

Executive Summary

Twenty Five Ways to Improve the Derbez Draft on Agriculture

The Derbez Draft, as currently written, could enable some countries and some commodities to escape the disciplines of trade reform. If selected countries, or selected commodities do not participate in trade reforms, then the overall benefits of liberalization will be reduced, and distortions in global markets could actually increase. If some countries or commodities are excluded because of political sensitivity, offers from other countries on other commodities, or even in other sectors, will be less ambitious. Finally, if the Doha Development Round does not close the Uruguay Round loopholes that allowed countries to shield sensitive products from international competition, to discipline only one form of export subsidies, and to avoid meaningful cuts in trade-distorting domestic subsidies then the cynicism about the benefits of international trade will grow stronger, and the commitment to international negotiations will decrease.

MARKET ACCESS

Objective: *Expand market access for Least Developed Countries on all products.*

Concern: The Derbez text calls for free access into wealthy markets only for a percentage of “tropical and other specified imports of interest” to all developing countries, but leaves open whether that access should be required or encouraged. There are several concerns with this approach. The list of products “of interest” to developing countries goes well beyond tropical products. Limiting the duty and quota free access to these products risks perpetuating dependence on a small set of commodities. And, the commodities of most interest are precisely the ones covered by high tariffs and limited quotas where developed countries will be reluctant to provide more access.

Recommendation: Developed countries should be required to provide duty and quota free access to all Least Developed Countries for all products. Such a commitment fulfills the promise of the Doha Development Round in a very concrete and measurable way. Developed countries could be required to provide duty free access to a significant percentage of all trade from developing countries immediately and to phase in duty free access to the remaining share over the implementation period. If only selected products from developing countries can be granted duty free access, then tariffs on other products should be reduced to zero over the implementation period.

Objective: *Reduce higher tariffs by more than lower tariffs*

Concern: The blended formula approach proposed in the Derbez text does not guarantee that high tariffs will be cut by a larger percentage than low tariffs, because countries would choose to subject sensitive commodities with the highest tariffs to the less demanding Uruguay Round formula, while subjecting commodities with lower tariffs to the more demanding Swiss formula. Allowing countries to average tariff cuts across all commodities could result in minimal cuts in high tariffs on sensitive products and larger cuts in low tariffs on other “less sensitive” products.

Recommendation: Require that a high percentage of tariff lines be covered by the Swiss formula, reserving the Uruguay Round formula for a limited number of commodities. Require an average reduction per commodity sector or tariff chapter, rather than across all commodities.

(Note: the Uruguay Round formula required a minimum cut per tariff line, and an average cut across all agricultural commodities. The Swiss formula requires tariffs to be harmonized at a chosen level. Thus, higher tariffs would have to be reduced proportionally more than lower tariffs.)

Objective: *Establish a tariff ceiling on all products, with exceptions*

Concern: The Derbez draft does establish the concept of a tariff ceiling, which would reduce the extremely high tariffs that protect some agricultural commodities. However, as currently worded, the Derbez draft would allow developed countries to exempt some of their most sensitive and highly protected commodities from such a tariff ceiling. Also, as currently drafted, developing countries are not required to establish a tariff ceiling, although the concept is left open to debate.

Recommendation: All countries should be required to establish a tariff ceiling on all products. Optimally, tariffs on most products ought to be brought down to that ceiling immediately. To deal with sensitive commodities in developed countries, existing tariffs might be phased down to the ceiling over the implementation period. Developing countries could reduce tariffs to the ceiling over their longer implementation period and/or the tariff ceiling could be set somewhat higher than for developed countries.

Objective: *Expand market access on all products*

Concern: In the Derbez text, the expansion of tariff rate quotas remains under negotiation. The Derbez draft also creates a category of “Special Products” from developing countries that would be exempt from new quota commitments. If tariff-rate quotas are negotiated on a request-offer basis or if some commodities are exempt as “sensitive”, countries will protect their most sensitive commodities with longer implementation periods, and allow only minimal increases in market access. Formula based increases are the only way to ensure that market access is increased on all products.

Recommendation: Require formula based increases in market access for all products, based on a rising percentage of updated national consumption levels. (These levels should be updated to reflect current consumption patterns.) Countries that choose to apply the Uruguay Round formula, instead of the Swiss formula on certain products should provide additional market access in the form of higher quotas. These quota increases ought to be averaged across commodity sectors or tariff chapters, to maximize access. If a category of Special Products must be created, then there should be strict limits on the number of commodities eligible for such treatment, and objective criteria should be established to limit abuse of the category.

EXPORT COMPETITION

Objective: *Reduce and eliminate all forms of subsidized export competition*

Concern: A major objective of the Uruguay Round was to reduce explicit export subsidies. Other forms of subsidized export competition (from state trading entities, export credits and food aid) were not disciplined. Eliminating all forms of subsidized export competition has become a central objective of the Doha Round, both from an economic and a political perspective, because these subsidies depress global commodity prices and because they have come to symbolize the commitment of developed countries to the Round. The Derbez text leaves setting a date certain open to negotiation.

Recommendation: The Doha Round must ultimately eliminate of all forms of subsidized export competition, not just explicit export subsidies. Negotiators must commit to establishing a date certain in the framework agreement. For political reasons, and to allow countries time to adjust their domestic policies, this date certain may need to be at the end of or beyond the implementation period for the Round.

Objective: Reduce subsidized competition for all commodities on same timeframe.

Concern: The Derbez draft calls for eliminating export subsidies and credits on “products of interest to developing countries”, while reducing (with a view to phasing out) subsidies on all other products. There are several potential problems. First, all products are potentially “of interest” to developing countries. Some developing countries are more interested in sugar, others in wheat, and still others in dairy or rice. Second, products “of interest to developing countries” that benefit from export credits do not necessarily benefit from export subsidies (cotton, for example). Third, it is not clear from the text whether developed or developing countries decide which products are “of interest”. Finally, the Derbez draft exempts export subsidies used by developing countries from discipline until all developed country subsidies are eliminated.

Recommendation: Ideally, all products ought to be reduced over the same timeframe. If that is not feasible then developing countries ought to determine which products are of interest to them. The list of products subject to elimination of export credits and export subsidies would not necessarily be the same. If developed countries do commit to ending all forms of export subsidies, then developing countries should commit to reducing and eliminating their commodity specific subsidies on a similar timetable.

Objective: Discipline export embargoes, taxes and restrictions

Concern: The Uruguay Round was not able to make significant progress in limiting the use of export embargoes and export restrictions, which are equally disruptive to the market, and which undermine importers’ faith in the world trade system. The Derbez text demands stronger disciplines on export prohibitions and restrictions, but leaves the discussion of export taxes open to negotiation.

Recommendation: Ideally, the use of export embargoes and restrictions ought to be banned. At a minimum, the domestic market should be required to share in any adjustment imposed on the export market. The use of differential export taxes to subsidize local processing should also be phased out.

DOMESTIC SUPPORT

Objective: Sharply reduce overall level of trade-distorting support

Concern: The popular press and some NGOs have argued that any support given to agriculture is trade distorting and ought to be reduced. Politically, this is an unrealistic objective. The Derbez text does call for a significant reduction in trade-distorting support, below the levels agreed in the Uruguay Round. And, the draft calls for a reduction from 2000 levels, with a down payment. These are all positive steps. However, proposals to redefine the Blue Box could allow countries to shift support from one category into another without making real reductions in overall levels of trade distorting support.

Recommendation: The Doha Round must continue to focus on reducing trade-distorting subsidies, and ensuring that subsidies classified as “non-trade distorting” are minimally disruptive to international markets. The Derbez Draft retains this focus. However, if the Blue Box is redefined, then the level of Amber box subsidies should be reduced immediately to compensate for subsidies transferred into the new Blue Box. The Blue Box should then be capped, and reduced alongside Amber Box subsidies.

Objective: Reduce trade-distorting support on all commodities

Concern: The Draft continues to allow countries to aggregate -cuts across all commodities—a significant loophole created in the final days of the Uruguay Round Agreement. The Draft does

propose capping commodity specific support, but does not require that cuts be made on a commodity-by-commodity basis. Capping product specific supports is an improvement over the current system, but does not necessarily prevent distortions in levels of support across commodities.

Recommendation: Trade distorting subsidies should be reduced commodity-by-commodity, as was originally proposed in the Uruguay Round.