

WTO NEGOTIATIONS ON AGRICULTURE: WHAT IS AT STAKE IN CANCUN FOR LDCs?

Civil Society Forum recommends that:

- LDCs commit to zero reduction, have strong disciplines on domestic support;
- Developed countries eliminate all forms of export subsidies and peace clause;
- LDCs support the concept of special/strategic products;
- LDCs have the right to use additional duties based on a simple countervailing measure on subsidised imports, until trade-distorting support is effectively eliminated;
- Technical and financial assistance be given to LDCs to improve agricultural productivity and infrastructure, and for development of facilities and systems for compliance with sanitary and phytosanitary (SPS) requirement.

LDC Ministers agree that:

- There should be establishment of compensatory and other appropriate mechanisms to fully address the impact of erosion of preferences including measures that promote exports of LDCs.
- The implementation of the Marrakesh decision including the establishment of a revolving fund to ease short-term financing problems linked to import of basic foodstuffs.
- Food aid provided by members to meet emergency situations, humanitarian and development objectives and to address chronic food deficit situation in LDCs should be allowed.



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Background

Agriculture was included in the GATT (General Agreement on Tariffs and Trade) for the first time during the Uruguay Round (UR). The Agreement on Agriculture (AoA) that resulted set a framework of rules to reduce protection and trade distorting support for agriculture.

The AoA has classified member-countries into three categories: developed, developing, and least-developed countries (LDCs) and set separate level of commitments for these countries. Commitments under the AoA fall into three main categories: market access, domestic support and export competition. The AoA basically calls for "tariffication" of all physical controls on agricultural trade; reductions in tariffs, domestic support and export subsidies in a time-bound manner. It also provides scope for governments to pursue important "non-trade" concerns including food security, environment, structural adjustment, rural development and poverty alleviation. According to the AoA, although the LDCs' commitments include binding of tariff rates for all agricultural commodities, they are generally exempted from any tariff reduction commitments. LDCs are also exempted from commitments to reduce domestic supports and export subsidies. However, the WTO encourages LDCs to reduce tariff rates, domestic support and export subsidies on a voluntary basis. Many LDCs have already done so.

It was agreed in the UR that developed countries would implement their commitments within six years (1995-2000) and developing countries within ten (1995-2004). Article 20 of the AoA has a mandate for further negotiations in agriculture. Accordingly, a new round of negotiations began in March 2000. Stuart Harbinson, Director of the WTO Director-General's Office and former Permanent Representative of Hong Kong to the WTO, heads the Committee on Agriculture (CoA) and facilitates agriculture negotiations.

In this article, we have documented the ongoing negotiation process, status, proposals and issues of interest and concerns for the LDCs. We have also suggested some actions needed by the LDCs for the benefit of agricultural development and for attaining and sustaining food security in these countries.

Status of Ongoing Negotiation

The Fourth WTO Ministerial Meeting at Doha in November 2001 provided a new work program for negotiations in agricultural trade. It made the objectives more explicit; building on the work carried out so far, and set deadlines. At Doha, Ministers agreed that agriculture negotiations would take account of the developmental needs of developing countries, including food security and rural development ("non-trade concerns"). The Ministers took

note of the "non-trade concerns" reflected in the negotiating proposals submitted by the members and confirmed that these will be taken into account at negotiations as provided for in the AoA.

To date, there has been three phases of discussions. The first phase under AoA's "Built in Agenda" began in early 2000 and ended with a stocktaking meeting on March 26-27, 2001. In the first phase of negotiations, there were proposals from 121 countries (or 85 percent of WTO membership). The EU is considered as 16, i.e. the 15 countries and EU as a group. Including technical submissions, the proposals were received from 126 countries or 89 percent of the WTO's membership. Six negotiating meetings (officially called "Special Sessions" of the

"modalities" paper, and (iii) revised first draft of the "modalities" paper. It is expected that countries' comprehensive draft commitments and stocktaking will be completed by September when the Fifth Ministerial Conference takes place in Cancun. These are essential steps for the completion of negotiations by January 1, 2005 as a part of the single undertaking.

Based on proposals made during the agriculture negotiations (March to December 2002), Chairperson Stuart Harbinson prepared and circulated an Overview Paper in December 2002. Harbinson's paper was reviewed at a negotiation session of the Agriculture Committee in January. He then prepared a first draft on "modalities", drew on the Overview Paper, and circulated it in

every means. For example, rice farmers in the US receive US\$75,000 per household from the government in direct payments. The US' farm bill signed in May 2002 includes over US\$135 billion in new subsidies over the next 10 years. According to Per Pinstrup-Andersen, World Food Prize winner, the farm bill is a trade-distorting measure that hurts developing countries. The OECD countries already provide a support of US\$311 billion a year to the agriculture sector. European citizens are supporting the dairy industry to the tune of 16 billion a year. This is equivalent to more than US\$2 per cow per day. Half the world's people live on less than this amount. EU surpluses of milk and milk products are dumped on world markets using costly export subsidies, which destroy livelihoods in some of the world's poorest



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Agriculture Committee) were held during March 2000-March 2001. The second phase was initiated in April 2001 and ended in February 2002. More than 24 countries and alliances submitted proposals on issues to be discussed under the agriculture work programme. The third phase of negotiations reached an agreement on the "modalities" for further reforms. It also set up procedures for reform in agricultural trade policies of different countries. The "modalities" are targets (including numerical targets) for achieving negotiation objectives and rules-based issues. Although the target of reaching an agreement on "modalities" by March 31, 2003 was not achieved, there was significant development during this phase. Achievements in this phase include preparation, circulation and discussion of the following reports by the concerned parties: (i) overview draft, (ii) first draft of

February 2003, and formally submitted the paper on February 17, 2003. The first draft on "modalities" was discussed in a negotiation meeting held on February 24-28, 2003. After the meeting, Harbinson revised the first draft of the "modalities" paper and circulated the revised draft to the member governments in March. The revised draft was discussed during negotiations held on March 25-31, 2003 but there was no agreement on "modalities". The process is still ongoing.

Issues of Interest and Concerns for LDCs

Many experts perceive that the ongoing agriculture negotiations will not result in more liberalisation in the effective sense. Developed countries are preaching to the developing countries, urging them to open up their market whereas they themselves are protecting their own markets by any and

countries. Spending on the Common Agricultural Policy still consumes almost half the EU's budget. Japan's subsidies to its farmers, for instance, are greater than the entire contribution made by agriculture to the nation's economy. The total transfers to agriculture amounted to 1.4 percent of gross domestic product (GDP) in 2000, compared to the sector's 1.1 percent share of GDP.

Civil society members and LDC governments are aware of these developments and are developing strategies for the Cancun Ministerial. The International Civil Society Forum and the LDC Trade Ministers Pre-Cancun Ministerial, both held in Dhaka, gave much attention to these issues.

Actions Needed by LDCs

In view of the emerging challenges that originate from the ongoing WTO

negotiations, LDCs must engage themselves more proactively. Scholars and negotiators perceive agriculture to be either the "deal maker" or "deal breaker" in the forthcoming Cancun Ministerial. Therefore, future prospects of agricultural development and food security in LDCs depends on: (a) Preferential access of commodities from LDCs to the developed countries' market, (b) S&D from "Best Endeavours" to "Binding Commitment", (c) Elimination of the safeguard mechanism for developed countries. In the above-mentioned context, LDCs should take the following strategies in the ongoing negotiation on agriculture:

- **Zero Reduction Commitment by LDCs:** LDCs should support Harbinson's proposal that they would not be required to undertake any commitments for reduction of tariffs, domestic support and export subsidy. This provision is essential for LDCs considering the challenges of these countries to attain and maintain food security; promote rural development and address livelihood concerns.
- **Preferential Access of Agro-products from LDCs:** LDCs must support the provision stated in Harbinson's proposal that developed countries should provide preferential access for agricultural commodities from LDCs to their markets by allowing duty free and quota free access for the agro-products from LDCs.
- **Ensure Market-based Price in Developed Countries:** LDCs should support the proposal that developed countries must eliminate all types of subsidies and safeguard mechanisms to ensure market-based price for farm products.
- **Abolition of Peace Clause:** Peace clauses articulated by Article 13 of AoA provides a reverse S&D to the developed countries by allowing them to safeguard their interests against countervailing duties with respect to amber measures, for nine years (1995-2003). For agriculture, all domestic support measures considered to distort production and trade (with some exceptions) fall into the amber box. LDCs propose that the peace clause be abolished.
- **Technical Assistance and Capacity Building:** LDCs must demand that trade capacity building be a mandatory activity under WTO. Developed countries must contribute substantial amounts to the WTO for technical assistance and the capacity building of LDCs in the areas of market information, human resource and development. Assistance should also be given in the development of facilities and systems for compliance with SPS requirements of developed countries in the case of exports of shrimps and other agricultural commodities.

Finally, we would like to remind that there are enormous political and socio-cultural diversities among LDCs, but common economic interests and shared perspectives and approaches to globalisation have tied our fortunes (or rather our misfortunes), together. Our task is to translate the potential benefits emerging from closer cooperation into concrete benefits for our people. It is often impressed upon us that the WTO countries get not what they deserve, but what they negotiate. The experience of the last decade shows that it is almost impossible to make trade work for the poor due to the lack of capacity to negotiate and inability to pursue forcefully and with determination the issues that are of interest to us. It is only if we remain committed to the unity of our interest that we may aspire to not only play successfully by the rules of the game, but if required, change the rules of the game. The outcomes of Cancun must satisfy this question and in Cancun the Ministers must move towards this. Hopefully, the Dhaka Declaration of the LDC Ministerial Meeting is a positive step towards that goal.

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The Harbinson Draft

Stuart Harbinson's first draft on Modalities of 17 February 2003 was revised and discussed during the negotiations held on 25-31 March 2003. There were no major changes in the revised draft. Harbinson himself noted this in his introductory comments. The major proposals put forward in the first draft on "Modalities" are discussed below under three issues: (a) Market access, (b) Domestic support, and (c) Export competition. The commitment expected of the LDCs, and the eventual S&DT to be provided acceding LDCs and other disadvantaged grouping are also mentioned.

Market Access: Harbinson suggested different levels of commitments by developed and developing countries for market access. He suggested that developed countries should reduce tariffs (i) by 60 percent on average, with a minimum cut of 45 percent for commodities having tariffs higher than 90 percent; (ii) by 50 percent on average, but at least by 35 percent per tariff line for commodities having tariffs between 90 and 15 percent; (iii) by 40 percent on an average and 25 percent minimum cut per tariff line for commodities having tariffs from 15 percent downwards.

He added that all tariffs in developed countries would be reduced in equal instalments within a five-year term and the safeguard mechanism would be eliminated for developed countries. For developing countries, Harbinson proposed a ten-year implementation period. In the case of reduction of tariffs by developing countries, he suggested that: (i) commodities that have tariffs beyond 120 percent should be reduced by 40 percent on an average and at least 30 percent per tariff line, (ii) commodities with tariffs between 120 and 20 percent should be reduced to 33 percent on average and 23 percent per tariff line, and (iii) commodities with tariffs of 20 percent and lower should be reduced to 27 percent and at least 17 percent per tariff line. Harbinson's proposal allowed developing countries to denominate a number of "strategic products [SP] with respect to food security, rural development and/or livelihood security concerns" and tariffs for strategic products would need to cut by ten percent on average, but at least by five percent per tariff line. In addition, developing countries could take recourse to the existing special safeguard mechanism for these SP products. The draft on Modalities also suggested elimination of special safeguards (Article 5 of the Uruguay Round AoA) for developed countries.

Attachment 1 of the Modalities Draft suggests a series of new discipline on the administration of tariff quotas. Tariff quotas were used as a follow-up of the UR to ensure the maintenance of "current access opportunities" or to impose "minimum access opportunities" where the "tariffication" of pre-existing non-tariff barriers created prohibitive market protection. It may be noted that the issue of tariff quota drew much concern among the members during Phase 1 and 2 of negotiations. Developing countries would not be required to expand their tariff quotas for SP products. Other quotas have to be expanded to at least 6.6 percent of current domestic consumption. Up to one-quarter of such quotas could be expanded to 5 percent only, provided an equivalent number is

increased to 8 percent. Tariff quotas would be implemented over 10-year period.

Domestic Support: Harbinson's proposal suggested that the Green Box would be maintained in its existing format, but its discipline would be strengthened. He suggested that further flexibilities would be provided to developing countries for the pursuit of food security and rural development objectives. According to the Harbinson's proposal, developed countries could also take recourse to an expanded AoA Article 6.2 Box (S&DT Box), allowing them to provide unlimited trade-distorting subsidies to promote rural development. Harbinson suggested that the Blue Box (only partly decoupled subsidies under production-limiting programs) would be maintained, but its expenditures capped/bound and reduced by 50 percent over five years. Developing countries would be given S&DT for the Blue Box subsidies. It may be noted here that currently no developing countries are providing subsidies under the Blue Box and only six developed countries (The EU, Japan, Iceland, Norway, Slovak Republic and Slovenia) are providing Blue Box subsidies. For the Amber Box (trade distorting support), the aggregate measurement of support (AMS) would decrease by 60 percent in five years for developed countries and 40 percent in 10 years for developing countries.

Export Competition: Harbinson suggested that developed countries would have to phase out at least 50 percent of export subsidies within 5 years, and the rest would be reduced to zero in 9 years. Developing countries would have to phase out at least 50 percent of the subsidies by 10 years and the rest would be reduced to zero in 12 years. Regarding the treatment of export credits, Harbinson distinguishes between financing support conforming to a set of detailed conditions, and non-conforming financing support, which would be "subject to specific financing reduction commitments". It is proposed in Attachment 5 that food aid be exclusively in grant form and not tied to commercial exports to the recipient countries. Regarding state trading enterprises (STEs), it is proposed that STEs should not be operated in a manner either to circumvent export subsidy commitments or to undermine competition in world markets.

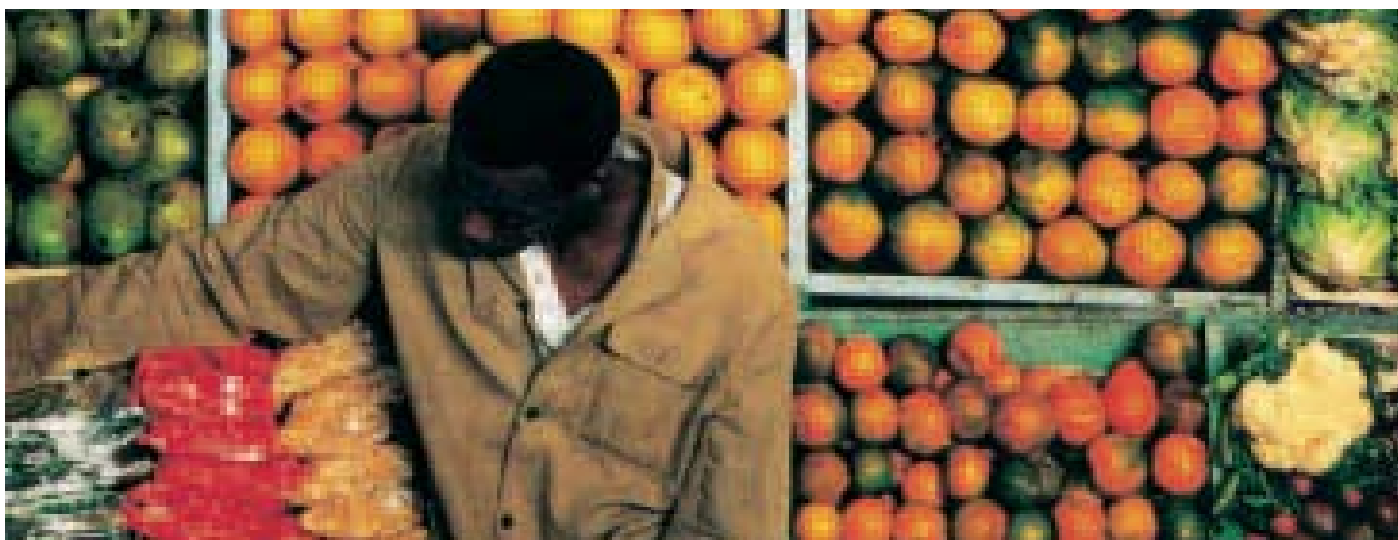
Non-trade concerns: The Draft on Modalities does not attempt to spell out provisions on non-trade concerns (NTCs) raised by developed countries (European Members, Japan and Korea) in the area of market access but calls for further considerations by the participants.

Commitment of LDCs: Harbinson's proposal suggested that LDCs would not be required to undertake any reduction commitments, but they could be "encouraged to consider making commitments commensurate with their development needs on a voluntary basis". The Modalities Draft also proposed that developed countries should provide duty-and quota-free access to their markets for all imports from least-developed countries.

Other Issues: The draft indicates that eventually special treatment could be provided for newly acceded members as well as other "certain groupings" such as Small Island Developing States (SIDS), vulnerable developing countries and transition economies.

Reactions to the Harbinson's Draft

Key WTO members, farmers associations and NGOs have reacted strongly to Harbinson's proposal. The US and Cairns Group expressed disappointment with the draft on the grounds that it lacks ambition regarding the proposed cuts in tariffs and trade-distorting support. The EU views that Draft modalities are biased towards agricultural exporting countries such as the US and those of the Cairns Group. EU added that the text would not sufficiently take into account agricultural non-trade concerns such as environment and food safety. Developing countries such as India, Kenya and Nigeria welcomed Harbinson's proposal and said that it would provide the necessary flexibilities to the poorer countries to address their developmental needs. The Draft was discussed at the second mini-Ministerial meeting held at Tokyo on February 14-16, 2003 that was participated by trade and agriculture ministers from 22 countries. The ministers aired their divergent views, but made no progress in bridging the differences of opinions. The participants could not agree on referring to the new draft as a "reference point" for future discussions, but preferred to refer to be as a "catalyst".



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