in the light of the principal WTO laws regulating agriculture.

### **1.6. Research Methodology and Chapter Overview**

The study is essentially a library based one. Thus, a survey of literature has been undertaken. The WTO legal texts and official documents as well as relevant Ethiopian laws and official documents<sup>17</sup> have been explored as primary sources. Relevant books, scholarly articles and working papers are also examined as secondary sources with the view to assess the implications of the accession for the sector in the light of the experience of other countries.

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<sup>15</sup> See Desta (2002) 8.

<sup>16</sup> See WTO "Africa's agriculture, intra-trade to benefit from the Doha talks"

<[http://www.wto.org/english/news\\_e/sppl\\_e/sppl42\\_e.htm](http://www.wto.org/english/news_e/sppl_e/sppl42_e.htm)>[last accessed on 31March, 2007]

<sup>17</sup>As the preparation of the Schedule of Commitment has not yet been finalized, our reference will principally be the Memorandum of Foreign Trade Regime.

The paper has five chapters. The first chapter deals with the general background of the study with the view to introduce the readers to the context of the work. The second chapter briefly describes the WTO and its basic rules. It also points out the general arguments for and against WTO accession and gives a brief account of the accession process. Although it is widely agreed that WTO accession is a step for integration into a global trading system, the accession process has increasingly become cumbersome as the acceding country has to, technically speaking, meet the demands from all incumbent members.

The third chapter assesses the agricultural trade liberalization in the pre-WTO (the GATT 1947 era) and post WTO. Although agricultural trade liberalization has remained controversial, the WTO members have taken a remarkable step in disciplining agricultural trade through the negotiation of the agreement on agriculture (AOA) during the Uruguay round trade negotiations. Under the current Doha round of trade negotiations too, members have further expressed their willingness for a strengthened discipline on agricultural trade in the July 2004 Negotiations Framework and the Hong Kong Ministerial Declarations, although no concrete deal has so far been reached neither in agricultural nor non-agricultural trade.

The fourth chapter, which is the main theme of this study, aims at assessing the possible implications of Ethiopia's accession to the WTO for the agricultural sector in the light of the preceding chapters. In particular, the importance of the three pillars of the AoA: market access, domestic subsidy and export subsidy, for Ethiopia is explored. To the extent relevant, the July 2004 Framework and subsequent developments is also taken into consideration. In view of the close relationship between agricultural trade liberalization and food security, this chapter also briefly addresses the same.

The fifth and last chapter of the paper draws some conclusions and provides for recommendations.

## Chapter II-Accession to the WTO: General Overview

### 2.1. Introduction

The task of regulating the post World War II global trade was originally meant for the International Trade Organization (ITO), which, however, has never been established.<sup>18</sup> Consequently the GATT 1947, which was meant only to form part of the ITO charter regulated the global trade system on provisional basis for nearly half a century; that is, until the establishment of the World Trade Organization (WTO) in 1995. The WTO is the only international organization dealing with the global rules of trade between nations. Its main function is to ensure that trade flows as smoothly, predictably and freely as possible<sup>19</sup>. This chapter briefly introduces the basic principles and rules of the organization, the rationale for accession to the organization and the process of WTO accession in general.

### 2.2. WTO: Objectives, Rules and Principles

As spelt out in the Marrakesh Agreement Establishing the World Trade Organization (WTO),<sup>20</sup> the main objectives of the WTO are: the increase of the standards of life, the attainment of full employment, the growth of real income and effective demand, and the expansion of and trade in goods and services.<sup>21</sup> The need for the preservation of the environment and integration of developing countries into the world trading system is also part of the WTO objectives.<sup>22</sup>

The principal source of WTO law is the Marrakesh Agreement Establishing the World Trade Organization and the numerous other agreements and understandings annexed

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<sup>18</sup> See Barton et al (2006) 14-21 and 30-36. The failure for the establishment of the ITO is principally attributable to the US's refusal to ratify the Charter Establishing the Organization; and the ITO has often been referred to as the missed third leg of the Breton Woods institutions -the other two being the World Bank and the International Monetary Fund (IMF).

<sup>19</sup> See WTO "The World Trade Organization" <<http://www.answers.com/topic/world-trade-organization>> [last accessed on 9 March 2007]

<sup>20</sup> The Marrakesh Agreement Establishing the World Trade Organization, concluded on 15 April 1994, entered into force on 1 January 1995.

<sup>21</sup> See the preamble to the Agreement.

<sup>22</sup> Ibid

thereto.<sup>23</sup> As provided under Article II (2) of the agreement, the agreements and associated legal instruments included in the Multilateral Trade Agreements (Annexes 1-3) are integral parts of the agreement and binding on all members while Plurilateral Trade Agreements (Annex-4) also form part of the agreement but only for those members which accepted them and are as such binding only on the latter.

All these WTO laws are based on certain core principles and rules<sup>24</sup>. Perhaps the most important principle of the WTO is the principle of non-discrimination, which imposes the obligations of the Most Favored Nation (MFN) Treatment<sup>25</sup> and National Treatment<sup>26</sup> on members. The MFN principle requires a member to accord equal treatment to like products originating from all member states while the principle of National Treatment requires a member to accord the same treatment to like domestic (its own) products and products imported from other member states. In the absence of this principle of non-discrimination, it is hard to imagine a predictable global trading system.

Other categories of WTO rules include: rules on market access (generally dealing with tariff and non-tariff barriers to trade)<sup>27</sup>, rules on unfair trade<sup>28</sup>, institutional and procedural rules pertaining to implementation of trade rules and settlement of trade

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<sup>23</sup> See generally WTO (1999). Other agreements and understandings annexed thereto include: Annex -1A Multilateral Agreements on Trade in Goods: GATT 1994, Agreements on: Agriculture, Sanitary and Phytosanitary Measures, Textiles Clothing (terminated on 1 January 2005), Technical Barriers to Trade, Trade-Related Investment Measures (TRIMs), Anti-dumping (Article VI of GATT 1994), Customs valuation (Article VII of GATT 1994), Preshipment Inspection, Rules of Origin, Import Licensing, Subsidies and Countervailing Measures, Safeguards; Annex- 1B General Agreement on Trade in Services (GATS); Annex-1C Trade-Related Aspects of Intellectual Property Rights (TRIPS); Annex- 2 Dispute Settlement Understanding; Annex- 3 Trade Policy Review Mechanism; and Annex- 4 Plurilateral Trade Agreements.

<sup>24</sup> For a complete analysis of the Rules and Principles of the WTO Law, generally see Bossche(2005).

<sup>25</sup> See GATT Article I. Notable exceptions to the GATT MFN principle are Special and Differential Treatment (SDT) provisions for developing and Least developed countries and the Regional Free Trade Agreements that offer preferential treatment.

<sup>26</sup> See GATT Article III

<sup>27</sup> These include: tariff barriers such as customs duties and other financial charges, and non-tariff duties such as quantitative restrictions, technical regulations, standards, sanitary and phytosanitary measures, customs formalities and government procurement practice.

<sup>28</sup> Although the WTO does not have an independent agreement on unfair trade practice, Agreements on Subsidies and countervailing measures, and Anti-dumping and Trade Related Intellectual Property Rights could at least in part serve such purpose.



disputes, and special rules on the spillover effects of free trade.<sup>29</sup> It could, thus, be said that the WTO laws not only deal with trade liberalization; but also provide member states with policy space to address other overriding public interests.

At this juncture, it is worth noting that through time, the global trade under the GATT/WTO is increasingly transforming from mere trade liberalization through tariff reduction to trade regulations through harmonization of rules, thus dealing with policies which are intrusive of areas which used to be under the exclusive sovereignty of member states.<sup>30</sup> At any rate, as the WTO is not a development organization and as such not primarily concerned with development,<sup>31</sup> the extent to which a member would benefit from such trade liberalization and domestic policy space under the auspices of the WTO very much depends on its bargaining power which in turn depends on its economic and human power.

## **2.3. WTO Accession: Meaning, Rationale and Process**

### **2.3.1. Meaning**

Initially there were two ways of acquiring WTO membership -original membership and accession. The first way to become a WTO member (original membership) was open to all contracting parties to the GATT 1947(and European Communities) until 1997 according to which these parties could become members of the WTO simply by accepting the terms of the WTO Agreement and the Multilateral Trade Agreements; and making concessions and commitments for both trade in goods and services.<sup>32</sup>

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<sup>29</sup> These are special rules (exceptions) to the general rule of trade liberalization and aim at striking a balance between trade liberalization and other public interests. Such exceptions are found under Articles XII, XIX, XX, XXI, XXIV of the GATT 1994,Articles V, X and XII of GATS, and the Agreement on Safeguards. See also, Bossche (2005) 15. In its looser sense, some scholars also consider such newly emerging (expanding) areas as competition, the spillover effects of trade liberalization by way of tariff reduction. See Barton (2006) 143.

<sup>30</sup> See for instance Barton, supra n. p 143-151

<sup>31</sup> Of course development is also an agendum at the WTO especially in the current Doha round of trade negotiations, Doha Development Agenda (DDA) as it is called. In actual terms, however, the issue of development is only ancillary to the principal concern of trade liberalization. Failure to agree on market liberalization concessions would definitely lead to failure to agree on development issues; but not necessarily the vice versa.

<sup>32</sup> See Article XI of the Agreement, supra n. 14. All parties to the GATT 1947 but Yugoslavia became members of the WTO in this way.

The second way to become a WTO member is through accession-on terms to be agreed between the acceding country or customs territory and other WTO members (incumbent members).<sup>33</sup> WTO accession is indefinitely open to any state or customs territory possessing full autonomy in the conduct of its external commercial relations and other matters provided for in the WTO agreement.<sup>34</sup> The main problem with the accession process under Article XII of the WTO agreement, though, is the fact that it does not lay down a clear guideline as to the terms of WTO accession, which leaves an acceding country at the mercy of the incumbent members. In relation to this, international trade analysts, Evenett and Braga have observed the following:

*'Paradoxically for rules based organization, the WTO has no clear rules for the "price" of membership. Article XII of the Marrakesh Agreement, the legal instrument covering the WTO accession process, merely states that new members may join the WTO "on terms to be agreed." This sparse guidance leaves the door wide open to encompass both an expedited hassle-free accession process and a drawn-out, decade-long, and burdensome accession experience.'*<sup>35</sup>

Admittedly, therefore, the parties to GATT 1947 would be in a better position, as most of them did not pass through the hurdles of WTO accession and hence through close scrutiny by other members although every member is presumed to have equal rights and obligations irrespective of the process by which it acquired membership. The more the WTO rules are shifting from liberalization on the basis of non-discrimination to harmonization of national laws (standards), the more intrusive the accession will be for acceding countries.

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<sup>33</sup> Id. Article XII.

<sup>34</sup> Ibid. Hong Kong China, Macao China and Chinese Taipei are among the customs territories that are members of the WTO. See the list of WTO members and observers at [http://www.wto.org/english/thewto\\_e/whatis\\_e/tif\\_e/org6\\_e.htm](http://www.wto.org/english/thewto_e/whatis_e/tif_e/org6_e.htm) [last accessed on 9 March 2007]

<sup>35</sup> Simon J. Evenett and Carlos A. Primo Braga, *Trade Note*, WTO accession: lessons from experience" <<http://siteresources.worldbank.org/INTRANETTRADE/Resources/Pubs/TradeNote22.pdf>> [last accessed 20March, 2007]



### 2.3.2. Why WTO Accession?

Although most WTO members were already parties to the GATT 1947 and hence joined the WTO under original membership track, a significant number of countries, including few Least Developed Countries (LDCs), have acceded to the WTO after its establishment in 1995.<sup>36</sup> The proposition that countries would benefit from trading with one another seems to be less contentious. Quite contentious is, however, whether countries would benefit from acceding to the WTO, an organization primarily concerned with trade liberalization.

The commonly provided benefits of WTO are: predictability (of trading environment and hence also attraction of Foreign Direct Investment), transparency (about rules and provisions), market access (allowing market entry and export diversification), multilateral approach to trade (allowing participation through multilateral trade negotiations rather than bilateral agreements with trading partners).<sup>37</sup> According to UNCTAD, LDCs can also be potential beneficiaries of WTO membership.<sup>38</sup> On the other hand, accession to the WTO has a number of costs including: curtailment of

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<sup>36</sup> To date 22 countries have acceded to the WTO while 29 are on the process of accession. The LDCs that have so far acceded are: Nepal, Cambodia, and Vietnam (which was removed from UNCTAD's LDC list only recently). Ibid.

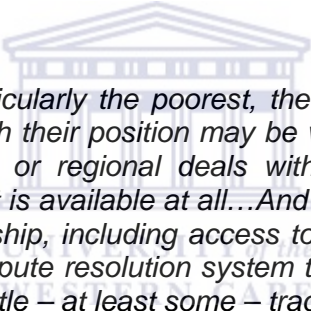
<sup>37</sup> *Bhattacharya and Rahman*(1999) "The least developed countries in the WTO: strengthening participation capacities" <<http://old.developmentgateway.org/download/104382/ldcunctad.pdf> >[last accessed on 25March 2007]

<sup>38</sup> UNCTAD (1998). According to UNCTAD, the potential benefits for LDCs WTO membership include:

- Trade liberalization, in the form of most-favoured-nation (MFN) tariff reductions, the conversion of non-tariff barriers on agricultural products into bound tariff rates, the reduction of export subsidies and trade-distorting domestic support for agriculture, the phasing-out of the MFA, and the elimination of voluntary export restraints and other "grey area" measures;
- Strengthened disciplines with respect to the application of non-tariff measures, notably contingency protection measures such as safeguards, anti-dumping and countervailing measures;
- Enhanced transparency and stability in their own trade regimes, which increases efficiency, helps lock in economic reforms and enhances their ability to attract foreign direct investment;
- Specific provisions for differential and more favourable treatment, in terms of market access thresholds for contingency actions and more extended time-limits and flexibility in implementing the commitments;
- Clear rules for trade in agriculture and services and for intellectual property rights, which prevent unilateral actions; and
- A strengthened dispute settlement mechanism.

sovereignty and short-term maneuvering in trade-related policies; subjection of companies in vulnerable economies to stronger competition from developed country members; economic costs in terms of the opportunity costs of employing high skilled personnel for the implementation of WTO commitments and active participation in WTO negotiations; and the fiscal costs of reducing import tariffs may be significant because taxes on international transactions are a major source of government revenue in many LDCs.<sup>39</sup>

In fact even where the perceived benefits of WTO membership cannot accrue to the members in reality, countries can hardly stay out of WTO membership given the role the organization is playing in the global trade and economic order. In this regard, Duncan Brack of the Royal Institute of International Affairs reached the following conclusion:



*'For most countries, and particularly the poorest, there is no real alternative to joining the WTO. Weak though their position may be within the WTO, the option of trying to arrange bilateral or regional deals with neighboring countries is usually even more difficult, if it is available at all...And in any case, there are real advantages in WTO membership, including access to a multilateral rules-based structure which includes a dispute resolution system that can force much bigger and richer countries to dismantle – at least some – trade barriers.'*<sup>40</sup>

At any rate, translating the potential opportunities into real opportunities will depend on a number of factors. The extent to which LDC WTO members would be able to derive the benefits will depend on their capacity to, *inter alia*: formulate and pursue export oriented growth strategies commensurate with the current phase of globalization, take advantage of the emerging market access opportunities through diversification of both products and markets, fulfill multilateral trade obligations, design policies which comply with commitments under the WTO obligations; protect the trade rights which

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<sup>39</sup> Rolf and Matthias (2001), "WTO negotiation and accession issues for vulnerable economies" Discussion Paper No. 2001/36 <<http://www.wider.unu.edu/publications/dps/dp2001-36.pdf>>[last accessed on 25 March 2006]

<sup>40</sup> Duncan Brack, *Briefing Paper*, "The world trade organization and sustainable development: a guide to the debate" <<http://www.chathamhouse.org.uk/pdf/research/sdp/Dec05WTO.pdf>>[last accessed on 21March2007]

are acquired through WTO membership; and effectively pursue trade enhancing interests through negotiations in the WTO.<sup>41</sup>

Although supply side constraints to diversify exports are definitely a critical handicap in utilizing such potentials for countries like Ethiopia, one can also hardly isolate the role of good governance at national level as an element of integration into the global economy. In this regard, P. Bossche, a renowned academic and the former acting advisor to the WTO Appellate Body also rightly noted that, ‘...international trade will not automatically lead to prosperity for all countries and for all people. Good governance is undoubtedly as important [if not more] as international trade.’<sup>42</sup>

Therefore while WTO membership is admittedly seen as a step towards integration into the global trading system, accession to the WTO should not be seen as an end in itself. Apart from a careful accession negotiations, the actual integration into the global trading system and reap the potential benefits presuppose political commitment and sound macro economic policy (to the extent compatible with WTO rules) at national level. Effective protection of the rights obtained under the membership, which is linked to good governance, also plays a significant role in this regard.

### **2.3.3. The Accession Process**

Once an acceding country has made a formal request and the WTO members accepted the request, a working party, which would facilitate the accession of that

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<sup>41</sup> Bhattacharya and Rahman(1999) “ The least developed countries in the WTO: strengthening participation capacities”<<http://old.developmentgateway.org/download/104382/ldcunctad.pdf> >[last accessed on 25March 2007]

<sup>42</sup> Bossche(2005) 18. At the risk of further generality, the term ‘good governance’ generally refers to a governance system, which ensures rule of law, participation, accountability, transparency, equity, and efficiency. See also Hope (2003) 1 wherein the former UN Secretary- General, Kofi Anan was quoted as saying, ‘good governance is perhaps the single most important factor in eradicating poverty and promoting development.’

particular country, would be established. The accession process thence would involve four main phases.<sup>43</sup>

The first phase is submission of a memorandum of foreign trade regime, which explains the acceding country's trade related laws and policies. This is usually called the 'tell us about yourself' phase. If the working party is satisfied with the contents and explanations of the memorandum, it will initiate bilateral trade negotiations between the acceding country and individual WTO members,<sup>44</sup> the second phase in the accession process. The negotiations would essentially be about market access concessions and commitments; otherwise the WTO agreement and other multilateral trade agreements are not subject to negotiations as they constitute what is called a 'single undertaking' which the acceding country shall subscribe to.

A successful completion of bilateral market access negotiations would lead to the third phase of the accession process, the drafting of the terms of the membership (protocol of accession and schedule of commitments).<sup>45</sup> The fourth and final phase of the accession process is the decision stage.<sup>46</sup> The decision to admit an applicant to the WTO lies with the Ministerial Conference or the General Council, and it shall be made in consensus and failing such by a two-thirds majority vote.<sup>47</sup> If the decision is in favor of the applicant state, the applicant will become a full-fledged member of the WTO within thirty days after the deposit of the instrument of ratification, by the national legislature, of its membership treaty (Protocol of Accession).

Ethiopia is now on the first phase of the accession process.<sup>48</sup> Needless to say, there are lots of hurdles ahead to successfully complete the accession process. As Pascal

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<sup>43</sup>See, for instance, WTO "WTO membership, alliance and bureaucracy" <[http://www.wto.org/english/thewto\\_e/whatis\\_e/tif\\_e/org3\\_e.htm#join](http://www.wto.org/english/thewto_e/whatis_e/tif_e/org3_e.htm#join)> [last accessed on 9 March 2007]

<sup>44</sup> Ibid. Of course any concession reached between the member and such other negotiating members shall equally applicable to all other members by virtue of the MFN principle.

<sup>45</sup> Ibid

<sup>46</sup> Ibid

<sup>47</sup> Ibid

<sup>48</sup> The country submitted the memorandum of its foreign trade regime to the WTO on 24 January 2007. See also WTO, "Accessions: Ethiopia" <[http://www.wto.org/english/thewto\\_e/acc\\_e/a1\\_ethiopia\\_e.htm](http://www.wto.org/english/thewto_e/acc_e/a1_ethiopia_e.htm)> [last accessed, 9 March 2007]. Of course, few members have already started inquiring the memorandum although this would not amount to negotiations per se. See, for instance, allAfrica.com "Ethiopia: WTO member

Lamy, the former EU Trade Commissioner and the current WTO Director General, reportedly commented in reply to Russia's complaint on its delay in the accession process due to disagreements on some concessions with some members,

*'...WTO accession [accession] is not political; it's a process that consists in fulfilling rules and regulations that already exist at the WTO. When a country doesn't meet them it doesn't join.'*<sup>49</sup>

However, such an assertion may not always be as sound as it seems. At times non-economic (political) considerations can really shape the accession process.<sup>50</sup>

Of course, in view of Ethiopia's being an LDC, it could be argued that it would join the WTO under rather an accelerated procedure by virtue of the Doha Ministerial Declaration, by which members committed themselves "to accelerating the accession of LDCs"<sup>51</sup> and agreed, "to work to facilitate and accelerate negotiations with acceding LDCs"<sup>52</sup>; and the General Council Decision to streamline the process of LDCs' accession.<sup>53</sup> Seen in the light of the LDCs which have acceded to the WTO ever since<sup>54</sup>, such an argument would be a too optimistic speculation at its best and a mere "resounding rhetoric" at its worst as some commentators concluded after observing the fact that, LDCs' accession process continues to be highly protracted, politically demanding and frustrating.<sup>55</sup>

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states begin grilling Ethiopia" <<http://allafrica.com/stories/200703200314.html>> [last visited 23 March 2001]

<sup>49</sup> Bossche(2005)112

<sup>50</sup> For instance, Iran's request to initiate accession procedures, first presented in 1996, was blocked 21 times by the US due to non-trade related considerations. The WTO General Council finally accepted it only on May 26, 2005. See Simon J. Evenett and Carlos A. Primo Braga, *Trade Note*, WTO accession: lessons from

experience" <<http://siteresources.worldbank.org/INTRANETTRADE/Resources/Pubs/TradeNote22.pdf>> [last accessed 20 March, 2007]

<sup>51</sup> See WTO (2001) *Doha Ministerial Declaration*, WT/MIN (01)/DEC/1, 20 November, Geneva, Para 9

<sup>52</sup> *Ibid* Para 42

<sup>53</sup> See WTO (2003b) *Accession of the Least Developed Countries*, Decision of 10 December 2002, WT/L/508 (03-0191), 20 January, Geneva.

<sup>54</sup> It took LDCs: Nepal 14 years, Cambodia almost 9 years, Vietnam about 12 years to complete WTO accession. As will be considered later, neither are their terms of accession seem to have been driven by the spirit of the differential treatment purported by the above declaration and decision.

<sup>55</sup> Ratnakar and Dahal, "LDCs' accession to the WTO: learning from the cases of Nepal, Cambodia and Vanuatu" <<http://www.un-ngls.org/SAWTEE.doc>> [last accessed on 23 March 2007]

The question when exactly will Ethiopia complete the accession process would thus very much depend on the pace of the reform of the possible WTO incompatible laws and policies back home, and the satisfaction of other members on the possible concessions and commitments the country is going to make in the expectedly strenuous bilateral and multilateral negotiations with the incumbent members.

## **2.4. Conclusion**

Since the establishment of the WTO as the only organization dealing with rules of global trade, a number of countries including a few LDCs, have acceded to it either because of the real benefit of the multilateral trading system or due to lack of a better alternative. In spite of the more favorable terms of accession pledged to LDCs under the Doha Mandate, there is little evidence that such newly acceding countries are granted significant differential terms; the accession process is still lengthy and complex. Although the global trade under the auspices of the WTO is generally considered as beneficial and a step towards integration into the global market, there is a general shift in the GATT/WTO's role from mere trade liberalization to harmonization of rules, intruding into those areas that used to be under the exclusive sovereignty of a member. Thus, the extent to which a member actually benefits from its WTO membership depends on its economic competitiveness more than ever.



## Chapter III-Agricultural Trade Liberalization under the WTO

### 3.1. The GATT 1947

Agriculture was one of the sectors regulated by the GATT 1947. Although the principal objective of the GATT, which was meant to provisionally regulate the world trading system, was the substantial reduction of tariff and other forms of trade barriers<sup>56</sup> this objective was not achieved as regards trade in agricultural products. While the GATT has successfully reduced the global average tariffs of industrial goods from above 40 percent down to below 4 percent through a series of rounds of trade negotiations<sup>57</sup>, agriculture has experienced a reverse development of protectionism for the most part of the GATT's lifetime.<sup>58</sup>

The reasons which make agriculture a prime candidate for government intervention domestically as well as across international borders (leading to excessive protectionism) could fairly be attributed to political, social, cultural and economic reasons all of which are entwined closely in the web of public affairs.<sup>59</sup> It is widely agreed that markets for most agricultural products are unstable than required for efficient use of resources and efficient management of buyer's expenditures; and that sizable price, output and income fluctuations occur in agriculture because of notorious inelasticity of demand and supply, uncertainties of foreign markets, the vagrancies of weather, and insects and diseases peculiar to farming.<sup>60</sup>

In most nations programs aimed at protectionism are begun and sustained by political action; therefore, they are subject to all the mixed motives, compromises and crosscurrents of interests that political action entail.<sup>61</sup>

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<sup>56</sup> See the preamble to the GATT 1947.

<sup>57</sup> The Multilateral Trade Negotiations held under the auspices of the GATT are: Geneva (1947), Annecy (1949), Torquay (1951), Geneva (1951), Geneva (1956), Geneva-Dillon Round (1960-1961) Geneva-Kennedy Round (1964-1967), Geneva-Tokyo Round (1973-1979), Geneva-Uruguay Round (1986-1994). And the Doha Round, which was launched in 2000 in Doha- Qatar under the auspices of the WTO is still underway.

<sup>58</sup> See Desta (2002) 7

<sup>59</sup> See Houck (1986) 25f

<sup>60</sup> Ibid

<sup>61</sup> Ibid. See also Delcros (2002) 219-253.

Thus the GATT 1947 allowed countries to use export subsidies on agricultural primary products, whereas the use of export subsidies by developed countries on industrial products was prohibited. The only conditions were that agricultural export subsidies should not be used to capture more than an “equitable share” of world exports of the product concerned.<sup>62</sup> The GATT rules also allowed countries to resort to non-tariff import restrictions (e.g. quantitative import restrictions) under Article XI: 2(c) when these restrictions were necessary to enforce measures to effectively limit domestic production although a minimum proportion of imports relative to domestic production shall be maintained.

Owing to the stringency<sup>63</sup> of Article XI: 2(c), no country has ever justified its import restrictive measure under this provision; neither were all countries fully convinced of the compliance of such GATT compromises.<sup>64</sup> Some countries instead resorted to different measures, including securing waivers for agricultural policies (e.g. the US), negotiated exemption through accession protocol (e.g. Switzerland), grey area measures such as variable price levy (e.g. the EC), and still others continued using non-tariff measures with no apparent justification.<sup>65</sup>

Thus the GATT, which successfully liberalized trade in non-agricultural products most notably through reduction of tariffs, has failed to overcome the huge distortions that have plagued international trade in agricultural products.

### **3.2.The WTO Agreement on Agriculture (AoA)**

The Agreement on Agriculture (AoA)<sup>66</sup> was negotiated during the Uruguay Round (1986-1995) Multilateral Trade Negotiations for further liberalization of trade. From the very launching of this round, the GATT members agreed that agriculture should be

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<sup>62</sup> See Article XVI: 3 of the GATT 1947.

<sup>63</sup> See the full text of GATT Article XI: 2 (c) i-iii for the conditions under which the provision could be invoked.

<sup>64</sup> See Desta (2005) 19f. See also Houck (1987) 26.

<sup>65</sup> Ibid. See also, WTO, “WTO special studies on market access: the unfinished business and the Uruguay inventory” <[http://www.wto.org/english/res\\_e/reser\\_e/special\\_studies\\_e.html](http://www.wto.org/english/res_e/reser_e/special_studies_e.html)> [last accessed on Fe.28, 2007]

<sup>66</sup> See WTO “The Uruguay round agreements, agreement on agriculture” <[http://www.wto.org/english/docs\\_e/legal\\_e/legal\\_e.htm#wtoagreement](http://www.wto.org/english/docs_e/legal_e/legal_e.htm#wtoagreement)> [last accessed, Feb.28, 2007]



included in the negotiations.<sup>67</sup> In fact negotiating the agreement was not an easy task at all. It was rather so controversial, complex, and strenuous that at a number of junctions the whole Uruguay Round was on the brink of failure because of agriculture and it was not before a settlement was found for the agricultural issues that the over all round came to a conclusion.<sup>68</sup> Actually that was not a wonder when seen in the light of the sensitive nature of agriculture and the consequent protection it used to enjoy- and enjoys even today. The Uruguay Round is praised, *inter alia*, for the successful negotiation of the AoA, which is considered as a remarkable move in disciplining trade in agricultural products.

The short-term objective of the Agreement is “to establish a basis for initiating a process of reform of trade in agriculture” while its long term objective is “to establish a fair and market oriented agricultural trading system.”<sup>69</sup>

The agreement defines the term “agricultural products” as referring to both unprocessed and processed agricultural products to ensure that its scope would be well defined; requires the conversion of all agriculture specific non-tariff measures into customs duties (often called “tariffication”) which have to be bound; defines export subsidies subject to reduction commitments; and provides for a specific measurement of support.<sup>70</sup> Put differently, the agreement aims at liberalizing agricultural trade market through conversion of all import restrictions on agricultural products to tariffs, which are generally presumed to be more transparent than their non-tariff equivalents<sup>71</sup> and binding such tariffs with further reduction commitments from the bound rates. On the other hand, commitments on domestic support and export subsidies are meant to eliminate, or at least reduce agricultural trade distortions.

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<sup>67</sup> Olsen (2005) 43

<sup>68</sup> Tangermann(2005) 99

<sup>69</sup> See preamble to the AoA.

<sup>70</sup> See Articles: 2,4,6-9 and Annex I to the AoA.

<sup>71</sup> See Desta (2002) 67.

The agreement, thus, establishes rules or disciplines on three pillars: market access, domestic support and export subsidy (competition). The need for express treatment of these three pillars is fairly clear, the mechanics of their being intertwined.

For instance, if a given country extends domestic support to its producers, (e.g. by way of price support) it would entitle the producers to a higher price than they would normally earn from unsubsidized world markets. Such a higher artificial price will, therefore, attract foreign import, which will eventually pull the price down and hence defeat the purpose of the support. Such a country would only protect the administered domestic price by border measures such as high tariff and quantitative restrictions (measures which are regulated under market access rules). On the other hand, the possible surplus supply to domestic market under administered price could be exported only under export subsidy (which has to be disciplined by the rules of export subsidy or competition). Addressing one and leaving any one of these three pillars would hardly achieve the intended purpose of establishing a fair and market oriented agricultural trade; that is the rationale behind the existence of these three pillars in the AoA.

Now that the Agreement on Agriculture has been in place for more than a decade it is worth asking as how far it has achieved its short and long term objectives?

Certainly, the agreement can be said to have achieved its short-term objective of establishing a basis for initiating a process of reform of trade in agriculture partly through the so-called inbuilt agenda (Article 20 of the Agreement). In fact, even current negotiations derive their foundation from the Agreement. Doubtful is rather the agreement's success as regards its long-term objective of establishing a fair and market oriented agricultural trading system.<sup>72</sup> The success in the latter case is rather

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<sup>72</sup> It is interesting to note here the argument that the long term objective of the Agreement on Agriculture is not the gradual integration of the sector into the ordinary GATT rules unlike, for instance, the Agreement on Textiles and Clothing; rather establishing a fair and market oriented agricultural trading through the establishment of a strengthened and more operationally effective GATT rules and disciplines which seem to signify the possibility for continuing to treat Agriculture by different GATT

a mixed one; while there is improvement in terms of complying with the commitments in some countries, over all only little has been achieved as the OECD countries<sup>73</sup> have still continued to use protection and support with potential distortions.<sup>74</sup>

As meaningful domestic support and export subsidy measures presuppose financial capacity, such measures are usually administered by the rich OECD member countries such as EU, US and Japan, although protection of one nature or another is presumed to exist everywhere. The prime victims of such distortions are developing countries most of which otherwise have a comparative advantage in agricultural trade.

The full realization of the long-term objective of the Agreement on Agriculture, thus, seems to take long and painstaking negotiations as could be evident from the current Doha Round of Multilateral Trade Negotiations.

### **3.3. Agriculture under the Doha Round of Multilateral Trade Negotiations**

As stipulated in Article 20 (in built agenda) of the AoA, the second round of the WTO negotiations on agriculture was launched in March 2000. Following the stalemate reached at the WTO Ministerial Meeting held in Cancun in September 2003, the Doha Round negotiations virtually stalled until 31 July 2004, when WTO members adopted, a framework agreement (also called 'the July Package') that provides a road map for the next stages of the global trade talks.<sup>75</sup>

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provisions (different agreement) although such rules are expected to be effective in terms of liberalizing agricultural trade. For more on this, see O'Connor, supra n.20, pp. 418.

<sup>73</sup> OECD, with 32 member countries accounts, for more than two third of the world trade; its members are: Australia, Austria, Belgium, Canada, Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy Japan, Korea, Luxembourg, Mexico, Netherlands, New Zealand, Norway, Poland, Portugal, Slovak Republic, Spain, Sweden, Switzerland, Turkey, United Kingdom, United States. See also, OECD "The organization for the economic co-operation and development"

<[http://www.oecd.org/document/58/0,2340,en\\_2649\\_201185\\_1889402\\_1\\_1\\_1\\_1,00.html](http://www.oecd.org/document/58/0,2340,en_2649_201185_1889402_1_1_1_1,00.html)> [last accessed on 9 March 2007]

<sup>74</sup> See Tengermann (2005) 100-105.

<sup>75</sup> WTO, *Doha Work Program Decision Adopted by the General Council on 1 August 2004 - WT/L/579*. While this framework is not a final binding document it has a significant role guiding the direction of the future trade negotiations.

The framework covers three major areas: agriculture, industrial products and trade-related issues. Annex A of the framework is devoted to modalities on possible agricultural disciplines. In general terms, the framework commits WTO members for strengthened discipline of agricultural trade in all the three pillars and recognizes special and differential treatment (SDT) for developing countries.<sup>76</sup>

In the light of the July 2004 framework agreement, the Hong Kong Ministerial Conference of 2005 adopted the agricultural negotiations Chairman's report as annexed (Annex-A) to the declaration.<sup>77</sup> That declaration was also more of general consensus, rather than clear commitment although it signalled convergence on some of the areas of the pillars of the AoA: domestic support<sup>78</sup>, export subsidy<sup>79</sup> and market access.<sup>80</sup>

On the basis of the July package and the Hong Kong Ministerial declarations, the agriculture's negotiations chairperson drafted the possible modalities on agriculture on 22 June 2006<sup>81</sup>, which was later circulated to members on 17 July 2006.<sup>82</sup> Different

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<sup>76</sup> Ibid. Members agreed to establish detailed modalities ensuring the parallel elimination of all forms of export subsidies and disciplines on all export measures with equivalent effect by a credible end date. Developing country Members will benefit from longer implementation periods for the phasing out of all forms of export subsidies. Higher levels of permitted trade-distorting domestic support by developed Members will be subject to deeper cuts, while developing countries will benefit from longer implementation periods and lower reduction coefficients. With regard to market access, tariff reductions will be made through a tiered formula that takes into account different tariff structures for developed and developing countries. LDCs are not required to undertake reduction commitments. Members may designate an appropriate number, to be negotiated, of tariff lines to be treated as sensitive.

<sup>77</sup> WTO, *Ministerial Conference (WT/MIN(05)/DEC)*, 22 December 2005.

<sup>78</sup> On Domestic Support, *inter alia*, three bands of reductions in Final Bound Total AMS and in the overall cut in trade distorting domestic support, with higher linear cuts in higher bands has been agreed to. Developing countries will be in the third band. Ibid Para 5

<sup>79</sup> On Export Subsidy, *inter alia*, members agreed to the parallel elimination of all forms of export subsidies and disciplines on all export measures with equivalent effect to be completed by the end of 2013 (fixing the date is one step forward from the July package). Developing country members continue to benefit from the grace of 5 years as provided under Art.9.4 of the AoA; the end date for the latter is 2018. Ibid Para 6

<sup>80</sup> On Market Access, *inter alia*, four bands for structuring tariff cuts were agreed although the thresholds have been left for further negotiations. Significantly enough, Special Products and the Special Safeguard Mechanisms for developing countries shall be an integral part of the modalities and the outcome of the negotiations in agriculture. Ibid Para 7 of the AoA

<sup>81</sup> Committee on Agriculture, Special Session, Draft Possible Modalities On Agriculture 22 June 2006 (JOB (06)/199)

<sup>82</sup> WTO, 'Modalities on agriculture' < [http://www.wto.org/english/tratop\\_e/agric\\_e/mod\\_ag\\_2006\\_e.htm](http://www.wto.org/english/tratop_e/agric_e/mod_ag_2006_e.htm) > [last accessed, 26 May, 2007].

WTO members and groupings have also continued submitting detail proposals to the Committee on Agriculture, one such proposal being the submission by recently acceded members (RAMS) demanding the implementation of the flexibilities pledged to such countries under the Doha declaration.<sup>83</sup>

The chairperson of agriculture negotiations, Mr Crawford Falconer, has quite recently come up with successive draft papers (“the Chairman’s Challenge papers”) on 30 April 2007 and 25 May 2007, which are meant to provoke comments from members on where consensus might be achieved.<sup>84</sup> As could be understood from the papers, it will be difficult to categorically state what the outcome will look like, as there are still various areas of divergence.<sup>85</sup> Convergence on those matters requires political will and compromise especially by the developed country members. Needless to say, failure to make a deal on agriculture seems to risk the collapse of the already blinking Doha Round.

### 3.4. Conclusion

The GATT 1947 could not liberalise agricultural trade through tariff reduction as it did in other sectors due, at least in part, to the exceptional rules applied to the sector. The AoA negotiated during the Uruguay Round is considered by many as the remarkable move in disciplining agriculture in the three pillars of: market access, domestic support and export subsidy. Although no significant progress has been made in the Doha negotiations so far owing to the perennial issues in agricultural trade and newly emerging areas, the ambitious reduction of domestic support by rich countries and elimination of all forms of export subsidies as provided by the frame work agreement and the Hong Kong Ministerial are generally deemed to benefit particularly developing countries. Nonetheless, the elimination of export subsidy may negatively affect net

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<sup>83</sup> Negotiating Proposal By Recently Acceded Members (RAMS) TN/AG/GEN/24, 13 March 2007.

<sup>84</sup> WTO, ‘Agriculture: negotiations’ < [http://www.wto.org/english/tratop\\_e/agric\\_e/chair\\_texts07\\_e.htm](http://www.wto.org/english/tratop_e/agric_e/chair_texts07_e.htm) > [last accessed, 26 May, 2006].

<sup>85</sup> The areas of divergence include: Special Safeguard Mechanisms which was pledged by the Hong Kong Ministerial to form an integral part of the negotiations and out come, issues of recently acceded members (RAM), tariff escalation, etcetera.

food importing countries, which are presumed to benefit from lower price of subsidized food products.



## **Chapter IV- Implications of Ethiopia's Accession to the WTO on the Agricultural Sector**

### **4.1. Introduction**

The preceding chapters set out the general principles of WTO accession and the agricultural trade liberalization under the GATT/WTO. This chapter aims at addressing the possible implications of Ethiopia's accession to the WTO on the agricultural sector. The significance of the agricultural sector for the Ethiopian economy will be highlighted and the implications will be approached in view of the three pillars of the AoA, namely market access, domestic support and export (competition) subsidy. As food security is intertwined with agricultural trade, this chapter also briefly addresses the same.

### **4.2. What is agriculture for Ethiopia?**

Apart from the socio-cultural values it represents, agriculture is the mainstay of the Ethiopian Economy. The sector contributes a lion's share in the gross domestic product (GDP), employment and export earnings. In the period 2000/01-2004/05, for instance, on average the sector accounts for about 45 percent of the GDP, 87 percent of export trade and employs over 85 percent of the population.<sup>86</sup> Nonetheless, Ethiopian agriculture is principally subsistence in nature, which is characterized by low productivity and is vulnerable to considerable fluctuations in production volume and hence exports, as it very much depends on vagaries of weather.<sup>87</sup>

Most of the export products are raw products while there are few semi-processed agricultural products.<sup>88</sup> The major unprocessed agricultural export commodities include: coffee (constituting on average over 35 percent of total export), oilseeds, pulses, fruits, vegetables, chat and live animals while leather and leather products, meat and sugar constitute the major semi-processed export commodities.<sup>89</sup>

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<sup>86</sup> EMFTR (2007) 4

<sup>87</sup> EEA (2005) 145-150

<sup>88</sup> Ibid 150f

<sup>89</sup> Ibid. The structure of Ethiopia's export trade has remained unchanged for decades except for the relatively promising cut flower, which has recently joined the list of, export commodities. See also CSA



Recognizing the key role of the sector in the country's economy, the government has come up with an economic strategy called agricultural Development Led Industrialization (ADLI), which assumes agriculture's leading role in the transformation of the national economy towards industrialization and social services by providing raw materials, market base, and capital accumulation.<sup>90</sup>

The policy anticipates that the extremely small ratio of urbanization of the country threatens to make the inadequacy of domestic demand a critical constraint and thus presupposes that, "...agriculture has to be made internationally competitive and that part of the production has to be oriented towards export."<sup>91</sup> Although the economy of the country has grown on annual average by 11 percent in the year 2003/2004-2005/2006, inadequacy of domestic demand has so far not been a problem at least as regards food products. In fact, the price of food crops is currently escalating in the domestic market.<sup>92</sup> Setting aside the evaluation of the policy for the moment, we will now proceed to assess as to whether the accession to the WTO will ensure the presumed and practical role of the sector both at domestic and international levels.

### 4.3. Market Access

As reiterated, better and predictable market access is one of the presumed benefits of membership in the multilateral trading system. The AoA also recognizes market access as one of its three key pillars. The pertinent provision regulating market access under the AoA is Article 4, which provides as follows:

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(2004 Viif. For the increasing trend in export of cut flower see, Ethiopian Reporter "Hope on flowers running high" <<http://www.ethiopianreporter.com/modules.php?name=News&file=article&sid=12904>> [last accessed on 24 March 2007]

<sup>90</sup>Ibid at 150 and 259

<sup>91</sup>Ministry of Foreign Affairs, *Policy Handbook*, Federal Democratic Republic of Ethiopia, Vol.1 (Addis Ababa, 2005) p149.

<sup>92</sup>See for instance Ethiopian Reporter "Business and economy: growth and its challenges" <<http://www.ethiopianreporter.com/modules.php?name=News&file=article&sid=12743>> [last accessed on 24 March 2007]



1. *Market access concessions contained in Schedules relate to bindings and reductions of tariffs, and to other market access commitments as specified therein.*
2. *Members shall not maintain, resort to, or revert to any measures of the kind which have been required to be converted into ordinary customs duties<sup>93</sup>, except as otherwise provided for in Article 5 and Annex 5.<sup>94</sup>*

According to this provision members are principally expected to convert all non-tariff import measures into their tariff equivalents (what is often called “tariffication”). The resulting tariffs and all the already existing ones have to be bound<sup>95</sup> and progressively reduced. As noted earlier, the rationale behind “tariffication” is the presumed transparency and predictability of tariffs when compared to non-tariff barriers and hence the potential for establishing a predictable market for agricultural products while the progressive reduction is, obviously, meant to liberalize the market further.

Although reaching an agreement on such commitments under the AoA makes the Uruguay Round praiseworthy, the fact that some members bound their import tariffs far beyond the non-tariff equivalents resulted to what is often referred to as “dirty tariffication”—such high tariffs and the consequent high tariff dispersion between products (tariff peaks) have been observed as two of the most notable limitations of the market access commitments undertaken under the AoA.<sup>96</sup> Tariff reduction commitments as envisaged under Article 4(1) of the AoA and the modalities agreement is, therefore, from the bound tariff rate (and not from the applied rate).

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<sup>93</sup>These measures include quantitative import restrictions, variable import levies, minimum import prices, discretionary import licensing, non-tariff measures maintained through state-trading enterprises, voluntary export restraints, and similar border measures other than ordinary customs duties, whether or not the measures are maintained under country-specific derogations from the provisions of GATT 1947, but not measures maintained under balance-of-payments provisions or under other general, non-agriculture-specific provisions of GATT 1994 or of the other Multilateral Trade Agreements in Annex 1A to the WTO Agreement.

<sup>94</sup>Article 4 of the AoA,

<sup>95</sup> Note that applied tariff rate is different from bound tariff rate and that members may bind their import tariffs far beyond the applied rate—the reason behind having high bound rate being flexibility for protecting the domestic market from potential surge in import.

<sup>96</sup>Desta (2002) 62. The fact that the AoA has introduced the minimum and current market opportunities and hence tariff rate quotas can undermine the potential benefits of tariff barriers over non-tariff barriers although that was a necessary compromise given the sensitive nature of agriculture and the diversity of interest prevailed among the negotiators at the time. Ibid

What, then, is the implication of the accession for Ethiopia in terms of accessing other members' markets on the one hand and opening her markets to other members, on the other ('offensive' and 'defensive' sides as it is often called in terms of trade negotiations)? These will now briefly be considered.

#### **4.3.1. The opportunity to access existing and new markets**

As far as accessing other members' market is concerned, though not as a WTO member, Ethiopia has had preferential access to developed country markets under such schemes as the Generalized System of Preferences (GSP)<sup>97</sup>, EU's Everything but Arms (EBA) Initiative, the Cotonu Agreement concluded between the EU and the African, Caribbean and Pacific (ACP) countries<sup>98</sup> and the African Growth and Opportunity ACT (AGOA).<sup>99</sup> Apparently, therefore, Ethiopia's accession to the WTO may not bring about substantial change in terms of bolstering access to such markets.

However, the aforementioned preferential market access schemes are usually subjected to unilateral decision making of the preference giving countries and often based on non-economic concerns<sup>100</sup>. It is not hard to imagine how such grants would even be more unpredictable when beneficiary country is not a member of the WTO. It could therefore reasonably be expected that the accession would contribute to the predictability of market access. The special and differential treatment (SDT)

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<sup>97</sup> GSP is a scheme by which developed countries give a more favorable treatment to products from developing countries on non-reciprocity basis as an exception to the general MFN treatment. The product coverage and extent of such treatment varies from one preference giver to another.

<sup>98</sup> Under the Cotonou Agreement, the EU has been granting a quota and duty free access for agricultural products from developing countries. Currently, the EU is negotiating an Economic Partnership Agreement with the beneficiaries, which is expected to be reciprocity based. EBA is a form of GSP offered to only LDCs, which enables them to export their products (except of course arms, as the name indicates) quota free and duty free to the EU market.

<sup>99</sup> AGOA is another preferential scheme offered by the US to African countries. Although Ethiopia is still one of the least beneficiaries of AGOA, with the assistance of USAID, especially in the textile sector the country's export has shown an increasing trend while there is also optimism about livestock products. See, for instance, Ethiopian Herald "Ethiopia: Ethiopia said performing better in AGOA" <<http://allafrica.com/stories/200703270656.html>> [last accessed on 20 March 2007]

<sup>100</sup> Onguglo "Developing countries and unilateral trade preferences in the new international trading system" <[http://www.wto.org/english/tratop\\_e/devel\\_e/sem01\\_e/ongugl\\_e.doc](http://www.wto.org/english/tratop_e/devel_e/sem01_e/ongugl_e.doc)> [last accessed on March 2007]

provisions scattered here and there in the WTO rules are also generally deemed to play positive role in this regard.

However, even with the WTO membership, most of the SDT provisions of the WTO rules have long been mooted as either hortatory which fail to impose a concrete obligation on preference giving developed countries or simply ineffective.<sup>101</sup> Farm subsidies in the developed world and stringent technical standards in those markets have rendered the utilization by developing countries of such preferential market access futile.<sup>102</sup> Even more, as the trend of market access negotiations lead, *inter alia*, to a reduction of import duties (tariffs) across the board, the preferences will inevitably be eroded.<sup>103</sup> Thus, it appears that the SDT provisions can hardly be a scheme to rely on by developing and least developed countries like Ethiopia. Yet, in view of the high tariff rate agriculture is enjoying in developed countries, as noted earlier, the MFN tariff may not render the preferential market access schemes useless at least in the short run.<sup>104</sup>

Ethiopia's big challenge in terms of market access would rather be non-tariff barriers such as technical and sanitary and phytosanitary standards. The AoA provides that "[m]embers agree to give effect to the Agreement on the Application of Sanitary and Phytosanitary[SPS] Agreement".<sup>105</sup> In general terms, the SPS aims at striking a balance between two competing interests- trade liberalization on the one hand and

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<sup>101</sup> See Hoekman (2005) 223-230.

<sup>102</sup> Ibid

<sup>103</sup> See, for instance generally, Katerina Alexandraki (2005). The issue of preference erosion is quite controversial especially under the current Doha Round Trade Negotiations. Although market liberalization through tariff reduction is the principal objective of multilateral trade negotiations, developing countries with relatively weak export capacity and least developed countries are not comfortable with the ambitious substantial tariff cuts in the developed countries' markets for such a liberalization would subject them to fierce competition with products (usually subsidized) of developed countries and of other most cost efficient producers. The LDCs and ACP countries have formed the so called a group of 90 to resist concessions resulting to preference erosion. Ibid

<sup>104</sup> See also FAO "Summary of paper on the future of preferential trade arrangements for developing countries and the current round of WTO negotiations on agriculture"

< <http://www.fao.org/DOCREP/005/Y3733E/y3733e08.htm> > [accessed 20 March 2007]

<sup>105</sup> Art. 14 of the AoA. Actually even in the absence of this provision members are bound to give effect to the SPS Agreement simply because the latter forms part of the WTO Multilateral Agreements.

protection of human, animal or plant life or health, on the other.<sup>106</sup> Thus while members have every right to regulate SPS measures within their boarder, such measures shall not be used in a manner that constitutes, *inter alia*, a disguised restrictions to the flow of international trade. The agreement also encourages the harmonization of such measures on the basis of international standards, guidelines and recommendations developed by relevant international bodies.<sup>107</sup>

Clearly, the application and harmonization<sup>108</sup> of these measures pose a huge challenge to LDCs such as Ethiopia simply because the task demands adequate human and financial resources. The challenge to Ethiopia in this regard is of twofold. Lack of capacity to put such measures in place at home and complying with developed country members' (often high level of <sup>109</sup>) SPS measures.<sup>110</sup> Thus SPS standards will be huge problems for Ethiopia to fully exploit the exiting and potential market opportunities the accession may offer the country.

On the other hand, WTO accession may also have merit in guaranteeing the predictability of market access in not only the developed countries but also the developing ones (South –South trade). Owing to the increasingly stringent Sanitary and Phytosanitary Measures (SPS) administered by developed countries, the South-South trade is rapidly increasing especially for SPS sensitive products such as

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<sup>106</sup> See Par. I of the preamble to the SPS Agreement

<sup>107</sup> Ibid Par.6. The relevant international bodies within the meaning of this paragraph include: Codex Alimentarius Commission, the International Office of Epizootics, and the relevant international and regional organizations operating within the framework of the International Plant Protection Convention.

<sup>108</sup> A recent study revealed that contrary to the predictions by some consumer and environmental advocates, the WTO disciplines have not resulted in the 'downward harmonization' of regulations as countries are still achieving legitimate regulatory objectives even when very trade-restrictive measures have been adopted. See Orden and Roberts (2006) 22.

<sup>109</sup> See Jensen (2002) 2ff.

<sup>110</sup> For details on the main problems developing countries are facing in the implementation of the SPS measures, see Standards and Trade Facility Fund, "Background" < <http://www.standardsfacility.org/background.htm> > [last accessed 20 April, 2007]. See also generally McMahon (2005) 207-221. Although developed country members are supposed to take into account developing country members' interests while applying SPS measures (Art. 10(1) of the SPS Agreement), the Panel in the EC-Biotech case ruled that the provision does not impose a specific objective to be achieved which shows that such differential provisions are not as effective as they appear. See also generally Pevost (2007).

agricultural products.<sup>111</sup> Admittedly, the south-south trade may not be much to be counted on as most developing countries have similar products (usually agricultural). Yet, the principle of comparative advantage may still be commendable here too as countries may concentrate on products they can produce more efficiently.

In fact, in the last few years Ethiopia has been exporting some of her agricultural products to other African countries such as the Sudan, Djibouti and Morocco; while the Middle East countries such as Saudi Arabia, Yemen and United Arab Emirates have remained the principal destination of Ethiopia's livestock products.<sup>112</sup> Quite contrary to the preferential market access granted by the developed countries, Ethiopia has significantly benefited from the one granted by China to African countries in 2005-the percentage of China's share of Ethiopia's total export jumped from less than 2 percent in the years 2002-2004 to more than 9 percent in 2005.<sup>113</sup> This shows that even developing countries can be a right destination for Ethiopian exports.

Yet, such unilateral preferences cannot be counted on with a reasonable degree of predictability for the same limitations of preferential market access under different schemes we have seen earlier. Among other things, such countries can at any time ban Ethiopia's products from their market if they feel like doing so as they are under no obligation to comply with the substantive and procedural rules of the WTO agreement,<sup>114</sup> as far as products from Ethiopia, which is not a member of the WTO, is concerned. Although bilateral and regional trade agreements<sup>115</sup> may apparently

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<sup>111</sup>See, for instance, STDF, "Standard and Trade Development Facility"  
<<http://www.standardsfacility.org/background.htm>> [last accessed 24Mach, 2007]

<sup>112</sup>See Birhanu (2005) 95. See also CSA (2004) iii.

<sup>113</sup>See, for instance, The People's Daily Online "China becomes Ethiopia's major export destination"  
<[http://english.people.com.cn/200604/23/eng20060423\\_260496.html](http://english.people.com.cn/200604/23/eng20060423_260496.html)>[last accessed on 24 March 2007]

<sup>114</sup>For instance, Saudi Arabia banned beef import from Ethiopia several times. See also, New Agriculturalist Online, "Making more of the Middle East market"  
<<http://www.new-agri.co.uk/06-3/focuson/focuson5.html>> and BBC News "Gulf livestock hits Africa"  
<<http://news.bbc.co.uk/2/hi/africa/941725.stm>>[accessed 24 March 2007]

<sup>115</sup>Until the end of the year 2006, Ethiopia entered into more than 50 trade and trade related bilateral agreements with different countries. See, for instance, EMFTR (2007) 158-166. Ethiopia is also a member of Inter-governmental Authority on Development (IGAD and the Common Market for Eastern and Southern Africa (COMESA). Id.170. While the Economic Partnership Agreement being negotiated

reduce any arbitrary action by the import state, such bilateral deals which hinge upon a reciprocity of one nature or another may not be an effective substitute for the multilateral WTO rules especially for poor countries like Ethiopia, when it comes to their enforcement<sup>116</sup>. If backed by predictable rules such as that of the WTO, therefore, Ethiopia may maintain and better access potential markets in developing countries with a reasonable degree of predictability although the stringent non-tariff barriers in the developed countries will still be a notable hindrance to such markets.

According to a recent FAO report many lower-income countries, especially in sub-Saharan Africa, are less well placed to gain in the short- to medium run from of trade liberalization that includes improved access to export markets, or from further opening of their own markets.<sup>117</sup> The extent to which these poorer countries benefit from trade liberalization will depend upon their economic structures, their competitiveness and their capacity to respond to new market incentives.<sup>118</sup>

Along the same line, Ethiopia's handicap in utilizing both the existing and potential markets is the supply side constraints which include: poor educational and health status of the population, limited production capacity, lack of appropriate agricultural technology and input, institutional constraints and lack of infrastructure.<sup>119</sup> If such supply side constraints are curbed, which principally require financial capacity of course, the multilateral WTO rules can definitely offer Ethiopia more predictable market access than bilateral and other arrangements with loose enforcement mechanisms. In the mean time, if backed by good governance, the accession can attract foreign direct investment, which can diversify the production base and contribute in curbing such constraints.

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between the EU and ACP countries (Ethiopia included) may have it's own implication on Ethiopia, it is not the aim of the present work to address this issue owing to the scope of this work.

<sup>116</sup>As we noted earlier, multilateral approach of the WTO to trade deals has well been recognized as one of the benefits of LDC's accession to the WTO.

<sup>117</sup> FAO 'New trade rules expected to benefit some developing countries'

<<http://www.fao.org/newsroom/en/news/2007/1000536/index.html> >[last accessed on 26 March, 2007]

<sup>118</sup> Ibid

<sup>119</sup> Birhanu (2005) 69 and 70



### 4.3.2. The commitment to open market for other members

Obviously, accessing other members' markets and letting other members into one's market are the two sides of a coin. As noted earlier, the AoA, as a rule, requires member states to reduce their import tariffs. Although Article 4 of the AoA is a rather general provision in this regard, the modalities agreement<sup>120</sup> provides for the details of such tariff reduction commitments.

According to the modalities agreement, therefore, developed country members shall reduce their customs duties, including those resulting from "tariffication", over a six year period (commencing from 1995) on simple average basis by 36 percent with a minimum rate of reduction of 15 percent for each tariff line (per product).<sup>121</sup> Where there are no significant imports, a minimum access opportunity which shall, in the first year of implementation (1995), represent at least 3 percent of the domestic consumption in the base period 1986-1988 and gradually expand to reach 5 percent of the base figure at the end of the implementation period shall be established.<sup>122</sup> On the other hand, where the current access opportunities are in excess of the minimum access opportunity (as considered above), they shall simply be maintained and expanded over the implementation period; that is, through reduction on simple average basis by 36 percent and minimum tariff line of 15 percent.<sup>123</sup>

By virtue of the special and differential treatment, developing countries' tariff reduction commitment is only two thirds of that of the developed countries; that is, 24 percent

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<sup>120</sup>GATT, *Modalities for the Establishment of Specific Binding Commitments under the Reform Program* (MTN.GNG/MA/W/24 20) Dec.1993. Although the provisions of the Modalities Agreement shall not be used as a basis for dispute settlement proceedings under the WTO (See the Introductory part of Modalities Agreement) the agreement provides for fair details of the otherwise general AoA.

<sup>121</sup>Ibid Para 5. Note also that the reduction commitment in both over all averages for agricultural products and individual product tariff line is computed on simple average, not trade weighted, in a sense that the calculation is made by taking the mean of all tariff lines considered on equal basis regardless of the amount or value of trade represented by each of those tariff lines. This computation allowed especially developed countries to reduce their high tariffs by low rates and their low tariffs by high rate, which reduced the immediate benefit of the tariff reduction commitments as some products continued to enjoy the protection of tariff peaks. See also Desta (2002) 73f.

<sup>122</sup> Ibid

<sup>123</sup> Ibid, Para 6

average and 10 percent per tariff line.<sup>124</sup> Least developed countries, on the other hand, are exempted from tariff reduction commitments.<sup>125</sup>

Ethiopia as an LDC is, therefore, under no obligation to reduce her tariff rates under the AoA although she is required to “tariffy” her non-tariff import restriction measures, if any, and bind the same and all existing tariffs against future increase.

Owing to the IMF-World Bank supported structural adjustment programs (SAP) Ethiopia has been undertaking since 1992, the maximum import tariff has been reduced from 230 percent to 35 percent and her average import tariff from 41.6 percent to 17.5 percent while tariff bands have been reduced from 23 to 6 including zero rate bands.<sup>126</sup> Ethiopia’s average Agricultural import tariff is 15.5 percent.<sup>127</sup> It is evident, therefore, that Ethiopia’s applied tariff is considerably low and such level of tariff reduction, “is not only WTO-plus liberalization, but also makes the country one of the most liberal traders in the world.”<sup>128</sup>

Although, as noted earlier, Ethiopia is not required to reduce her tariffs under the AoA, there could be a possibility for further reduction as, for instance, inter-sector concessions and also there can be pressure for lower bound rates during the accession negotiations. In fact, other LDCs, which have acceded to the WTO, were forced to bind their agricultural import duties at a lower rate compared to the incumbent members. For instance, Cambodia’s applied rate at the time of accession negotiation was 16.4 percent; although Cambodia offered a 44 percent average bound rate, the final bound rate was only 30.88 percent.<sup>129</sup> Nepal, which had an applied rate of 11 percent and offered a bound rate of 60 percent, was finally conceded only a bound rate of 42 percent.<sup>130</sup> Thus, for Ethiopia, which has an applied rate of 15.5

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<sup>124</sup> Ibid, Para 15 and Article 15(2) of the AoA

<sup>125</sup> Ibid, Para 16 and Article 15(2) of the AoA

<sup>126</sup> See EMFTR (2007) 37.

<sup>127</sup> Birhanu (2005) 64

<sup>128</sup> Ibid

<sup>129</sup> Oxfam International, “Cambodia’s accession to the WTO”

<<http://www.ngoforum.org.kh/Development/Docs/Cambodia's%20Accession%20to%20the%20WTO.htm>>[last accessed 27 May, 2007]

<sup>130</sup> LDCs WTO Accession “ Learning from the Cases of Nepal, Cambodia and Vanuatu”



percent, one cannot expect a bound rate that goes far beyond what these countries were conceded.

The danger of such a low tariff rate is the possible surge in imports, which is likely to adversely affect the livelihood of millions of subsistence farmers. In fact, under the AoA, members can use Tariff Rate Quotas (TRQ), which allows for country specific allocation of import quota (originally meant to encourage the import of products which were protected by non tariff barriers) and the special safeguard (SSG) provisions which enable the import state to increase its import duties beyond what is provided in its schedule of commitments if the required levels of price and /or volume trigger is met<sup>131</sup> to regulate, at least partly, the mechanics in their domestic market. Compared to the General Safeguard Mechanisms of the GATT, the SSG provisions are easier to invoke as, *inter alia*, the import state need not prove the damage to the local industry (producers) in the latter case.<sup>132</sup>

However, SSG applies only to those products that were subject to other import restrictions than ordinary tariffs (which, however, have to be “tariffied” as per Article 4(2) of the AoA)<sup>133</sup> and TQR are also generally taken as an extension of “tariffication” process.<sup>134</sup> Such measures are, therefore, unlikely concessions for Ethiopia which does not administer such measures on import of agricultural products. The only notable exception is the prohibition of import or sale of genetically modified seeds whose second generation cannot germinate or seeds with terminator gin technology.<sup>135</sup>

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< <http://209.85.135.104/search?q=cache:3lrq2wl6Q-gJ:www.un-nqls.org/SAWTEE.doc+oxfam+on+ldcs+accession+to+the+wto&hl=en&ct=clnk&cd=9> >[last accessed on 27 May,2007]

<sup>131</sup> See Article 5 of the AoA. Although a number of countries have designated their products by SSG, in practice, only few have used it. See

<sup>132</sup> See, for instance, Desta, (2002) 86f. Although a number of countries have designated their products by SSG, in practice, only few have used it. Ibid at 92

<sup>133</sup> See Article 5(1) of the AoA.

<sup>134</sup> GATT, *Modalities for the Establishment of Specific Binding Commitments under the Reform Program* (MTN.GNG/MA/W/24 20) Dec.1993, Para 4 and Annex 3. See also O'Connor (2005) 71f.

<sup>135</sup> See Article 25 Sub Article 6 of Proclamation No. 206/2000.

In fact, in the face of the fact that other countries that have recently acceded to the WTO such as Vietnam have not secured the SSG concession<sup>136</sup>, obtaining the same concession for Ethiopia might be unlikely, if not impossible.<sup>137</sup> Of course, TRQ and SSG are among the subjects of the current trade negotiations.<sup>138</sup> Therefore, if the round is successfully completed and simplified forms of SSG are recognized before Ethiopia completes the accession negotiations, there could be a room for designating at least some of the agricultural products under SSG provisions.

#### 4.4. Domestic Support

For the purpose of the AoA, domestic support, otherwise called, domestic subsidies, is an aid (short of export subsidy) granted to agricultural production that aims at guaranteeing producers a certain minimum level of income which usually involves market price support and similar methods of transferring resources from the non-farming community to the farmers.<sup>139</sup> While the market access and export subsidy pillars of the AoA were introduced in an effort to bring agriculture closer to the main stream rules of the GATT, domestic support was introduced as a distinct regime for the first time by the AoA with the recognition of same as the root cause of agricultural trade distortion.<sup>140</sup>

Admittedly, not all domestic support measures are equally trade distorting. In an effort to differentiate between domestic measures on their degree of trade-distorting, the AoA negotiators have come up with distinctions between support measures labeled

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<sup>136</sup> See for instance, Oxfam (2005) Do as I say, not as I do: The Unfair Terms for Vietnam's Entry to the WTO, *Oxfam Briefing Note*, also available at [http://www.oxfam.org.uk/what\\_we\\_do/issues/trade/bn\\_vietnam.htm](http://www.oxfam.org.uk/what_we_do/issues/trade/bn_vietnam.htm) [last accessed on 25 March 2007]

<sup>137</sup> Absent concession on the SSG, Ethiopia can use the balance of payment (BoP) provisions to guard the domestic market if her imports hugely surpass her export. (See Articles 12 and 18 of the GATT 1994). Note that under the current Doha round of trade negotiations developing and least developed countries are pushing for a more simplified Special Safeguard Mechanisms (SSM) and balance of payments provisions.

<sup>138</sup> See WTO, *Doha Work Program Decision Adopted by the General Council (WT/L/579)*, 1 August 2004.

<sup>139</sup> Delcros(2002) 235. See also Desta(2005) 23.

<sup>140</sup> Ibid. For the intertwined nature of the three pillars of the AoA, see the section on the Agricultural Trade Liberalization under the AoA.

different colours analogous to a traffic light although no such colour has been mentioned in the agreement itself.

Accordingly, those measures that were found to be more than minimally trade-distorting (“Amber Box” measures) are subjected to reduction commitments while those that were agreed to be non- or minimally trade-distorting (“Green Box” measures) are exempted from such commitments.<sup>141</sup> Exempted from reduction commitments are also the third sub-group of still trade distorting measures boxed separately (“Blue Box” measures),<sup>142</sup> Developmental Measures (SDT for developing countries)<sup>143</sup>, and *de minimis* levels of support.<sup>144</sup> The *de minimis* level of support for developing countries is 10 percent.<sup>145</sup>

Supports provided to basic agricultural production under non-exempted policies are subject to reduction commitments expressed in terms of the total Aggregate Measurement of Support (AMS), which is the sum of expenditures on non-exempted domestic support, aggregated across all commodities and policies using the base period 1986-1988.<sup>146</sup> Thus members shall reduce Base Total AMS by 20 percent in equal annual installments over the implementation period.<sup>147</sup> Owing to the SDT, developing countries have the flexibility to implement a 13.3 percent reduction commitment over 10 years while LDCs are not required to undertake the reduction

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<sup>141</sup>Ibid, at 25. “Green Box” measures as provided under Annex 2 of the AoA include: general services, including research, pest and disease control, training, extension, inspection, marketing and promotion services, and infrastructural services; food security stocks; domestic food aid; and direct payments to producers, including decoupled income support, income insurance and safety-net programs, disaster relief, producer or resource retirement schemes, investment aids, environmental programs, and regional assistance programs.

<sup>142</sup>See Article 6(5) of the AoA. Note that the “Blue Box” which is usually expressed in the form of price support was a last minute compromise between the EU and US (often called “Blair House Accord”-after the name the meeting hall where the deal was reached).

<sup>143</sup>See Article 6 of the AoA. These measures include: investment subsidies which are generally available to agriculture in developing countries; agricultural input subsidies generally available to low-income or resource-poor producers in developing countries; and domestic support to producers in developing countries to encourage diversification from growing illicit narcotic crops.

<sup>144</sup> Product specific and non-product specific support measures, which do not exceed 5 percent of the total value of agricultural production, shall not be included to the reduction calculation. Ibid Article 6(4)(a) of the AoA.

<sup>145</sup> Ibid Article 4(b)

<sup>146</sup>See generally Articles 1(2) and 7(2) of the AoA, and Annexes 3 and 4 thereto.

<sup>147</sup> Ibid. See also GATT, *Modalities for the Establishment of Specific Binding Commitments under the Reform Program (MTN.GNG/MA/W/24)* 20 December 1993, Annex 5 and 6

commitment.<sup>148</sup> The planned annual reduction commitments are included in part IV of members' schedule of commitment.

At this juncture, it is worth noting that in the face of the expiry of the implementation period and hence the quantity to be reduced over the period, which has not yet been substituted by binding modalities, for countries yet to accede to the WTO, including Ethiopia, such terms as reduction commitments are subject to the accession negotiations under Art XII of the WTO agreement as noted under chapter two of this study. However, by virtue of Article 15(2) of the AoA which gives developing countries a 10 years flexibility period for the implementation of the reduction commitment and exempts LDCs from such undertaking, Ethiopia shall not be expected to reduce such measures, if any (as we shall see later) although she may be required not to bound the same. With this in mind, let us now see some of the domestic support measures Ethiopia is administering or planning to administer.

Before the regime change in 1991 and consequent economic liberalization through the SAP, which was introduced in 1992/93 as shown earlier, Ethiopia's agriculture was characterized by extensive government intervention. Notably subsidies have been effected through maintaining overvalued exchange rate and preferential interest rate on credit as well as direct budgetary support for agricultural inputs, especially for fertilizers.<sup>149</sup> On the other hand, crop prices were kept lower than their market value, using government parastatal marketing institutions, in order to insure a staple and low food price for urban consumers.<sup>150</sup>

As reiterated, most of the above and similar measures, which have otherwise constituted AMS measures, have been eliminated under the SAP. And virtually all the domestic support measures (policies) currently in place could fall under the green box and development box policies, which are exempted from reduction commitments.<sup>151</sup> It

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<sup>148</sup> Ibid

<sup>149</sup> See, for instance, Mohammed (1995) 1.

<sup>150</sup> Ibid.

<sup>151</sup> For details of the policies the government is now using, see generally The Ministry of Information, Press and Audiovisual Division, *The Federal democratic Republic of Ethiopia, Rural Development*

could therefore fairly be argued that the accession will not have a notable effect on the government's domestic support policies.

#### 4.5. Export Subsidy

Export subsidies (also called export competition) are special incentives provided by governments to encourage increased foreign sales. As noted earlier, Article XVI of the GATT 1947, which was introduced during the GATT review session of 1954/55, allowed the use of export subsidies for primary agricultural products so long as it shall not be applied to capture more than an equitable share in world export trade in a particular product, while the use of export subsidies for non-agricultural products was prohibited.<sup>152</sup> Desta succinctly summarizes the same as follows:

*[Prior to the AoA], [t]he use of export subsidies to artificially improve one's competitiveness on the world agricultural market was thus not a question of legality; it was only a matter of financial capability. Those with the requisite financial resources easily found themselves fighting export subsidy wars. And, as in any conventional fight, the losers were-and still are-the poor bystanders out there'*<sup>153</sup>

The Uruguay negotiators, therefore, had to agree to discipline this blatant trade distorting practice. Accordingly, the AoA commits members to cap and reduce the level of their export subsidy using the base period 1986-1990.<sup>154</sup> Ironically, however, it

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*Strategies, Policies and Principles* (2002), Addis Ababa, (Translation from Amharic is the writer's). The proposed specific support measures in the agricultural sector include: introducing menu based extension packages to enhance farmers choice of technologies; expanding coverage of micro financing institutions; expanding Agricultural Technical and Vocational Education Training (TVET); improving the functioning of markets for agricultural inputs (fertilizer, seed, etc.) and outputs; organising, strengthening and diversifying autonomous cooperatives to provide better marketing services and serve as bridges between small farmers (peasants) and the non-agricultural private sector; strengthening agricultural research, extension, natural resource management, water harvesting, and small-scale irrigation; strengthening crop protection activities to reduce damage caused by migratory and non migratory pests through integrated pest management approach including indigenous practices and pesticide application; and improving production and productivity of livestock through strengthening animal health services, improvement of feed and nutrition ,and breeding practices. See also EMFTR (2007) 49.

<sup>152</sup> See GATT Article XVI: 3

<sup>153</sup> Desta (2005) 22

<sup>154</sup> See Article 8 and 9 of the AoA. The type of export subsidies members are required to cap and reduce under the AoA in accordance with their Schedule of Concessions include: direct export

is only those countries (only 25 members –counting the EU as one member -out of 150 WTO members), which granted subsidy during this period and hence could continue using the same within the limits provided in their schedule of commitment.<sup>155</sup> In other words, only about 16 percent of the WTO members reserve this right.

It is generally agreed that export subsidy is not a right policy to pursue for developing countries in general and African countries in particular. Regarding the latter, Mr Zunckel, a senior African trade advisor has to say the following:

*'For Africa, providing no export subsidy is the right thing to do. An export subsidy is a direct transfer from the consumer in the granting country to the consumer in the recipient country. Making a transfer of tax revenue from African citizens to food importers (say in Japan) makes for fiscal nonsense and dangerous domestic politics.'*<sup>156</sup>

Although the issue of agricultural export subsidy has been a big challenge to some LDCs<sup>157</sup>, it may not be a notable challenge to Ethiopia. Currently, Ethiopia does not use export subsidy measures for agricultural products.<sup>158</sup> Thus, the AoA export subsidy disciplines may not have a bearing on the country in terms of changing her

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subsidies, government exports of non-commercial stocks at a price lower than comparable prices for such goods on the domestic market, export payments financed by virtue of government action, including payments financed by a levy on the product; subsidies to reduce the cost of marketing exports, including cost of handling, upgrading and other processing costs and, costs of international transport and freight; internal transport and freight charges on terms more favourable than for domestic shipments, if provided or mandated by government, and subsidies on agricultural products contingent on their incorporation in export products. Article 3 of the WTO Agreement *on Subsidies and Countervailing Measures* (the *SCM Agreement*) also prohibits all subsidies on exports of agricultural products except as provided for in the Agreement on Agriculture.

<sup>155</sup> Desta(2005)23

<sup>156</sup> See Hilton E.Zunckel, "Adequately Boxing Africa in the Current Debate on Domestic Support and Export Subsidies", *tralac Trade Brief* no.2/2004, Trade Law Center for Southern Africa, 2004,p.4. South Africa is the only African country to reserve this right although it has never made use of the same until recently. Ibid

<sup>157</sup> Cambodia was forced to bind her export subsidy at zero percent while the same demand, among other things, forced Vanuatu to suspend the WTO accession process. See Oxfam International, "Cambodia's accession to the WTO"

<<http://www.ngoforum.org.kh/Development/Docs/Cambodia's%20Accession%20to%20the%20WTO.htm>>[last accessed 27 May, 2007]

<sup>158</sup> EMFTR (2007) 48



policy simply because such measures are not in place. Of course, had such policies been in place, they could have been used for concession purposes during the accession negotiations. In view of the fact the LDCs are not required to reduce their level of export subsidies, reserving the use of export subsidies may give Ethiopia a policy space, at least for the future use of the same.

#### 4.6. Food security

Agricultural trade liberalization can hardly be isolated from the issue of food security. In fact, food security is one of the principal reasons why most countries have embarked on a rather protectionist approach to agricultural trade liberalization.<sup>159</sup>

Various instruments recognized the right to food although its exact nature and implementation has been mooted.<sup>160</sup> According to the 1996 World Food Summit, food security exists when all people, at all times, have physical, social and economic access to sufficient, safe and nutritious food which meets their dietary needs and food preferences for an active and healthy life.<sup>161</sup>

Recently, some civic society activists have come up with the concept of “Food Sovereignty” as a response to the spillover effect of agricultural trade liberalization. Food Sovereignty is understood to mean the right of peoples, communities, and countries to define their own agricultural, labor, fishing, food and land policies, which are ecologically, socially economically and culturally appropriate to their unique circumstances; the primacy of people’s and communities rights to food and food

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<sup>159</sup>For instance, President George W. Bush in his address to the Future Farmers of America in Washington in July 2001, stated that:

*‘It’s important for our nation to build - to grow foodstuffs, to feed our people. Can you imagine a country that was unable to grow enough food to feed the people? It would be a nation subject to international pressure. It would be a nation at risk. And so when we’re talking about American agriculture, we’re really talking about a national security issue.’* See the Whitehouse “President’s remarks to the future farmers of America”, <[www.whitehouse.gov/news/releases/2001/07/20010727-2.html](http://www.whitehouse.gov/news/releases/2001/07/20010727-2.html).>

[last accessed, 31 March 2007]

<sup>160</sup> See for instance, Article 11 of the *International Covenant on Economic, Social and Cultural Rights* Adopted 16 December 1966, entry into force 3 January 1976. The right to food is also recognized in most national constitutions. See, for instance, the Constitution the Federal Democratic Republic of Ethiopia, Article 90(1).

<sup>161</sup> FAO, (2003), 28



production, over trade concerns.<sup>162</sup> While this concept doesn't contradict with food trade per se, it emphasizes that countries should have enough policy space to attain food security through self-reliant means (production or purchasing).

The AoA also aims at ensuring that food aid should not be tied to commercial exports of agricultural products to a recipient country and that to the extent possible, the aid be given in a full grant form or on terms less concessional than under other instruments such as the Food Aid Convention of 1986.<sup>163</sup>

Ethiopia has experienced critical food insecurity for the last few decades due to both natural (e.g. drought) and human (e.g. ineffective policy) factors in spite of ample potential for adequate food production.<sup>164</sup> Thus, the country has been substantially relying on food aid.<sup>165</sup> Of course, the government has been devising different policy measures with the view to ensuring food security. In line with the National economic policy-ADLI, an extension program called 'Participatory Demonstration and Training System (PADETS)' was launched in 1995.<sup>166</sup> The main objective of the scheme is to attain adequate food production to meet the fast growing population of Ethiopia.<sup>167</sup> Recently, the government has introduced similar ambitious programs aiming at ensuring food security.<sup>168</sup>

As regards the measures at the multilateral level, for LDCs and Net Food Importing Developing Countries (NFIDC) such as Ethiopia, the reduction of domestic support and export subsidy by developed countries under the AoA may result in rising

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<sup>162</sup> United Nations Economic and Social Council, Commission on Human Rights, *Report submitted by the Special Rapporteur on the Right to Food, Jean Ziegler, E/CN.4/2004/10*, 9 February 2004.

<sup>163</sup> See Article 10(2) and (4) of the AoA.

<sup>164</sup> EEA (2004) 2000-209

<sup>165</sup> Eshete et al (2002) 144

<sup>166</sup> Metaferia, Yonas, (2006) 230

<sup>167</sup> Ibid

<sup>168</sup> These programs include: 'Sustainable Development and Poverty Reduction Program (SDPRP)' which covered three years between 2000/01-2003/04. Within the context of SDPRP and the subsequent 'Plan for Accelerated and Sustained Development to End Poverty' (PASDEP) to be operational between 2005 -2010, the government aims at ensuring food security resting on three pillars: increasing the supply of food, improving access to food, and strengthening Ethiopia's emergency response capabilities (EMFTR (2007) 10ff).

agricultural commercial prices of basic foodstuffs.<sup>169</sup> If donors are not left with surplus, which goes for food aid, the recipients will obviously be affected. Ethiopia can feel this effect irrespective of her accession to the WTO.

On the other hand, at the national level as the agricultural sector has already been liberalized, further reform measures in the process of the accession negotiations may have its own implications on smallholder farmers. Unless a relatively higher bound rate is negotiated, cheap food products might be imported to the Ethiopian market. This may subject the subsistence farmers to fierce competition even at the domestic market.<sup>170</sup> Here it could be argued that the country's unique staples may discourage the demand for imported food products.<sup>171</sup> However, this unique food habit can definitely change if other alternatives are available. Thus the possible cheap food import could be a disincentive to subsistence farmers, which may eventually drive them out of food production-risking a predictable food supply. Although cheap imports could be to the benefit of consumers, that may not always be the case.<sup>172</sup>

On the other hand, if Ethiopia lifts the current restriction on seeds with terminator technology, (which are often patented and hence protected under the TRIPS Agreement) the farmers may resort to such seeds for the immediate benefit of better yield. This proposition cannot be a mere speculation given the fact that the current seed supply by Ethiopian Seeds Enterprise is short of farmers' demands. For instance, in 2005 the Enterprise could supply only 27 percent of the total seed demand for the country.<sup>173</sup> This may eventually put Ethiopian subsistence farmers at the mercy of transnational seed corporations, which could be dangerous to both food

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<sup>169</sup> Desta(2001) 452

<sup>170</sup> While this has not been the case so far in spite of the low applied rate, the accession may give importers a gesture for predictability of the market, which would encourage the import of cheap (subsidized) products.

<sup>171</sup> The notable staples of Ethiopia include "teff" which grows only in Ethiopia and perhaps in Eritrea and "inset"-a staple food particularly in the Southern part of Ethiopia.

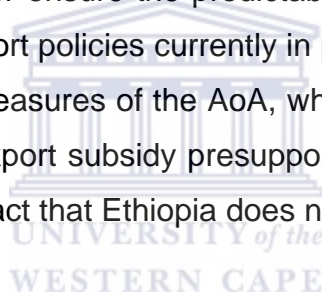
<sup>172</sup> Contrary to the conventional belief, there is no guarantee that even consumers will benefit from such cheap imports as was seen in Mexico and Zambia. See United Nations Economic and Social Council, Commission on Human Rights, *Report submitted by the Special Rapporteur on the Right to Food, Jean Ziegler, E/CN.4/2004/10*, 9 February 2004.

<sup>173</sup> Ahmed et.al (2006) 246

security and biodiversity. Thus the government should strengthen the production of improved seeds through the current extension programs.

#### **4.7. Conclusion**

Agriculture is the driving force of the Ethiopian economy, which is also recognized by adopting a policy that attaches priority to the sector. Most of the existing agricultural policies on agriculture are compatible with the AoA provisions as they relate to LDCs. Regarding market access, as the country has significantly and perhaps unilaterally reduced her import tariffs and in principle does not administer non-tariff boarder measures, it could be said that the existing policy is compatible with the AoA provisions on market access. On the other hand, it is doubtful whether accession to the WTO of itself will bolster the existing and potential markets for agricultural products although it may better ensure the predictability of such markets. Virtually all the agricultural domestic support policies currently in place fall under either the “Green Box” or “Development Box” measures of the AoA, which are generally exempted from reduction commitments. As export subsidy presuppose strong financial resource, it is not surprising to observe the fact that Ethiopia does not subsidize agricultural exports.



## Chapter V - Conclusion and Recommendations

### 5.1. Conclusion

Since the establishment of the WTO as the only organization dealing with rules of global trade, a number of countries, including few LDCs, have acceded to it either because of the real benefit of the multilateral trading system or due to lack of a better alternative. In spite of the more favorable terms of accession pledged to LDCs under the Doha Mandate, there is little evidence that such newly acceding countries are granted significant differential terms; the accession process is still lengthy and complex. Although the global trade under the auspices of the WTO is generally considered as beneficial and a step towards integration into the global market, there is a general shift in the GATT/WTO's role from mere trade liberalization on the basis of non-discrimination to trade regulation through harmonization of rules (standards), intruding into those areas which used to be under the exclusive sovereignty of a member. Thus, the extent to which a member actually benefits from its WTO membership depends on its economic competitiveness more than ever before.

The GATT 1947 could not liberalise agricultural trade through tariff reduction as it did in other sectors due, at least in part, to the exceptional rules applied to the sector and also the members' lack of adherence to the rules in place. The AoA, which was negotiated during the Uruguay round of trade negotiations (1986-1995), is considered by many as a remarkable move in disciplining agriculture in the three pillars of: market access, domestic support and export subsidy. While no significant progress has been made in the Doha negotiations so far owing to the disagreements over perennial issues in agricultural trade and newly emerging areas, the ambitious reduction of domestic support by rich countries and elimination of all forms of export subsidies as provided by the July 2004 Framework Agreement and later the Hong Kong Ministerial Declarations are generally deemed to benefit particularly developing countries. At the same time, the elimination of export subsidies may negatively affect net food importing countries, which are presumed to benefit from lower price of subsidized food products.

Thus, it is at the time when no further concrete agricultural trade liberalization commitments are reached under the current Doha round of trade negotiations, despite a number of proposals, that Ethiopia whose economy predominantly relies on agriculture has taken a step for WTO accession by submitting her memorandum of foreign trade regime.

Indeed, most of Ethiopia's existing agricultural policies are compatible with the AoA provisions.

Regarding market access, as the country has significantly, and perhaps unilaterally, reduced her import tariffs and in principle does not administer non-tariff boarder measures, it could be said that the existing policies are compatible with the AoA. All the same, the country is expected to bind all the existing import tariffs. It is also likely that further reduction commitments might be requested during accession negotiations. On the other hand, it is doubtful whether accession to the WTO of itself bolsters the existing and potential markets for agricultural products although it may better ensure the predictability of such markets. The main obstacle in this regard is the high level of Sanitary and phytosanitary (SPS) measures administered by the potential markets of Ethiopia. The expansion and effective utilization of the potential markets, as always, depends on curbing the supply side constraints.

Virtually all the agricultural domestic support policies currently in place fall under either the 'Green Box' or 'Development Box' measures of the AoA, which are generally exempted from reduction commitments of the 'Amber Box'. In fact, Ethiopia can introduce, subject to no reduction commitments, the 'Amber Box' measures so long as the support does not exceed 10 percent of the production of the year concerned, the '*deminimis level*' –allowed for developing countries in general.

As export subsidy presupposes strong financial resource, it is not surprising to observe that Ethiopia does not subsidize her agricultural exports.

On the other hand, the ambitious reduction of agricultural export subsidies and domestic support may lead to a substantial increment in the price of food products, which definitely increases Ethiopia's import bills. Of course, if Ethiopia boosts the quality and quantity of its exports, the reduction of export subsidies in the developed countries can be translated to her benefit.

In spite of adequate potential for food production, the country has experienced chronic food insecurity for the last few decades due to both human and natural factors. In this regard, the possible increase in food prices due to the reduction of export subsidies and domestic support by the developed country members may affect Ethiopia, which significantly depends on food imports either in the form of aid or commercial import. In fact, Ethiopia would feel this effect irrespective of her WTO accession.

At the national level, however, further reduction of agricultural import tariffs during the accession negotiations may lead to the import of cheap subsidized products. Besides, the importation and the protection of patent rights to genetically modified crops with terminator technology may put Ethiopian subsistence farmers at the mercy of transactional seed corporations. Indeed, the latter two measures may potentially drive Ethiopian farmers from the sector which will endanger food security and also biodiversity

## 5.2. Recommendations

In the light of the above conclusions, the following measures should be taken into account to ensure that the accession works to the benefit of Ethiopia.

Firstly, WTO accession should not be seen as a sufficient condition for integration into the global market. The possible benefits from WTO membership generally hinge upon a number of factors including the economic and human power of a member, and good governance at home. Thus the government should exert an all out effort to ensure good governance and work towards improvement of economic competitiveness while also focusing on equipping its officials (negotiators) with the necessary knowledge of WTO laws and procedures.

In view of the general consensus, at least under the current Doha round of trade negotiations, that SDT for developing countries should be a cross cutting agenda at WTO, and preferential accession process for LDCs (as pledged by the Doha Ministerial Declaration of 2001 and the General Council Decision of 2003), Ethiopia should adhere to more favourable treatment in the negotiations of all the three pillars of the AoA. While adherence to the pledge alone may not be enough to secure all the required concessions as could be observed from the experience of other LDC which acceded to the WTO so far, this approach can result in a reasonable degree of flexibility if based on specific justifications, including the economic realities of Ethiopia.

Regarding market access, the country has already undertaken a substantial economic liberalization, which in fact amounts to a WTO-plus requirement. Unfortunately, however, this unilateral liberalization, albeit under the auspices of the IMF/World Bank, cannot be a 'price' for WTO membership. Thus, in the course of the accession process, there could be a possibility for further reduction of import tariffs and also concession for a bound rate, which may not be significantly beyond the applied tariff rate. In this regard, it is wise to push for higher bound rates. Such high bound rates will give the government a policy space to increase or decrease the tariff (within the



bound rate) with the view to protect the subsistence farmers without also harming the consumers.

In addition to the general safeguard measures under the WTO, possible concessions for Special Safeguard Measures and Tariff Rate Quotas may reduce the risk of a potential surge in imports. Moreover, the extension of protection to patented genetically modified crops with terminator technology (in the event that the current restriction on imports of such products is challenged during the accession negotiation) may eventually put Ethiopian subsistence farmers at the mercy of transnational seed corporations which could be dangerous to both biodiversity and food security. Therefore, to the extent possible the government should work towards boosting the availability of improved seeds through the various extension programs.

In sum, WTO accession does not have a significant effect on Ethiopia's agriculture in terms of domestic support and export subsidies. Although WTO accession of itself may not bolster market access, quite in line with the intended role of the Ethiopia Agriculture, it can offer more predictable market access although non-tariff barriers (specially technical, and Sanitary and Phytosanitary measures) remain notable market entry challenges. Thus the country should work towards boosting the quality and quantity of her agricultural production and exports. This in turn depends on curbing the supply side constraints such as poor infrastructure and backward technology. In fact, the accession itself (if backed by good governance) can contribute to the government's efforts in curbing some of the supply side constraints through foreign direct investment. If, *inter alia*, the above recommendations are taken into account the accession can benefit Ethiopia.

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