

Special Topic:

*Doha Development Round: Current State of the Negotiations, Issues and Implications**

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The negotiations on agriculture in the Doha Development Agenda Round: current status and future prospects

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Summary

The paper briefly discusses developments in the negotiations on agriculture in the WTO Doha Development Agenda Round from January 2000 to September 2005 and identifies the main elements to be considered when speculating on the outcome of the Ministerial Conference in Hong Kong.

Keywords: WTO, Doha Development Agenda Round, agricultural trade, trade liberalisation

JEL classification: F13, Q17

1. Introduction

Since the Doha Development Agenda (DDA) Round was launched in 2001, a number of successive deadlines have not been met. There has, nevertheless, been progress in specific areas. The objective of this note is to provide some background information, a brief discussion of what has been debated, what has been agreed, what the unresolved issues are and what is likely to

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be ahead. The focus will be on the main elements of the negotiations and details will be kept to a minimum.

2. The early steps, from Marrakech to Doha

The 1994 Uruguay Round Agreement on Agriculture included a commitment to start new negotiations on agriculture by the end of 1999. The 1999 Ministerial meeting to launch this Round ended in failure in Seattle. Opposition to 'globalisation' as a whole gained momentum in the media and in public opinion, and resulted in greater public scrutiny of the negotiations by non-governmental organisations. In spite of the Seattle failure, negotiations started on agriculture and services in early 2000. Six 'Special sessions' of the Committee on Agriculture led to intensive discussions and a stock-taking in 2001.

3. From Doha to Cancún

In November 2001, the negotiations officially entered a new phase with the Doha Ministerial Declaration (WT/MIN(01)/DEC/1).¹ The Doha Declaration introduced a new dynamism to the continuing negotiation on agriculture and services. The agricultural negotiations became part of a 'single undertaking', which was supposed to end by 1 January 2005. The Doha Ministerial meeting also decided a (limited) expansion of the agenda of the negotiations, including non-agricultural market access (NAMA).

The Doha Declaration provided a better definition of the mandate for the agriculture negotiation. The Declaration includes commitments to aim at 'substantial improvements in market access'; 'reductions of, with a view to phasing out, all forms of export subsidies'; and 'substantial reductions in trade-distorting domestic support'. The need for 'Special and differential treatment' for developing countries and the need to take into account the demands of these countries in terms of food security and rural development were acknowledged.

However, achieving the goals set out in the Declaration proved difficult. Successive deadlines regarding the definition of the 'modalities' of an agreement have not been met. The 2003 draft agreement by the Chairman of the Committee on Agriculture, Stuart Harbinson (TN/AG/W/1/Rev.1), was not adopted by the member countries. Yet it is noteworthy that even if it has no official value, this draft still acts as a relevant reference point in the negotiations. This is because it is still the only document that has proposed a set of precise commitments and, furthermore, it still appears close to the centre of gravity of the positions of the various members. Following the lack of consensus on the modalities in September 2003, the participants to the Cancún Ministerial conference failed to reach an agreement. The failure occurred on

¹ The WTO documents cited in the text are available on the WTO website, at www.wto.org.

the 'Singapore issues',² but agriculture certainly contributed to the deadlock. 'Failures' are not uncommon in WTO negotiations. However, the failure of the Cancún Ministerial conference was different from previous ones. During this meeting, a major antagonism emerged between developed and developing countries. The analysis of the initial negotiation proposals shows that the group of developing countries has diverging interests, in particular on market access (see Bjørnskov and Lind, 2005). They nevertheless stood as a relatively united group, in front of the rigid positions of the European Union and the United States on issues such as export subsidies, and, perhaps a more important stumbling block, cotton subsidies. A particularly influential group known subsequently as the 'G20' (see Matthews, 2005) emerged as a powerful party in the negotiation. The G20 agenda (WT/MIN(03)/W/6, 2003) included demands for a large degree of trade liberalisation from developed countries, combined with demands for strong special and differential treatment for developing countries; this has so far made it possible to keep a large group of relatively non-homogeneous developing countries united.

The main consequence of the Cancún conference is, perhaps, that developing countries emerged as real players. Cancún proved that their concerns had to be taken into consideration for any future agreement to be reached. This contrasted sharply with the Uruguay Round where, because of the limited benefits, if any, of the Agreement on Agriculture and the overall negative consequences of the TRIPS Agreement, developing countries felt short-changed and that they had little influence on the outcome of the negotiations.

4. From Cancún to July 2005

Nothing really happened for several months after Cancún (formal negotiation sessions were 'discontinued' for several months). Then, in the first part of 2004 a set of individual initiatives, including those taken by the US Trade Representative and the EU Commissioners for trade and agriculture, managed to revitalise the discussion. Perhaps the most important development was the letter by EU Commissioners Pascal Lamy and Franz Fischler on 9 May 2004 announcing the EU's intention of dropping the request to have three of the four Singapore issues on the agenda (keeping only the least controversial one, trade facilitation) and, most notably, agreeing to the elimination of export subsidies as long as 'all forms of export competition' are subject to the same commitment. The political skill of the Chairperson Tim Groser during the early part of 2004 made the August 2004 Framework Agreement (FA) possible (WT/L/579). Annex A of this document, *Framework for Establishing Modalities in Agriculture*, contains the provisions for this sector; it

2 The four so-called Singapore issues are: trade and investment (introducing a framework to secure transparent, stable and predictable conditions for long-term cross-border investment); trade and competition policy; trade facilitation (expediting the movement, release and clearance of goods); and transparency in government procurement.

describes some key features of future modalities, but does not go into detail. No precise quantified commitment is made. However, the fact that an agreement was reached was a major accomplishment in itself. In that sense, the FA gave a strong political signal confirming the consensus on the 'legitimisation' of the WTO and allowing the round to restart.

On agriculture, the agreement includes steps forward, such as the commitment to eliminate 'by a credible end date' all forms of export subsidisation, and for a progressive reduction of tariffs and domestic support. However, the formulae to be used for tariff and domestic support reduction and the exact cuts that will be made are not specified. This has left a lot of room for long and difficult negotiations. In addition, the agreement explicitly opens the door for 'flexibilities', which could limit considerably the scope of an agreement, if member countries use them, as might be expected, as a way to exclude politically sensitive products from the discipline of the future agreement.

On some issues of considerable importance for developing countries, the FA remains particularly elusive. There is a commitment to negotiate a 'cotton initiative',³ and for this negotiation to be part of the negotiation on agriculture (rather than a stand-alone one), but not even general principles are set out for new disciplines in this sector. There is also a commitment that special and differential treatments for developing and least developed countries will be considered, but the exact implications remain vague (although it seems that least developed countries will face basically no obligations). A particular set of 'issues of interest but not agreed' includes commodity-specific commitments ('sectoral initiatives'), geographical indications for agro-food products other than wines and spirits⁴ and differential export taxes. This means that there is not even a consensus that these issues have to be part of any future agreement.

According to the FA, the expected schedule of the negotiations was to reach an agreement on most of the modalities before August 2005, and then reach a consensus on an advanced draft before the 13–18 December Ministerial Conference in Hong Kong, where a political compromise on the unresolved issues was expected to take place. After August 2004, intensive activity developed. However, the Committee chairman Groser was unable to produce a 'first approximation' of the modalities by the end of July 2005, as planned. Before his resignation and replacement by Crawford Falconer at the end of July 2005, Groser had to admit that negotiations on agriculture were 'stalled' (TN/AG/19).

3 The issue was brought to the centre stage of the negotiations at the Ministerial conference in Cancún by four of the poorest countries in the world—Burkina Faso, Benin, Chad and Mali—who asked for the elimination of all forms of subsidisation for cotton by developed countries, making clear that they would not sign an agreement that did not adequately address this issue.

4 The EU and others are asking for a limited number of geographical indications for food products to be granted protection within the agreement on agriculture. This is a different negotiation from that taking place within TRIPS, which, so far, relates to protecting geographical denominations for wines and spirits only.

5. Towards the agricultural 'modalities'

The possibility that an agreement on the modalities will be reached before 2006 is now rather small. Regarding agriculture, points of friction can be identified in each of the three pillars, (i.e. market access, domestic support and export competition) as well as other specific issues, such as cotton, special and differential treatment for developing countries, and intellectual property rights.

5.1. Market access

Market access is perhaps where obstacles to a consensus are greater. It is a crucial point in the negotiation, because without significant tariff cuts little trade liberalisation will be achieved. Large reductions in tariffs would force a number of countries to reform their agricultural policies, making this issue particularly sensitive.

The FA specifies that tariffs will be reduced using a 'tiered formula', involving deeper cuts in higher tariffs; that these cuts will be applied to bound rates, rather than to applied ones; that 'Members may designate an appropriate number, to be negotiated, of tariff lines to be treated as sensitive' (lower tariff reductions would therefore be applied but tariff rate quotas (TRQs), to be administered on a 'most favoured nation' (MFN) basis, would be expanded); that in-quota tariffs for existing TRQs will be reduced or eliminated; that tariff escalation (i.e. higher tariffs for processed products) would be 'addressed through a formula to be agreed' (WT/L/579). For developing countries, provisions regarding preference erosion, as well as various possibilities for flexibility in implementing tariff reduction commitments, are included in the section on 'Special and differential treatment'.

The FA remains elusive on the technical aspects of market access commitments. The impact of the agreement will depend on the size of the cuts and the extent of the negotiated exceptions. The tiers need to be agreed upon (how many? which thresholds?), as well as the tariff reduction formula and its parameters. These have proved to be difficult issues. The way countries can define 'sensitive products' is crucial for a final agreement to result in some genuine liberalisation (Anderson *et al.*, 2005; Jean *et al.*, 2005). The rules governing the eligibility of a product for the 'sensitive' category (and the possible concessions on other products that some member countries would like to see as compensation) also need to be decided.

The definition of modalities in the tariff reduction area involves very technical issues. This partly explains why progress has been slow. The tiered approach should ensure a degree of harmonisation of tariff levels. Linear cuts (with or without flexibilities) or the Swiss formula⁵ within a system of

5 The Swiss Formula mandates proportionately larger cuts in high tariffs and imposes a maximum tariff. The formula can be expressed as $t_{\text{new}} = (at)/(a + t)$, where t is the initial tariff and a is the upper bound for all new tariffs t_{new} . Using this formula and setting $a = 25$, for example, an initial tariff of 25 per cent would be reduced by 50 per cent, and a tariff of 100 per cent would be reduced by 80 per cent. This formula has a relatively greater impact on the average tariff of countries where the tariff structure includes a large number of tariff peaks.

bands have been identified as a basis for discussion. However, the impact of these formulae depends crucially on the parameters and thresholds chosen. In addition, when defining the precise commitments, the formulae proposed sometimes result in paradoxes, which result in long debates and delay the prospect of an agreement. An example of how moving from the FA to the modalities may be very cumbersome is tariff escalation; the FA states that tariff escalation ‘will be addressed through a formula to be agreed’, but in practice this could require very complex rules, given the difficulty of characterising tariff escalation when there are several protected inputs, and the multiple possibilities for classifying products as ‘processed’.

Some progress on the technical issues has been made in 2005. After months of debate, member countries finally agreed on a complex methodology to express specific and composite tariffs as a percentage equivalent, which was required in order to be able to place each tariff within a tier. The actual impact of a reduction of tariffs results from the combination of the tiers, the formula and the parameters, the presence or not of a tariff cap and the discipline with the ‘sensitive products’.

Until July 2005, the negotiation attempted to develop ‘incrementally’, by considering the elements of the modalities for market access one at a time. The approach proved long and frustrating. The negotiation is currently evolving around a proposal made by the G20 in the Mini-Ministerial meeting in Dalian, China, in July 2005, which for developed countries foresees five tiers, linear tariff cuts and a tariff cap equal to 100 per cent.

5.2. Domestic support

The FA states that higher levels of trade-distorting support will be subject to deeper cuts, also using a ‘tiered formula’; that total trade-distorting support (i.e. the sum of the support in the so-called ‘amber’ and ‘blue’ boxes and that notified under the *de minimis*⁶ clause) as well as ‘amber’ box and *de minimis* supports will each be subject to specific reduction commitments; that product-specific Aggregate Measurement of Support (AMS) will be capped at its average levels in current years; that total trade-distorting support will be cut by 20 per cent in the first year of implementation of the agreement; and that AMS reductions will be applied to bound levels. The ‘blue box’ has been modified (to include ‘counter-cyclical payments’ currently in use in the USA) and will be further reviewed; the support falling in this box will be capped at 5 per cent of the average value of production, with flexibility for countries with an ‘exceptionally large’ share of support in this category. Finally, the green box will be ‘reviewed and clarified’, which means that

6 The Uruguay Round Agreement permits countries to provide ‘minimal’ support to both individual products and the agricultural sector as a whole, through product-specific and non-product-specific *de minimis* provisions. As long as support under each of these provisions is less than 5 per cent (10 per cent for developing countries) of the value of production, this support may not count against the total AMS.

the eligibility of the various forms of payments to the exemption from reduction commitments will be examined.

The FA left several issues to be decided: the tiers, reduction formula and parameters for total support reduction as well as for the 'amber box' and *de minimis* components. The flexibilities allowing developing countries to support their agricultural sectors also need to be given a more concrete content.

Domestic support is seen as raising fewer difficulties in the negotiations than market access. Because the FA states that reductions in distorting support will be made on the basis of the bound levels, which act at present as ceilings, this should result in only limited constraints for some major players, unless very high percentage reductions take place (Blandford, 2005). For example, the European Union notified only 39.3 billion euros of trade-distorting support in 2001–2002 (for a bound AMS, or permitted level, of 67.2 billion euros, to which one could add some 23.7 billion euros currently falling in the 'blue box') (G/AG/N/EEC/51, 2004). Because the 2003 CAP reforms are expected to shift most of the direct payments from the 'amber' and 'blue' boxes into the 'green' box, a reduction in the European AMS ceiling of about 60–70 per cent should be painless. This is, however, not the case for the countries that are close to their bound levels, such as South Korea or Norway.

Disagreement nevertheless persists on several issues. The FA states that countries will undertake commitments on the 'overall trade-distorting' support, which sums the 'amber box', the 'blue box' and the *de minimis*. Countries will also undertake commitments on each of the three components. In addition, there will be limitations on the AMS support for individual commodities (product-specific caps). Because countries make different use of the different components of support, decisions on percentage reductions and ceilings in each component are matters of considerable controversy.

Countries such as the USA would have great difficulty in complying with caps on the product-specific total support without reforming their policies, unless the base period to calculate these caps coincides with the recent years when support has been particularly high; compliance would be particularly difficult in sectors such as rice, cotton, dairy and peanuts, at least in periods of market instability. More generally, developed countries are reluctant to give up degrees of freedom in policy design and implementation. Special and differential treatment in the domestic support area is also difficult because some developing countries would like to use the provisions of an agreement to get around the WTO discipline, and keep the possibility of protecting and subsidising their farmers—a vision that contradicts that of the Cairns group.

The EU, Japan and the USA alone account for more than 80 per cent of currently notified total AMS. This means that when discussing the definition of tiers and percentage reductions within each tier, what is actually being discussed is mainly the specific commitments to be imposed on these three members. The continuing discussion is centred around using three tiers, with the EU ending up in the highest tier by itself and subject to the highest

percentage reduction commitments, and with Japan falling in the second tier, possibly together with the USA.

5.3. Export competition

In the area of export competition, the FA represents a landmark, because, for the first time, all members, including the European Union, agreed to eliminate export subsidies 'by a credible end date'. It states that subsidised export credits (financing), trade-distorting practices of exporting State Trading Enterprises (STEs), and improper forms of food aid that displace commercial purchases will be eliminated in parallel. Again, the Agreement includes some flexibility, stating that the phasing will take into account the 'need for some coherence with internal reform steps of members'.

Discussions that have taken place since August 2004 suggest that an agreement is in sight on the main issues. For subsidised export credits or financing, this should include provisions regarding the maximum date for repayments (180 days) and minimum interest rates. An agreement is also in sight on rules regarding the elimination of public funding (including the underwriting of losses) to STEs, and on provisions of food aid. Concerns have been raised about the potential negative impact that the proposed new disciplines on food aid may have on the availability of food in emergencies.

The 'credible end date' is still a matter of negotiation. Even though export subsidies are much less central to the CAP than they were a decade ago, for certain products they are still an important element of policy intervention (Swinbank, 2005). Giving up the possibility of clearing the internal EU market using 'export refunds' will require a significant reduction in support for certain commodities, or major adjustments of the policies in place, possibly with significant budget implication. It is very unlikely that a date earlier than 2010 will be agreed.

5.4. Other areas

The post-FA discussions have not yet resolved important bones of contention outside the three 'pillars'. Reflecting the Doha mandate, the FA does provide for special and differential treatment for developing countries (this is the focus of the paper by Matthews in this issue of the Journal). Negotiations do not seem to have led to significant progress on the 'cotton initiative'. Accepting the request by Benin, Burkina Faso, Chad and Mali to eliminate all trade-distorting forms of support in developed countries affecting cotton would require major changes in US cotton policy, which will meet fierce internal resistance. It is noteworthy, however, that even in the absence of progress under the DDA Round, the final ruling in the WTO dispute initiated by Brazil will push for such a reform. Negotiation in TRIPS on the geographical indications of origin for wine and spirits also seems to be stalled, and no agreement emerged to start negotiations to extend protection for geographical

indications to other agro-food products, neither in the TRIPS negotiation, nor within the negotiation on agriculture.

Outside the agricultural negotiations, limited progress seems to have been made. Negotiations on NAMA have not made significant progress; negotiations on services have stalled, and there is strong resistance from developing countries to make any progress in this area. Negotiations have started, however, on 'trade facilitation', and appear much less controversial than in the other areas. It is widely perceived that agriculture is blocking the Round and little will happen in the other relevant negotiations unless the main details of the agreement on agriculture are agreed upon, allowing countries an assessment of the overall ambition of the agreement in sight.

6. Looking ahead to the Hong Kong Ministerial conference

In Cancún, developing countries proved themselves able and ready to drive a Ministerial conference to failure. Hence, how the most important developing countries assess the costs and benefits of a rather unambitious agreement with respect to their expectations *relative to* those from no agreement at all will be an important factor. It should not be forgotten that the Doha Declaration put a lot of emphasis on this Round being a 'development' round. Developing countries decided to take the text of the Declaration seriously, claiming that the Round should yield an agreement that responds adequately to their demands in terms of better access to agricultural markets in developed countries and reductions in domestic support in developed country agricultures.

Despite the forecasts of many (and, perhaps, their wishes), the core of the G20 group proved not only capable of remaining united but also of producing credible negotiating proposals, even when this meant overcoming potential internal conflicts, as was the case for the proposal on market access put forward in July 2005 in Dalian. But clearly, the ability of developing countries to hold together as a group until the end of the negotiations will be tested.

However, the most important developing countries are not the only ones in the developing world to watch out for in Hong Kong. A similar assessment by some of the less important developing countries of the extent to which the draft agreement produced can answer their specific concerns—for example, for cotton and, possibly, bananas (see below)—may result in some of them refusing to sign, thereby driving the Ministerial conference to failure.⁷

At the other end of the spectrum, developed countries with the highest levels of support will make an assessment of costs and benefits of a relatively *ambitious* agreement on agriculture with respect to their expectations, *vis à vis* ending the Ministerial conference with no agreement.

If the final agreement has to be ambitious, then time is needed. It is difficult to believe that members such as the EU, the USA or Japan will ever sign an

7 In the WTO decisions on the rules are taken by consensus, i.e. *all* countries have to agree for a decision to be made.

agreement that implies changing their policies afterwards in order to comply with the commitments agreed. Making the needed policy changes depends on their internal decision process, and this may significantly delay the date of the agreement. However, countries that have no intention of reforming their policies further in the near future share the same interest in delaying the conclusion of the negotiations. Developments and timing of domestic policy changes are very important in shaping the future of the negotiations. The next US Farm Bill is expected to be decided in 2006 or 2007. Despite the messages sent at the time of its adoption and farmers' expectations, the 2003 Fischler reform of the CAP will not be the last one, and not simply because of external pressure, but also because of internal forces. The common market organisations for sugar, fruit and vegetables, and wine are to be reformed soon; enlargement to Romania and Bulgaria will probably impose further changes on the CAP; most importantly, the open confrontation on the EU budget and on the share absorbed by agriculture will probably end with a reduction in the resources available for agricultural policies in the medium term. This will induce further changes in the instruments used.

The DDA negotiations on agriculture are influenced, possibly more than many have yet realised, by the outcomes of the WTO dispute settlement mechanism (Swinbank and Tranter, 2005). The ending of the cotton and sugar disputes proved that developing countries can beat the main players in the WTO on very relevant policy issues. This has two main effects on the negotiations. It makes the reaching of an agreement *less* urgent for those countries that are expected to have to make limited changes to their own agricultural policies, as they are obtaining (and may reasonably expect to obtain in the future) significant benefits through the dispute settlement mechanism. On the other hand, it makes reaching an agreement *more* urgent for those members whose domestic policies proved to be vulnerable to the disputes, such the USA and the EU. For these members, a new agreement is needed to re-classify their domestic policies under new rules, and to introduce 'interpretations' and 'clarifications' of existing rules to shield their policies from challenge in the WTO dispute settlement system (Swinbank, 2005).⁸ The conclusion of the continuing disputes on genetically modified organisms and rice, among others, will either lower or put further pressure on countries, depending on which of the two groups one considers. Moreover, the conclusion of the arbitration on bananas (if the EU proposal for the tariffication of its existing TRQ for MFN imports of bananas is not found to provide at least equivalent market access to the current regime) will encourage many developing countries to put bananas at the centre of

8 In addition, the expiry on 31 December 2003 of the 'peace clause' (Uruguay Round Agreement on Agriculture, Article 13), now makes it possible for domestic policies that do not comply with WTO rules to be successfully challenged in the dispute settlement system even if they comply with the Agreement on Agriculture. Although countries have not made use of this opportunity so far, without the 'peace clause' the pressure for members such as the EU to reach an agreement (which will probably include a similar provision) increases.

the negotiation. Finally, what has been happening in the dispute settlement system means that all countries need to read and negotiate all the fine print of the final text of the agreement more carefully than was the case in the Uruguay Round.

In each country, there are forces interested in the rapid implementation of the other agreements that will be part of the single undertaking. These forces will exert significant pressure to bring an end to the negotiations on agriculture in order to conclude the Round.

Finally, an important factor in determining the evolution of the negotiations is the overall climate in international relations. It was possible to reach agreement in Doha on launching the Round partly because the Ministerial conference came only a few weeks after 11 September 2001. The conclusion of the Uruguay Round, with the EU and the USA finding a bilateral solution that was then approved by all members, was certainly in part driven by the leadership of these two entities: it was unreasonable for them to be fighting one another in the WTO while fighting side-by-side in a real war (the first Gulf war).

Having said all this, what is ahead? Three outcomes are possible in Hong Kong.

The first one envisages that, between September and December 2005, all countries take a few steps back with respect to their stands up to this point, and that a different negotiating mood emerges that makes all countries willing to find compromises on the many unresolved issues. This would leave the Ministerial conference to resolve a few more politically sensitive issues, resulting in the approval in Hong Kong of the modalities of the new agreement on agriculture.

The second, less optimistic, scenario foresees that finding consensus on all elements of the new agreement in Hong Kong will turn out to be impossible, but that an agreement is reached on at least some elements of the most controversial issues. The driving force behind such an agreement would be the realisation by *all* countries of the very high political cost of failure. However, the agreement reached will not include many relevant details of the “modalities”; this means that it will leave to subsequent negotiations the task of defining the actual level of agricultural trade liberalisation to be achieved by the DDA Round agreement.

The third alternative is that the Hong Kong Ministerial conference ends after failing to find a consensus on a meaningful agreement. This would make the failure of the Ministerial conference explicit and its political impact much stronger than in the second scenario (with a weak agreement).

The first of these three outcomes is very unlikely. The third is much more likely than many believe (or can publicly admit). The second possible outcome is the most likely. In this case, one should not be surprised if the agreement leaves the solution of some of the most controversial issues, namely market access, to future negotiations. However, for the reasons given above, this could either be good or bad news, regardless of one's hopes regarding the final agreement. In fact, it could mean the possibility of

either using extra time to undertake the domestic policy changes needed for a significant liberalisation to materialise, or waiting for a more favourable climate to close the Round with a 'weak' agreement, an agreement that will not induce any significant agricultural policy reform.

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