



Paving the road to Cancun

August 2003

LDCs view on the way forward during the Fifth Ministerial of the WTO

LDCs interests in agriculture and Cancun Ministerial: Yet another disappointing wait?

The Doha Ministerial Meeting Declaration recognised "the particular vulnerability of the LDCs and the difficulties they face in the global economy" and argued that "the integration of the LDCs into the trading system requires combined and inter related action at three levels namely: market access, trade related technical assistance and capacity building, and supporting domestic measures to mainstream trade priority areas of actions into plans for economic development and strategies for poverty reduction". It added that negotiations in agriculture would take into account the development needs of developing countries, including food security and rural development.

The Doha ministerial provided a new work program for negotiations in agricultural trade by making the objectives more explicit, building on the work carried out up to the Doha meeting, and setting agreed deadlines. The negotiations were expected to be completed by 1 January 2005 when it would be accepted by WTO members as part of the *single undertaking*.

As far as the ongoing negotiations in agriculture are concerned, the 31 March 2003 deadline for agreeing on the 'modalities' for commitment has already been missed. Though the issue of agriculture topped the agenda at the informal meeting of trade ministers of 25 countries held in Montreal during 28-30 July 2003, no agreement could be reached. Major differences are related to the reduction in import tariffs, domestic farm subsidies and export subsidies. Although EU farm commissioner Franz Fischler feels that the proposed farm policy reform in Europe would cut trade-distorting subsidies by 60 percent and that export subsidies on some products could be removed, agro-exporting countries such as Australia, Canada, Brazil, and the US called for deeper cuts in import duties by the EU and as well as Japan. Domestic and export support provided by the US are also of major concern.

The idea that the EU and the US should jointly draft a new proposal on liberalising global agricultural trade received support and a joint EU-US initiative was launched at the conclusion of the aforementioned

mini-ministerial meeting. The new draft plan was presented on 11 August in Geneva when WTO members met in preparation for the Cancun meeting.

Developments after Doha, before Montreal

Stuart Harbinson, Chairperson of the Committee on Agriculture (CoA), in his personal capacity prepared and circulated an Overview Paper on 18 December 2002, a first draft on "modalities" on 17 February 2003 and a revised draft on "modalities" on 18 March 2003. Although this was discussed during the negotiation meeting held on 25-31 March 2003 there was no agreement on "modalities". From April to July both informal and formal meetings were held on a wide range of issues. Some member countries are not yet ready to accept the revised first draft of the modalities paper as a reference material for discussion. An overview of the revised first draft on modalities is provided below:

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 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 ten-year implementation period. In case of reduction of tariffs by developing countries, he came up with a formula that would require progressively higher cuts for higher existing tariffs with specific minimum requirements per tariff lines. Harbinson's proposal allowed developing countries to denominate a number of special products (SP) with respect to food security, rural development and/or livelihood security concerns. He also suggested the elimination of special safeguards (Article 5 of the Uruguay Round AoA) for the developed countries.

Domestic Support: Harbinson's proposal suggested that Green Box¹ would be maintained in its existing format under strengthened discipline. He suggested that further flexibilities would be provided to the developing countries for the pursuit of food security and rural development objectives. According to the Harbinson's proposal, developing countries could also take recourse to an expanded AoA Article 6.2 Box (S&D Box), allowing them to provide unlimited trade-distorting subsidies to promote rural development. Harbinson suggested that Blue Box² would be maintained, but the relevant expenditures be capped and reduced by 50 percent over five years. Developing countries would be given S&D treatment for Blue Box subsidies. For Amber Box³, 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 in 10 years and the rest would be reduced to zero in 12 years. 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.

Commitment by the 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 Draft also proposed duty- and quota-free access for all imports from LDCs.

Key WTO Members, farmers associations and NGOs have reacted strongly to Harbinson's proposal. The US and the Cairn Group were disappointed because they thought it lacks ambition regarding the proposed cuts in tariffs and trade-distorting support. The EU regarded it as biased towards agricultural exporting countries and felt that the text would not sufficiently take into account agricultural non-trade concerns (NTCs) such as environment and food safety. Developing countries such as India, Kenya and Nigeria welcomed Harbinson's proposal and felt that it would provide the necessary flexibilities to poorer countries to address their developmental needs.

Issues of interest and concern for LDCs

The outcome of the Montreal mini-ministerial indicates that developed countries, particularly the US, the EU and Japan, are primarily concerned with the safeguard of their own interests and benefits. For example, rice farmers in the US receive USD 75,000 per household from the government in the form of direct payments. The farm bill signed in May 2002 includes over USD 135 billion in new subsidies over the next 10 years. The OECD countries already provide a support of USD 311 billion a year to the agriculture sector. Japan's subsidies to its farmers are greater than the entire contribution made by agriculture to the nation's economy. Civil society groups and LDCs governments will need to pursue a more proactive policy if their interests are to be safeguarded.

The Civil Society Forum that took place in Dhaka on May 29-30 2003 asked for zero reduction commitments for LDCs, strong disciplines on domestic support, elimination of all forms of export subsidies and the peace clause, and supported the concept of special/strategic products. The Forum also demanded technical and financial assistance for LDCs to improve agricultural productivity and infrastructure, and called for the development of facilities and systems for compliance with SPS requirement. The Forum urged the LDCs ministers to follow-up these issues during the preparatory process of the Cancun Ministerial as well as in the Ministerial itself.

Agriculture also featured prominently during the Second LDCs Trade Ministers Meeting. The Dhaka Declaration which was issued following the meeting laid stress on ten key issues regarding the Agreement on Agriculture. These are in line with the demands of the civil society declaration and also included a call for the establishment of compensatory and other appropriate mechanisms to fully address the impact of erosion of preferences, including measures that promote exports of LDCs.

The outcome of the Montreal mini-ministerial indicates that the draft of the AoA will be mainly prepared by the EU-US joint partnership. Though the draft was discussed at Geneva on 11 August, LDCs hardly had any chance to participate effectively. This is due to both lack of negotiating expertise and opportunities and is the reason why, inevitably, the agenda tends to reflect the opinions and interests of the dominant players.

So far, the ongoing negotiations suggest that developed countries have very little or no empathy for the LDCs. As a result, the LDCs are sceptical about the joint proposal. Even if zero reduction commitments on the part of LDCs and duty- and quota-free market access for all products are agreed, LDCs are unlikely to be able to take full advantage in the absence of technical and financial support. The Draft text of the Cancun ministerial states: "We instruct the WTO bodies concerned to redouble their efforts to resolve these issues, and instruct the General Council to report on progress at our next [i.e. the 6th Ministerial] Session", indicating that the WTO is yet to discard the legacy of lack of firm commitment. Therefore, a concerted effort backed by clear commitments on the part of developed countries will be required if the outcome of Cancun in the area of agriculture is to advance the interests of the LDCs.

On their part, the governments and the civil societies in the LDCs will need to pursue their interests more aggressively if they are to change the current stance of the developed countries.

Uttam Kumar Deb

Centre for Policy Dialogue, Bangladesh

The author gratefully acknowledges the helpful comments and suggestions provided by Professor Mustafizur Rahman and Dr. Debapriya Bhattacharya on the draft of this paper. However, the author alone is responsible for the opinions expressed.

Notes:

1. Green Box measures should not have distorting effects in agricultural markets; at the very worst, their effects must be minimally trade-distorting. They include funds for research, direct payments to producers that are decoupled from current prices or production levels, structural adjustment assistance, safety-net programmes, environmental programmes and regional assistance programmes. These measures, which tend not to be aimed at particular products, must be funded from government revenue, and must not involve price support.
2. Blue Box measures are an exemption from the general rule that all subsidies linked to production must be reduced or kept within defined minimal (*de minimis*) levels. The measures typically include production-limiting programmes, i.e. payments made according to acreage or animal numbers on condition that milk/meat production quotas are not exceeded.
3. The Amber Box includes most domestic support measures that are considered to distort production and trade.